

TORTOISE CAPITAL RESOURCES CORP  
Form 10-Q  
October 05, 2012

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

---

**FORM 10-Q**

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

For the quarterly period ended August 31, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**COMMISSION FILE NUMBER: 001-33292**

**TORTOISE CAPITAL RESOURCES CORPORATION**

(Exact name of registrant as specified in its charter)

**MARYLAND**

(State or other jurisdiction of incorporation or organization)

**20-3431375**

(I.R.S. Employer Identification No.)

**11550 ASH STREET, SUITE 300**

**LEAWOOD, KANSAS 66211**

(Address of principal executive office) (Zip Code)

**(913) 981-1020**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Edgar Filing: TORTOISE CAPITAL RESOURCES CORP - Form 10-Q

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, 2012 was 9,187,470.

## Tortoise Capital Resources Corporation

### FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2012

#### TABLE OF CONTENTS

<b>PART I.</b>	<b>FINANCIAL INFORMATION</b>	
Item 1.	<u>Financial Statements (unaudited)</u>	
	<u>Consolidated Balance Sheets</u>	3
	<u>Consolidated Statements of Income</u>	4
	<u>Consolidated Statements of Equity</u>	5
	<u>Consolidated Statements of Cash Flows</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
Item 4.	<u>Controls and Procedures</u>	26
<b>PART II.</b>	<b>OTHER INFORMATION</b>	
Item 1.	<u>Legal Proceedings</u>	27
Item 1A.	<u>Risk Factors</u>	27
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
Item 3.	<u>Defaults Upon Senior Securities</u>	27
Item 4.	<u>Mine Safety Disclosures</u>	27
Item 5.	<u>Other Information</u>	27
Item 6.	<u>Exhibits</u>	27

This report should be read in its entirety. No one section of the report deals with all aspects of the subject matter. It should be read in conjunction with the consolidated financial statements, related notes and with the Management's Discussion & Analysis ( MD&A ) included within; as well as provided in the 2011 Annual Report on Form 10-K.

The condensed consolidated unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended August 31, 2012 are not necessarily indicative of the results that may be expected for the year ended November 30, 2012. For further information, refer to the consolidated financial statements and footnotes thereto included in the Tortoise Capital Resources Corporation ( the Company s ) Annual Report on Form 10-K for the year ended November 30, 2011.

## Tortoise Capital Resources Corporation

## CONSOLIDATED BALANCE SHEETS

	August 31, 2012 <i>(Unaudited)</i>	November 30, 2011
<b>Assets</b>		
Trading securities, at fair value	\$ 57,321,502	\$ 41,856,730
Other equity securities, at fair value	19,529,783	27,037,642
Leased property, net of accumulated depreciation of \$824,066 and \$294,309, respectively	13,302,783	13,832,540
Cash and cash equivalents	11,783,529	2,793,326
Property and equipment, net of accumulated depreciation of \$1,680,984 and \$1,483,616, respectively	3,659,240	3,842,675
Escrow receivable	1,341,566	1,677,052
Accounts receivable	1,000,751	1,402,955
Intangible lease asset, net of accumulated amortization of \$340,595 and \$121,641, respectively	754,176	973,130
Lease receivable	1,185,381	474,152
Prepaid expenses	516,427	140,017
Receivable for Adviser expense reimbursement		121,962
Deferred tax asset		27,536
Other assets	1,150,210	107,679
<b>Total Assets</b>	<b>\$ 111,545,348</b>	<b>\$ 94,287,396</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities</b>		
Management fees payable to Adviser	\$ 291,911	\$ 365,885
Distribution payable to common stockholders	1,010,291	
Accounts payable	360,423	597,157
Line of credit	125,000	
Long-term debt	910,863	2,279,883
Lease obligation	47,848	107,550
Deferred tax liability	7,388,060	
Accrued expenses and other liabilities	1,235,098	510,608
<b>Total Liabilities</b>	<b>\$ 11,369,494</b>	<b>\$ 3,861,083</b>
<b>Stockholders Equity</b>		
Warrants, no par value; 945,594 issued and outstanding at August 31, 2012 and November 30, 2011 (5,000,000 authorized)	\$ 1,370,700	\$ 1,370,700
Capital stock, non-convertible, \$0.001 par value; 9,184,463 shares issued and outstanding at August 31, 2012 and 9,176,889 shares issued and outstanding at November 30, 2011 (100,000,000 shares authorized)	9,185	9,177
Additional paid-in capital	92,719,962	95,682,738
Accumulated retained earnings (deficit)	6,076,007	(6,636,302)
<b>Total Stockholders Equity</b>	<b>\$ 100,175,854</b>	<b>\$ 90,426,313</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 111,545,348</b>	<b>\$ 94,287,396</b>

See accompanying Notes to Consolidated Financial Statements.

