

TORTOISE CAPITAL RESOURCES CORP

Form 10-Q

October 09, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**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, 2009

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.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(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 ☐ No ☒

The number of shares of the issuer's Common Stock, \$0.001 par value, outstanding as of September 30, 2009 was 9,055,748.

# TORTOISE CAPITAL RESOURCES CORPORATION

## FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2009

### TABLE OF CONTENTS

#### PART I. FINANCIAL INFORMATION

- Item 1. Financial Statements  
Statements of Assets and Liabilities as of August 31, 2009 (unaudited) and November 30, 2008  
Schedules of Investments as of August 31, 2009 (unaudited) and November 30, 2008  
Statements of Operations for the three months ended August 31, 2009 (unaudited), the  
three months ended August 31, 2008 (unaudited), the nine months ended August 31, 2009 (unaudited)  
and the nine months ended August 31, 2008 (unaudited)  
Statements of Changes in Net Assets for the nine months ended August 31, 2009 (unaudited),  
the nine months ended August 31, 2008 (unaudited) and the year ended November 30, 2008  
Statements of Cash Flows for the nine months ended August 31, 2009 (unaudited) and the  
nine months ended August 31, 2008 (unaudited)  
Financial Highlights for the nine months ended August 31, 2009 (unaudited) the  
nine months ended August 31, 2008 (unaudited) and the year ended November 30, 2008  
Notes to Financial Statements (unaudited)
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
 Item 3. Quantitative and Qualitative Disclosures About Market Risk  
 Item 4. Controls and Procedures

#### PART II. OTHER INFORMATION

- Item 1. Legal Proceedings  
 Item 1A. Risk Factors  
 Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  
 Item 3. Defaults Upon Senior Securities  
 Item 4. Submission of Matters to a Vote of Security Holders  
 Item 5. Other Information  
 Item 6. Exhibits

#### SIGNATURES

#### Tortoise Capital Resources Corporation STATEMENTS OF ASSETS & LIABILITIES

|   | August 31,<br>2009<br>(Unaudited) | Novem<br>20 |
|---|-----------------------------------|-------------|
| <b>Assets</b>   |                                   |             |
| Investments at fair value, control (cost \$28,735,949 and \$30,418,802, respectively) | \$ 32,818,564                     | \$ 30,      |

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|  |            |      |
|--|------------|------|
| Investments at fair value, affiliated (cost \$53,091,607 and \$56,662,500, respectively)     | 39,230,799 | 48,  |
| Investments at fair value, non-affiliated (cost \$15,176,862 and \$49,760,304, respectively) | 8,439,970  | 27,  |
| Total investments (cost \$97,004,418 and \$136,841,606, respectively)                        | 80,489,333 | 106, |
| Income tax receivable  |            |      |
| Receivable for investments sold  | 65,104     |      |
| Receivable for Adviser expense reimbursement   | 53,596     |      |
| Interest receivable from control investments   | 68,200     |      |
| Dividends receivable   | 255        |      |
| Deferred tax asset, net  | 5,067,908  | 5,   |
| Prepaid expenses and other assets  | 43,966     |      |
| Total assets   | 85,788,362 | 112, |

**Liabilities**

|  |               |        |
|--|---------------|--------|
| Base management fees payable to Adviser      | 321,578       |        |
| Distribution payable to common stockholders  | 1,173,679     |        |
| Accrued expenses and other liabilities       | 216,398       |        |
| Short-term borrowings                        | 5,000,000     | 22,    |
| Total liabilities                            | 6,711,655     | 23,    |
| Net assets applicable to common stockholders | \$ 79,076,707 | \$ 89, |

**Net Assets Applicable to Common Stockholders Consist of:**

|  |               |        |
|--|---------------|--------|
| Warrants, no par value; 945,594 issued and outstanding at August 31, 2009 and November 30, 2008 (5,000,000 authorized)   | \$ 1,370,700  | \$ 1,  |
| Capital stock, \$0.001 par value; 9,028,301 shares issued and outstanding at August 31, 2009 and 8,962,147 issued and outstanding at November 30, 2008 (100,000,000 shares authorized) | 9,028         |        |
| Additional paid-in capital   | 102,817,178   | 106,   |
| Accumulated net investment loss, net of income taxes   | (3,728,613)   | (2,    |
| Accumulated realized gain (loss), net of income taxes  | (14,316,148)  | 6,     |
| Net unrealized depreciation of investments, net of income taxes  | (7,075,438)   | (22,   |
| Net assets applicable to common stockholders   | \$ 79,076,707 | \$ 89, |
| Net Asset Value per common share outstanding (net assets applicable to common stock, divided by common shares outstanding)   | \$ 8.76       | \$     |

See accompanying Notes to Financial Statements.

**Tortoise Capital Resources Corporation**

**SCHEDULE OF INVESTMENTS**

August 31, 2009

(Unaudited)

| Company  | Energy Infrastructure Segment | Type of Investment                                    | Cost       |
|--|-------------------------------|---|------------|
| <b>Control Investments<sup>(1)</sup></b>                               |                               |   |            |
| Mowood, LLC  | Midstream/Downstream          | Equity Interest (99.5%) <sup>(2)</sup>                | \$ 4,189,9 |
|  |                               | Subordinated Debt (9% Due 12/31/09) <sup>(2)</sup>    | 8,800,0    |
| VantaCore Partners LP  | Aggregates                    | Common Units (933,430) <sup>(2)</sup>                 | 15,602,0   |
|  |                               | Incentive Distribution Rights (988) <sup>(2)(5)</sup> | 143,9      |
| <b>Total Control Investments</b> $\square$ <b>41.5%</b> <sup>(3)</sup> |                               |   | 28,735,9   |

**Affiliated Investments<sup>(4)</sup>**

|                                    |           |  |          |
|------------------------------------|-----------|--|----------|
| High Sierra Energy, LP             | Midstream | Common Units (1,042,685) <sup>(2)</sup>        | 21,044,5 |
| International Resource Partners LP | Coal      | Class A Units (500,000) <sup>(2)</sup>         | 9,433,3  |
| LONESTAR Midstream Partners, LP    | Midstream | Class A Units (1,327,900) <sup>(2)(5)(6)</sup> | 2,952,6  |

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|   |           |  |          |
|---|-----------|--|----------|
| LSMP GP, LP   | Midstream | GP LP Units (180) <sup>(2)(5)(6)</sup>     | 138,5    |
| Quest Midstream Partners, L.P.  | Midstream | Common Units (1,180,946) <sup>(2)(5)</sup> | 19,522,5 |
| <b>Total Affiliated Investments</b> $\square$ <b>49.6%</b> <sup>(3)</sup> |           |  | 53,091,6 |

**Non-affiliated Investments**

|   |                       |   |             |
|---|-----------------------|---|-------------|
| Abraxas Energy Partners, L.P.   | Upstream              | Common Units (457,971) <sup>(2)(5)</sup>                | 6,439,1     |
| Eagle Rock Energy Partners, L.P.  | Midstream/Upstream    | Common Units (99,000) <sup>(7)</sup>                    | 1,317,2     |
| Eagle Rock Energy Partners, L.P.  | Midstream/Upstream    | Unregistered Common Units (54,753) <sup>(2)(7)(8)</sup> | 728,5       |
| EV Energy Partners, L.P.  | Upstream              | Common Units (78,900) <sup>(7)</sup>                    | 2,471,3     |
| High Sierra Energy GP, LLC  | Midstream             | Equity Interest (2.37%) <sup>(2)</sup>                  | 2,005,8     |
| First American Government Obligations Fund                                    | Short-term investment | Class Y shares  | 2,214,7     |
| <b>Total Non-affiliated Investments</b> $\square$ <b>10.7%</b> <sup>(3)</sup> |                       |   | 15,176,8    |
| <b>Total Investments</b> $\square$ <b>101.8%</b> <sup>(3)</sup>               |                       |   | \$ 97,004,4 |

- (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 \$76,224,493, which represents 96.4% 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**

**SCHEDULE OF INVESTMENTS**

November 30, 2008

| Company   | Energy Infrastructure Segment | Type of Investment                                    | Cost         |
|---|-------------------------------|---|--------------|
| <b>Control Investments<sup>(1)</sup></b>                                  |                               |   |              |
| Mowood, LLC   | Midstream/Downstream          | Equity Interest (99.6%) <sup>(2)</sup>                | \$ 5,000,000 |
|   |                               | Subordinated Debt (12% Due 7/1/2016) <sup>(2)</sup>   | 7,050,000    |
|   |                               | Promissory Notes (9% Due 12/31/08) <sup>(2)</sup>     | 1,230,000    |
| VantaCore Partners LP   | Aggregates                    | Common Units (933,430) <sup>(2)</sup>                 | 16,980,000   |
|   |                               | Incentive Distribution Rights (988) <sup>(2)(6)</sup> | 14,000,000   |
| <b>Total Control Investments</b> $\square$ <b>33.9%</b> <sup>(3)</sup>    |                               |   | 30,410,000   |
| <b>Affiliated Investments<sup>(4)</sup></b>                               |                               |   |              |
| High Sierra Energy, LP  | Midstream                     | Common Units (1,042,685) <sup>(2)(5)</sup>            | 22,930,000   |
| International Resource Partners LP  | Coal                          | Class A Units (500,000) <sup>(2)</sup>                | 8,930,000    |
| LONESTAR Midstream Partners, LP   | Midstream                     | Class A Units (1,327,900) <sup>(2)(6)(7)</sup>        | 4,440,000    |
| LSMP GP, LP   | Midstream                     | GP LP Units (180) <sup>(2)(6)(7)</sup>                | 16,000,000   |
| Quest Midstream Partners, L.P.  | Midstream                     | Common Units (1,180,946) <sup>(2)(6)</sup>            | 20,180,000   |
| <b>Total Affiliated Investments</b> $\square$ <b>53.8%</b> <sup>(3)</sup> |                               |   | 56,660,000   |

**Non-affiliated Investments**

|   |                       |  |           |
|---|-----------------------|--|-----------|
| AbraXas Energy Partners, L.P.   | Upstream              | Common Units (450,181) <sup>(2)</sup>                    | 6,74      |
| Eagle Rock Energy Partners, L.P.                                      | Midstream/Upstream    | Common Units (659,071) <sup>(8)</sup>                    | 9,89      |
| Eagle Rock Energy Partners, L.P.                                      | Midstream/Upstream    | Unregistered Common Units (373,224) <sup>(2)(8)</sup>    | 5,04      |
| Eagle Rock Energy Partners, L.P.                                      | Midstream/Upstream    | Unregistered Common Units (212,404) <sup>(2)(8)(9)</sup> | 2,92      |
| EV Energy Partners, L.P.  | Upstream              | Common Units (217,391) <sup>(8)</sup>                    | 7,24      |
| High Sierra Energy GP, LLC  | Midstream             | Equity Interest (2.37%) <sup>(2)(5)</sup>                | 2,01      |
| Legacy Reserves LP  | Upstream              | Limited Partner Units (264,705) <sup>(8)</sup>           | 3,45      |
| Penn Virginia Resource Partners, L.P.                                 | Midstream/Coal        | Unregistered Common Units (468,001) <sup>(2)(8)</sup>    | 10,43     |
| Penn Virginia GP Holdings, L.P.                                       | Midstream/Coal        | Unregistered Common Units (59,503) <sup>(2)(8)</sup>     | 1,64      |
| First American Government Obligations Fund                            | Short-term investment | Class Y shares   | 3         |
| <b>Total Non-affiliated Investments</b> □ <b>31.3%</b> <sup>(1)</sup> |                       |  | 49,76     |
| <b>Total Investments</b> □ <b>119.0%</b> <sup>(3)</sup>               |                       |  | \$ 136,84 |

