TORTOISE CAPITAL RESOURCES CORP
Form 10-Q
April 09, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended February 29, 2008

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

For the transition period from to

COMMISSION FILE NUMBER: 001-33292

TORTOISE CAPITAL RESOURCES CORPORATION
(Exact name of registrant as specified in its charter)

MARYLAND	**20-3431375**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10801 MASTIN BOULEVARD, SUITE 222
OVERLAND PARK, KANSAS 66210
(Address of principal executive office) (Zip Code)
(913) 981-1020
(Registrant s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ.

The number of shares of the issuer s Common Stock, $0.001 par value, outstanding as of March 31, 2008 was 8,876,540.

Tortoise Capital Resources Corporation
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 29, 2008
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Tortoise Capital Resources Corporation
STATEMENTS OF ASSETS & LIABILITIES

	February 29, 2008 *(Unaudited)*	November 30, 2007
Assets		
Investments at fair value, control (cost $22,319,937 and $20,521,816, respectively)	$ 26,351,525	$ 23,292,904
Investments at fair value, affiliated (cost $94,373,029 and $95,507,198, respectively)	96,722,889	98,007,275
Investments at fair value, non-affiliated (cost $31,097,155 and $31,716,576, respectively)	32,158,746	37,336,154
Total investments (cost $147,790,121 and $147,745,590, respectively)	155,233,160	158,636,333
Income tax receivable	218,935	218,935
Receivable for Adviser reimbursement	91,647	94,181
Interest receivable from control investments	131,443	68,686
Dividends and distributions receivable	70,884	1,419
Prepaid expenses and other assets	204,460	154,766
Total assets	155,950,529	159,174,320
Liabilities		
Base management fees payable to Adviser	585,253	565,086
Accrued capital gain incentive fees payable to Adviser (Note 4)	27,946	307,611
Distribution payable on common stock	2,214,587	
Payable for investments purchased		1,235,994
Accrued expenses and other liabilities	442,898	419,744
Short-term borrowings	32,100,000	30,550,000
Deferred tax liability	2,927,341	4,182,919
Total liabilities	38,298,025	37,261,354
Net assets applicable to common stockholders	$ 117,652,504	$ 121,912,966
Net Assets Applicable to Common Stockholders Consist of:		
Warrants, no par value; 945,594 issued and outstanding at February 29, 2008 and 945,774 issued and outstanding at November 30, 2007 (5,000,000 authorized)	$ 1,370,700	$ 1,370,957
Capital stock, $0.001 par value; 8,858,348 shares issued and outstanding at February 29, 2008 and 8,858,168 issued and outstanding at November 30, 2007 (100,000,000 shares authorized)	8,858	8,858
Additional paid-in capital	112,974,782	115,186,412
Accumulated net investment loss, net of deferred tax benefit	(1,476,771)	(1,565,774)
Accumulated realized gain, net of deferred tax expense	160,474	160,474
Net unrealized appreciation of investments, net of deferred tax expense	4,614,461	6,752,039
Net assets applicable to common stockholders	$ 117,652,504	$ 121,912,966
Net Asset Value per common share outstanding (net assets applicable to common stock, divided by common shares outstanding)	$ 13.28	$ 13.76

See accompanying Notes to the Financial Statements.

Tortoise Capital Resources Corporation
SCHEDULE OF INVESTMENTS
February 29, 2008
(Unaudited)

	Energy Infrastructure Segment	Type of Investment	Cost
tments [1]			
C	Downstream	Equity Interest (100%) [2]	$ 3,500,000 $

		Subordinated Debt (12% Due 7/1/2016) (2)	7,050,000
rtners LP	Aggregate	Common Units (425,000) (2)	7,967,541
		Subordinated Debt (10.23% Due 5/21/2014) (2) (3)	3,750,000
		Incentive Distribution Rights (789)(2) (7)	52,396
Investments - 22.4% (4)			22,319,937
estments (5)			
nergy, LP	Midstream	Common Units (999,614) (2)	23,700,197
Resource Partners LP	Coal	Class A Units (500,000) (2)	9,720,000
Midstream Partners, LP	Midstream	Class A Units (1,207,208) (2) (6)	23,395,520
	Midstream	GP LP Units (180 units) (2)	549,142
am Partners, L.P.	Midstream	Common Units (1,180,946) (2)	20,861,095
idstream Partners, LP	Midstream	Class A Common Units (875,000) (2)	16,102,722
		Incentive Distribution Rights (78) (2) (7)	44,353
ed Investments - 82.2% (4)			94,373,029
Investments			
gy Partners, L.P.	Upstream	Common Units (450,181) (2)	7,134,559
nergy Partners, L.P. (8)	Midstream	Common Units (659,071)	10,724,392
rtners, L.P. (8)	Upstream	Common Units (217,391)	7,355,642
ves LP (8)	Upstream	Limited Partner Units (264,705)	3,763,893
nergy GP, LLC	Midstream	Equity Interest (2.37%) (2)	1,996,132
n Government Obligations Fund	Short-term investment	Class Y shares	122,537
filiated Investments - 27.3% (4)			31,097,155
nents - 131.9%(4)			$ 147,790,121 $

(1) Control investments are generally defined under the Investment Company Act of 1940 as companies in which at least 25% of the voting securities are owned; see Note 8 to the financial statements for further disclosure.
(2) Restricted securities have a total fair value of $133,475,756, which represents 113.4% of net assets applicable to common stockholders; see Note 7 to the financial statements for further disclosure.
(3) Security is a variable rate instrument. Interest rate is as of February 29, 2008.
(4) Calculated as a percentage of net assets applicable to common stockholders.
(5) Affiliated investments are generally defined under the Investment Company Act of 1940 as companies in which at least 5% of the voting securities are owned. Affiliated investments in which at least 25% of the voting securities are owned are generally defined as control investments as described in footnote 1; see Note 8 to the financial statements for further disclosure.
(6) Distributions are paid-in-kind.
(7) Currently non-income producing.
(8) Publicly-traded company.
See accompanying Notes to the Financial Statements.

