

TORTOISE CAPITAL RESOURCES CORP
Form 10-Q
October 07, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 31, 2010

OR

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
(State or other jurisdiction of incorporation or organization)

20-3431375
(I.R.S. Employer Identification No.)

11550 ASH STREET, SUITE 300
LEAWOOD, KANSAS 66211
(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

The number of shares of the issuer's Common Stock, \$0.001 par value, outstanding as of September 30, 2010 was 9,134,228.

Tortoise Capital Resources Corporation

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2010

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SIGNATURES

Tortoise Capital Resources Corporation

STATEMENTS OF ASSETS & LIABILITIES

	August 31, 2010 (Unaudited)	November 30, 2009
Assets		
Investments at fair value, control (cost \$19,565,433 and \$28,180,070, respectively)	\$ 24,883,047	\$ 33,458,046
Investments at fair value, affiliated (cost \$31,093,559 and \$52,676,299, respectively)	43,753,715	41,658,847
Investments at fair value, non-affiliated (cost \$22,748,896 and \$9,568,566, respectively)	17,810,327	8,865,047
Total investments (cost \$73,407,888 and \$90,424,935, respectively)	86,447,089	83,981,940
Receivable for Adviser expense reimbursement	95,587	49,843
Receivable for investments sold	387	—
Dividends receivable	86	87
Deferred tax asset	3,690,739	5,429,391
Prepaid expenses and other assets	42,437	16,792
Total assets	90,276,325	89,478,053
Liabilities		
Base management fees payable to Adviser	286,761	299,060
Distribution payable to common stockholders	911,649	—
Accrued expenses and other liabilities	260,223	282,408
Short-term borrowings	—	4,600,000
Total liabilities	1,458,633	5,181,468
Net assets applicable to common stockholders	\$ 88,817,692	\$ 84,296,585
Net Assets Applicable to Common Stockholders Consist of:		
Warrants, no par value; 945,594 issued and outstanding at August 31, 2010 and November 30, 2009 (5,000,000 authorized)	\$ 1,370,700	\$ 1,370,700
Capital stock, \$0.001 par value; 9,116,456 shares issued and outstanding at August 31, 2010 and 9,078,090 issued and outstanding at November 30, 2009 (100,000,000 shares authorized)	9,116	9,078
Additional paid-in capital	99,170,032	101,929,307
Accumulated net investment loss, net of income taxes	(3,585,186)	(3,304,416)
Accumulated realized loss, net of income taxes	(18,654,924)	(14,041,614)
Net unrealized appreciation (depreciation) of investments, net of income taxes	10,507,954	(1,666,470)
Net assets applicable to common stockholders	\$ 88,817,692	\$ 84,296,585
Net Asset Value per common share outstanding (net assets applicable to common stock, divided by common shares outstanding)	\$ 9.74	\$ 9.29

See accompanying Notes to Financial Statements.

Tortoise Capital Resources Corporation

SCHEDULE OF INVESTMENTS

August 31, 2010

(Unaudited)

Company	Energy Infrastructure Segment	Type of Investment	Cost	Fair Value
Control Investments(1)				
Mowood, LLC	Midstream/ Downstream	Equity Interest (100%)(2)	\$ 793,000	\$ 5,417,286
		Subordinated Debt (14.0% Due 12/31/10)(2)	4,800,000	4,800,000
VantaCore Partners LP	Aggregates	Common Units (933,430)(2)	13,828,492	14,524,171
		Incentive Distribution Rights (988)(2)(5)	143,941	141,590
Total Control Investments — 28.0%(3)			19,565,433	24,883,047
Affiliated Investments(4)				
High Sierra Energy, LP	Midstream	Common Units (1,042,685)(2)(5)	19,823,161	19,852,715
International Resource Partners LP	Coal	Class A Units (500,000)(2)	9,001,083	23,665,000
LONESTAR Midstream Partners, LP	Midstream	Class A Units (1,327,900)(2)(5)(6)	2,149,269	200,000
LSMP GP, LP	Midstream	GP LP Units (180)(2)(5)(6)	120,046	36,000
Total Affiliated Investments — 49.3%(3)			31,093,559	43,753,715
Non-affiliated Investments				
Abraxas Petroleum Corporation	Upstream	Common Units (1,946,376)(5)(7)	2,895,234	4,690,766
Energy Transfer Partners, L.P.	Midstream	Common Units (26,600)(7)	1,256,420	1,215,354
Enterprise Products Partners L.P.	Midstream	Common Units (37,600)(7)	1,249,815	1,390,072
EV Energy Partners, L.P.	Upstream	Common Units (78,900)(7)	2,315,297	2,652,618
High Sierra Energy GP, LLC	Midstream	Equity Interest (2.37%)(2)(5)	1,999,275	558,666
Inergy, L.P.	Midstream	Common Units (7,100)(7)	293,870	264,404
Kinder Morgan Management, LLC	Midstream	Common Units (20,316)(7)(8)	1,139,279	1,200,061
ONEOK Partners, L.P.	Midstream	Common Units (17,100)(7)	1,011,130	1,176,480
PostRock Energy Corporation	Upstream	Common Units (383,500)(5)(7)	7,286,500	1,257,880
Regency Energy Partners LP	Midstream	Common Units (7,900)(7)	197,450	187,862
Williams Partners L.P.	Midstream	Common Units (32,300)(7)	1,248,615	1,360,153
Fidelity Institutional Government Portfolio	Short-term investment	Class I Shares	1,856,011	1,856,011
Total Non-affiliated Investments — 20.0%(3)			22,748,896	17,810,327
Total Investments — 97.3%(3)			\$ 73,407,888	\$ 86,447,089

(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 been fair valued in accordance with procedures approved by the Board of Directors and have a total fair value of \$69,195,428, which represents 77.9% of net assets applicable to common stockholders; see Note 7 to the financial statements for further disclosure.

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

(4) 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.

(5) Currently non-income producing.

(6) In July 2008, LONESTAR Midstream Partners, LP sold its assets to Penn Virginia Resource Partners, L.P. (PVR). LONESTAR has no continuing operations, but currently holds certain rights to receive future payments from PVR relative to the sale. LSMP GP, LP indirectly owns the general partner of LONESTAR

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Midstream Partners, LP. See Note 9 to the financial statements for additional information.

- (7) Publicly-traded company.
- (8) Security distributions are paid-in-kind.

See accompanying Notes to Financial Statements.