## Tortoise Capital Resources Corporation

## CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the Three Month Period Ended August 31, 2012	For the Three Month Period Ended August 31, 2011	For the Nine Month Period Ended August 31, 2012	For the Month Ended August
<b>Revenue</b>				
Sales revenue	\$ 1,927,626	\$	\$ 5,804,894	\$
Lease income	638,244	425,496	1,914,732	
<b>Total Revenue</b>	<b>2,565,870</b>	<b>425,496</b>	<b>7,719,626</b>	
<b>Expenses</b>				
Cost of sales (excluding depreciation expense)	1,381,161		4,416,947	
Management fees, net of expense reimbursements	298,051	248,367	800,397	
Asset acquisition expenses	144,270	583,248	238,969	
Professional fees	419,340	165,360	796,853	
Depreciation expense	246,804	117,724	740,437	
Operating expenses	196,644		558,450	
Directors fees	28,739	18,697	58,050	
Interest expense	16,780	14,064	69,418	
Other expenses	47,114	59,375	182,776	
<b>Total Expenses</b>	<b>2,778,903</b>	<b>1,206,835</b>	<b>7,862,297</b>	<b>1</b>
<b>Gain (loss) from Operations</b>	<b>\$ (213,033)</b>	<b>\$ (781,339)</b>	<b>\$ (142,671)</b>	<b>\$ (1)</b>
<b>Other Income</b>				
Net distributions and dividend income on securities	\$ (502,176)	\$ (189,001)	\$ (361,452)	\$
Net realized and unrealized gain on trading securities	5,935,768	607,399	5,197,958	1
Net realized and unrealized gain on other equity securities	2,556,734	1,435,620	15,463,335	5
<b>Total Other Income</b>	<b>7,990,326</b>	<b>1,854,018</b>	<b>20,299,841</b>	<b>7</b>
<b>Income before income taxes</b>	<b>\$ 7,777,293</b>	<b>\$ 1,072,679</b>	<b>\$ 20,157,170</b>	<b>\$ 6</b>
<b>Taxes</b>				
Current tax expense	(19,265)		(29,265)	
Deferred tax expense	(2,769,520)	(482,040)	(7,415,596)	(1)
Income tax expense, net	(2,788,785)	(482,040)	(7,444,861)	(1)
<b>Net Income</b>	<b>\$ 4,988,508</b>	<b>\$ 590,639</b>	<b>\$ 12,712,309</b>	<b>\$ 4</b>
Earnings Per Common Share:				
Basic and Diluted	\$ 0.54	\$ 0.06	\$ 1.38	\$
Weighted Average Shares of Common Stock Outstanding:				
Basic and Diluted	9,182,699	9,164,865	9,180,776	9
Dividends declared per share	\$ 0.11	\$ 0.10	\$ 0.33	\$

See accompanying Notes to Consolidated Financial Statements.

**Tortoise Capital Resources Corporation**  
**CONSOLIDATED STATEMENTS OF EQUITY**

	Capital Stock			Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount	Warrants			
<b>Balance at</b>						
<b>November 30, 2010</b>	9,146,506	\$ 9,147	\$ 1,370,700	\$ 98,444,952	\$ (4,345,626)	\$ 95,479,173
Net Income					2,922,143	2,922,143
Distributions to stockholders sourced as return of capital				(3,755,607)		(3,755,607)
Reinvestment of distributions to stockholders	30,383	30		252,212		252,242
Consolidation of wholly-owned subsidiary				741,181	(5,212,819)	(4,471,638)
<b>Balance at</b>						
<b>November 30, 2011</b>	9,176,889	9,177	1,370,700	95,682,738	(6,636,302)	90,426,313
Net Income					12,712,309	12,712,309
Distributions to stockholders sourced as return of capital				(3,029,652)		(3,029,652)
Reinvestment of distributions to stockholders	7,574	8		66,876		66,884
<b>Balance at</b>						
<b>August 31, 2012 (Unaudited)</b>	9,184,463	\$ 9,185	\$ 1,370,700	\$ 92,719,962	\$ 6,076,007	\$ 100,175,854

See accompanying Notes to Consolidated Financial Statements.