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Tortoise Capital Resources Corporation
SCHEDULE OF INVESTMENTS
November 30, 2007

	Energy Infrastructure Segment	Type of Investment	Cost
stments (1)			
C	Downstream	Equity Interest (100%) (2)	$ 1,500,000 $
		Subordinated Debt (12% Due 7/1/2016) (2)	7,050,000
rtners LP	Aggregate	Common Units (425,000) (2)	8,169,420
		Subordinated Debt (10.73% Due 5/21/2014) (2) (3)	3,750,000

		Incentive Distribution Rights (789)[2] [7]	52,396
l Investments - 19.1% [4]			20,521,816
vestments [5]			
nergy, LP	Midstream	Common Units (999,614) [2]	24,005,079
Resource Partners LP	Coal	Class A Units (500,000) [2]	9,840,000
Midstream Partners, LP	Midstream	Class A Units (1,184,532) [2] [6]	23,395,520
P	Midstream	GP LP Units (180 units) [2]	549,142
eam Partners, L.P.	Midstream	Common Units (1,180,946) [2]	21,235,694
idstream Partners, LP	Midstream	Class A Common Units (875,000) [2]	16,437,410
		Incentive Distribution Rights (78) [2] [7]	44,353
ed Investments - 80.4% [4]			95,507,198
d Investments			
gy Partners, L.P.	Upstream	Common Units (450,181) [2]	7,286,495
nergy Partners, L.P. [8]	Midstream	Common Units (659,071)	10,931,340
rtners, L.P. [8]	Upstream	Common Units (217,391) [2]	7,407,816
ves LP [8]	Upstream	Limited Partner Units (264,705)	3,871,099
nergy GP, LLC	Midstream	Equity Interest (2.37%) [2]	2,000,324
n Government Obligations Fund	Short-term investment	Class Y shares	219,502
filiated Investments - 30.6% [4]			31,716,576
nents - 130.1% [4]			$ 147,745,590

(1) Control investments are generally defined under the Investment Company Act of 1940 as companies in which at least 25% of the voting securities are owned; see Note 8 to the financial statements for further disclosure.

(2) Restricted securities have a total fair value of $138,869,515, which represents 113.9% of net assets applicable to common stockholders. These securities are deemed to be restricted; see Note 7 to the financial statements for further disclosure.

(3) Security is a variable rate instrument. Interest rate is as of November 30, 2007.

(4) Calculated as a percentage of net assets applicable to common stockholders.

(5) Affiliated investments are generally defined under the Investment Company Act of 1940 as companies in which at least 5% of the voting securities are owned. Affiliated investments in which at least 25% of the voting securities are owned are generally defined as control investments as described in footnote 1; see Note 8 to the financial statements for further disclosure.

(6) Distributions are paid-in-kind.

(7) Currently non-income producing.

(8) Publicly-traded company.

See accompanying Notes to the Financial Statements.

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Tortoise Capital Resources Corporation
STATEMENTS OF OPERATIONS *(Unaudited)*

	For the three months ended February 29, 2008	For the three months ended February 28, 2007
Investment Income		
Distributions from investments		
Non-affiliated investments	$ 687,923	$ 348,430
Affiliated investments	1,649,888	255,257
Control investments	282,904	

Total distributions from investments	2,620,715	603,687
Less return of capital on distributions	(1,859,741)	(480,057)
Net distributions from investments	760,974	123,630
Interest income from control investments	313,409	128,472
Dividends from money market mutual funds	2,310	139,533
Other income	28,987	
Total Investment Income	1,105,680	391,635
Operating Expenses		
Base management fees	585,253	380,067
Capital gain incentive fees (Note 4)	(279,665)	487,627
Professional fees	151,751	57,381
Administrator fees	27,150	10,673
Directors' fees	22,663	23,168
Reports to stockholders	12,915	4,458
Fund accounting fees	8,488	5,849
Registration fees	7,376	1,668
Custodian fees and expenses	4,685	2,600
Stock transfer agent fees	3,366	3,600
Other expenses	11,887	6,538
Total Operating Expenses	555,869	983,629
Interest expense	497,904	123,481
Preferred stock distributions		228,750
Loss on redemption of preferred stock		765,059
Total Interest Expense, Preferred Stock Distributions and Loss on Redemption of Preferred Stock	497,904	1,117,290
Total Expenses	1,053,773	2,100,919
Less expense reimbursement by Adviser	(91,647)	
Net Expenses	962,126	2,100,919
Net Investment Income (Loss), before Income Taxes	143,554	(1,709,284)
Deferred tax benefit (expense)	(54,551)	314,440
Net Investment Income (Loss)	89,003	(1,394,844)
Unrealized Gain (Loss) on Investments		
Net unrealized appreciation of control investments	1,260,500	133,519
Net unrealized appreciation (depreciation) of affiliated investments	(306,374)	459,968
Net unrealized appreciation (depreciation) of non-affiliated investments	(4,401,833)	2,328,503
Net unrealized appreciation (depreciation), before deferred taxes	(3,447,707)	2,921,990
Deferred tax benefit (expense)	1,310,129	(1,110,356)
Net Unrealized Gain (Loss) on Investments	(2,137,578)	1,811,634
Net Increase (Decrease) in Net Assets Applicable to Common Stockholders Resulting from Operations	$ (2,048,575)	$ 416,790
Net Increase (Decrease) in Net Assets Applicable to Common Stockholders: Resulting from Operations Per Common Share		
Basic and diluted	$ (0.23)	$ 0.09
Weighted Average Shares of Common Stock Outstanding:		
Basic and diluted	8,858,212	4,491,707

See accompanying Notes to the Financial Statements.