- (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 \$95,316,463, which represents 106.8% 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) Security distributions are paid-in-kind.
- (6) Currently non-income producing.
- (7) 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.
- (8) Publicly-traded company.
- (9) Units are held in an escrow account, along with restricted cash, 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<br>months ended<br>August 31,<br>2009 | For the three<br>months ended<br>August 31,<br>2008 | For the nine<br>months ended<br>August 31,<br>2009 | For the nine<br>months ended<br>August 31,<br>2008 |
|--|---|---|--|--|
| <b>Investment Income</b>                 |   |   |  |  |
| Distributions from investments           |   |   |  |  |
| Control investments                      | \$ 555,879  | \$ 347,500  | \$ 1,714,309                                       | \$ 975,000   |
| Affiliated investments                   | 856,891   | 1,139,402   | 2,522,267  | 4,499,000  |
| Non-affiliated investments               | 222,892   | 993,695   | 1,999,382  | 2,401,100  |
| Total distributions from investments     | 1,635,662   | 2,480,597   | 6,235,958  | 7,875,100  |
| Less return of capital on distributions  | (1,075,398)   | (2,306,739)   | (5,792,784)  | (6,497,000)  |
| Net distributions from investments       | 560,264   | 173,858   | 443,174  | 1,378,100  |
| Interest income from control investments | 201,918   | 269,235   | 605,916  | 884,500  |
| Dividends from money market mutual funds | 304   | 3,643   | 1,449  | 6,700  |
| Fee income                               | 15,000  | □   | 45,000   | □  |
| Other income                             | □   | □   | □  | 28,900   |
| <b>Total Investment Income</b>           | <b>777,486</b>                                      | <b>446,736</b>                                      | <b>1,095,539</b>                                   | <b>2,298,500</b>                                   |

|  |                |                  |                    |                 |
|--|----------------|------------------|--------------------|-----------------|
| <b>Operating Expenses</b>                                |                |                  |                    |                 |
| Base management fees                                     | 321,578        | 604,930          | 1,052,533          | 1,780,1         |
| Capital gain incentive fees (Note 4)                     |                | (340,369)        |                    | 747,1           |
| Professional fees  | 176,947        | 153,157          | 451,056            | 469,0           |
| Administrator fees                                       | 15,007         | 27,930           | 49,118             | 82,4            |
| Directors' fees  | 22,080         | 22,181           | 65,817             | 66,9            |
| Reports to stockholders                                  | 15,409         | 13,057           | 45,890             | 39,0            |
| Fund accounting fees                                     | 8,032          | 8,652            | 24,772             | 25,6            |
| Registration fees  | 7,891          | 7,458            | 23,501             | 22,2            |
| Custodian fees and expenses                              | 5,315          | 5,545            | 13,075             | 14,9            |
| Stock transfer agent fees                                | 3,556          | 3,403            | 10,140             | 10,1            |
| Other expenses   | 12,364         | 11,853           | 36,827             | 35,4            |
| <b>Total Operating Expenses</b>                          | <b>588,179</b> | <b>517,797</b>   | <b>1,772,729</b>   | <b>3,293,3</b>  |
| Interest expense   | 134,987        | 395,791          | 562,945            | 1,329,2         |
| <b>Total Expenses</b>                                    | <b>723,166</b> | <b>913,588</b>   | <b>2,335,674</b>   | <b>4,622,6</b>  |
| Less expense reimbursement by Adviser                    | (53,596)       | (100,821)        | (175,422)          | (296,6          |
| <b>Net Expenses</b>                                      | <b>669,570</b> | <b>812,767</b>   | <b>2,160,252</b>   | <b>4,325,9</b>  |
| <b>Net Investment Income (Loss), before Income Taxes</b> | <b>107,916</b> | <b>(366,031)</b> | <b>(1,064,713)</b> | <b>(2,027,3</b> |
| Deferred tax benefit (expense)                           | (26,733)       | 139,090          | (119,633)          | 770,4           |
| <b>Net Investment Income (Loss)</b>                      | <b>81,183</b>  | <b>(226,941)</b> | <b>(1,184,346)</b> | <b>(1,256,9</b> |

4

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

|  | For the three<br>months ended<br>August 31,<br>2009 | For the three<br>months ended<br>August 31,<br>2008 | For the ni<br>months en<br>August 3<br>2009 |
|--|---|---|---|
| <b>Realized and Unrealized Gain (Loss) on Investments</b>  |   |   |   |
| Net realized gain (loss) on investments, before income taxes   | \$ (10,756,469)                                     | \$ 2,224,706  | \$ (18,591,4                                |
| Deferred tax expense   | (1,468,249)   | (845,388)   | (2,088,9                                    |
| Net realized gain (loss) on investments  | (12,224,718)  | 1,379,318   | (20,680,4                                   |
| Net unrealized appreciation of control investments   | 1,130,654   | 234,767   | 4,288,1                                     |
| Net unrealized appreciation (depreciation) of<br>affiliated investments  | (311,350)   | 641,373   | (5,215,2                                    |
| Net unrealized appreciation (depreciation) of<br>non-affiliated investments  | 9,907,190   | (3,309,808)   | 15,102,3                                    |
| Net unrealized appreciation (depreciation), before income taxes  | 10,726,495  | (2,433,668)   | 14,175,2                                    |
| Deferred tax benefit (expense)   | 1,319,533   | 924,795   | 1,592,7                                     |
| Net unrealized appreciation (depreciation) of investments  | 12,046,028  | (1,508,873)   | 15,768,0                                    |
| <b>Net Realized and Unrealized Gain (Loss) on Investments</b>  | <b>(178,690)</b>                                    | <b>(129,555)</b>                                    | <b>(4,912,3</b>                             |
| <b>Net Increase (Decrease) in Net Assets Applicable to<br/>Common Stockholders Resulting from Operations</b>           | <b>\$ (97,507)</b>                                  | <b>\$ (356,496)</b>                                 | <b>\$ (6,096,7</b>                          |
| Net Increase (Decrease) in Net Assets Applicable to Common<br>Stockholders Resulting from Operations Per Common Share: |   |   |   |
| Basic and Diluted  | \$ (0.01)   | \$ (0.04)   | \$ (0.                                      |
| <b>Weighted Average Shares of Common Stock Outstanding:</b>  |   |   |   |
| Basic and Diluted  | 9,014,094   | 8,893,866   | 8,997,0                                     |

See accompanying Notes to Financial Statements.

5

6

**Tortoise Capital Resources Corporation**  
**STATEMENTS OF CHANGES IN NET ASSETS**

|  | For the nine<br>months ended<br>August 31,<br>2009<br>(Unaudited) | For the nine<br>months ended<br>August 31,<br>2008<br>(Unaudited) |    |
|--|---|---|----|
| <b>Operations</b>  |   |   |    |
| Net investment loss  | \$ (1,184,346)  | \$ (1,256,984)  | \$ |
| Net realized gain (loss) on investments  | (20,680,410)  | 1,379,318   |    |
| Net unrealized appreciation (depreciation) of investments  | 15,768,051  | 3,449,457   |    |
| Net increase (decrease) in net assets applicable to common stockholders<br>resulting from operations                     | (6,096,705)   | 3,571,791   |    |
| <b>Distributions to Common Stockholders</b>  |   |   |    |
| Return of capital  | (4,405,226)   | (6,901,553)   |    |
| Total distributions to common stockholders   | (4,405,226)   | (6,901,553)   |    |
| <b>Capital Stock Transactions</b>  |   |   |    |
| Proceeds from exercise of 180 warrants   |   | 2,700   |    |
| Issuance of 66,154, 35,518 and 103,799 common shares from<br>reinvestment of distributions to stockholders, respectively | 353,338   | 433,557   |    |
| Net increase in net assets, applicable to common stockholders,<br>from capital stock transactions                        | 353,338   | 436,257   |    |
| Total decrease in net assets applicable to common stockholders   | (10,148,593)  | (2,893,505)   |    |
| <b>Net Assets</b>  |   |   |    |
| Beginning of period  | 89,225,300  | 121,912,966   |    |
| End of period  | \$ 79,076,707   | \$ 119,019,461  | \$ |
| Accumulated net investment loss, net of income taxes,<br>at the end of period  | \$ (3,728,613)  | \$ (2,822,758)  | \$ |

See accompanying Notes to Financial Statements.

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

|  | For the nine<br>months ended<br>August 31,<br>2009 | For the nine<br>months ended<br>August 31,<br>2008 |
|--|--|--|
| <b>Cash Flows From Operating Activities</b>              |  |  |
| Distributions received from investments                  | \$ 6,179,445                                       | \$ 7,740,245                                       |
| Interest and dividend income received                    | 616,699  | 886,396  |
| Fee income received                                      | 40,000   |  |
| Purchases of long-term investments                       | (3,717,644)  | (16,150,379)                                       |
| Proceeds from sales of long-term investments             | 21,016,550   | 14,339,011   |
| Proceeds from (purchases of) short-term investments, net | (1,854,376)  | (397,252)  |

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|  |              |              |
|--|--------------|--------------|
| Interest expense paid                                  | (621,399)    | (1,368,533)  |
| Operating expenses paid                                | (1,581,076)  | (2,191,013)  |
| Net cash provided by operating activities              | 20,078,199   | 2,858,475    |
| <b>Cash Flows from Financing Activities</b>            |              |              |
| Issuance of common stock (including warrant exercises) | □            | 2,700        |
| Advances from revolving line of credit                 | 900,000      | 19,050,000   |
| Repayments on revolving line of credit                 | (18,100,000) | (17,800,000) |
| Distributions paid to common stockholders              | (2,878,199)  | (4,111,175)  |
| Net cash used in financing activities                  | (20,078,199) | (2,858,475)  |
| Net change in cash                                     | □            | □            |
| Cash □ beginning of period                             | □            | □            |
| Cash □ end of period                                   | \$ □         | \$ □         |

7

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

(Continued)

For the nine  
months ended  
August 31,  
2009

**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<br>resulting from operations  | \$ (6,096,705) |
| Adjustments to reconcile net increase (decrease) in net assets applicable to common stockholders<br>resulting from operations to net cash provided by operating activities: |                |
| Purchases of long-term investments  | (3,774,157)    |
| Return of capital on distributions received   | 5,792,784      |
| Proceeds from sales of long-term investments  | 21,081,654     |
| Proceeds from (purchases of) short-term investments, net  | (1,854,376)    |
| Accrued capital gain incentive fees payable to Adviser  |                |
| Deferred income taxes, net  | 615,839        |
| Amortization of issuance costs  |                |
| Realized (gain) loss on investments   | 18,591,444     |
| Net unrealized appreciation of investments  | (14,175,291)   |
| Changes in operating assets and liabilities:  |                |
| (Increase) decrease in interest, dividend and distribution receivable   | 8,850          |
| Decrease in income tax receivable   | 212,054        |
| Increase in receivable for investments sold   | (65,104)       |
| (Increase) decrease in prepaid expenses and other assets  | 63,830         |
| Increase (decrease) in base management fees payable to Adviser,<br>net of expense reimbursement   | (176,645)      |
| Decrease in payable for investments purchased   |                |
| Increase (decrease) in accrued expenses and other liabilities   | (145,978)      |
| Total adjustments   | 26,174,904     |
| Net cash provided by operating activities   | \$ 20,078,199  |

**Non-Cash Financing Activities**

|  |            |
|--|------------|
| Reinvestment of distributions by common stockholders in additional common shares | \$ 353,338 |
|--|------------|

See accompanying Notes to Financial Statements.