Tortoise Capital Resources Corporation

SCHEDULE OF INVESTMENTS

November 30, 2009

Company	Energy Infrastructure Segment	Type of Investment	Cost	Fair Value
Control Investments(1)				
Mowood, LLC	Midstream/	Equity Interest (99.5%)(2)	\$ 4,077,499	\$ 8,253,910
	Downstream	Subordinated Debt (9% Due 12/31/09)(2)	8,800,000	8,800,000
VantaCore Partners LP	Aggregates	Common Units (933,430)(2)	15,158,630	16,256,482
		Incentive Distribution Rights (988)(2)(5)	143,941	147,654
Total Control Investments — 39.7%(3)			28,180,070	33,458,046
Affiliated Investments(4)				
High Sierra Energy, LP	Midstream	Common Units (1,042,685)(2)	20,729,255	24,461,390
International Resource Partners LP	Coal	Class A Units (500,000)(2)	9,333,333	9,984,402
LONESTAR Midstream Partners, LP	Midstream	Class A Units (1,327,900)(2)(5)(6)	2,952,626	1,102,000
LSMP GP, LP	Midstream	GP LP Units (180)(2)(5)(6)	138,521	124,000
Quest Midstream Partners, L.P.	Midstream	Common Units (1,216,881)(2)(5)	19,522,564	5,987,055
Total Affiliated Investments — 49.4%(3)			52,676,299	41,658,847
Non-affiliated Investments				
Abraxas Petroleum Corporation	Upstream	Unregistered Common Units (1,946,376)(2)(5)(7)	2,895,234	3,297,009
Eagle Rock Energy Partners, L.P.	Midstream/ Upstream	Unregistered Common Units (54,474)(2)(7)(8)	723,447	253,559
EV Energy Partners, L.P.	Upstream	Common Units (78,900)(7)	2,447,552	2,039,565
High Sierra Energy GP, LLC	Midstream	Equity Interest (2.37%)(2)	2,003,487	1,776,068
Fidelity Institutional Government Portfolio	Short-term investment	Class I Shares	1,498,846	1,498,846
Total Non-affiliated Investments — 10.5%(3)			9,568,566	8,865,047
Total Investments — 99.6%(3)			\$ 90,424,935	\$ 83,981,940

(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 been fair valued in accordance with procedures approved by the Board of Directors and have a total fair value of \$80,443,529, which represents 95.4% of net assets applicable to common stockholders; see Note 7 to the financial statements for further disclosure.

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

(4) 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.

(5) Currently non-income producing.

(6) In July 2008, LONESTAR Midstream Partners, LP sold its assets

to Penn
Virginia
Resource
Partners, L.P.
(PVR).
LONESTAR
has no
continuing
operations, but
currently holds
certain rights
to receive
future
payments from
PVR relative
to the sale.
LSMP GP, LP
indirectly
owns the
general partner
of
LONESTAR
Midstream
Partners, LP.
See Note 9 to
the financial
statements for
additional
information.

(7) Publicly-traded
company.

(8) Units are held
in an escrow
account to
satisfy any
potential
claims from
the purchaser
of Millennium
Midstream
Partners, L.P.
The escrow
agreement
terminates
April 1, 2010.
See Note 9 to
the financial
statements for
additional
information.

See accompanying Notes to Financial Statements.

Tortoise Capital Resources Corporation

STATEMENTS OF OPERATIONS (Unaudited)

	For the three months ended August 31, 2010	For the three months ended August 31, 2009	For the nine months ended August 31, 2010	For the nine months ended August 31, 2009
Investment Income				
Distributions from investments				
Control investments	\$ 485,379	\$ 555,879	\$ 1,519,638	\$ 1,714,309
Affiliated investments	250,000	856,891	1,331,891	2,522,267
Non-affiliated investments	154,516	222,892	374,521	1,999,382
Total distributions from investments	889,895	1,635,662	3,226,050	6,235,958
Less return of capital on distributions	(1,057,882)	(1,075,398)	(2,713,281)	(5,792,784)
Net distributions from investments	(167,987)	560,264	512,769	443,174
Interest income from control investments	182,622	201,918	563,675	605,916
Dividends from money market mutual funds	230	304	680	1,449
Fee income	8,000	15,000	27,080	45,000
Total Investment Income	22,865	777,486	1,104,204	1,095,539
Operating Expenses				
Base management fees	286,761	321,578	906,387	1,052,533
Professional fees	290,606	176,947	529,461	451,056
Directors' fees	17,543	22,080	76,975	65,817
Reports to stockholders	16,053	15,409	47,930	45,890
Administrator fees	13,382	15,007	42,298	49,118
Fund accounting fees	6,442	8,032	20,453	24,772
Registration fees	6,297	7,891	19,148	23,501
Stock transfer agent fees	3,403	3,556	9,995	10,140
Franchise tax expense	2,798	—	10,328	—
Custodian fees and expenses	1,457	5,315	5,787	13,075
Other expenses	12,753	12,364	37,985	36,827
Total Operating Expenses	657,495	588,179	1,706,747	1,772,729
Interest expense	—	134,987	45,619	562,945
Total Expenses	657,495	723,166	1,752,366	2,335,674
Less expense reimbursement by Adviser	(95,587)	(53,596)	(198,858)	(175,422)
Net Expenses	561,908	669,570	1,553,508	2,160,252
Net Investment Income (Loss), before Income Taxes	(539,043)	107,916	(449,304)	(1,064,713)
Deferred tax benefit (expense)	202,195	(26,733)	168,534	(119,633)
Net Investment Income (Loss)	(336,848)	81,183	(280,770)	(1,184,346)

Tortoise Capital Resources Corporation

STATEMENTS OF OPERATIONS (Unaudited)
(Continued)

	For the three months ended August 31, 2010	For the three months ended August 31, 2009	For the nine months ended August 31, 2010	For the nine months ended August 31, 2009
Realized and Unrealized Gain (Loss) on Investments				
Net realized gain on control investments	\$ —	\$ —	\$ 2,163,001	\$ —
Net realized loss on affiliated investments	—	(165,427)	(9,624,557)	(338,572)
Net realized loss on non-affiliated investments	(1,340,452)	(10,591,042)	(2,552,341)	(18,252,872)
Net realized loss, before income taxes	(1,340,452)	(10,756,469)	(10,013,897)	(18,591,444)
Deferred tax benefit (expense)	4,102,850	(1,468,249)	5,400,587	(2,088,966)
Net realized gain (loss) on investments	2,762,398	(12,224,718)	(4,613,310)	(20,680,410)
Net unrealized appreciation (depreciation) of control investments	(729,984)	1,130,655	39,638	4,288,137
Net unrealized appreciation (depreciation) of affiliated investments	12,627,879	(311,350)	23,677,608	(5,215,233)
Net unrealized appreciation (depreciation) of non-affiliated investments	1,092,409	9,907,190	(4,235,050)	15,102,387
Net unrealized appreciation, before income taxes	12,990,304	10,726,495	19,482,196	14,175,291
Deferred tax benefit (expense)	(4,872,663)	1,319,533	(7,307,772)	1,592,760
Net unrealized appreciation of investments	8,117,641	12,046,028	12,174,424	15,768,051
Net Realized and Unrealized Gain (Loss) on Investments	10,880,039	(178,690)	7,561,114	(4,912,359)
Net Increase (Decrease) in Net Assets Applicable to Common Stockholders Resulting from Operations	\$ 10,543,191	\$ (97,507)	\$ 7,280,344	\$ (6,096,705)
Net Increase (Decrease) in Net Assets Applicable to Common Stockholders Resulting from Operations Per Common Share:				
Basic and Diluted	\$ 1.16	\$ (0.01)	\$ 0.80	\$ (0.68)
Weighted Average Shares of Common Stock Outstanding:				
Basic and Diluted	9,116,456	9,014,094	9,098,005	8,997,031

See accompanying Notes to Financial Statements.