Tortoise Capital Resources Corporation
STATEMENTS OF CHANGES IN NET ASSETS

	For the three months ended February 29, 2008 *(Unaudited)*	For the three months ended February 28, 2007 *(Unaudited)*	For the y ended Novembe 2007
ations			
nvestment income (loss)	$ 89,003	$ (1,394,844)	$ (1,565
ealized gain on investments			161
nrealized appreciation (depreciation) on investments	(2,137,578)	1,811,634	6,548
ncrease (decrease) in net assets applicable to common stockholders resulting from operations	(2,048,575)	416,790	5,143
ibutions to Common Stockholders			
nvestment income			
n of capital	(2,214,587)	(308,860)	(5,349
distributions to common stockholders	(2,214,587)	(308,860)	(5,349
al Stock Transactions			
eds from initial public offering of 5,740,000 common shares		86,100,000	86,100
eds from issuance of 185,006 warrants		283,059	283
eds from exercise of 180 warrants	2,700		
eds from exercise of 11,350 warrants			170
rwriting discounts and offering expenses associated with the issuance of non stock		(6,627,000)	(7,006
nce of 18,222 common shares from reinvestment of distributions to stockholders			242
ncrease in net assets, applicable to common stockholders, from capital stock transactions	2,700	79,756,059	79,789
increase (decrease) in net assets applicable to common stockholders	(4,260,462)	79,863,989	79,584
ssets			
ning of period	121,912,966	42,328,402	42,328
f period	$ 117,652,504	$ 122,192,391	$ 121,912
mulated net investment loss net of deferred tax benefit, at end of period	$ (1,476,771)	$ (1,394,844)	$ (1,565

See accompanying Notes to the Financial Statements.

Tortoise Capital Resources Corporation
STATEMENT OF CASH FLOWS *(Unaudited)*

	For the three months ended February 29, 2008	For the three months ended February 28, 2007
Cash Flows From Operating Activities		
Distributions received from investments	$ 2,550,311	$ 603,686
Interest and dividend income received	252,285	181,618
Purchases of long-term investments	(3,235,994)	(35,000,001)
Proceeds (purchases) of short-term investments, net	96,957	(44,242,593)
Interest expense paid	(526,672)	(113,043)

Distributions to preferred stockholders		(228,750)
Operating expenses paid	(689,587)	(409,767)
Net cash used in operating activities	(1,552,700)	(79,208,850)
Cash Flows from Financing Activities		
Issuance of common stock (including warrant exercises)	2,700	86,100,000
Common stock issuance costs		(6,170,411)
Issuance of preferred stock		18,216,941
Redemption of preferred stock		(18,870,000)
Preferred stock issuance costs		(41,879)
Issuance of warrants		283,059
Advances from revolving line of credit	4,050,000	12,600,000
Repayments on revolving line of credit	(2,500,000)	(12,600,000)
Distributions paid to common stockholders		(308,860)
Net cash provided by financing activities	1,552,700	79,208,850
Net change in cash		
Cash beginning of period		
Cash end of period	$	$
Reconciliation of net increase (decrease) in net assets applicable to common stockholders		
resulting from operations to net cash used in operating activities		
Net increase (decrease) in net assets applicable to common stockholders resulting from operations	$ (2,048,575)	$ 416,790
Adjustments to reconcile net increase (decrease) in net assets applicable to common stockholders		
resulting from operations to net cash used in operating activities:		
Purchases of long-term investments	(2,000,000)	(35,000,001)
Return of capital on distributions received	1,859,741	480,057
Proceeds (purchases) of short-term investments, net	96,957	(44,242,593)
Accrued capital gain incentive fees payable to Adviser	(279,665)	487,627
Deferred income tax expense (benefit)	(1,255,578)	795,916
Amortization of issuance costs	7,094	
Loss on redemption of preferred stock		765,059
Net unrealized depreciation (appreciation) of investments	3,447,707	(2,921,990)
Changes in operating assets and liabilities:		
Increase in interest, dividend and distribution receivable	(132,222)	(86,387)
(Increase) decrease in prepaid expenses and other assets	(58,030)	22,231
Increase in management fees payable to Adviser, net of reimbursement	22,701	106,192
Decrease in payable for investments purchased	(1,235,994)	
Increase (decrease) in accrued expenses and other liabilities	23,164	(31,751)
Total adjustments	495,875	(79,625,640)
Net cash used in operating activities	$ (1,552,700)	$ (79,208,850)

See accompanying Notes to the Financial Statements.