## Tortoise Capital Resources Corporation

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Nine Month Period Ended August 31, 2012	For the Nine Month Period Ended August 31, 2011
<b>Operating Activities</b>		
Net Income	\$ 12,712,309	\$ 4,486,921
Adjustments:		
Distributions received from investment securities	3,685,593	1,909,941
Deferred income tax, net	7,415,596	1,573,028
Depreciation expense	740,437	117,724
Amortization of intangible lease asset	218,954	48,656
Amortization of assumed debt premium	(86,020)	(44,173)
Realized and unrealized gain on trading securities	(5,197,958)	(1,829,318)
Realized and unrealized gain on other equity securities	(15,463,335)	(5,332,517)
Changes in assets and liabilities:		
Increase in interest, dividend and distribution receivable		(81,417)
Increase in lease receivable	(711,229)	(474,153)
Decrease in accounts receivable	402,204	
Increase in prepaid expenses and other assets	(1,418,941)	(8,648)
Increase in management fees payable to Adviser, net of expense reimbursement	47,988	30,054
Decrease in accounts payable	(236,734)	
Increase in accrued expenses and other liabilities	724,490	73,374
Net cash provided by operating activities	\$ 2,833,355	\$ 469,472
<b>Investing Activities</b>		
Purchases of long-term investments	\$	\$ (28,163,465)
Proceeds from sale of long-term investment of equity securities	9,354,272	44,014,713
Proceeds from sale of property and equipment	3,076	
Purchases of property and equipment	(30,321)	(12,250,000)
Net cash provided by (used in) investing activities	\$ 9,327,027	\$ 3,601,248
<b>Financing Activities</b>		
Payments on long-term debt	\$ (1,283,000)	\$
Payments on lease obligation	(59,702)	
Advances from revolving line of credit	2,585,000	
Repayments on revolving line of credit	(2,460,000)	
Distributions paid to common stockholders	(1,952,477)	(1,674,630)
Net cash used in financing activities	\$ (3,170,179)	\$ (1,674,630)
Net Change in Cash and Cash Equivalents	\$ 8,990,203	\$ 2,396,090
Cash and Cash Equivalents at beginning of year	2,793,326	1,466,193
Cash and Cash Equivalents at end of period	\$ 11,783,529	\$ 3,862,283
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	\$ 155,450	\$ 58,237
Income taxes paid	\$ 96,000	\$ 200,000
<b>Non-Cash Investing Activities</b>		
Security proceeds from sale of long-term investment of equity securities	\$ 26,565,400	\$
<b>Non-Cash Financing Activities</b>		
Reinvestment of distributions by common stockholders in additional common shares	\$ 66,884	\$ 155,714

See accompanying Notes to Consolidated Financial Statements.

## Tortoise Capital Resources Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2012

(Unaudited)

#### 1. BASIS OF PRESENTATION

Tortoise Capital Resources Corporation (the Company) was organized as a Maryland corporation on September 8, 2005. The Company completed its initial public offering in February 2007 as a non-diversified closed-end management investment company regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). The Company withdrew its election to be treated as a BDC on September 21, 2011 in order to pursue qualification as a real estate investment trust (REIT). Historically as a BDC, the Company invested primarily in privately held companies operating in the U.S. energy infrastructure sector. The Company's shares are listed on the New York Stock Exchange under the symbol TTO.

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. The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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 consolidated financial statements. Actual results could differ from those estimates. Note 2 to the Consolidated Financial Statements, included in this report, further details information related to our significant accounting policies.