Tortoise Capital Resources Corporation

STATEMENTS OF CHANGES IN NET ASSETS

	For the nine months ended August 31, 2010 (Unaudited)	For the nine months ended August 31, 2009 (Unaudited)	Year ended November 30, 2009
Operations			
Net investment loss	\$ (280,770)	\$ (1,184,346)	\$ (760,149)
Net realized loss on investments	(4,613,310)	(20,680,410)	(20,405,876)
Net unrealized appreciation of investments	12,174,424	15,768,051	21,177,019
Net increase (decrease) in net assets applicable to common stockholders resulting from operations	7,280,344	(6,096,705)	10,994
Distributions to Common Stockholders			
Return of capital	(3,001,701)	(4,405,226)	(5,582,473)
Total distributions to common stockholders	(3,001,701)	(4,405,226)	(5,582,473)
Capital Stock Transactions			
Issuance of 38,366, 39,755 and 115,943 common shares from reinvestment of distributions to stockholders, respectively	242,464	353,338	642,764
Net increase in net assets, applicable to common stockholders, from capital stock transactions	242,464	353,338	642,764
Total increase (decrease) in net assets applicable to common stockholders	4,521,107	(10,148,593)	(4,928,715)
Net Assets			
Beginning of period	84,296,585	89,225,300	89,225,300
End of period	\$ 88,817,692	\$ 79,076,707	\$ 84,296,585
Accumulated net investment loss, net of income taxes, at the end of period	\$ (3,585,186)	\$ (3,728,613)	\$ (3,304,416)

See accompanying Notes to Financial Statements.

Tortoise Capital Resources Corporation

STATEMENT OF CASH FLOWS (Unaudited)

	For the nine months ended August 31, 2010	For the nine months ended August 31, 2009
Cash Flows From Operating Activities		
Distributions received from investments	\$ 3,226,050	\$ 6,179,445
Interest and dividend income received	564,356	616,699
Fee income received	32,080	40,000
Purchases of long-term investments	(8,436,951)	(3,717,644)
Proceeds from sales of long-term investments	13,083,597	21,016,550
Purchases of short-term investments, net	(357,165)	(1,854,376)
Interest expense paid	(66,703)	(621,399)
Operating expenses paid	(1,597,674)	(1,581,076)
Net cash provided by operating activities	6,447,590	20,078,199
Cash Flows from Financing Activities		
Advances from revolving line of credit	—	900,000
Repayments on revolving line of credit	(4,600,000)	(18,100,000)
Distributions paid to common stockholders	(1,847,590)	(2,878,199)
Net cash used in financing activities	(6,447,590)	(20,078,199)
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 provided by operating activities		
Net increase (decrease) in net assets applicable to common stockholders resulting from operations	\$ 7,280,344	\$ (6,096,705)
Adjustments to reconcile net increase (decrease) in net assets applicable to common stockholders resulting from operations to net cash provided by operating activities:		
Purchases of long-term investments	(8,436,951)	(3,774,157)
Return of capital on distributions received	2,713,281	5,792,784
Proceeds from sales of long-term investments	13,083,984	21,081,654
Purchases of short-term investments, net	(357,165)	(1,854,376)
Deferred income taxes, net	1,738,651	615,839
Realized gain on investments	10,013,897	18,591,444
Net unrealized appreciation of investments	(19,482,196)	(14,175,291)
Changes in operating assets and liabilities:		
Decrease in interest, dividend and distribution receivable	1	8,850
Decrease in income tax receivable	—	212,054
Increase in receivable for investments sold	(387)	(65,104)
(Increase) decrease in prepaid expenses and other assets	(25,645)	63,830
Decrease in base management fees payable to Adviser, net of expense reimbursement	(58,043)	(176,645)
Decrease in accrued expenses and other liabilities	(22,181)	(145,978)
Total adjustments	(832,754)	26,174,904
Net cash provided by operating activities	\$ 6,447,590	\$ 20,078,199

Non-Cash Financing Activities

Reinvestment of distributions by common stockholders in additional common shares	\$	242,464	\$	353,338
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See accompanying Notes to Financial Statements.

Tortoise Capital Resources Corporation

FINANCIAL HIGHLIGHTS

	For the nine months ended August 31, 2010 (Unaudited)	For the nine months ended August 31, 2009 (Unaudited)	Year ended November 30, 2009
Per Common Share Data(1)			
Net Asset Value, beginning of period	\$ 9.29	\$ 9.96	\$ 9.96
Income (loss) from Investment Operations:			
Net investment loss(2)	(0.03)	(0.13)	(0.08)
Net realized and unrealized gain (loss) on investments(2)	0.81	(0.58)	0.03
Total increase (decrease) from investment operations	0.78	(0.71)	(0.05)
Less Distributions to Common Stockholders:			
Return of capital	(0.33)	(0.49)	(0.62)
Total distributions to common stockholders	(0.33)	(0.49)	(0.62)
Net Asset Value, end of period	\$ 9.74	\$ 8.76	\$ 9.29
Per common share market value, end of period	\$ 5.62	\$ 5.74	\$ 6.23
Total Investment Return, based on net asset value(3)	10.67%	(3.77)%	4.19%
Total Investment Return, based on market value(4)	(4.78)%	20.55%	33.57%
Supplemental Data and Ratios			
Net assets applicable to common stockholders, end of period (000's)	\$ 88,818	\$ 79,077	\$ 84,297
Average net assets (000's)	\$ 84,191	\$ 85,069	\$ 83,887
Ratio of Expenses to Average Net Assets(5)			
Advisory fees	1.43%	1.65%	1.61%
Other expenses	1.27	1.13	1.09
Expense reimbursement	(0.31)	(0.27)	(0.27)
Subtotal	2.39	2.51	2.43
Interest expense	0.07	0.88	0.75
Income tax expense(6)	2.75	0.96	0.30
Total expenses	5.21%	4.35%	3.48%
Ratio of net investment loss to average net assets, before expense reimbursement(5)	(0.75)%	(2.13)%	(1.18)%
Ratio of net investment loss to average net assets, after expense reimbursement(5)	(0.44)%	(1.86)%	(0.91)%
Portfolio turnover rate(5)	14.14%	5.49%	7.43%
Short-term borrowings, end of period (000's)	—	\$ 5,000	\$ 4,600
Asset coverage, per \$1,000 of short-term borrowings(7)	—	\$ 16,815	\$ 19,325
Asset coverage ratio of short-term borrowings(7)	—	1,682%	1,933%

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

(2) The per common share data for the year ended November 30, 2009 does not reflect the change in estimate of investment income and return of capital, as described in Note 2D.