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Tortoise Capital Resources Corporation
FINANCIAL HIGHLIGHTS

	For the three months ended	For the three months ended	For the year ended November 30,

	February 29, 2008 (Unaudited)	February 28, 2007 (Unaudited)	2007
Per Common Share Data (1)			
Net Asset Value, beginning of period	$ 13.76	$ 13.70	$ 13.70
Premium less underwriting discounts and offering costs on initial public offering of common shares (2)		0.06	
Underwriting discounts and offering costs on issuance of common shares			0.01
Income from Investment Operations:			
Net investment loss (3)	(0.01)	(0.10)	(0.18)
Net realized and unrealized gain (loss) on investments (3)	(0.21)	0.21	0.90
Total increase from investment operations	(0.22)	0.11	0.72
Less Distributions to Common Stockholders:			
Net investment income			
Return of capital	(0.25)	(0.03)	(0.67)
Total distributions to common stockholders	(0.25)	(0.03)	(0.67)
Net Asset Value, end of period	$ 13.29	$ 13.84	$ 13.76
Per common share market value, end of period	$ 11.94	$ 14.50	$ 11.66
Total Investment Return, including capital gain incentive fees, based on net asset value (4)	(1.48)%	(1.24)%	5.35%
Total Investment Return, excluding capital gain incentive fees, based on net asset value (4)	(1.48)%	N/A	5.57%
Total Investment Return, based on market value (5)	4.53%	(3.33)%	(19.05)%
Supplemental Data and Ratios			
Net assets applicable to common stockholders, end of period (000's)	$ 117,653	$ 122,192	$ 121,913
Ratio of expenses (including current and deferred income tax expense (benefit) and capital gain incentive fees) to average net assets (6) (7) (8)	(1.02)%	19.73%	8.35%
Ratio of expenses (excluding current and deferred income tax expense (benefit)) to average net assets (6) (9)	3.33%	14.31%	4.69%
Ratio of expenses (excluding current and deferred income tax expense (benefit)) and capital gain incentive fees) to average net assets (6) (9) (10)	4.30%	10.99%	4.40%
Ratio of net investment income (loss) to average net assets before current and deferred income tax expense (benefit) and capital gain incentive fees (6) (9) (10)	(0.47)%	(14.92)%	(1.58)%
Ratio of net investment income (loss) to average net assets before current and deferred income tax expense (benefit) (6) (8) (9)	0.50%	(9.50)%	(1.87)%
Ratio of net investment income (loss) to average net assets after current and deferred income tax expense (benefit) and capital gain incentive fees (6) (7) (8)	4.84%	(11.60)%	(5.52)%
Portfolio turnover rate (6)	0.00%	0.00%	0.62%
Short-term borrowings, end of period (000's)	$ 32,100		$ 30,550
Asset coverage, per $1,000 of short-term borrowings (11)	$ 4,665		$ 4,991
Asset coverage ratio of short-term borrowings (11)	467%		499%

(1) Information presented relates to a share of common stock outstanding for the entire period.

(2) Represents the premium on the initial public offering of $1.17 per share, less the underwriting discounts and offering costs of $1.16 per share.

(3) The per common share data for the periods ended February 29, 2008, November 30, 2006, 2005 and 2004, do not reflect the change in estimate of investment income

(4) Not annualized for periods less than a year. Total investment return is calculated assuming a purchase of common stock at net asset value per share as

(5) Total investment return is calculated assuming a purchase of common stock at the initial public offering price,

(6) Annualized for periods less than one full year.

(7) For the three months ended February 29, 2008, the Company accrued $1,255,578 in deferred income tax benefit, net. For the three months ended February 28, 2007, the Company accrued $795,916 in deferred income tax expense. For the year ended November 30, 2007, the Company accrued $261,667 in current income tax benefit and $3,932,763

in deferred income tax expense.

(8) For the three months ended February 29, 2008, the Company reduced its provision for capital gains incentive fees by $279,665. For the three months ended February 28, 2007, the Company accrued $487,627 in capital gains incentive fees. For the year ended November 30, 2007, the Company accrued $307,611 as a provision for capital gains incentive fees.

(9) The ratio excludes the impact of current and deferred income taxes.

(10) The ratio excludes the impact of capital gain incentive fees.

(11) Represents value of total assets less all liabilities and indebtedness not represented by short-term borrowings at the end of the period divided by short-term borrowings outstanding at the end of the period.

See accompanying Notes to the Financial Statements.

TORTOISE CAPITAL RESOURCES CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
FEBRUARY 29, 2008

1. Organization

Tortoise Capital Resources Corporation (the "Company") was organized as a Maryland corporation on September 8, 2005, and is a non-diversified closed-end management investment company focused on the U.S. energy infrastructure sector. The Company invests primarily in privately held and micro-cap public companies operating in the midstream and downstream segments, and to a lesser extent the upstream segment, of the energy infrastructure sector. The Company is regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). The Company does not report results of operations internally on an operating segment basis. The Company is externally managed by Tortoise Capital Advisors, L.L.C. (the Adviser), an investment adviser specializing in the energy sector. The Company s shares are listed on the New York Stock Exchange under the symbol TTO.

2. Significant Accounting Policies

A. *Use of Estimates* The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, recognition of distribution income and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

B. *Investment Valuation* The Company invests primarily in illiquid securities including debt and equity securities of privately-held companies. The investments generally are subject to restrictions on resale, have no established trading market and are fair valued on a quarterly basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Because of the inherent uncertainty of valuation, the fair values of such investments, which are determined in accordance with procedures approved by the Company s Board of Directors, may differ materially from the values that would have been used had a ready market existed for the investments. The Company s Board of Directors may consider other methods of valuing investments as appropriate and in conformity with U.S. generally accepted accounting principles. The Board of Directors undertakes a multi-step valuation process each quarter in connection with determining the fair value of investments:

The quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of the Adviser. As part of this process, materials are prepared containing their supporting analysis;

The Investment Committee of the Adviser reviews the preliminary valuations, and the investment professionals of the Adviser consider and assess, as appropriate, any changes that may be required to the preliminary valuations to address any comments provided by the Investment Committee of the Adviser;