With the filing of our Annual Report on Form 10-K for the year ended November 30, 2011, the Company's consolidated financial statements included the accounts of the Company and its wholly-owned subsidiary, Mowood, LLC (Mowood). Mowood is the holding company for Omega Pipeline Company, LLC (Omega). Omega owns and operates a natural gas distribution system in Fort Leonard Wood, Missouri. Omega is responsible for purchasing and coordinating delivery of natural gas to Fort Leonard Wood as well as performing maintenance and expansion of the pipeline. In addition, Omega provides gas marketing services to local commercial end users. All significant inter-company balances and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements reflect all adjustments that are normal and recurring in nature, and in the opinion of management, necessary for a fair presentation of our financial position, results of operations and cash flows for the interim period presented. The consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission pertaining to interim financial statements. These consolidated financial statements and Management's Discussion and Analysis of the Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the year ended November 30, 2011 as well as Amendment #1 to our 10-K filed on May 1, 2012 and Amendment #2 to our 10-K filed on June 1, 2012.

#### Mowood

Consolidation of Mowood was initiated at the time the Company withdrew its election to be treated as a BDC (September 21, 2011) and began reporting its financial results in accordance with general corporate reporting guidelines instead of under the AICPA Investment Company Audit Guide (the Guide). At that time, the presentation of the Company's financial statements also changed prior year's presentation and have been reclassified to conform to the presentation required for general corporate entities and to provide comparability of financial results across reporting periods. The reclassification of account balances are summarized below:

- Items on the Consolidated Statements of Income for the three and nine month periods ended August 31, 2011 have been reclassified and aggregated to conform to the presentation of the results of operations for the three and nine month periods ended August 31, 2012. However, there was no impact to net income or earnings per share. Income from investment securities is no longer considered to be part of the Company's operations and therefore has been classified as other income.
- Components of cash flows for the nine month period ended August 31, 2011 have been reclassified and aggregated to conform to the presentation of cash flows for the nine month period ended August 31, 2012.



The accompanying consolidated financial statements reflect the results of the Company's operations for the three and nine month periods ended August 31, 2011 and August 31, 2012. For the three and nine month periods ended August 31, 2011, the Mowood investment was reported under the Guide and therefore reported and accounted for as an investment carried at fair value; subsequent to September 21, 2011, the Company ceased reporting under the Guide.

The accompanying consolidated financial statements have been prepared in accordance with GAAP for interim financial information set forth in the Accounting Standards Codification (ASC), as published by the Financial Accounting Standards Board (FASB), and with the Securities and Exchange Commission (SEC) instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the interim period presented. Operating results for the three and nine month periods ended August 31, 2012 are not necessarily indicative of the results that may be expected for the year ending November 30, 2012. These consolidated financial statements and Management's Discussion and Analysis of the Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the year ended November 30, 2011.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**A. Use of Estimates** The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements. Actual results could differ from those estimates.

**B. Investment Securities** The Company's investments in securities are classified as either trading or other equity securities:

- **Trading securities** the Company's publicly traded equity securities are classified as trading securities and are reported at fair value because the Company intends to sell these securities in order to acquire real asset investments.
- **Other equity securities** the Company's other equity securities represent interests in private companies for which the Company has elected to report these at fair value under the fair value option.

**C. Security Transactions and Fair Value** 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.

For equity securities that are freely tradable and listed on a securities exchange or over-the-counter market, the Company fair values those securities at their last sale price on that exchange or over-the-counter market on the valuation date. If the security is listed on more than one exchange, the Company will use the price from the exchange that it considers to be the principal exchange on which the security is traded. Securities listed on the NASDAQ will be valued at the NASDAQ Official Closing Price, which may not necessarily represent the last sale price. If there has been no sale on such exchange or over-the-counter market on such day, the security will be valued at the mean between the last bid price and last ask price on such day.

An equity security of a publicly traded company acquired in a private placement transaction without registration is subject to restrictions on resale that can affect the security's liquidity and fair value. Such securities that are convertible into or otherwise will become freely tradable will be valued based on the market value of the freely tradable security less an applicable discount. Generally, the discount will initially be equal to the discount at which the Company purchased the securities. To the extent that such securities are convertible or otherwise become freely tradable within a time frame that may be reasonably determined, an amortization schedule may be used to determine the discount.