# **Tortoise Capital Resources Corporation** FINANCIAL HIGHLIGHTS

|  | For the<br>nine<br>months<br>ended<br>August 31,<br>2009<br><br>(Unaudited) | For the<br>nine<br>months<br>ended<br>August 31,<br>2008<br><br>(Unaudited) | Year ended<br>November<br>30, 2008 |
|--|---|---|------------------------------------|
| <b>Per Common Share Data<sup>(1)</sup></b>   |   |   |                                    |
| Net Asset Value, beginning of period   | \$ 9.96   | \$ 13.76  | \$ 13.76                           |
| Income (loss) from Investment Operations:  |   |   |                                    |
| Net investment loss <sup>(2)</sup>   | (0.13)  | (0.14)  | (0.11)                             |
| Net realized and unrealized gain (loss) on investments <sup>(2)</sup>                                      | (0.58)  | 0.54  | (2.65)                             |
| Total increase (decrease) from investment operations   | (0.71)  | 0.40  | (2.76)                             |
| Less Distributions to Common Stockholders:   |   |   |                                    |
| Return of capital  | (0.49)  | (0.78)  | (1.04)                             |
| Total distributions to common stockholders   | (0.49)  | (0.78)  | (1.04)                             |
| Net Asset Value, end of period   | \$ 8.76   | \$ 13.38  | \$ 9.96                            |
| Per common share market value, end of period   | \$ 5.74   | \$ 11.50  | \$ 5.21                            |
| Total Investment Return, including capital gain incentive fees,<br>based on net asset value <sup>(3)</sup> | (3.77)%   | 3.76%   | (18.83)%                           |
| Total Investment Return, excluding capital gain incentive fees,<br>based on net asset value <sup>(3)</sup> | (3.77)%   | 4.39%   | (20.93)%                           |
| Total Investment Return, based on market value <sup>(4)</sup>  | 20.55%  | 5.25%   | (49.89)%                           |

9

# **Tortoise Capital Resources Corporation** FINANCIAL HIGHLIGHTS

(Continued)

|  | For the<br>nine<br>months<br>ended<br>August 31,<br>2009<br><br>(Unaudited) | For the nine<br>months<br>ended<br>August 31,<br>2008<br><br>(Unaudited) | Year<br>Nov<br>30, |
|--|---|--|--------------------|
| <b>Supplemental Data and Ratios</b>  |   |  |                    |
| Net assets applicable to common stockholders, end of period (000's)  | \$ 79,077   | \$ 119,019   | \$ 89,             |
| Ratio of expenses (including current and deferred income tax expense (benefit)<br>and capital gain incentive fees) to average net assets <sup>(5)(6)(7)</sup>                | 4.35%   | 7.18%  | (                  |
| Ratio of expenses (excluding current and deferred income tax expense (benefit)<br>to average net assets <sup>(5)(8)</sup>  | 3.38%   | 4.77%  | 4                  |
| Ratio of expenses (excluding current and deferred income tax expense (benefit)<br>and capital gain incentive fees) to average net assets <sup>(5)(8)(9)</sup>                | 3.38%   | 3.9%   | 4                  |
| Ratio of net investment income (loss) to average net assets before current<br>and deferred income tax expense (benefit) and capital gain incentive fees <sup>(5)(8)(9)</sup> | (1.67)%   | (1.42)%  | (                  |
| Ratio of net investment income (loss) to average net assets before current<br>and deferred income tax expense (benefit) <sup>(5)(7)(8)</sup>                                 | (1.67)%   | (2.24)%  | (                  |

|  |           |           |       |
|--|-----------|-----------|-------|
| Ratio of net investment income (loss) to average net assets after current and deferred income tax expense (benefit) and capital gain incentive fees <sup>(5)(6)(7)</sup> | (2.63)%   | (4.65)%   | 8     |
| Portfolio turnover rate <sup>(5)</sup>   | 5.49%     | 2.41%     | 2     |
| Short-term borrowings, end of period (000's)   | \$ 5,000  | \$ 31,800 | \$ 22 |
| Asset coverage, per \$1,000 of short-term borrowings <sup>(10)</sup>   | \$ 16,815 | \$ 4,743  | \$ 5  |
| Asset coverage ratio of short-term borrowings <sup>(10)</sup>  | 1,682%    | 474%      |       |

- (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, 2008 does not reflect the change in estimate of investment income and return of capital.
- (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.
- (6) For the nine months ended August 31, 2009, the company accrued \$615,839 in deferred income tax expense, net. For the nine months ended August 31, 2008, the Company accrued \$2,189,162 in deferred income tax expense, net. For the year ended November 30, 2008, the Company accrued \$6,881 in current tax expense and \$9,866,666 in deferred tax benefit, net.
- (7) For the nine months ended August 31, 2009, the Company accrued no capital gain incentive fees. For the nine months ended August 31, 2008, the Company accrued \$747,134 in capital gain incentive fees. For the year ended November 30, 2008, the Company accrued no capital gain incentive fees.
- (8) The ratio excludes the impact of current and deferred income taxes.
- (9) The ratio excludes the impact of capital gain incentive fees.
- (10) 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, 2009**

## 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 and coal and aggregates segments, 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 common 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 in accordance with 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.

On April 9, 2009, the Financial Accounting Standards Board (□FASB□) issued Staff Position No. 157-~~4~~*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (□FSP 157-4□). FSP 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. FSP 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of FSP 157-4 did not have a significant impact on the Company's financial statements.

On April 9, 2009, the FASB issued FASB Staff Position (FSP) No. FAS 107-1 and APB 28-1, *Interim Disclosures About Fair Value of Financial Instruments*, which amends FASB Statement No. 107, *Disclosures About Fair Value of Financial Instruments* (□FSP 107-1□), to require disclosures about fair value of financial instruments for interim financial statements of publicly traded companies as well as in annual financial statements. FSP 107-1 also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP 107-1 did not have a significant impact on the Company's financial statements.

Consistent with SFAS 157, 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. Also, in accordance with SFAS 157, the Company has determined the principal market, or the market in which the Company exits its 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.

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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.

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 will generally 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 bid and 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:

- The quarterly valuation process typically begins with each investment being initially valued by the Valuation Officer of the Adviser. As part of this process, materials are prepared containing the supporting analysis, which are reviewed by the investment professionals of the Adviser;
- The Investment Committee of the Adviser reviews the preliminary valuations, and the Valuation Officer of the Adviser considers and assesses, as appropriate, any changes that may be required to the preliminary valuations to address any comments provided by the Investment Committee of the Adviser;
- An independent valuation firm engaged by the Board of Directors to provide third-party valuation consulting services performs certain procedures that the Board of Directors has identified and asked it to perform on a selection of these preliminary valuations as determined by the Board of Directors. For the period ended August 31, 2009, the independent valuation firm performed procedures on seven portfolio companies comprising approximately 97.0 percent of the total restricted investments at fair value as of August 31, 2009. Upon completion of the procedures, the independent valuation firm concluded that the fair value of the investments subjected to the procedures did not appear to be unreasonable;
- 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, 2009, the Company accrued \$15,000 and \$45,000 in fee income, respectively. For the three and nine months ended August 31, 2008, the Company accrued 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

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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.

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Distributions received from portfolio companies which are paid in stock and are deemed to be income are included in distributions from investments in the Statement of Operations. Such amounts are recorded upon receipt and are based on the fair value of the shares received on that date.

For the period from December 1, 2007 through November 30, 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 had estimated these distributions to be approximately 32 percent investment income and 68 percent return of capital.

Subsequent to November 30, 2008, the Company reallocated the amount of investment income and return of capital it recognized based on the 2008 tax reporting information received from the individual portfolio companies. This reallocation amounted to a decrease in pre-tax net investment income of approximately \$1,415,000 or \$0.157 per share (\$895,000 or \$0.099 per share, net of deferred tax benefit), an increase in unrealized appreciation of approximately \$1,580,000 or \$0.175 per share (\$999,000 or \$0.111 per share, net of deferred tax expense) and a decrease in realized gains of approximately \$165,000 or \$0.018 per share (\$104,000 or \$0.012 per share, net of deferred tax benefit).

Subsequent to the period ended February 28, 2009, the Company reallocated the amount of investment income and return of capital reported in the current fiscal year based on its revised 2009 estimates. This reallocation amounted to a decrease in pre-tax net investment income of approximately \$223,000 or \$0.025 per share (\$141,000 or \$0.016 per share, net of deferred tax benefit), a decrease in unrealized appreciation of approximately \$486,000 or \$0.054 per share (\$307,000 or \$0.034 per share, net of deferred tax benefit) and an increase in realized gains of approximately \$709,000 or \$0.079 per share (\$448,000 or \$0.050 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. The Company 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, 2008 and the period ended August 31, 2009, the Company's distributions for book purposes were comprised of 100 percent return of capital. For the year ended November 30, 2008, the Company's distributions for tax purposes were comprised of 3.2 percent investment income and 96.8 percent return of capital. The tax character of distributions paid for the current year will be determined subsequent to November 30, 2009.

*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. 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.

*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* In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles" a replacement of FASB Statement No. 162 ("SFAS 168"). SFAS 168 replaces SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" and establishes the "FASB Accounting Standards Codification TM" ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"). All guidance contained in the Codification carries an equal level of authority. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS 168 will not have a significant impact on the Company's financial statements.

### 3. Concentration of Risk

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 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 will reimburse 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. During the three and nine months ended August 31, 2009 the Adviser reimbursed the Company \$53,596 and \$175,422, respectively. During the three and nine months ended August 31, 2008, the Adviser reimbursed the Company \$100,821 and \$296,696, 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, 2009 and the three and nine months ended August 31, 2008, 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

14

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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, 2009, the Company accrued no capital gain incentive fees. For the three months ended August 31, 2008, the Company decreased the capital gain incentive fee payable by \$340,369 as a result of the decrease in the fair value of investments during the period. For the nine months ended August 31, 2008, the Company accrued \$747,134 in 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 to date.

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, dividend paying agent, and agent for the automatic dividend reinvestment plan.

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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 August 31, 2009 and November 30, 2008 are as follows:

|   | August 31, 2009       | November 30, 2008     |
|---|-----------------------|-----------------------|
| <b>Deferred tax assets:</b>                     |                       |                       |
| Organization costs                              | \$ (24,525)           | \$ (26,160)           |
| Net unrealized loss on investment securities    | (6,074,248)           | (11,287,920)          |
| Capital loss                                    | (4,144,457)           |                       |
| Net operating loss carry forwards               | (4,812,855)           | (3,319,098)           |
| Valuation allowance                             | 5,446,592             | 2,814,891             |
|   | (9,609,493)           | (11,818,287)          |
| <b>Deferred tax liabilities:</b>                |                       |                       |
| Basis reduction of investment in MLPs           | 4,541,585             | 6,134,540             |
| <b>Total net deferred tax (asset) liability</b> | <b>\$ (5,067,908)</b> | <b>\$ (5,683,747)</b> |

15

At August 31, 2009, the Company has recorded a valuation allowance in the amount of \$5,446,592 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.

Management determined that no reserve for unrecognized tax benefits is necessary when temporary differences represent net future deductible amounts rather than net future taxable amounts. The Company does not expect any change in such amounts of unrecognized tax benefits over the next twelve months subsequent to November 30, 2008. The Company's policy is to record interest and penalties on uncertain tax positions as part of tax expense. No interest or penalties were accrued at August 31, 2009. All tax years since inception remain open to examination by federal and state tax authorities.

Total income tax 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, 2009 | For the three months ended August 31, 2008 |
|--|--|--|
| Application of statutory income tax rate   | \$ 26,499                                  | \$ (195,497)                               |
| State income taxes, net of federal taxes   | 2,167                                      | (23,000)                                   |
| Change in deferred tax valuation allowance | 146,783                                    |  |
| Total income tax expense (benefit)         | \$ 175,449                                 | \$ (218,497)                               |

  

|  | For the nine months ended August 31, 2009 | For the nine months ended August 31, 2008 |
|--|---|---|
| Application of statutory income tax rate   | \$ (1,863,495)                            | \$ 1,958,724                              |
| State income taxes, net of federal taxes   | (152,368)                                 | 230,438                                   |
| Change in deferred tax valuation allowance | 2,631,702                                 |   |



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|                                    |    |         |    |           |
|------------------------------------|----|---------|----|-----------|
| Total income tax expense (benefit) | \$ | 615,839 | \$ | 2,189,162 |
|------------------------------------|----|---------|----|-----------|

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<br>months ended<br>August 31,<br>2009 | For the three<br>months ended<br>August 31, 2008 |
|----------------------------------|---|--|
| Deferred tax expense             |   |  |
| Federal                          | \$ 162,188  | \$ (195,497)                                     |
| State                            | 13,261  | (23,000)   |
| Total deferred expense (benefit) | \$ 175,449  | \$ (218,497)                                     |
| Total tax expense (benefit)      | \$ 175,449  | \$ (218,497)                                     |

  

|                        | For the nine<br>months ended<br>August 31,<br>2009 | For the nine<br>months ended<br>August 31, 2008 |
|------------------------|--|---|
| Deferred tax expense   |  |   |
| Federal                | \$ 569,291   | \$ 1,958,724                                    |
| State                  | 46,548   | 230,438   |
| Total deferred expense | \$ 615,839   | \$ 2,189,162                                    |
| Total tax expense      | \$ 615,839   | \$ 2,189,162                                    |

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

As of November 30, 2008, the Company had net operating losses for federal income tax purposes of approximately \$7,280,000. The net operating losses may be carried forward for 20 years. If not utilized, these net operating losses will expire as follows: \$3,911,000 and \$3,369,000 in the years 2027 and 2028, respectively. The amount of deferred tax asset for net operating losses and capital losses at August 31, 2009 also includes amounts for the period from December 1, 2008 through August 31, 2009. For corporations, capital losses can only be used to offset capital gains and cannot be used to offset ordinary income. As of November 30, 2008, 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.