(3) Not annualized. Total investment return is calculated assuming a purchase of common stock at the net asset value per share as of the beginning of the period, reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan and a sale at net asset value at the end of the period.

(4) Not annualized. Total investment return is calculated assuming a purchase of common stock at the market value at the beginning of the period, reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan and a sale at the current market price on the last day of the period (excluding brokerage commissions).

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

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- (6) For the nine months ended August 31, 2010, the Company accrued \$1,738,651 in deferred income tax expense, net. For the nine months ended August 31, 2009, the Company accrued \$615,839 in deferred income tax expense, net. For the year ended November 30, 2009, the Company accrued \$254,356 in deferred income tax expense, net.
- (7) 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 Financial Statements.

Tortoise Capital Resources Corporation

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

August 31, 2010

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 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 listed energy infrastructure investments, such as pipeline and power companies. 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. These investments generally are subject to restrictions on resale, have no established trading market and are fair valued on a quarterly basis. 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 Company determines fair value to be 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. The Company has determined the principal market, or the market in which the Company exits its private portfolio investments with the greatest volume and level of activity, to be the private secondary market. Typically, private companies are bought and sold based on multiples of EBITDA, cash flows, net income, revenues, or in limited cases, book value.

For private company investments, value is often realized through a liquidity event of the entire company. Therefore, the value of the company as a whole (enterprise value) at the reporting date often provides the best evidence of the value of the investment and is the initial step for valuing the Company's privately issued securities. 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. In determining the enterprise value of a portfolio company, an analysis is prepared consisting of traditional valuation methodologies including market and income approaches. The Company considers some or all of the traditional valuation methods based on the individual circumstances of the portfolio company in order to derive its estimate of enterprise value.

The fair value of investments in private portfolio companies is determined based on various factors, including enterprise value, observable market transactions, 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 may be discounted when the Company has a minority position, is subject to restrictions on resale, has 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 or over-the-counter market, the Company fair values those securities at their last sale price on that exchange or over-the-counter market on the valuation date. If the security is listed on more than one exchange, the Company will use the price from the exchange that it 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 over-the-counter market on such day, the security will be valued at the mean between the last bid price and last ask price on such day.

An equity security of a publicly traded company acquired in a private placement transaction without registration is subject to restrictions on resale that can affect the security's liquidity and fair value. Such securities that are convertible into or otherwise

will become freely tradable will be valued based on the market value of the freely tradable security less an applicable discount. Generally, the discount will initially be equal to the discount at which the Company purchased the securities. To the extent that such securities are convertible or otherwise become freely tradable within a time frame that may be reasonably determined, an amortization schedule may be used to determine the discount.

The Board of Directors undertakes a multi-step valuation process each quarter in connection with determining the fair value of private investments. An independent valuation firm has been engaged by the Board of Directors to provide independent, third-party valuation consulting services based on procedures that the Board of Directors has identified and may ask them to perform from time to time on all or a selection of private investments as determined by the Board of Directors. The multi-step valuation process is specific to the level of assurance that the Board of Directors requests from the independent valuation firm. For positive assurance, the process is as follows:

- The independent valuation firm prepares the preliminary valuations and the supporting analysis. At August 31, 2010, the independent valuation firm performed positive assurance valuation procedures on five portfolio companies comprising approximately 99.7 percent of the total fair value of restricted investments;
- The investment professionals of the Adviser review the preliminary valuations and supporting analyses, and consider and assess, as appropriate, any changes that may be required to the preliminary valuations;
- The Investment Committee of the Adviser reviews the preliminary valuations and supporting analyses, and considers and assesses, as appropriate, any changes that may be required to the preliminary valuations;
- The Board of Directors assesses the valuations and ultimately determines the fair value of each investment in the Company's portfolio in good faith.

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 and nine months ended August 31, 2010, the Company received \$8,000 and \$27,080 in fee income, respectively. For the three and nine months ended August 31, 2009, the Company received \$15,000 and \$45,000 in fee income, respectively.

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, capital gains 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 entities after their tax reporting periods are concluded, as the actual character of these distributions is not known until after the fiscal year end of the Company.

For the period from December 1, 2008 through November 30, 2009, 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 had estimated approximately 30 percent as investment income and approximately 70 percent as return of capital.

Subsequent to November 30, 2009, the Company reallocated the amount of investment income and return of capital it recognized for the period from December 1, 2008 through November 30, 2009 based on the 2009 tax reporting information received from the individual portfolio companies. This reclassification amounted to a decrease in pre-tax net investment income of approximately \$613,000 or \$0.067 per share (\$383,000 or \$0.042 per share, net of deferred tax benefit); an increase in unrealized appreciation of investments of approximately \$886,000 or \$0.097 per share (\$554,000 or \$0.061 per share, net of deferred tax expense) and a decrease in realized gains of approximately \$273,000 or \$0.030 per share (\$171,000 or \$0.019 per share, net of deferred tax benefit).

Subsequent to the period ended May 31, 2010, the Company reallocated the amount of investment income and return of capital recognized in the current fiscal year based on its revised 2010 estimates. This reclassification amounted to an increase in pre-tax net investment income of approximately \$235,000 or \$0.026 per share (\$147,000 or \$0.016 per share, net of deferred tax expense); a decrease in unrealized appreciation of investments of approximately \$238,000 or \$0.026 per share (\$149,000 or \$0.016 per share, net of deferred tax benefit) and an increase in realized gains of approximately \$3,000 or less than \$0.001 per share (\$2,000 or less than \$0.001 per share, net of deferred tax expense).

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. If the Company has outstanding leverage, it may not declare or pay distributions to its common stockholders if it does not meet asset coverage ratios required under the 1940 Act. 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, 2009 and the period ended August 31, 2010, the Company's distributions for book purposes were comprised of 100 percent return of capital. For the year ended November 30, 2009, the Company's distributions for tax purposes were comprised of 100 percent return of capital. The tax character of distributions paid to common stockholders in the current year will be determined subsequent to November 30, 2010.

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 highest regular marginal 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.

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 is included in the Statement of Operations based on the component of income or gains (losses) to which such expense or benefit relates. Deferred income taxes reflect 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. 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.

G. Offering Costs — Offering costs related to the issuance of common stock are charged to additional paid-in capital when the stock is issued.

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.