The Board of Directors assesses the valuations and ultimately determines the fair value of each investment in the Company s portfolio in good faith and

An independent valuation firm engaged by the Board of Directors to provide third-party valuation consulting services performs certain limited procedures that the Board of Directors has identified and asked it to perform on a

selection of these valuations as determined by our Board of Directors.
The types of factors that may be considered in fair value pricing of an investment include the nature and realizable value of any collateral, the portfolio company s earnings and ability to make payments, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow and other relevant factors.
The fair value methodology begins with determining the enterprise value of the portfolio company that issued the security being fair valued. For any one company, enterprise value may best be expressed as a range of fair values, from which a single estimate of fair value will be derived. If the portfolio company has adequate enterprise value to support the repayment of debt, the fair value of the loan or debt security will normally correspond to cost unless the portfolio company s condition or other market factors lead to a determination of fair value at a different amount. The fair value of equity interests in portfolio companies is determined based on various factors, including the enterprise value remaining for equity holders after the repayment of debt and other preference capital, and other pertinent factors such as recent offers to purchase a company, recent transactions involving the purchase or sale of the equity securities of the company, or other liquidation events. The determined equity values will generally be discounted when holding a minority position, if there are restrictions on resale, if there are specific concerns about the receptivity of the capital markets to a specific company at a certain time, or other comparable factors exist.

For equity and equity-related securities that are freely tradable and listed on a securities exchange, the Company fair values those securities at their last sale price on that exchange on the valuation date. If the security is listed on more than one exchange, the Company will use the price of the exchange that it generally considers to be the principal exchange on which the security is traded. Securities listed on the NASDAQ will be valued at the NASDAQ Official Closing Price, which may not necessarily represent the last sale price. If there has been no sale on such exchange or NASDAQ on such day, the security will be valued at the mean between bid and ask price on such day.
The Company generally values short-term debt securities at prices based on market quotations for such securities, except those securities purchased with 60 days or less to maturity are fair valued on the basis of amortized cost, which approximates market value.
Effective December 1, 2007, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is applicable in conjunction with other accounting pronouncements that require or permit fair value measurements, but does not expand the use of fair value to any new circumstances. More specifically, SFAS 157 emphasizes that fair value is a market based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority given to quoted prices in active markets and the lowest priority to unobservable inputs. The Company s adoption of SFAS 157 did not have a material impact on its financial condition or results of operations.
C. *Interest and Fee Income* Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. When investing in instruments with an original issue discount or payment-in-kind interest (in which case the Company chooses payment-in-kind in lieu of cash), the Company will accrue interest income during the life of the investment, even though the Company will not necessarily be receiving cash as the interest is accrued. Fee income will include fees, if any, for due diligence, structuring, commitment and facility fees, transaction services, consulting services and management services rendered to portfolio companies and other third parties. Commitment and facility fees generally are recognized as income over the life of the underlying loan, whereas due diligence, structuring, transaction service, consulting and management service fees generally are recognized as income when services are rendered. For the three months ended February 29, 2008 and the three months ended February 28, 2007, the Company received no fee income.
D. *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. Distributions received from the Company s investments in limited partnerships and limited liability companies generally are comprised of ordinary income, capital gains and return of capital. The Company records investment income and return of capital based on estimates made at the time such distributions are received. Such estimates are based on information

available from each company and/or other industry sources. These estimates may subsequently be revised based on information received from the entity after their tax reporting periods are concluded, as the actual character of these distributions are not known until after the fiscal year-end of the Company.
For the period from December 1, 2007 through February 29, 2008, the Company estimated the allocation of investment income and return of capital for the distributions received from its portfolio companies within the Statement of Operations. For this period, the Company has estimated these distributions to be approximately 29 percent investment income and 71 percent return of capital.
E. *Distributions to Stockholders* The amount of any quarterly distributions will be determined by the Board of Directors. Distributions to stockholders are recorded on the ex-dividend date. The character of distributions made during the year may differ from their ultimate characterization for federal income tax purposes. For the year ended November 30, 2007 the Company s distributions, for book and tax purposes, were comprised of 100 percent return of capital. For the period ended February 29, 2008, the Company s distributions, for book purposes, were comprised of 100 percent return of capital. The tax character of distributions paid for the year ended November 30, 2008 will be determined subsequent to year end.
F. *Federal and State Income Taxation* The Company, as a corporation, is obligated to pay federal and state income tax on its taxable income. Currently, the maximum regular federal income tax rate for a corporation is 35 percent; however, the Company anticipates a marginal effective tax rate of 34 percent due to expectations of the level of taxable income relative to the federal graduated tax rates, including the tax rate anticipated when temporary differences reverse. The Company may be subject to a 20 percent federal alternative minimum tax on its federal alternative minimum taxable income to the extent that its alternative minimum tax exceeds its regular federal income tax.

On December 1, 2007, the Company adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. The Company has analyzed the tax positions taken and has concluded that it has no uncertain tax positions as described in FIN 48. All of the Company s tax years remain open and subject to examination for both federal and state purposes. The Company s policy is to record interest and penalties on uncertain tax positions, if any, as part of tax expense.
The Company invests its assets primarily in limited partnerships or limited liability companies which are treated as partnerships for federal and state income tax purposes. As a limited partner, the Company reports its allocable share of taxable income in computing its own taxable income. The Company s tax expense or benefit will be included in the Statement of Operations based on the component of income or gains (losses) to which such expense or benefit relates. Deferred income taxes reflect 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.
G. *Organization Expenses and Offering Costs* -The Company is responsible for paying all organization and offering expenses. Offering costs related to the issuance of common stock are charged to additional paid-in capital when the stock is issued. Offering costs paid by the Company related to a resale registration statement covering securities issued in private placements prior to the Company s initial public offering amounting to $90,292 were charged as a reduction of paid-in capital and $28,454 were capitalized and amortized over a one-year period following July 26, 2007, the effective date of the registration statement.
H. *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 may enter 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 goal is to provide stockholders with a high level of total return with an emphasis on distributions and distribution growth. The Company invests primarily in privately-held and micro-cap public companies focused on the midstream and downstream segments, and to a lesser extent the upstream segment, of the U.S. energy infrastructure

sector. 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 objective.