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

|  | August 31,<br>2009 | November 30,<br>2008 |
|--|--------------------|----------------------|
| Aggregate cost for federal income tax purposes | \$ 84,642,745      | \$ 120,148,896       |
| Gross unrealized appreciation                  | 10,536,324         | 4,302,974            |
| Gross unrealized depreciation                  | (14,689,736)       | (18,300,640)         |
| Net unrealized (depreciation) appreciation     | \$ (4,153,412)     | \$ (13,997,666)      |

## 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

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- 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 August 31, 2009. These assets are measured on a recurring basis.

| Description            | Fair Value Measurements at Reporting Date Using |   |  |  |
|------------------------|---|---|--|--|
|                        | Fair Value at<br>August 31,<br>2009             | Quoted Prices<br>in<br>Active Markets<br>for<br>Identical<br>Assets |  |  |
|                        |   | (Level 1)   | Significant<br>Other<br>Observable<br>Inputs<br>(Level<br>2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Equity Investments     | \$ 69,474,585                                   | \$ 2,050,092  | \$ □   | \$ 67,424,493                                      |
| Debt Investments       | 8,800,000                                       | □   | □  | 8,800,000  |
| Short-Term Investments | 2,214,748                                       | 2,214,748   | □  | □  |
| Total Investments      | \$ 80,489,333                                   | \$ 4,264,840  | \$ □   | \$ 76,224,493                                      |

|  | Fair Value Measurements Using Significant<br>Unobservable Inputs<br>(Level 3) for Investments<br>For the three months ended |               |                 |
|--|---|---------------|-----------------|
|  | February 28,<br>2009  | May 31, 2009  | August 31, 2009 |
| Fair value beginning balance   | \$ 85,728,339   | \$ 73,689,000 | \$ 78,106,391   |
| Total realized and unrealized gains (losses) included in net increase<br>(decrease) in net assets applicable to common stockholders  | (11,494,308)  | 7,028,627     | (5,515,691)     |
| Net purchases, issuances and settlements   | 543,136   | 28,377        | 543,136         |
| Return of capital adjustments impacting cost basis of security   | (1,088,167)   | (2,639,613)   | (1,300,000)     |
| Transfers into (out of) Level 3  | □   | □             | □               |
| Fair value ending balance  | \$ 73,689,000   | \$ 78,106,391 | \$ 76,224,493   |
| The amount of total gains (losses) for the period included in net increase<br>(decrease) in net assets applicable to common stockholders attributable to<br>the change in unrealized gains (losses) relating to assets still held at<br>the reporting date | \$ (11,321,163)   | \$ 7,201,771  | \$ (2,227,500)  |

## 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 August 31, 2009 and November 30, 2008.

August 31, 2009

| Equity<br>Interest, |             |             |  | Fair  |
|---------------------|-------------|-------------|--|-------|
| Units or            | Acquisition | Acquisition |  | Value |

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| Investment Security                             |                               | Principal Amount | Date(s)          | Cost           | Per Unit |
|---|-------------------------------|------------------|------------------|----------------|----------|
| Abraxas Energy Partners, L.P.                   | Common Units                  | 457,971          | 5/25/07-3/31/09  | \$ 7,556,529   | \$ 5     |
| Eagle Rock Energy Partners, L.P. <sup>(1)</sup> | Unregistered Common Units     | 54,753           | 10/1/08          | 752,854        | 3        |
| High Sierra Energy, LP                          | Common Units                  | 1,042,685        | 11/2/06-11/15/08 | 24,828,836     | 22       |
| High Sierra Energy GP, LLC                      | Equity Interest               | 2.37%            | 11/2/06-5/1/07   | 2,015,969      | 1        |
| International Resource Partners LP              | Class A Units                 | 500,000          | 6/12/07          | 10,000,000     | 19       |
| LONESTAR Midstream Partners, LP <sup>(2)</sup>  | Class A Units                 | 1,327,900        | 7/27/07-4/2/08   | 2,952,626      | 1        |
| LSMP GP, LP <sup>(2)</sup>                      | GP LP Units                   | 180              | 7/27/07-4/2/08   | 138,521        | 1,527    |
| Mowood, LLC                                     | Equity Interest               | 99.5%            | 6/5/06-8/4/08    | 5,000,000      | 1        |
|   | Subordinated Debt             | \$ 8,800,000     | 6/5/06-12/8/08   | 8,800,000      | 1        |
| Quest Midstream Partners, L.P.                  | Common Units                  | 1,180,946        | 12/22/06-11/1/07 | 22,200,00      | 13       |
| VantaCore Partners LP                           | Common Units                  | 933,430          | 5/21/07-8/4/08   | 18,270,449     | 17       |
|   | Incentive Distribution Rights | 988              | 5/21/07-8/4/08   | 143,936        | 145      |
|   |                               |                  |                  | \$ 102,659,721 |          |

(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 terminates April 1, 2010. See Note 9 □ Investment Transactions for additional information.

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

**November 30, 2008**

| Investment Security                             |                           | Equity Interest,<br>Units or Principal Amount | Acquisition Date(s) | Acquisition Cost | Fair Value Per Unit |
|---|---------------------------|---|---------------------|------------------|---------------------|
| Abraxas Energy Partners, L.P.                   | Common Units              | 450,181                                       | 5/25/07             | \$ 7,500,015     | \$ 9                |
| Eagle Rock Energy Partners, L.P.                | Unregistered Common Units | 373,224                                       | 10/1/08             | 5,044,980        | 7                   |
| Eagle Rock Energy Partners, L.P. <sup>(1)</sup> | Unregistered Common Units | 212,404                                       | 10/1/08             | 2,920,555        | 7                   |
| High Sierra Energy, LP <sup>(2)</sup>           | Common Units              | 1,042,685                                     | 11/2/06-11/15/08    | 24,828,836       | 18                  |
| High Sierra Energy GP, LLC <sup>(2)</sup>       | Equity Interest           | 2.37%   | 11/2/06-5/1/07      | 2,015,969        | 1                   |
| International Resource Partners LP              | Class A Units             | 500,000                                       | 6/12/07             | 10,000,000       | 19                  |
| LONESTAR Midstream Partners, LP <sup>(3)</sup>  | Class A Units             | 1,327,900                                     | 7/27/07-4/2/08      | 4,444,986        | 3                   |
| LSMP GP, LP <sup>(3)</sup>                      | GP LP Units               | 180   | 7/27/07-4/2/08      | 168,514          | 2,777               |
| Mowood, LLC                                     | Equity Interest           | 99.6%   | 6/5/06-8/4/08       | 5,000,000        | 1                   |
|   | Subordinated Debt         | \$ 7,050,000                                  | 6/5/06-6/29/07      | 7,050,000        | 1                   |
|   | Promissory Notes          | \$ 1,235,000                                  | 9/26/08-11/26/08    | 1,235,000        | 1                   |
| Penn Virginia Resource Partners, L.P.           | Unregistered Common Units | 468,001                                       | 7/24/08             | 10,786,113       | 12                  |
| Penn Virginia GP Holdings, L.P.                 | Unregistered Common Units | 59,503  | 7/24/08             | 1,680,746        | 11                  |
| Quest Midstream Partners, L.P.                  | Common Units              | 1,180,946                                     | 12/22/06-           | 22,200,001       | 12                  |

|                       |                               |         |                               |                       |     |
|-----------------------|-------------------------------|---------|-------------------------------|-----------------------|-----|
| VantaCore Partners LP | Common Units                  | 933,430 | 11/1/07<br>5/21/07-<br>8/4/08 | 18,270,449            | 17  |
|                       | Incentive Distribution Rights | 988     | 5/21/07-<br>8/4/08            | 143,936               | 324 |
|                       |                               |         |                               | <b>\$ 123,290,100</b> |     |

- (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 terminates April 1, 2010. See Note 9 □ Investment Transactions for additional information.
- (2) Distributions have been paid in cash historically; however, distributions were paid in additional High Sierra Energy, LP common units during the quarters ended August 31, 2008 and November 30, 2008.
- (3) See Note 9 □ Investment Transactions for additional information.

18

## 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, 2009 amounted to \$72,049,363, representing 91.1 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, 2008 amounted to \$78,230,205, representing 87.7 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, 2009 or during the nine months then ended and at November 30, 2008 or during the year then ended is as follows:

### August 31, 2009

|   | Units/<br>Equity<br>Interest/<br>Principal | Balance<br>11/30/08 | Gross<br>Additions | Gross<br>Reductions | Realized<br>Gain/(Loss) | Gross<br>Distributions<br>or Interest<br>Received | Units/<br>Equity Interest/<br>Principal<br>Balance<br>8/31/09 |
|---|--|---------------------|--------------------|---------------------|-------------------------|---|---|
| High Sierra Energy, LP                            |  | 1,042,685           | \$                 | \$                  | \$                      | \$ 1,922,267                                      | 1,042,685   |
| International Resource Partners LP                |  | 500,000             |                    |                     |                         | 600,000   | 500,000   |
| LONESTAR Midstream Partners, LP <sup>(1)(2)</sup> |  | 1,327,900           |                    | 1,128,428           | (363,932)               |   | 1,327,900   |
| LSMP GP, LP <sup>(1)(2)</sup>                     |  | 180                 |                    | 55,353              | 25,360                  |   | 180   |
| Mowood, LLC                                       |  | \$ 7,050,000        | 1,750,000          |                     |                         | 605,916   | \$ 8,800,000  |
| Subordinated Debt                                 |  |                     |                    |                     |                         |   |   |
| Mowood, LLC                                       |  | \$ 1,235,000        |                    | 1,235,000           |                         |   |   |
| Promissory Notes                                  |  |                     |                    |                     |                         |   |   |
| Mowood, LLC                                       | 99.6%                                      |                     |                    |                     |                         | 337,500   | 99.5%   |
| Equity Interest                                   |  |                     |                    |                     |                         |   |   |
| Quest Midstream Partners, L.P. <sup>(2)</sup>     |  | 1,180,946           |                    |                     |                         |   | 1,180,946   |
| VantaCore Partners LP                             |  | 933,430             |                    |                     |                         | 1,376,809   | 933,430   |
| Common Units                                      |  |                     |                    |                     |                         |   |   |
| VantaCore Partners LP                             |  | 988                 |                    |                     |                         |   | 988   |
| Incentive Distribution Rights <sup>(2)</sup>      |  |                     |                    |                     |                         |   |   |
|   |  |                     | \$ 1,750,000       | \$ 2,418,781        | \$ (338,572)            | \$ 4,482,492                                      |   |

- (1) See Note 9 □ Investment Transactions for additional information.
- (2) Currently non-income producing.