I. Recent Accounting Pronouncement

Standard on Fair Value Measurement

On January 21, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-06, Improving Disclosures about Fair Value Measurements, which amends FASB Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures, and requires additional disclosures regarding fair value measurements. Specifically, the amendment requires reporting entities to disclose (i) the input and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements, for Level 2 or Level 3 positions, (ii) transfers between all levels (including Level 1 and Level 2) on a gross basis (i.e. transfers out must be disclosed separately from transfers in) as well as the reason(s) for the transfer, and (iii) purchases, sales, issuances, and settlements on a gross basis in the Level 3 rollforward rather than as one net number. The effective date of the amendment is for interim and annual periods beginning after December 15, 2009; however, the requirement to provide the Level 3 activity for purchases, sales, issuances, and settlements on a gross basis will be effective for interim and annual periods beginning after December 15, 2010. The Company has adopted the disclosures required by this amendment, which did not have a material impact on the financial statements.

3. Concentration of Risk

The Company invests primarily in privately-held and micro-cap public companies in 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

For the period from December 1, 2008 through September 14, 2009, the Company had an Investment Advisory Agreement with Tortoise Capital Advisors, L.L.C. On September 15, 2009, the Company entered into a new Investment Advisory Agreement with the Adviser as a result of a change in control of the Adviser and the previous Investment Advisory Agreement with the Adviser automatically terminated. The terms of the new Investment Advisory Agreement are substantially identical to the terms of the

previous Investment Advisory Agreement, except for the effective and termination dates, and simply continue the relationship between the Company and the Adviser.

Under the terms of the Investment Advisory 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 but excluding any net deferred tax asset) minus accrued liabilities other than (1) net deferred tax liabilities, (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 reimbursed 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. On November 11, 2008, the Company entered into an Expense Reimbursement Agreement with the Adviser, for which the Adviser reimbursed the Company for certain expenses incurred beginning January 1, 2009 and ending December 31, 2009 in an amount equal to an annual rate of 0.25 percent of the Company's average monthly Managed Assets. On February 17, 2010, the Company entered into an Expense Reimbursement Agreement with the Adviser under which the Adviser will reimburse the Company for certain expenses incurred beginning January 1, 2010 and ending December 31, 2010 in an amount equal to an annual rate of 0.25 percent of the Company's average monthly Managed Assets. On August 9, 2010, the Company entered into an Amended Expense Reimbursement Agreement with the Adviser under which the Adviser will reimburse the Company for certain expenses incurred beginning June 1, 2010 and ending December 31, 2010 in an amount equal to an annual rate of 0.50 percent of the Company's average monthly Managed Assets. During the three and nine months ended August 31, 2010, the Adviser reimbursed the Company \$95,587 and \$198,858, respectively. During the three and nine months ended August 31, 2009, the Adviser reimbursed the Company \$53,596 and \$175,422, respectively.

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 and nine months ended August 31, 2010 and August 31, 2009, the Company accrued no investment income fees.

The second part of the incentive fee payable to the Adviser, the capital gain incentive 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 inception 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 gain fees paid to the Adviser in prior fiscal years. The capital gain incentive fee is calculated and payable annually within thirty (30) days of the end of each fiscal year. In the event the Investment Advisory Agreement is terminated, the capital gain incentive fee calculation shall be undertaken as of, and any resulting capital gain incentive 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.

The calculation of the capital gain incentive fee does not include any capital gains that result from 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 U.S. generally accepted accounting principles purposes. In that regard, any such return of capital will not be treated as a decrease in the cost basis of an investment for purposes

of calculating the capital gain incentive fee. This does not apply to any portion of any distribution from a portfolio company that is not an Expected Distribution. 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 payable for capital gain incentive fees is a result of the increase or decrease in the fair value of investments and realized gains or losses from investments. For the three and nine months ended August 31, 2010 and August 31, 2009, the Company accrued no capital gain incentive fees. Pursuant to the Investment Advisory Agreement, the capital gain 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. No capital gain incentive fees have been paid since the commencement of operations.

U.S. Bancorp Fund Services, LLC serves 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, 0.0075 percent on the next \$250,000,000 of Net Assets and 0.0025 percent on the balance of the Company's Net Assets.

The Adviser serves 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 registrar and Computershare Inc. serves as the Company's dividend paying agent and agent for the automatic dividend reinvestment plan.

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 0.004 percent of the Company's portfolio assets, subject to a minimum annual fee of \$4,800, plus portfolio transaction fees.

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 August 31, 2010 and November 30, 2009 are as follows:

	August 31, 2010	November 30, 2009
Deferred tax assets:		
Organization costs	\$ (22,788)	\$ (24,456)
Net unrealized loss on investment securities	—	(2,416,767)
Capital loss carryforwards	(5,833,996)	(6,084,585)
Net operating loss carryforwards	(5,142,271)	(5,112,040)
AMT and State of Kansas credit	(5,039)	(5,039)
Valuation allowance	1,393,714	3,038,089
	(9,610,380)	(10,604,798)
Deferred tax liabilities:		
Basis reduction of investment in partnerships	1,028,636	5,175,407
Net unrealized gain on investment securities	4,891,004	—
Total net deferred tax asset	\$ (3,690,740)	\$ (5,429,391)

At August 31, 2010, the Company has recorded a valuation allowance in the amount of \$1,393,714 for a portion of its deferred tax asset which it does not believe will, more likely than not, be realized. The Company estimates, based on existence of sufficient evidence, primarily regarding the amount and timing of distributions to be received from portfolio companies, the ability to realize the remainder of its deferred tax assets. Any adjustments to such estimates will be made in the period such determination is made. The Company's policy is to record interest and penalties on uncertain tax positions as part of tax expense. As of August 31, 2010, the Company had no uncertain tax positions and no interest or penalties were accrued. All tax years since inception remain open to examination by federal and state tax authorities.

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Total income tax expense (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 August 31, 2010	For the three months ended August 31, 2009
Application of statutory income tax rate	\$ (3,777,675)	\$ 26,499
State income taxes, net of federal taxes	(389,990)	2,167
Change in deferred tax valuation allowance	3,600,047	146,783
Total income tax expense	\$ 567,618	\$ 175,449

	For the nine months ended August 31, 2010	For the nine months ended August 31, 2009
Application of statutory income tax rate	\$ (3,066,458)	\$ (1,863,495)
State income taxes, net of federal taxes	(316,567)	(152,368)
Change in deferred tax valuation allowance	1,644,374	2,631,702
Total income tax expense	\$ 1,738,651	\$ 615,839

The provision for income taxes is computed by applying the federal statutory rate plus a blended state income tax rate. The components of income tax include the following for the periods presented:

	For the three months ended August 31, 2010	For the three months ended August 31, 2009
Deferred tax expense		
Federal	\$ 514,503	\$ 162,188
State	53,115	13,261
Total deferred expense	\$ 567,618	\$ 175,449

	For the nine months ended August 31, 2010	For the nine months ended August 31, 2009
Deferred tax expense		
Federal	\$ 1,575,957	\$ 569,291
State	162,694	46,548
Total deferred expense	\$ 1,738,651	\$ 615,839

The deferred income tax expense for the three month and nine month periods ended August 31, 2010 and August 31, 2009 includes the impact of the change in valuation allowance for such respective periods.