4. Agreements

The Company has entered into an Investment Advisory Agreement with Tortoise Capital Advisors, L.L.C.. Under the terms of the agreement, the Adviser is paid a fee consisting of a base management fee and an incentive fee.

The base management fee is 0.375 percent (1.5 percent annualized) of the Company s average monthly Managed Assets, calculated and paid quarterly in arrears within thirty days of the end of each fiscal quarter. The term Managed Assets as used in the calculation of the management fee means total assets (including any assets purchased with or attributable to borrowed funds) minus accrued liabilities other than (1) deferred taxes, (2) debt entered into for the purpose of leverage and (3) the aggregate liquidation preference of any outstanding preferred shares. The base management fee for any partial quarter is appropriately prorated.

On November 30, 2007, the Company entered into an Expense Reimbursement and Partial Fee Waiver Agreement with the Adviser. Under the terms of the agreement, the Adviser will reimburse the Company for certain expenses incurred beginning September 1, 2007 and ending December 31, 2008 in an amount equal to an annual rate of 0.25 percent of the Company s average monthly Managed Assets. During the three months ended February 29, 2008, the Adviser reimbursed the Company $91,647.

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The incentive fee consists of two parts. The first part, the investment income fee, is equal to 15 percent of the excess, if any, of the Company s Net Investment Income for the fiscal quarter over a quarterly hurdle rate equal to 2 percent (8 percent annualized), and multiplied, in either case, by the Company s average monthly Net Assets for the quarter. Net Assets means the Managed Assets less deferred taxes, debt entered into for the purposes of leverage and the aggregate liquidation preference of any outstanding preferred shares. Net Investment Income means interest income (including accrued interest that we have not yet received in cash), dividend and distribution income from equity investments (but excluding that portion of cash distributions that are treated as a return of capital), and any other income (including any fees such as commitment, origination, syndication, structuring, diligence, monitoring, and consulting fees or other fees that the Company is entitled to receive from portfolio companies) accrued during the fiscal quarter, minus the Company s operating expenses for such quarter (including the base management fee, expense reimbursements payable pursuant to the Investment Advisory Agreement, any interest expense, any accrued income taxes related to net investment income, and distributions paid on issued and outstanding preferred stock, if any, but excluding the incentive fee payable). Net Investment Income also includes, in the case of investments with a deferred interest or income feature (such as original issue discount, debt or equity instruments with a payment-in-kind feature, and zero coupon securities), accrued income that the Company has not yet received in cash. Net Investment Income does not include any realized capital gains, realized capital losses, or unrealized capital appreciation or depreciation. The investment income fee is calculated and payable quarterly in arrears within thirty (30) days of the end of each fiscal quarter. The investment income fee calculation is adjusted appropriately on the basis of the number of calendar days in the first fiscal quarter the fee accrues or the fiscal quarter during which the Agreement is in effect in the event of termination of the Agreement during any fiscal quarter. During the three months ended February 29, 2008, the Company accrued no investment income fees.

The second part of the incentive fee payable to the Adviser, the capital gains fee, is equal to: (A) 15 percent of (i) the Company s net realized capital gains (realized capital gains less realized capital losses) on a cumulative basis from December 8, 2005 to the end of each fiscal year, less (ii) any unrealized capital depreciation at the end of such fiscal year, less (B) the aggregate amount of all capital gains fees paid to the Adviser in prior fiscal years. The calculation of the capital gains fee includes any capital gains that result from the cash distributions that are treated as a return of capital (subject to the Expense Reimbursement and Partial Fee Waiver agreement described below). In that regard, any such return of capital will be treated as a decrease in the cost basis of an investment for purposes of calculating the capital gains fee. The capital gains fee is calculated and payable annually within thirty (30) days of the end of each fiscal year. Realized capital gains on a security will be calculated as the excess of the net amount realized from the sale or other disposition of such security over the adjusted cost basis for the security. Realized capital losses on a security will be calculated as the amount by which the net amount realized from the sale or other disposition of such security is less than the adjusted cost basis of such security. Unrealized capital depreciation on a security will be calculated as the amount by which the Company s adjusted cost basis of such security exceeds the fair value of such security at the end of a fiscal year. The provision for capital gains incentive fees is a result of the increase or decrease in the fair value of investments. Pursuant to the Investment Advisory Agreement, the capital gains incentive fee is paid annually only if there are realization events and only if the calculation defined in the agreement results in an amount due. The Adviser agreed to use at least 25 percent of any capital gains fee received on or prior to December 8, 2007 to purchase the Company s common stock in the open market; however as of November 30, 2007, no annual amount was required to be paid for capital gains incentive fees. In the event the Investment Advisory Agreement is terminated, the capital gains fee calculation shall be undertaken as of, and any resulting capital gains fee shall be paid within thirty (30) days of the date of termination. The Adviser may, from time to time, waive or defer all or any part of the compensation described in the Investment Advisory Agreement.