### November 30, 2008

| Units/<br>Equity<br>Interest/ | Gross | Units/ |
|-------------------------------|-------|--------|
|-------------------------------|-------|--------|

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|  | Principal    |               |               |              | Distributions | Equity Interest/ |
|--|--------------|---------------|---------------|--------------|---------------|------------------|
|  | Balance      | Gross         | Gross         | Realized     | or Interest   | Principal        |
|  | 11/30/07     | Additions     | Reductions    | Gain         | Received      | 11/30/08         |
| High Sierra Energy, LP <sup>(1)</sup>          | 999,614      | \$            | \$            | \$           | \$ 1,219,529  | 1,042,685        |
| International Resource Partners LP             | 500,000      |               |               |              | 800,000       | 500,000          |
| LONESTAR Midstream Partners, LP <sup>(2)</sup> | 1,184,532    | 1,477,140     | 21,531,919    | 1,104,244    |               | 1,327,900        |
| LSMP GP, LP <sup>(2)</sup>                     | 180          | 22,860        | 1,411,450     | 1,007,962    |               | 180              |
| Millennium Midstream Partners, LP              | 875,000      |               | 21,652,616    | 6,491,491    | 1,207,500     |                  |
| Class A Common Units                           |              |               |               |              |               |                  |
| Millennium Midstream Partners, LP              | 78           |               |               |              |               |                  |
| Incentive Distribution Rights                  |              |               |               |              |               |                  |
| Mowood, LLC                                    | \$ 7,050,000 |               |               |              | 796,141       | \$ 7,050,000     |
| Subordinated Debt                              |              |               |               |              |               |                  |
| Mowood, LLC                                    |              | 1,235,000     |               |              |               | \$ 1,235,000     |
| Promissory Notes                               |              |               |               |              |               |                  |
| Mowood, LLC                                    | 100%         | 3,500,000     |               |              | 472,501       | 99.6%            |
| Equity Interest                                |              |               |               |              |               |                  |
| Quest Midstream Partners, L.P. <sup>(3)</sup>  | 1,180,946    |               |               |              | 1,472,053     | 1,180,946        |
| VantaCore Partners LP                          | \$ 3,750,000 |               | 3,862,500     | 112,500      | 306,918       |                  |
| Subordinated Debt                              |              |               |               |              |               |                  |
| VantaCore Partners LP                          | 425,000      | 9,822,845     |               |              | 1,104,215     | 933,430          |
| Common Units                                   |              |               |               |              |               |                  |
| VantaCore Partners LP                          | 789          | 91,540        |               |              |               | 988              |
| Incentive Distribution Rights <sup>(3)</sup>   |              |               |               |              |               |                  |
|  |              | \$ 16,149,385 | \$ 46,458,485 | \$ 8,716,197 | \$ 7,378,857  |                  |

(1) Distributions have been paid in cash historically; however, distributions were paid in additional High Sierra Energy, LP common units during the quarters ended August 31, 2008 and November 30, 2008.

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

(3) Currently non-income producing.

19

## 9. Investment Transactions

For the nine months ended August 31, 2009, the Company purchased (at cost) securities in the amount of \$3,774,157 and sold securities (proceeds received) in the amount of \$21,081,654 (excluding short-term debt securities). For the nine months ended August 31, 2008, the Company purchased (at cost) securities in the amount of \$14,915,626 and sold securities (proceeds received) in the amount of \$14,339,011 (excluding short-term debt securities).

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. On July 24, 2008, 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 July 24, 2008, the Company recorded the cash and the unregistered PVR and PVG common units it received at a cost basis equal to the fair value on the date of receipt, less a discount for illiquidity. The Company reduced its basis in LONESTAR by \$20,427,674, approximately 82 percent of the respective relative value of the entire transaction, resulting in a realized gain of \$1,104,244. The Company also reduced its basis in LSMP GP, LP by \$403,488, approximately 71 percent of the respective relative value of the entire transaction, resulting in a realized gain of \$1,007,962.

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. The Company recorded the PVR and PVG common units it received at a cost basis equal to the fair value on the date of receipt. The Company reduced its basis in LONESTAR by \$746,180, approximately 3 percent of the respective relative value of the entire transaction, resulting in a realized loss of \$184,201. The Company also reduced its basis in LSMP GP, LP by \$14,996, approximately 3 percent of the respective relative value of the entire transaction, resulting in a realized gain of \$11,057.

On July 17, 2009, the Company received a distribution of 37,304 freely tradable common units of PVR and 4,744 freely tradable common units of PVG. The Company recorded the PVR and PVG common units it received at a cost basis equal to the fair value on the date of receipt. The Company reduced its basis in LONESTAR by \$746,180, approximately 3 percent of the respective relative value of the entire transaction, resulting in a realized loss of \$179,731. The Company also reduced its basis in LSMP GP, LP by \$14,996, approximately 3 percent of the respective relative value of the entire transaction, resulting in a realized gain of \$14,303.

The Company anticipates receiving a cash distribution from LONESTAR of approximately \$1,038,090 payable on December 31, 2009. There are also two future contingent payments due 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 as of August 31, 2009 is based on unobservable inputs related to the potential receipt of these future payments relative to the sales transaction.

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, approximately 212,404 units with an aggregate cost basis of 2,920,555 were placed in escrow for 18 months from the date of the transaction. This includes a reserve the Company placed against the units held in the escrow for estimated post-closing adjustments. The Company originally invested \$17,500,000 in Millennium (including common units and incentive distribution rights), and had an adjusted cost basis at closing of \$15,161,125 (after reducing its basis for cash distributions received since investment that were treated as return of capital). At the transaction closing, the Company recorded a realized gain for book purposes of \$6,491,491, including a reserve the Company placed against the restricted cash and units held in the escrow for estimated post-closing adjustments. Subsequent to November 30, 2008, the Company increased the reserve against the units held in escrow for additional post-closing adjustments, resulting in a realized loss for the nine months ended August 31, 2009 of \$540,925. The Company also recorded an additional \$277,724 in realized loss related to the reclassification of investment income and return of capital recognized based on the 2008 tax reporting information received from Millennium (see Note 2D—Security Transactions and Investment Income for additional information). For purposes of the capital gain incentive fee, the realized gain totals approximately \$3,611,691, 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 to date.

## 10. Credit Facility

On April 25, 2007, the Company entered into a committed credit facility with U.S. Bank, N.A. as a lender, agent and lead arranger. On March 21, 2008, the Company secured an extension to its revolving credit facility and on March 28, 2008, amended the credit agreement to increase the total credit facility to \$50,000,000. The revolving credit facility had a variable annual interest rate equal to the one-month LIBOR plus 1.75 percent, 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 contains 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 provide for a secured revolving facility of up to \$5,000,000. The amended credit facility requires 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 will 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 this extension, outstanding loan balances generally will accrue interest at a variable rate equal to the greater of (i) one-month LIBOR plus 3.00 percent, and (ii) 5.50 percent.

Under the terms of the amended credit facility, the Company must maintain asset coverage required under the 1940 Act. If the Company fails to maintain the required coverage, it may be required to repay a portion of an outstanding balance until the coverage requirement has been met. As of August 31, 2009, the Company was in compliance with the terms of the amended credit facility.

For the nine months ended August 31, 2009, the average principal balance and interest rate for the period during which the credit facility was utilized were \$17,675,912 and 4.25 percent, respectively. As of August 31, 2009, the principal balance outstanding was \$5,000,000 at a rate of 5.50 percent.

### 11. Common Stock

The Company has 100,000,000 shares authorized and 9,028,301 shares outstanding at August 31, 2009.

|   |           |
|---|-----------|
| Shares at November 30, 2008                         | 8,962,147 |
| Shares issued through reinvestment of distributions | 66,154    |
| Shares at August 31, 2009                           | 9,028,301 |

### 12. Warrants

At August 31, 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 lock-up 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.

|   |         |
|---|---------|
| Warrants outstanding at November 30, 2008 and August 31, 2009 | 945,594 |
|---|---------|

### 13. Earnings Per Share

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

|  | For the<br>three<br>months<br>ended<br>August 31,<br>2009 | For the<br>three<br>months<br>ended<br>August 31,<br>2008 | For the nine<br>months<br>ended<br>August 31,<br>2009 | For the<br>nine<br>months<br>ended<br>August 31,<br>2008 |
|--|---|---|---|--|
| Net increase (decrease) in net assets applicable to common stockholders resulting from operations        | \$ (97,507)   | \$ (356,496)  | \$ (6,096,705)  | \$ 3,571,791   |
| Basic weighted average shares  | 9,014,094   | 8,893,866   | 8,997,031   | 8,876,079  |
| Average warrants outstanding <sup>(1)</sup>  |   |   |   |  |
| Diluted weighted average shares  | 9,014,094   | 8,893,866   | 8,997,031   | 8,876,079  |
| Basic and diluted net increase (decrease) in net assets applicable to common stockholders resulting from |   |   |   |  |

|                             |           |           |           |         |
|-----------------------------|-----------|-----------|-----------|---------|
| operations per common share | \$ (0.01) | \$ (0.04) | \$ (0.68) | \$ 0.40 |
|-----------------------------|-----------|-----------|-----------|---------|

- (1) Warrants to purchase shares of common stock at \$15.00 per share were outstanding during the periods reflected in the table above, but were not included in the computation of diluted earnings per share because the warrants' exercise price was greater than the average market value of the common shares, and therefore, the effect would be anti-dilutive.

#### 14. Subsequent Events

Effective August 31, 2009, the Company adopted Statement of Financial Accounting Standards No. 165 (SFAS No. 165), Subsequent Events. SFAS No. 165 requires an entity to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. SFAS No. 165 is intended to establish general standards of accounting and for disclosure of events that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. The Company has performed an evaluation of subsequent events through October 9, 2009, which is the date the financial statements were issued.

On September 1, 2009, the Company paid a distribution in the amount of \$0.13 per common share, for a total of \$1,173,679. Of this total, the dividend reinvestment amounted to \$150,140.

On September 15, 2009, the Company entered into a new Investment Advisory Agreement with the Adviser in connection with the September 15, 2009 closing of the transaction previously announced by the Adviser on June 3, 2009. Upon the closing of this transaction, which resulted in a change in control of the Adviser, the previous Investment Advisory Agreement with the Adviser automatically terminated. The terms of the new Investment Advisory Agreement are substantially identical to the previous Investment Advisory Agreement, except for the effective and termination dates, and simply continue the relationship between the Company and the Adviser.

On September 15, 2009, effective upon consummation of the transaction resulting in the change in control of the Adviser, Terry Matlack resigned from the Board of Directors of the Company in order to comply with a safe harbor under Section 15(f) of the 1940 Act. Mr. Matlack will remain a member of the Adviser's Investment Committee and as Chief Financial Officer of the Company.

On October 1, 2009, Quest Midstream Partners, L.P. declared a special pro rata dividend on its common units. The distribution is payable in additional common units to all record holders outstanding on that date, for which the Company will receive 35,935 common units. On October 6, 2009, Quest Resources Corp. (NASDAQ: QRCF) and Quest Energy Partners L.P. (NASDAQ: QELP) filed a Form S-4 Registration Statement to recombine with Quest Midstream Partners, L.P. as the newly formed PostRock Energy Corporation, which is expected to be listed on the NASDAQ under the symbol "PSTR." The recombination is subject to the satisfaction of a number of conditions.

On October 5, 2009, Abraxas Petroleum Corporation (NASDAQ: AXAS) (Abraxas Petroleum) announced that it closed the merger with Abraxas Energy Partners, L.P. (Abraxas Energy). A special meeting of Abraxas Petroleum stockholders was held and the holders of a majority of the shares voting at the special meeting approved the issuance of Abraxas Petroleum common stock to the holders of common units of Abraxas Energy not held by a wholly-owned subsidiary of Abraxas Petroleum in connection with the merger. The unitholders of Abraxas Energy will receive 4.25 shares of Abraxas Petroleum common stock for each common unit of Abraxas Energy. A total of 26.2 million shares of Abraxas Petroleum common stock will be issued in connection with the merger. The shares are subject to an initial 90 day lock-up period followed by a multi-year staggered lock-up period.

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#### ADDITIONAL INFORMATION (Unaudited)

##### Director and Officer Compensation

The Company does not compensate any of its directors who are "interested persons" (as defined in Section 2 (a) (19) of the 1940 Act) or any of its officers. For the nine months ended August 31, 2009, the aggregate compensation paid by the Company to the independent directors was \$78,000. The Company did not pay any special compensation to any of its directors or officers.

##### Forward-Looking Statements

This report contains "forward-looking statements." By their nature, all forward-looking statements involve risk and uncertainties, and actual results could differ materially from those contemplated by the forward-looking



statements.

### **Certifications**

The Company's Chief Executive Officer submitted to the New York Stock Exchange the annual CEO certification as required by Section 303A.12(a) of the NYSE Listed Company Manual.

The Company has filed with the SEC the certification of its Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act.