As of November 30, 2009, the Company had a net operating loss for federal income tax purposes of approximately \$14,500,000. The net operating loss may be carried forward for 20 years. If not utilized, this net operating loss will expire as follows: \$3,911,000, \$3,369,000 and \$7,220,000 in the years 2027, 2028 and 2029, respectively. As of November 30, 2009, the Company had a capital loss carryforward of approximately \$15,100,000 which may be carried forward for 5 years. If not utilized, this capital loss will expire in the year ending November 30, 2014. The amount of the deferred tax asset for these items at August 31, 2010 also includes amounts for the period from December 1, 2009 through August 31, 2010. For corporations, capital losses can only be used to offset capital gains and cannot be used to offset ordinary income. As of November 30, 2009, an alternative minimum tax credit of \$3,109 was available, which may be credited in the future against regular income tax. This credit may be carried forward indefinitely.

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The aggregate cost of securities for federal income tax purposes and securities with unrealized appreciation and depreciation, were as follows:

	August 31, 2010	November 30, 2009
Aggregate cost for federal income tax purposes	\$ 70,665,589	\$ 76,627,528
Gross unrealized appreciation	21,621,463	15,304,091
Gross unrealized depreciation	(5,839,963)	(7,949,679)
Net unrealized appreciation	\$ 15,781,500	\$ 7,354,412

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)

Valuation Techniques

In general, and where applicable, the Company uses readily available market quotations based upon the last updated sales price from the principal market to determine fair value. This pricing methodology applies to the Company's Level 1 investments.

An equity security of a publicly traded company acquired in a private placement transaction without registration under the Securities Act of 1933, as amended (the "1933 Act"), is subject to restrictions on resale that can affect the security's fair value. If such a security is convertible into publicly-traded common shares, the security generally will be valued at the common share market price adjusted by a percentage discount due to the restrictions. This pricing methodology applies to the Company's Level 2 investments.

For private company investments, value is often realized through a liquidity event of the entire company. Therefore, the value of the company as a whole (enterprise value) at the reporting date often provides the best evidence of the value of the investment and is the initial step for valuing the Company's privately issued securities. 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. In determining the enterprise value of a portfolio company, the Company prepares an analysis consisting of traditional valuation methodologies including market and income approaches. The Company considers some or all of the traditional valuation methods based on the individual circumstances of the portfolio company in order to derive its estimate of enterprise value. This pricing methodology applies to the Company's Level 3 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 tables provide the fair value measurements of applicable Company assets and liabilities by level within the fair value hierarchy as of August 31, 2010 and November 30, 2009. These assets are measured on a recurring basis.

August 31, 2010

Description	Fair Value at			
	August 31, 2010	Level 1	Level 2	Level 3
Equity Investments	\$ 79,791,078	\$ 15,395,650	\$ —	\$ 64,395,428
Debt Investments	4,800,000	—	—	4,800,000
Short-Term Investments	1,856,011	1,856,011	—	—
Total Investments	\$ 86,447,089	\$ 17,251,661	\$ —	\$ 69,195,428

November 30, 2009

Description	Fair Value at			
	November 30, 2009	Level 1	Level 2	Level 3
Equity Investments	\$ 73,683,094	\$ 2,039,565	\$ 3,297,009	\$ 68,346,520
Debt Investments	8,800,000	—	—	8,800,000
Short-Term Investments	1,498,846	1,498,846	—	—
Total Investments	\$ 83,981,940	\$ 3,538,411	\$ 3,297,009	\$ 77,146,520

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The changes for all Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs for the nine months ended August 31, 2010 and August 31, 2009, are as follows:

	Nine months ended August 31, 2010	Nine months ended August 31, 2009
Fair value beginning balance	\$ 77,146,520	\$ 85,728,339
Total realized and unrealized gains (losses) included in net increase (decrease) in net assets applicable to common stockholders	5,235,273	(5,043,973)
Purchases	750,000	571,513
Sales	(11,196,822)	—
Return of capital adjustments impacting cost basis of securities	(2,739,543)	(5,031,386)
Fair value ending balance	\$ 69,195,428	\$ 76,224,493
The amount of total gains (losses) for the period included in net increase (decrease) in net assets applicable to common stockholders attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date	\$ 8,968,547	\$ (4,359,112)

During the nine months ended August 31, 2010, \$3,406,158 of equity investments were transferred from Level 2 to Level 1. These securities became eligible for resale pursuant to Rule 144 under the 1933 Act and, therefore, were valued at the common share market price for its counterpart using readily available market quotations from the principal market.

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 following tables show the equity interest, number of units or principal amount, the acquisition date(s), acquisition cost (excluding return of capital adjustments), fair value, fair value per unit of such securities and fair value as percent of net assets applicable to common stockholders as of August 31, 2010 and November 30, 2009.

August 31, 2010

Investment Security		Equity Interest, Units or Principal Amount	Acquisition Date(s)	Acquisition Cost	Fair Value	Fair Value Per Unit	Fair Value as Percent of Net Assets
High Sierra Energy, LP	Common Units	1,042,685	11/2/06- 11/15/08	\$24,828,836	\$19,852,715	\$ 19.04	22.3%
High Sierra Energy GP, LLC	Equity Interest	2.37%	11/2/06- 5/1/07	2,015,969	558,666	N/A	0.6
International Resource Partners LP	Class A Units	500,000	6/12/07	10,000,000	23,665,000	47.33	26.6
LONESTAR Midstream Partners, LP(1)	Class A Units	1,327,900	7/27/07- 4/2/08	2,149,269	200,000	0.15	0.2
LSMP GP, LP(1)	GP LP Units	180	7/27/07- 4/2/08	120,046	36,000	200.00	0.1
Mowood, LLC(1)	Equity Interest	100%	6/5/06- 8/4/08	1,000,000	5,417,286	N/A	6.1
	Subordinated Debt	\$4,800,000	7/28/10	4,800,000	4,800,000	N/A	5.4
VantaCore Partners LP	Common Units	933,430	5/21/07- 8/4/08	18,270,449	14,524,171	15.56	16.4
	Incentive Distribution Rights	988	5/21/07- 8/4/08	143,936	141,590	143.31	0.2

\$ 63,328,505 \$ 69,195,428

77.9%

(1) See Note 9 — Investment Transactions for additional information.