Under the terms of the Expense Reimbursement and Partial Fee Waiver Agreement, the Adviser terminated its right to receive the capital gains incentive fee as described above, to the extent such fee would be due as to that portion of any scheduled periodic distributions made possible by the normally recurring cash flow from the operations of portfolio companies (Expected Distributions) that are characterized by the Company as return of capital for book purposes. This does not apply to any portion of any distribution from a portfolio company that is not an Expected Distribution. As of February 29, 2008, the Adviser waived $1,088,510 in capital gains incentive fees as a result of Expected Distributions received from portfolio companies which were characterized as return of capital for book purposes. For the three months ended February 29, 2008, the Company reduced the capital gains incentive fee payable by $279,665 as a result of the decrease in the fair value of investments during the quarter.

The Company has engaged U.S. Bancorp Fund Services, LLC to serve as the Company s fund accounting services provider. The Company pays the provider a monthly fee computed at an annual rate of $24,000 on the first $50,000,000 of the Company s Net Assets, 0.0125 percent on the next $200,000,000 of Net Assets and 0.0075 percent on the balance of the Company s Net Assets.

The Adviser has been engaged as the Company s administrator. The Company pays the administrator a fee equal to an annual rate of 0.07 percent of aggregate average daily Managed Assets up to and including $150,000,000, 0.06 percent of aggregate average daily Managed Assets on the next $100,000,000, 0.05 percent of aggregate average daily Managed Assets on the next $250,000,000, and 0.02 percent on the balance. This fee is calculated and accrued daily and paid quarterly in arrears.

Computershare Trust Company, N.A. serves as the Company's transfer agent and agent for the automatic dividend reinvestment plan. Its affiliate, Computershare Inc., serves as the Company s dividend paying agent.

U.S. Bank, N.A. serves as the Company's custodian. The Company pays the custodian a monthly fee computed at an annual rate of 0.015 percent on the first $200,000,000 of the Company's portfolio assets and 0.01 percent on the balance of the Company's portfolio assets, subject to a minimum annual fee of $4,800.

5. Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting and tax purposes. Components of the Company s deferred tax assets and liabilities as of February 29, 2008, and November 30, 2007 are as follows:

	February 29, 2008	November 30, 2007
Deferred tax assets:		
Organization costs	$ 28,717	$ 29,280
Capital gain incentive fees	10,620	116,892
Net operating loss carry forwards	1,930,675	1,397,684
	1,970,012	1,543,856
Deferred tax liabilities:		
Net unrealized gains on investment securities	2,828,356	4,138,485
Basis reduction of investment in MLPs	2,068,997	1,588,290
	4,897,353	5,726,775

Total net deferred tax liability	$2,927,341	$4,182,919

At February 29, 2008, a valuation allowance was not recorded because the Company believes it is more likely than not that there is an ability to utilize its deferred tax assets.

Total income tax expense or benefit differs from the amount computed by applying the federal statutory income tax rate of 34 percent to net investment income (loss) and realized and unrealized gains (losses) on investments before taxes as follows:

	For the three months ended February 29, 2008	For the three months ended February 28, 2007
Application of statutory income tax rate	$(1,123,412)	$ 412,320
State income taxes, net of federal taxes	(132,166)	48,508
Preferred distributions		86,925
Loss on redemption of preferred stock		248,163
Total tax expense (benefit)	$(1,255,578)	$ 795,916

For the period ended February 29, 2008, the components of income tax benefit include deferred federal and state tax benefit (net of federal effect) of $1,123,412 and $132,166 respectively. For the period ended February 28, 2007, the components of income tax expense include deferred federal and state income taxes (net of federal benefit) of $747,408 and $48,508 respectively. As of November 30, 2007, the Company had a net operating loss of approximately $3,678,000. This net operating loss can be carried forward and will expire in the year ending November 30, 2027. The amount of the deferred tax asset for net operating losses at February 29, 2008 also includes an amount for the year-to-date operations for the year ending November 30, 2008.

As of February 29, 2008, the aggregate cost of securities for Federal income tax purposes was $142,345,393. At February 29, 2008, the aggregate gross unrealized appreciation for all securities in which there was an excess of fair value over tax cost was $14,572,612, the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over fair value was $1,684,845 and the net unrealized appreciation was $12,887,767.

As of February 28, 2007, the aggregate cost of securities for Federal income tax purposes was $119,987,109. At February 28, 2007, the aggregate gross unrealized appreciation for all securities in which there was an excess of fair value over tax cost was $4,272,931, the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over fair value was $0 and the net unrealized appreciation was $4,272,931.

6. Fair Value of Financial Instruments

Various inputs are used in determining the fair value of the Company s investments. These inputs are summarized in the three broad levels listed below:

Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, market corroborated inputs, etc.)

Level 3 significant unobservable inputs (including the Company s own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following table provides the fair value measurements of applicable Company assets and liabilities by level within the fair value hierarchy as of February 29, 2008. These assets are measured on a recurring basis.

		Fair Value Measurements at Reporting Date Using		
Description	Fair Value at February 29, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	$155,233,160	$21,757,404	$	$133,475,756

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Investments
Fair value at November 30, 2007	$131,513,004
Total gains (realized or unrealized)	
included in net decrease in net assets applicable to common stockholders	1,454,924
Purchases, issuances, and settlements	2,001,241
Return of capital adjustments impacting cost basis of securities	(1,493,413)
Transfers in (out) of Level 3	
Fair value at February 29, 2008	$133,475,756

7. Restricted Securities

Certain of the Company s investments are restricted and are valued as determined in accordance with procedures established by the Board of Directors and more fully described in Note 2. The tables below show the equity interest, number of units or principal amount, the acquisition date(s), acquisition cost (excluding return of capital adjustments), fair value per unit of such securities and fair value as percent of net assets applicable to common stockholders as of February 29, 2008 and November 30, 2007, respectively.