### **Proxy Voting Policies**

A description of the policies and procedures that the Company uses to determine how to vote proxies relating to portfolio securities owned by the Company is available to stockholders (i) without charge, upon request by calling the Company at (913) 981-1020 or toll-free at (866) 362-9331 and on the Company's Web site at [www.tortoiseadvisors.com/tto.cfm](http://www.tortoiseadvisors.com/tto.cfm); and (ii) on the SEC's Web site at [www.sec.gov](http://www.sec.gov).

### **Privacy Policy**

The Company is committed to maintaining the privacy of its stockholders and safeguarding their non-public personal information. The following information is provided to help you understand what personal information the Company collects, how the Company protects that information and why, in certain cases, the Company may share information with select other parties.

Generally, the Company does not receive any non-public personal information relating to its stockholders, although certain non-public personal information of its stockholders may become available to the Company. The Company does not disclose any non-public personal information about its stockholders or a former stockholder to anyone, except as required by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent).

The Company restricts access to non-public personal information about its stockholders to employees of its Adviser with a legitimate business need for the information. The Company maintains physical, electronic and procedural safeguards designed to protect the non-public personal information of its stockholders.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Statements contained herein, other than historical facts, may constitute "forward-looking statements." These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "believe," "will," "provided," "anticipate," "future," "could," "growth," "plan," "intend," "expect," "should," "would," "if," "seek," "possible," "potential," "likely" or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any anticipated results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. For a discussion of factors that could cause our actual results to differ from forward-looking statements contained herein, please see the discussion under the heading "Risk Factors" in Part I, Item 1A. of our most recent Annual Report filed on Form 10-K.*

*We may experience fluctuations in our operating results due to a number of factors, including the return on our equity investments, the interest rates payable on our debt investments, the default rates on such investments, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.*

## Overview

We have elected to be regulated as a business development company ("BDC") and we are classified as a non-diversified closed-end management investment company under the Investment Company Act of 1940. As a BDC, we are subject to numerous regulations and restrictions. Unlike most investment companies, we are, and intend to continue to be, taxed as a general business corporation under the Internal Revenue Code of 1986.

We seek to invest in companies operating in the U.S. energy infrastructure sector, primarily in privately-held and micro-cap public companies focused on the midstream and downstream segments, and to a lesser extent the upstream and coal and aggregates segments. Companies in the midstream segment of the energy infrastructure sector engage in the business of transporting, processing or storing natural gas, natural gas liquids, crude oil, refined petroleum products and renewable energy resources. Companies in the downstream segment of the energy infrastructure sector engage in distributing or marketing such commodities, and companies in the upstream segment of the energy infrastructure sector engage in exploring, developing, managing or producing such commodities. The energy infrastructure sector also includes producers and processors of coal and aggregates, two business segments that also are eligible for master limited partnership ("MLP") status. We seek to invest in companies in the energy infrastructure sector that generally produce stable cash flows as a result of their fee-based revenues and proactive hedging programs which help to limit direct commodity price risk.

## Performance Review and Investment Outlook

Our third quarter produced mixed results. From a market value perspective, our stock price improved, closing at \$5.74 per share on August 31, 2009 compared to \$4.45 per share at May 31, 2009. Our total return for the nine months ended August 31, 2009 based on market value, assuming reinvestment of quarterly distributions, was 20.55 percent.

Our net asset value, however, declined this quarter from \$8.91 per share at May 31, 2009 to \$8.76 per share at August 31, 2009. The fair value of High Sierra Energy, LP and International Resource Partners LP, increased this quarter due in part to improved operating performance and/or peer multiples. The fair value of Mowood, LLC also increased this quarter, and the company continues to explore strategic alternatives based on growth opportunities at its Timberline subsidiary. The fair value of Abraxas Energy Partners, L.P. ("Abraxas Energy"), Quest Midstream Partners, L.P. ("Quest Midstream") and VantaCore Partners, L.P. ("VantaCore") decreased this quarter due to company and/or market-specific issues. The fair value of VantaCore was adversely affected by its decision to reduce its quarterly cash distribution to common unitholders and to suspend its distribution to certain subordinated unitholders in light of reduced distributable cash flow projections in 2009. Quest Midstream and Abraxas announced intentions to merge or recombine with their respective affiliated public entities, which would likely provide liquidity for our investments in the future. On October 6, 2009, Quest Resources Corp. (NASDAQ: QRCP) and Quest Energy Partners, L.P. (NASDAQ: QELP) filed a Form S-4 Registration Statement to recombine with Quest Midstream as the newly formed PostRock Energy Corporation, which is expected to be listed on the NASDAQ under the symbol "PSTR." The recombination is subject to the satisfaction of a number of conditions, including the arrangement of one or more satisfactory credit lines for the newly formed company, the approval of the transaction by the unitholders of the three existing entities, and consents from each entity's existing lenders. On October 5, 2009, Abraxas Petroleum Corp. (NASDAQ: AXAS) ("Abraxas Petroleum") closed the merger with Abraxas Energy. Under the terms of the merger agreement, we will receive 4.25 shares of Abraxas Petroleum in exchange for each common unit of Abraxas Energy we own, which equates to approximately 1,946,377 Abraxas Petroleum shares. These shares are subject to an initial 90 day lock-up period followed by a multi-year staggered lock-up period.

This quarter we continued the liquidation of publicly-traded securities to pay down our line of credit, including certain securities previously held in escrow related to the Millennium and Lonestar transactions. On August 20, 2009, we announced a six-month extension to our line of credit through February 20, 2010. The outstanding balance on our line of credit was reduced from \$18.8 million at May 31, 2009 to \$5.0 million at August 31, 2009. We do not expect any future leverage reductions to materially impact our distribution paying capacity.

As of August 31, 2009, the value of our investment portfolio (excluding short-term investments) was \$78,274,585 including equity investments of \$69,474,585 and debt investments of \$8,800,000 across the following segments of the energy infrastructure sector:

## Allocation of Portfolio Assets

*August 31, 2009 (Unaudited)*

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(Percentages based on fair value of total investment portfolio, excluding short-term investments)

| Name of Portfolio Company (Segment)                     | Nature of its Principal Business  | Securities Held by Us                         | Amount Invested (in millions) | Fair Value (in millions) (1) | Current Yield on Amount Invested (2) |
|---|---|---|-------------------------------|------------------------------|--------------------------------------|
| Abraxas Energy Partners, L.P. (Upstream) <sup>(3)</sup> | Natural gas and oil exploitation and development in the Rocky Mountain, Mid-Continent, Permian Basin and Gulf Coast regions of the United States  | Common Units                                  | \$ 7.6                        | \$ 2.3                       | 0.0%                                 |
| Eagle Rock Energy Partners, L.P. (Upstream/Midstream)   | Gatherer and processor of natural gas in north, south and east Texas and Louisiana and producer and developer of upstream and mineral assets located in 17 states   | Common Units (Freely Tradable and Restricted) | 2.1                           | 0.5                          | 0.7                                  |
| EV Energy Partners, L.P. (Upstream)                     | Acquirer, producer and developer of oil and gas properties in the Appalachian Basin, the Monroe field in Louisiana, Michigan, the Austin Chalk, South Central Texas, the Permian Basin, the San Juan Basin and the Mid-continent area | Common Unit                                   | 2.7                           | 1.7                          | 8.7                                  |
| High Sierra Energy, LP (Midstream)                      | Marketing, processing, storage and transportation of hydrocarbons and processing and disposal of oilfield produced water with operations primarily in Colorado, Wyoming,  | Common Units                                  | 24.8                          | 22.9                         | 10.6                                 |

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|   |   |                 |     |     |     |
|---|---|-----------------|-----|-----|-----|
|   | Oklahoma, Florida and Mississippi         |                 |     |     |     |
| High Sierra Energy GP, LLC (Midstream) <sup>(4)</sup> | General Partner of High Sierra Energy, LP | Equity Interest | 2.0 | 1.7 | 2.8 |

25

| Name of Portfolio Company (Segment)                        | Nature of its Principal Business   | Securities Held by Us | Amount Invested (in millions) | Fair Value (in millions) <sup>(1)</sup> | Current Yield of Amount Invested |
|--|--|-----------------------|-------------------------------|---|----------------------------------|
| International Resource Partners LP (Coal)                  | Operator of both metallurgical and steam coal mines and related assets in Central Appalachia   | Class A Units         | 10.0                          | 9.8                                     |                                  |
| LONESTAR Midstream Partners, LP (Midstream) <sup>(5)</sup> | LONESTAR Midstream Partners, LP sold its assets to Penn Virginia Resource Partners, L.P (PVR) in July 2008. LONESTAR has no continuing operations, but currently holds rights to receive future payments from PVR relative to the sale | Class A Units         | 3.0                           | 1.9                                     |                                  |
| LSMP GP, LP (Midstream) <sup>(5)</sup>                     | Indirectly owns General Partner of LONESTAR Midstream Partners, LP   | GP LP Units           | 0.1                           | 0.3                                     |                                  |
| Mowood, LLC (Midstream/Downstream) <sup>(6)</sup>          | Natural gas distribution in central Missouri and landfill gas to energy projects   | Equity interest       | 5.0                           | 7.5                                     |                                  |
| Subordinated Debt  |  |                       | 8.8                           | 8.8                                     |                                  |
| Quest Midstream Partners, L.P. (Midstream) <sup>(3)</sup>  | Operator of natural gas gathering pipelines in the Cherokee Basin and interstate natural gas transmission  | Common Units          | 22.2                          | 4.4                                     |                                  |

|                                    |   |  |                 |                |  |
|------------------------------------|---|--|-----------------|----------------|--|
|                                    | pipelines in Oklahoma, Kansas and Missouri  |  |                 |                |  |
| VantaCore Partners LP (Aggregates) | Acquirer and operator of aggregate companies, with quarry and asphalt operations in Clarksville, Tennessee and sand and gravel operations located near Baton Rouge, Louisiana | Common Units and Incentive Distribution Rights | 18.4            | 16.5           |  |
|                                    |   |  | <b>\$ 106.7</b> | <b>\$ 78.3</b> |  |

- (1) Fair value as of August 31, 2009.
- (2) The current yield has been calculated by annualizing the most recent distribution during the period and dividing by the amount invested in the underlying security. Actual distributions to us are based on each company's available cash flow and are subject to change.
- (3) Currently non-income producing.
- (4) Includes original purchase of 3 percent equity interest, sale of 0.6274 percent equity interest in July 2007 and subsequent capital calls.
- (5) LONESTAR Midstream Partners, LP sold its assets to Penn Virginia Resource Partners, L.P in July 2008. LONESTAR has no continuing operations, but currently holds rights to receive future payments from PVR relative to the sale. The cost basis and the fair value of the LONESTAR and LSMP GP, LP units as of August 31, 2009 are related to the potential receipt of those future payments. Since this investment is not deemed to be "active", the yield is not meaningful and we have excluded it from our weighted average yield to cost on investments as described below in Results of Operations.
- (6) Current yield represents an equity distribution on our invested capital. We expect that, pending cash availability, such equity distributions will recur on a quarterly basis at or above such yield.

#### Portfolio Company Monitoring

Our Adviser monitors each portfolio company to determine progress relative to meeting the company's business plan and to assess the company's strategic and tactical courses of action. This monitoring may be accomplished by attendance at Board of Directors meetings, ad hoc communications with company management, the review of periodic operating and financial reports, an analysis of relevant reserve information and capital expenditure plans, and periodic consultations with engineers, geologists, and other experts. The performance of each private portfolio company is also periodically compared to performance of similarly sized companies with comparable assets and businesses to assess performance relative to peers. Our Adviser's monitoring activities are expected to provide it with information that will enable us to monitor compliance with existing covenants, to enhance our ability to make qualified valuation decisions, and to assist our evaluation of the nature of the risks involved in each individual investment. In addition, these monitoring activities should enable our Adviser to diagnose and manage the common risk factors held by our total portfolio, such as sector concentration, exposure to a single financial sponsor, or sensitivity to a particular geography.

As part of the monitoring process, our Adviser continually assesses the risk profile of each of our private investments. We intend to disclose, as appropriate, those risk factors that we deem most relevant in assessing the risk of any particular investment. Such factors may include, but are not limited to, the investment's current cash distribution status, compliance with loan covenants, operating and financial performance, changes in the regulatory environment or other factors that we believe are useful in determining overall investment risk.