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Investment Security		Equity Interest,		Acquisition Date(s)	Acquisition Cost	Fair Value	Fair Value Per Unit	Fair Value as Percent of Net Assets
		Units or Principal Amount						
Abraxas Petroleum Corporation	Unregistered Common Units	1,946,376		10/5/09	\$ 2,895,234	\$ 3,297,009	\$ 1.69	3.9%
Eagle Rock Energy Partners, L.P.(1)	Unregistered Common Units	54,474		10/1/08	749,018	253,559	4.65	0.3
High Sierra Energy, LP	Common Units	1,042,685		11/2/06-11/15/08	24,828,836	24,461,390	23.46	29.0
High Sierra Energy GP, LLC	Equity Interest	2.37%		11/2/06-5/1/07	2,015,969	1,776,068	N/A	2.1
International Resource Partners LP	Class A Units	500,000		6/12/07	10,000,000	9,984,402	19.97	11.8
LONESTAR Midstream Partners, LP(2)	Class A Units	1,327,900		7/27/07-4/2/08	2,952,626	1,102,000	0.83	1.3
LSMP GP, LP(2)	GP LP Units	180		7/27/07-4/2/08	138,521	124,000	688.89	0.2
Mowood, LLC	Equity Interest	99.5%		6/5/06-8/4/08	5,000,000	8,253,910	N/A	9.8
	Subordinated Debt	\$ 8,800,000		6/5/06-12/8/08	8,800,000	8,800,000	N/A	10.4
Quest Midstream Partners, L.P.	Common Units	1,180,946		12/22/06-11/1/07	22,200,001	5,987,055	4.92	7.1
VantaCore Partners LP	Common Units	933,430		5/21/07-8/4/08	18,270,449	16,256,482	17.42	19.3
	Incentive Distribution Rights	988		5/21/07-8/4/08	143,936	147,654	149.45	0.2
					\$ 97,994,590	\$ 80,443,529		95.4%

(1) Units are held in an escrow account to satisfy any potential claims from the purchaser of Millennium Midstream Partners, L.P. The escrow agreement terminated April 1, 2010. See Note 9 — Investment Transactions for additional information.

(2) See Note 9 — Investment Transactions for additional information.

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 August 31, 2010 amounted to \$68,636,762, representing 77.3 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, 2009 amounted to \$75,116,893, representing 89.1 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 August 31, 2010 or during the nine months then ended and at November 30, 2009 or during the year then ended is as follows:

August 31, 2010

Units/ Equity Interest/	Gross	Units/ Equity Interest/
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	Principal Balance 11/30/09	Gross Additions	Gross Reductions	Realized Gain (Loss)	Distributions or Interest Received	Principal Balance 8/31/10	Fair Value 8/31/10
High Sierra Energy, LP(1)	1,042,685	\$ —	—\$	—\$	—\$ 656,892	1,042,685	\$ 19,852,715
International Resource Partners LP	500,000	—	—	—	675,000	500,000	23,665,000
LONESTAR Midstream Partners, LP(1)(2)	1,327,900	—	(787,133)	(16,224)	—	1,327,900	200,000
LSMP GP, LP(1)(2)	180	—	(17,254)	(1,221)	—	180	36,000
Mowood, LLC Subordinated Debt(2)	\$ 8,800,000	750,000	(4,750,000)	—	563,675	\$ 4,800,000	4,800,000
Mowood, LLC Equity Interest(2)	99.5%	—	(5,335,000)	2,163,001	189,500	100%	5,417,286
Quest Midstream Partners, L.P.	1,216,881	—	(9,915,452)	(9,607,112)	—	—	—
VantaCore Partners LP Common Units	933,430	—	—	—	1,330,138	933,430	14,524,171
VantaCore Partners LP Incentive Distribution Rights(1)	988	—	—	—	—	988	141,590
		\$ 750,000	\$ (20,804,839)	\$ (7,461,556)	\$ 3,415,205		\$ 68,636,762

(1) Currently non-income producing.

(2) See Note 9 — Investment Transactions for additional information.

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November 30, 2009

	Units/ Equity Interest/ Principal				Units/ Equity Interest/ Principal			Fair Value
	Balance 11/30/08	Gross Additions	Gross Reductions	Realized Gain (Loss)	Gross Distributions or Interest Received	Balance 11/30/09	Fair Value 11/30/09	
High Sierra Energy, LP	1,042,685	\$ —	—\$	—\$	— \$ 2,579,159	1,042,685	\$ 24,461,390	
International Resource Partners LP	500,000	—	—	—	800,000	500,000	9,984,402	
LONESTAR Midstream Partners, LP(1)(2)	1,327,900	—	(1,128,428)	(363,932)	—	1,327,900	1,102,000	
LSMP GP, LP(1)(2)	180	—	(55,353)	25,360	—	180	124,000	
Mowood, LLC Subordinated Debt	\$ 7,050,000	1,750,000	—	—	807,848	\$ 8,800,000	8,800,000	
Mowood, LLC Promissory Notes	\$ 1,235,000	—	(1,235,000)	—	—	—	—	
Mowood, LLC Equity Interest	99.6%	—	—	—	450,000	99.5%	8,253,910	
Quest Midstream Partners, L.P.(2)	1,180,946	—	—	—	—	1,216,881	5,987,055	
VantaCore Partners LP Common Units	933,430	—	—	—	1,820,189	933,430	16,256,482	
VantaCore Partners LP Incentive Distribution Rights(2)	988	—	—	—	—	988	147,654	
		\$ 1,750,000	\$ (2,418,781)	\$ (338,572)	\$ 6,457,196		\$ 75,116,893	

(1) See Note 9 — Investment Transactions for additional information.

(2) Currently non-income producing. Additional units held at 11/30/09 resulted from paid-in-kind distribution to private investors in October 2009.

9. Investment Transactions

For the nine months ended August 31, 2010, the Company purchased (at cost) securities in the amount of \$8,436,951 and sold securities (at proceeds) in the amount of \$13,083,984 (excluding short-term debt securities). For the nine months ended August 31, 2009, the Company purchased (at cost) securities in the amount of \$3,774,157 and sold securities (at proceeds) in the amount of \$21,081,654 (excluding short-term debt securities).

On February 9, 2010, Mowood, LLC (“Mowood”) closed the sale of its wholly owned subsidiary, Timberline Energy, LLC (“Timberline”), to Landfill Energy Systems, LLC. Timberline is an owner and developer of projects that convert landfill gas to energy. Mowood continues its ownership and operation of Omega Pipeline Company, LLC (“Omega”), a local distribution company which serves the natural gas needs of Fort Leonard Wood and other customers in south central Missouri. The Company received initial proceeds from the sale of \$9,000,000, which were used to pay off the outstanding balance on its credit facility and to fund an additional investment of \$750,000 in Omega to facilitate growth. The Company used the remaining proceeds to invest according to its stated investment policies, which included investments in publicly-traded securities. In May 2010, the Company received additional capital gain proceeds of \$585,000 from Mowood as a result of a contingent payment from the sale of Timberline. The Company may receive additional contingent and escrow payments from the Timberline sale currently expected to total approximately \$1.6 million.