February 29, 2008		**Equity Interest, Units or Principal Amount**	**Acquisition Date(s)**	**Acquisition Cost**	**Fair Value Per Unit**	**Fair Value as Percent of Net Assets**
Investment	**Security**					
Abraxas Energy Partners, L.P.	Common Units	450,181	5/25/07	$7,500,015	$16.78	6.4%
High Sierra Energy, LP	Common Units	999,614	11/2/06, 6/15/07	24,828,836	27.29	23.2
High Sierra Energy GP, LLC	Equity Interest	2.37%	11/2/06, 5/1/07	2,006,732	N/A	2.4
International Resource Partners LP	Class A Common Units	500,000	6/12/07	10,000,000	18.12	7.7
LONESTAR Midstream Partners, LP	Class A Common Units	1,207,208	7/27/07, 9/17/07. 12/17/07	23,418,198	18.94	19.4
LSMP GP, LP	GP LP Units	180	7/27/07, 9/17/07	679,482	4,740.32	0.7
Millennium Midstream Partners, LP	Class A Common Units	875,000	12/28/06	17,455,647	17.79	13.2
Millennium Midstream Partners, LP	Incentive Distribution Rights	78	12/28/06	44,353	5,613.48	0.4
Mowood, LLC	Equity Interest	100%	6/5/06, 5/4/07, 1/10/08	3,500,000	N/A	4.5
Mowood, LLC	Subordinated Debt	$7,050,000	6/5/06, 5/4/07, 6/29/07	7,050,000	N/A	6.0
	Common Units	1,180,946	12/22/06	22,200,001	17.50	17.6

Quest Midstream Partners, L.P.						
VantaCore Partners LP	Common Units	425,000	5/21/07	8,447,604	23.39	8.4
VantaCore Partners LP	Incentive Distribution Rights	789	5/21/07	52,396	414.49	0.3
VantaCore Partners LP	Subordinated Debt	$3,750,000	5/21/07	3,750,000	N/A	3.2
				$130,933,264		113.4%

November 30, 2007 **Investment**	**Security**	**Equity Interest, Units or Principal Amount**	**Acquisition Date(s)**	**Acquisition Cost**	**Fair Value Per Unit**	**Fair Value as Percent of Net Assets**
Abraxas Energy Partners, L.P.	Common Units	450,181	5/25/07	$7,500,015	$16.36	6.0%
EV Energy Partners, L.P.	Common Units	217,391	6/1/07	7,499,990	33.84	6.0
High Sierra Energy, LP	Common Units	999,614	11/2/06, 6/15/07	24,828,836	27.29	22.4
High Sierra Energy GP, LLC	Equity Interest	2.37%	11/2/06, 5/1/07	2,005,491	N/A	2.3
International Resource Partners LP	Class A Common Units	500,000	6/12/07	10,000,000	18.10	7.4
LONESTAR Midstream Partners, LP	Class A Common Units	1,184,532	7/27/07, 9/17/07	23,418,198	19.77	19.1
LSMP GP, LP	GP LP Units	180	7/27/07, 9/17/07	679,482	3,806.22	0.6
Millennium Midstream Partners, LP	Class A Common Units	875,000	12/28/06	17,455,647	17.66	12.7
Millennium Midstream Partners, LP	Incentive Distribution Rights	78	12/28/06	44,353	3,611.47	0.2
Mowood, LLC	Equity Interest	100%	6/5/06, 5/4/07	1,500,000	N/A	2.3
Mowood, LLC	Subordinated Debt	$7,050,000	6/5/06, 5/4/07, 6/29/07	7,050,000	N/A	5.8
Quest Midstream Partners, L.P.	Common Units	1,180,946	12/22/06	22,200,001	18.50	18.0
VantaCore Partners LP	Common Units	425,000	5/21/07	8,447,604	22.25	7.8
VantaCore Partners LP	Incentive Distribution Rights	789	5/21/07	52,396	276.81	0.2
VantaCore Partners LP	Subordinated Debt	$3,750,000	5/21/07	3,750,000	N/A	3.1
				$136,432,013		113.9%

8. Investments in Affiliates and Control Entities

Investments representing 5 percent or more of the outstanding voting securities of a portfolio company result in that company being considered an affiliated company, as defined in the 1940 Act. Investments representing 25 percent or more of the outstanding voting securities of a portfolio company result in that company being considered a control company, as defined in the 1940 Act. The aggregate fair value of all securities of affiliates and controlled entities held by the Company as of February 29, 2008 amounted to $123,074,414 representing 104.6 percent of net assets applicable to common stockholders. The aggregate fair value of all securities of affiliates and controlled entities held by the Company as of November 30, 2007 amounted to $121,300,179 representing 99.5 percent of net assets applicable to common stockholders. A summary of affiliated transactions for each company which is or was an affiliate or controlled entity at February 29, 2008 or during the three months then ended and at November 30, 2007 or during the year then ended is as follows:

					February 29, 2008	
	Units/ Equity Interest/Principal Balance 11/30/07	**Gross Additions**	**Gross Reductions**	**Gross Distributions Received**	**Units/ Equity Interest/ Principal Balance**	**Fair Value**
High Sierra Energy, LP	999,614	$	$	$609,764	999,614	$27,279,466
International Resource Partners LP	500,000			200,000	500,000	9,060,193
LONESTAR Midstream Partners, LP [(1)]	1,184,532					