#### Abraxas Energy Partners, L.P. ("Abraxas")

Abraxas is a private company that operates long-lived, low-decline natural gas and oil reserves. The company's assets consist primarily of producing and non-producing properties located in the Rocky Mountain, Mid-Continent, Permian Basin and Gulf Coast regions of the United States. Abraxas was formed by Abraxas Petroleum Corporation (NASDAQ: AXAS), an independent publicly-traded energy company primarily engaged in the development and production of oil and gas. We hold a seat on Abraxas' board of directors.

On June 30, 2009, Abraxas entered into a definitive merger agreement with Abraxas Petroleum Corp. The merger is expected to result in a borrowing base sufficient for one tranche of debt, eliminating Abraxas' second lien debt. However, the merger is expected to result in the permanent discontinuation of distributions as well as a more exploration oriented risk profile. Abraxas Petroleum Corp. has scheduled a special meeting of stockholders on October 5, 2009 to vote on the proposed merger. If approved, the merger is anticipated to be completed in the third quarter of 2009. However, the merger is subject to various conditions set forth in the Merger Agreement and it is possible that certain factors could result in the merger being completed at a later time, or not at all. If the merger is not completed, Abraxas, under its current loan agreements, would be faced with significant debt amortization payments due to the maturity of its second lien debt which would most likely preclude its ability to pay distributions until the second lien debt was paid off or refinanced. See Recent Developments for a discussion of the results of the special meeting of stockholders held on October 5, 2009.

#### **High Sierra Energy, LP (High Sierra)**

High Sierra is a holding company with diversified midstream energy assets focused on the processing, transportation, storage and marketing of hydrocarbons. The company's businesses include a natural gas liquids logistics and transportation business in Colorado, natural gas gathering and processing operations in Louisiana, a natural gas storage facility in Mississippi, an ethanol terminal in Nevada, crude and natural gas liquids trucking businesses in Kansas and Colorado, businesses providing crude oil gathering, transportation and marketing services, primarily focused in the Mid-Continent, Western and Gulf Coast regions, water treatment transportation and disposal businesses serving oil and gas producers in Wyoming and Oklahoma, and two asphalt processing, packaging and distribution terminals in Florida. We hold board of directors' observation rights for High Sierra.

High Sierra increased its quarterly cash distribution from \$0.61 per unit to \$0.63 per unit this quarter. Through June 2009, year-to-date overall performance against budgeted EBITDA (before mark-to-market gains and losses and before minority interests) has been mixed by operating segment, but is near budget in the aggregate, enabling High Sierra to increase its distribution and maintain a strong cash position. Depressed natural gas prices and high basis differentials in certain of the areas served by the company's water handling operations have continued to dampen drilling and production activities, thereby resulting in revenues and EBITDA for these segments that is below budget. Shortfalls in the water operations have been partially offset however, by the strong performance of the company's energy marketing businesses, including the natural gas and natural gas liquids segments. Monroe Gas Storage, High Sierra's Mississippi-based natural gas storage facility joint venture, continues to make progress toward completion. The storage facility is offering limited injection and withdrawal services as it continues development activities. In August 2009, High Sierra extended its marketing segment's revolving credit facility which, together with the earlier expansion of its corporate revolver, further reduces our concerns regarding the company's liquidity position.

#### **International Resource Partners LP (IRP)**

IRP's surface and underground coal mine operations in southern West Virginia are comprised of metallurgical and steam coal reserves, a coal washing and preparation plant, rail load-out facilities and a sales and marketing subsidiary. We hold board of director's observation rights for IRP.

While metallurgical coal pricing and demand have shown some improvement, they remain below levels seen in 2008. IRP's operating results continue to exceed budgeted levels. Year-to-date EBITDA through July 31, 2009 was ahead of budget, largely on the strength of results posted by the company's sales and marketing arm. This, combined with the company's strong cash position resulting from last year's record results, enabled the company to maintain a stable balance sheet position in spite of the challenging coal environment. Metallurgical coal markets showed some improvement during the quarter, as North American and certain overseas steel production increased over the prior quarter. Because steam coal demand has continued to be depressed due to a moderate cooling season and reduced industrial electricity demand, management remains focused on prudently reducing its production costs where possible, and dynamically adjusting its mining plan to suit current conditions. IRP remains in compliance with its bank covenants.

#### **Mowood, LLC (Mowood)**

Mowood is a holding company whose assets include Omega Pipeline, LLC (Omega) and Timberline Energy, LLC (Timberline). Omega is a natural gas local distribution company located on the Fort Leonard Wood military base in south central Missouri. Omega serves the natural gas and propane needs of Fort Leonard Wood and other customers in the surrounding area. Timberline is an owner and developer of projects that convert landfill gas to energy. We currently hold a seat on Mowood's board of directors.

Through July 2009, Omega has slightly outperformed its budget and is expected to continue to post strong results during the year as expansion projects at Fort Leonard Wood enhance results. Omega's contracts have been structured to minimize commodity exposure. Timberline has performed moderately below budget for the year-to-date period as a result of startup operational issues. Timberline has been working to resolve its operational issues and to expand capacity at its existing locations which management believes should result in improved performance. Timberline has structured its off-take contracts to eliminate or minimize commodity exposure in an effort to create more predictable performance. Mowood continues to explore strategic alternatives based on growth opportunities at its Timberline subsidiary. Mowood remains in compliance with all bank covenants.

#### **Quest Midstream Partners, L.P. (Quest)**

Quest was formed by the spin-off of Quest Resource Corporation's (NASDAQ: QRCP) midstream coal bed methane natural gas gathering assets in the Cherokee Basin. Quest owns more than 2,000 miles of natural gas gathering pipelines (primarily serving Quest Energy Partners, L.P (NASDAQ: QELP), an affiliate) and over 1,100 miles of interstate natural gas transmission pipelines in Oklahoma, Kansas and Missouri. We hold a seat on Quest's board of directors.

On July 6, 2009, Quest announced it entered into a definitive merger agreement pursuant to which it would recombine with Quest Resources Corp and Quest Energy Partners. The transaction would result in a new publicly-traded company which is not expected to pay distributions. Under the terms of the merger agreement, current Quest equity holders would own approximately 44 percent of the new company. The new company's strategy will be to pursue efficient development of unconventional resource plays, including coalbed methane in the Cherokee Basin of southeast Kansas and northeast Oklahoma and the Marcellus Shale in the Appalachian Basin. The merger would change the risk profile of our investment from primarily a gathering company to an integrated company that has increased drilling risk and commodity exposure. If the recombination does not close, we believe Quest would be able to operate profitably for the remainder of 2009, but would face significant operational risk created by a lower gathering rate in 2010 and significant financial pressures on QELP, its primary customer, and QRCP. Quest remains in compliance with its bank covenants. See Recent Developments for an update on the recombination.

#### **VantaCore Partners LP (VantaCore)**

VantaCore was formed to acquire companies in the aggregate industry and currently owns a quarry and asphalt plant in Clarksville, Tennessee and sand and gravel operations located near Baton Rouge, Louisiana. We hold a seat on VantaCore's board of directors.

VantaCore reduced its quarterly cash distribution to \$0.475 per unit, the minimum quarterly distribution, a decrease of five percent from the prior quarter and from last year. In our view, the distribution reduction, together with a suspension in the quarterly distribution to certain of the subordinated unit holders, was a prudent and proactive step taken in view of the difficult operating environment in certain of VantaCore's markets. VantaCore's business is closely linked to the level of commercial construction and infrastructure spending in the two major territories it serves. Due to the weakened economy and difficult credit environment, base line construction spending in these sectors has been significantly reduced, resulting in lower than anticipated revenues. In Clarksville, the lower level of baseline activity has been partially offset by some major projects, including the new Dow/Hemlock semiconductor plant. VantaCore's Southern Aggregates division, which serves parts of Louisiana, has been slower to recover, in part due to significant regional price competition. VantaCore has responded to these challenges by implementing cost saving initiatives, prudently reducing capital spending and making the aforementioned adjustments to its distribution. VantaCore remains in compliance with its bank covenants.

### **Results of Operations**

#### **Comparison of the Three and Nine Months Ended August 31, 2009 and August 31, 2008**

*Investment Income:* Investment income totaled \$777,486 and \$1,095,539 for the three and nine months ended August 31, 2009, respectively. This represents an increase of \$330,750 as compared to the three months ended August 31, 2008, and a decrease of \$1,203,007 as compared to the nine months ended August 31, 2008. The increase as compared to the three months ended August 31, 2008 is generally attributable to a smaller percentage of return of capital on distributions from investments. The year-over-year decrease is primarily related to a reduction in distributions received from investments this fiscal year. The weighted average yield to

cost on our investment portfolio (excluding short-term investments) as of August 31, 2009 was 6.5 percent, as compared to 8.8 percent at August 31, 2008. The decrease in the weighted average yield to cost is related to the suspension or reduction of distributions from portfolio companies this fiscal year, most notably Abraxas and Quest.

**Net Expenses:** Net expenses totaled \$669,570 and \$2,160,252 for the three and nine months ended August 31, 2009. This represents a decrease of \$143,197 and \$2,165,686, respectively, as compared to the three and nine months ended August 31, 2008. The decrease is primarily related to elimination of the capital gain incentive fee accrual, a decrease in leverage costs and a decrease in base management fees payable to the Adviser as a result of the lower value of the investment portfolio.

**Distributable Cash Flow:** Our portfolio generates cash flow to us from which we pay distributions to stockholders. When our Board of Directors determines the amount of any distribution we expect to pay our stockholders, it reviews distributable cash flow (DCF). DCF is distributions received from investments less our total expenses. The total distributions received from our investments include the amount received by us as cash distributions from equity investments, paid-in-kind distributions, and

28

dividend and interest payments. Total expenses include current or anticipated operating expenses, leverage costs and current income taxes on our operating income. Total expenses do not include deferred income taxes or accrued capital gain incentive fees. We do not include in distributable cash flow the value of distributions received from portfolio companies which are paid in stock as a result of credit constraints, market dislocation or other similar issues.

We disclose DCF in order to provide supplemental information regarding our results of operations and to enhance our investors' overall understanding of our core financial performance and our prospects for the future. We believe that our investors benefit from seeing the results of DCF in addition to GAAP information. This non-GAAP information facilitates management's comparison of current results with historical results of operations and with those of our peers. This information is not in accordance with, or an alternative to, GAAP and may not be comparable to similarly titled measures reported by other companies.

The following table represents DCF for the three and nine months ended August 31, 2009 as compared to the three and nine months ended August 31, 2008:

|  | For the three<br>months ended<br>August 31,<br>2009 | For the three<br>months ended<br>August 31,<br>2008 | For the three<br>months ended<br>August 31,<br>2007 |
|--|---|---|---|
| <b>Distributable Cash Flow</b>                                   |   |   |   |
| <b>Total from Investments</b>                                    |   |   |   |
| Distributions from investments                                   | \$ 1,635,662  | \$ 2,734,812  | \$ 6,170,000  |
| Distributions paid in stock <sup>(1)</sup>                       | 0   | 621,122   | 0   |
| Interest income from investments                                 | 201,918   | 269,235   | 60,000  |
| Dividends from money market mutual funds                         | 304   | 3,643   | 0   |
| Other income   | 15,000  | 0   | 4,000   |
| <b>Total from Investments</b>                                    | <b>1,852,884</b>                                    | <b>3,628,812</b>                                    | <b>6,834,000</b>                                    |
| <b>Operating Expenses Before Leverage Costs</b>                  |   |   |   |
| Advisory fees (net of expense reimbursement by Adviser)          | 267,982   | 504,109   | 87,000  |
| Other operating expenses (excluding capital gain incentive fees) | 266,601   | 253,236   | 72,000  |
| <b>Total Operating Expenses</b>                                  | <b>534,583</b>                                      | <b>757,345</b>                                      | <b>1,590,000</b>                                    |
| <b>Distributable cash flow before leverage costs</b>             | <b>1,318,301</b>                                    | <b>2,871,467</b>                                    | <b>5,244,000</b>                                    |
| Leverage Costs   | 134,987   | 395,791   | 56,000  |
| <b>Distributable Cash Flow</b>                                   | <b>\$ 1,183,314</b>                                 | <b>\$ 2,475,676</b>                                 | <b>\$ 4,688,000</b>                                 |



|   |                   |                     |                 |
|---|-------------------|---------------------|-----------------|
| <b>Distributions paid on common stock</b>                                 | \$ 1,173,679      | \$ 2,356,874        | \$ 4,40         |
| <b>Payout percentage for period<sup>(2)</sup></b>                         | 99%               | 95%                 |                 |
| <b>DCF/GAAP Reconciliation</b>  |                   |                     |                 |
| Distributable Cash Flow   | \$ 1,183,314      | \$ 2,475,676        | \$ 4,67         |
| Adjustments to reconcile to Net Investment Income,<br>before Income Taxes |                   |                     |                 |
| Distributions paid in stock <sup>(1)</sup>                                | □                 | (621,122)           | 5               |
| Pro Forma distribution on new investment <sup>(3)</sup>                   | □                 | (254,215)           |                 |
| Return of capital on distributions received from<br>equity investments    | (1,075,398)       | (2,306,739)         | (5,79           |
| Capital gain incentive fees   | □                 | 340,369             |                 |
| <b>Net Investment Income (Loss), before Income Taxes</b>                  | <b>\$ 107,916</b> | <b>\$ (366,031)</b> | <b>\$ (1,06</b> |

(1) The only distributions paid in stock for the nine months ended August 31, 2009 were from Abraxas Energy Partners, L.P. which were paid in stock as a result of credit constraints and therefore were not included in DCF. Distributions paid in stock for the three and nine months ended August 31, 2008 include shares received from High Sierra Energy, LP as a distribution received in lieu of cash.