On July 17, 2008, LONESTAR Midstream Partners LP (“LONESTAR”) closed a transaction with Penn Virginia Resource Partners, L.P. (NYSE: PVR) for the sale of its gas gathering and transportation assets. LONESTAR distributed substantially all of the initial sales proceeds to its limited partners but did not redeem partnership interests. The Company received a distribution of \$10,476,511 in cash, 468,001 newly issued unregistered common units of PVR, and 59,503 unregistered common units of Penn Virginia GP Holdings, L.P. (NYSE: PVG). On February 3, 2009, the Company received a distribution of 37,305 freely tradable common units of PVR and 4,743 freely tradable common units of PVG. On July 17, 2009, the Company received an additional distribution of 37,304 freely tradable common units of PVR and 4,744 freely tradable common units of PVG. On December 31, 2009, the Company received a cash distribution from LONESTAR of \$804,387. For purposes of the capital gain incentive fee, the realized gain totals \$1,756,189. Pursuant to the Investment Advisory Agreement, the capital gain 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. No capital gain incentive fees have been paid since the commencement of operations. There are also two potential future contingent payments due from LONESTAR which are based on the achievement of specific revenue targets by or before June 30, 2013. No payments are due if these revenue targets are not achieved. If received, the Company’s expected portion would total approximately \$9,638,829, payable in cash or common units of PVR (at PVR’s election). The fair value of the LONESTAR and LSMP GP, LP units, which totals \$236,000 as of August 31, 2010, is based on unobservable inputs related to the potential receipt of these future payments relative to the sales transaction.

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On October 1, 2008, Millennium sold its partnership interests to Eagle Rock Energy Partners, L.P. ("EROC") for approximately \$181,000,000 in cash and approximately four million EROC unregistered common units. In exchange for its Millennium partnership interests, the Company received \$13,687,081 in cash and 373,224 EROC unregistered common units with an aggregate basis of \$5,044,980 for a total implied value at closing of approximately \$18,732,061. In addition, 253,113 EROC unregistered common units were placed in escrow for 18 months from the date of the transaction. During this 18 month period, various claims were made

against the escrow fund, resulting in the disbursement of 88,778 common units back to EROC. In August 2009, the Company received an escrow release of 118,311 freely tradable EROC common units, and on April 1, 2010, the escrow termination date, the Company received the final balance of freely tradable EROC common units in the escrow account of 46,024 units. On May 31, 2010, the Company recorded a receivable and a corresponding realized gain in the amount of \$24,977, representing the amount due from EROC related to insurance proceeds it received from previous hurricane damage claims for the North Terrebonne plant. For purposes of the capital gain incentive fee, the realized gain totals \$3,516,639, which excludes that portion of the fee that would be due as a result of cash distributions which were characterized as return of capital. Pursuant to the Investment Advisory Agreement, the capital gain 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. No capital gain incentive fees have been paid since the commencement of operations.

10. Credit Facility

On December 1, 2008, the Company had a \$50,000,000 committed credit facility with U.S. Bank, N.A., who served as a lender, agent and lead arranger. The revolving credit facility had a variable annual interest rate equal to the one-month LIBOR plus 1.75 percent and a non-usage fee equal to an annual rate of 0.375 percent of the difference between the total credit facility commitment and the average outstanding balance at the end of each day for the preceding fiscal quarter. The credit facility contained a covenant precluding the Company from incurring additional debt.

On March 20, 2009, the Company entered into a 90-day extension of its amended credit facility. Terms of the extension provided for a secured revolving credit facility of up to \$25,000,000. Effective June 20, 2009, the Company entered into a 60-day extension of its amended credit facility. The terms of the extension provided for a secured revolving credit facility of up to \$11,700,000. The credit agreement, as extended, had a termination date of August 20, 2009. Terms of these extensions required the Company to apply 100 percent of the proceeds from any private investment liquidation and 50 percent of the proceeds from the sale of any publicly traded portfolio assets to the outstanding balance of the facility. In addition, each prepayment of principal of the loans under the amended credit facility would permanently reduce the maximum amount of the loans under the amended credit agreement to an amount equal to the outstanding principal balance of the loans under the amended credit agreement immediately following the prepayment. During these extensions, outstanding loan balances accrued interest at a variable rate equal to the greater of (i) one-month LIBOR plus 3.00 percent, and (ii) 5.50 percent.

On August 20, 2009, the Company entered into a six-month extension of its amended credit facility through February 20, 2010. Terms of the extension provided for a secured revolving facility of up to \$5,000,000. The amended credit facility required the Company to apply 100 percent of the proceeds from the sale of any investment to the outstanding balance of the facility. In addition, each prepayment of principal of the loans under the amended credit facility permanently reduced the maximum amount of the loans under the amended credit agreement to an amount equal to the outstanding principal balance of the loans under the amended credit agreement immediately following the prepayment. During this extension, outstanding loan balances accrued interest at a variable rate equal to the greater of (i) one-month LIBOR plus 3.00 percent, and (ii) 5.50 percent.

On February 10, 2010, the Company paid off the remaining balance under the credit facility with proceeds from the sale of investments and the credit facility was terminated.

For the nine months ended August 31, 2010, the average principal balance and interest rate for the period during which the credit facility was utilized were \$4,205,634 and 5.50 percent, respectively.

11. Common Stock

The Company has 100,000,000 shares authorized and 9,116,456 shares outstanding at August 31, 2010.

Shares at November 30, 2009	9,078,090
Shares issued through reinvestment of distributions	38,366
Shares at August 31, 2010	9,116,456

12. Warrants

At August 31, 2010 and November 30, 2009, the Company had 945,594 warrants issued and outstanding. The warrants became exercisable on February 7, 2007 (the closing date of the Company's initial public offering of common shares), subject to a lockup period with respect to the underlying common shares. Each warrant entitles the holder to purchase one common share at the exercise price of \$15.00 per common share. Warrants were issued as separate instruments from the common shares and are permitted to be transferred independently from the common shares. The warrants have no voting rights and the common shares underlying the unexercised warrants will have no voting rights until such common shares are received upon exercise of the warrants. All warrants will expire on February 6, 2013.

13. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	For the three months ended August 31, 2010	For the three months ended August 31, 2009	For the nine months ended August 31, 2010	For the nine months ended August 31, 2009
Net increase (decrease) in net assets applicable to common stockholders resulting from operations	\$ 10,543,191	\$ (97,507)	\$ 7,280,344	\$ (6,096,705)
Basic and diluted weighted average shares(1)	9,116,456	9,014,094	9,098,005	8,997,031
Basic and diluted net increase (decrease) in net assets applicable to common stockholders resulting from operations per common share				