(2) Distributions paid as a percentage of Distributable Cash Flow.

(3) Consists of \$254,215 as pro forma distribution on new investment in VantaCore partners, LP common units.

**Distributions:** The following table sets forth distributions for the nine months ended August 31, 2009 as compared to the nine months ended August 31, 2008.

| <b>Record Date</b> | <b>Payment Date</b> | <b>Amount</b> |
|--------------------|---------------------|---------------|
| August 24, 2009    | September 1, 2009   | \$ 0.1300     |
| May 22, 2009       | June 1, 2009        | \$ 0.1300     |
| February 23, 2009  | March 2, 2009       | \$ 0.2300     |
| August 21, 2008    | September 2, 2008   | \$ 0.2650     |
| May 22, 2008       | June 2, 2008        | \$ 0.2625     |
| February 21, 2008  | March 3, 2008       | \$ 0.2500     |

**Net Investment Income (Loss):** Net investment income totaled \$81,183 for the three months ended August 31, 2009, and net investment loss totaled \$1,184,346 for the nine months ended August 31, 2009. For the three and nine months ended August 31, 2008, net investment loss totaled \$226,941 and \$1,256,984, respectively. The variance in net investment income (loss) is primarily related to a decrease in net investment income and corresponding decreases in net expenses during the current fiscal periods as described above.

**Net Realized and Unrealized Gain (Loss):** We had net unrealized appreciation of \$12,046,028 and \$15,768,051 (after deferred taxes) for the three and nine months ended August 31, 2009, respectively, as compared to net unrealized depreciation of \$1,508,873 (after deferred taxes) for the three months ended August 31, 2008 and net unrealized appreciation of \$3,449,457 (after deferred taxes) for the nine months ended August 31, 2008. We had realized losses for the three and nine months ended August 31, 2009 of \$12,224,718 and \$20,680,410 (after deferred taxes), respectively. These realized losses are primarily attributable to the sales of publicly-traded securities for which proceeds were used to pay down debt. We had realized gains for the three and nine months ended August 31, 2008 of \$1,379,318 (after deferred taxes).

### Liquidity and Capital Resources

We may raise additional capital to support our future growth through equity offerings, rights offerings, and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act and our current credit facility and subject to market conditions. We generally may not issue additional common shares at a price below

our net asset value (net of any sales load (underwriting discount)) without first obtaining approval of our stockholders and Board of Directors. We are restricted in our ability to incur additional debt by the terms of our credit facility.

Total leverage outstanding on our credit facility at August 31, 2009 was \$5,000,000, representing approximately 6 percent of total assets, including our deferred tax asset. We are, and intend to remain, in compliance with our asset coverage ratios under the Investment Company Act of 1940 and our basic maintenance covenants under our credit facility.

### Contractual Obligations

The following table summarizes our significant contractual payment obligations as of August 31, 2009.

|  | Total        | Less Than 1 Year | Payments Due By Period |           |  | More Than 5 Years |
|--|--------------|------------------|------------------------|-----------|--|-------------------|
|  |              |                  | 1-3 Years              | 3-5 Years |  |                   |
| Secured revolving credit facility <sup>(1)</sup> | \$ 5,000,000 |                  | \$ 5,000,000           |           |  |                   |
|  | \$ 5,000,000 |                  | \$ 5,000,000           |           |  |                   |

(1) At August 31, 2009, the outstanding balance under the credit facility was \$5,000,000, with a maturity date of February 20, 2010.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

### Borrowings

For the nine months ended August 31, 2009, the average principal balance and interest rate for the period during which the credit facility was utilized were \$17,675,912 and 4.25 percent, respectively. As of August 31, 2009, the principal balance outstanding was \$5,000,000 at a rate of 5.50 percent.

Effective June 20, 2009, we entered into a 60-day extension of our 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 the extensions required us 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, we entered into a six-month extension of our amended credit facility through February 20, 2010. Terms of the extension provide for a secured revolving facility of up to \$5,000,000. The amended credit facility requires us 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 will 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 this extension, outstanding loan balances generally will accrue interest at a variable rate equal to the greater of (i) one-month LIBOR plus 3.00 percent, and (ii) 5.50 percent.

### Recent Developments

On September 1, 2009, we paid a distribution in the amount of \$0.13 per common share, for a total of \$1,173,679. Of this total, the dividend reinvestment amounted to \$150,140.

On September 15, 2009, we entered into a new Investment Advisory Agreement with our Adviser in connection with the September 15, 2009 closing of the transaction previously announced by our Adviser on June 3, 2009. Upon the closing of this transaction, which resulted in a change in control of the Adviser, our previous Investment Advisory Agreement with our Adviser automatically terminated. The terms of the new Investment Advisory Agreement are substantially identical to the previous Investment Advisory Agreement, except for the effective and termination dates, and simply continue the relationship between us and the Adviser.

On September 15, 2009, effective upon consummation of the transaction resulting in the change in control of our Adviser, Terry Matlack resigned from our Board of Directors in order to comply with a safe harbor under Section 15(f) of the 1940 Act. Mr. Matlack will remain a member of our Adviser's Investment Committee and as our Chief Financial Officer.

On October 1, 2009, Quest Midstream Partners, L.P. declared a special pro rata dividend on its common units. The distribution is payable in additional common units to all record holders outstanding on that date, for which we will receive 35,935 common units. On October 6, 2009, Quest Resources Corp. (NASDAQ: QRCP) and Quest Energy Partners L.P. (NASDAQ: QELP) filed a Form S-4 Registration Statement to recombine with Quest Midstream Partners, L.P. as the newly formed PostRock Energy Corporation, which is expected to be listed on the NASDAQ under the symbol "PSTR." The recombination is subject to the satisfaction of a number of conditions.

On October 5, 2009, Abraxas Petroleum Corporation (NASDAQ: AXAS) ("Abraxas Petroleum") announced that it closed the merger with Abraxas Energy Partners, L.P. ("Abraxas Energy"). A special meeting of Abraxas Petroleum stockholders was held and the holders of a majority of the shares voting at the special meeting approved the issuance of Abraxas Petroleum common stock to the holders of common units of Abraxas Energy not held by a wholly-owned subsidiary of Abraxas Petroleum in connection with the merger. Under the terms of the merger agreement, we will receive 4.25 shares of Abraxas Petroleum common stock in exchange for each common unit of Abraxas Energy we own, which equates to approximately 1,946,377 Abraxas Petroleum shares. These shares are subject to an initial 90 day lock-up period followed by a multi-year staggered lock-up period.

#### **Critical Accounting Policies**

The financial statements included in this report are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex or subjective judgments. While our critical accounting policies are discussed below, Note 2 in the Notes to Financial Statements included in this report provides more detailed disclosure of all of our significant accounting policies.

#### **Valuation of Portfolio Investments**

We invest 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 our Board of Directors, may differ materially from the values that would have been used had a ready market existed for the investments.

#### **Securities Transactions and Investment Income Recognition**

Securities 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 our equity investments generally are comprised of ordinary income, capital gains and return of capital from the portfolio company. We record investment income and returns of capital based on estimates made at the time such distributions are received. Such estimates are based on information available from each portfolio company and/or other industry sources. These estimates may subsequently be revised based on information received from the portfolio companies after their tax reporting periods are concluded, as the actual character of these distributions are not known until after our fiscal year end.

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#### **Federal and State Income Taxation**

We, as a corporation, are obligated to pay federal and state income tax on our taxable income. Our 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.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our business activities contain elements of market risk. We consider fluctuations in the value of our equity securities and the cost of capital under our credit facility to be our principal market risk.

We carry our investments at fair value, as determined by our Board of Directors. The fair value of securities is determined using readily available market quotations from the principal market if available. The fair value of securities that are not publicly traded or whose market price is not readily available is determined in good faith by our Board of Directors. Because there are no readily available market quotations for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our Board of Directors under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have readily available market quotations, the fair value of our investments may differ significantly from the fair values that would have been used had a ready market quotation existed for such investments, and these differences could be material.

As of August 31, 2009, the fair value of our investment portfolio (excluding short-term investments) totaled \$78,274,585. We estimate that the impact of a 10 percent increase or decrease in the fair value of these investments, net of capital gain incentive fees and related deferred taxes, would increase or decrease net assets applicable to common stockholders by approximately \$4,853,024.

Debt investments in our portfolio may be based on floating or fixed rates. Loans bearing a floating interest rate are usually based on LIBOR and, in most cases, a spread consisting of additional basis points. The interest rates for these debt instruments typically have one to six-month durations and reset at the current market interest rates. As of August 31, 2009, we had no floating rate debt investments outstanding.

We consider the management of risk essential to conducting our businesses. Accordingly, our risk management systems and procedures are designed to identify and analyze our risks, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs.

### **ITEM 4. CONTROLS AND PROCEDURES**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting (identified in connection with the evaluation required by Rules 13a-15(d) or 15d-15 of the Securities Exchange Act of 1934) during the fiscal quarter ended August 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## **PART II □ OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We are not currently subject to any material legal proceeding, nor, to our knowledge, is any material legal proceeding threatened against us.

## ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, [Item 1A. Risk Factors] in our Annual Report on Form 10-K for the fiscal year ended November 30, 2008, which could materially affect our business, financial condition or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not sell any securities during the three months ended August 31, 2009 that were not registered under the Securities Act of 1933.

We did not repurchase any of our common shares during the three months ended August 31, 2009.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

## ITEM 5. OTHER INFORMATION

Not applicable

## ITEM 6. EXHIBITS

| Exhibit | Description  |
|---------|--|
| 10.1    | Seventh Amendment to Credit Agreement dated as of August 20, 2009 by and among Tortoise Capital Resources Corporation and U.S. Bank National Association, which is attached as Exhibit 10.1 to the Form 8-K filed on August 25, 2009, is hereby incorporated by reference as Exhibit 10.1.   |
| 10.2    | Investment Advisory Agreement dated as of September 15, 2009 by and between Tortoise Capital Resources Corporation and Tortoise Capital Advisors, L.L.C., which is attached as Exhibit 10.1 to the Form 8-K filed on September 18, 2009, is hereby incorporated by reference as Exhibit 10.2 |
| 31.1    | Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is filed herewith.   |
| 31.2    |  |



Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is filed herewith.



Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is furnished herewith.

All other exhibits for which provision is made in the applicable regulations of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and therefore have been omitted.

33

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**TORTOISE CAPITAL RESOURCES CORPORATION**

Date: October 9, 2009

By:

/s/ Terry Matlack  
Terry Matlack  
Chief Financial Officer  
(Principal Financial Officer)

34

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