The major components of net realized and unrealized gain on trading securities for the three and nine month periods August 31, 2012 and 2011 are as follows:

	For the Three Month Periods Ended		For the Nine Month Periods Ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
Net unrealized gain (loss) on trading securities	\$ 5,911,138	\$ 584,649	\$ 5,173,328	\$ (204,554)
Net realized gain on trading securities	24,630	22,750	24,630	2,033,872
<b>Total net realized and unrealized gain on trading securities</b>	<b>\$ 5,935,768</b>	<b>\$ 607,399</b>	<b>\$ 5,197,958</b>	<b>\$ 1,829,318</b>



The Company holds investments 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 GAAP.

The Company determines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company has determined the principal market, or the market in which the Company exits its private portfolio investments with the greatest volume and level of activity, to be the private secondary market. Typically, private companies are bought and sold based on multiples of EBITDA, cash flows, net income, revenues or, in limited cases, book value.

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

The fair value of investments in private portfolio companies is determined based on various factors, including enterprise value, observable market transactions, such as recent offers to purchase a company, recent transactions involving the purchase or sale of the equity securities of the company, or other liquidation events. The determined equity values may be discounted when the Company has a minority position that 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.

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

- The independent valuation firm prepares the valuations and the supporting analysis. At August 31, 2012, the independent valuation firm performed positive assurance valuation procedures on two portfolio companies comprising approximately 100 percent of the total fair value of the other equity securities.
- The Investment Committee of the Adviser reviews the valuations and supporting analyses prior to approving the valuations.

*D. Cash and Cash Equivalents* The Company maintains cash balances at financial institutions in amounts that regularly exceed FDIC insured limits. The Company's cash equivalents are comprised of short-term, liquid money market instruments.

*E. Accounts Receivables* Accounts receivable is presented at face value net of an allowance for doubtful accounts. Accounts are considered past due based on the terms of sale with the customers. The Company reviews accounts for collectability based on an analysis of specific outstanding receivables, current economic conditions and past collection experience. At August 31, 2012, management determined that an allowance for doubtful accounts related to our leases was not required. Lease payments by our major tenant as defined within Note 8, have remained timely and without lapse. Management also determined that an allowance for doubtful accounts related to other revenue items was not necessary at August 31, 2012.

*F. Revenue and Other Income Recognition* Specific policies for the Company's revenue and other income items are as follows:

- *Sales revenue* Omega, acting as a principal, provides for transportation services and natural gas supply for its customers on a firm basis. In addition, Omega is paid fees for the operation and maintenance of its pipeline, including expansion of the pipeline. Omega is responsible for the coordination, supervision and quality of the expansions while actual construction is generally performed by third party contractors. Revenues related to natural gas distribution are recognized upon delivery of natural gas and upon the substantial performance of management and supervision services related to the expansion of the natural gas distribution system. Revenues from construction contracts are recognized in accordance with GAAP using either

a completed contract or percentage of completion method based on the level and volume of estimates utilized, as well as the certainty or uncertainty of our ability to collect those revenues.

- *Lease income* Income related to the Company's leased property is recognized on a straight-line basis over the term of the lease when collectability is reasonably assured. Rental payments on the leased property are typically received on a semi-annual basis and are included as lease income within the accompanying Consolidated Statements of Income.
- *Dividends and distributions from investments* Dividends and distributions from investments are recorded on their ex-dates and are reflected as other income within the accompanying Consolidated Statements of Income. Distributions received from the Company's investments generally are characterized as ordinary income, capital gains and distributions received from investment securities. The portion characterized as return of capital is paid by our investees from their cash flow from operations. The Company records investment income, capital gains and distributions received from investment securities based on estimates made at the time such distributions are received. Such estimates are based on information available from each company and/or other industry sources. These estimates may subsequently be revised based on information received from the entities after their tax reporting periods are concluded, as the actual character of these distributions is not known until after the fiscal year end of the Company.

For the nine month period from December 1, 2011 through August 31, 2012, the Company estimated the allocation of investment income and distributions received from investment securities for the distributions received during the period from its portfolio companies within the Consolidated Statements of Income. For this period, the Company has estimated approximately 2 percent as investment income and approximately 98 percent distributions received from investment securities. The return of capital portions of the distributions are reflected on the cash flow statements as distributions received from investment securities.

- *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 distributions received from investment securities from the portfolio company. The Company records investment income and return of capital based on estimates made at the time such distributions are received. Such estimates are based on information available from each 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.

Subsequent to November 30, 2011, the Company reallocated the amount of 2011 income and return of capital it recognized for the period December 1 2010 to November 30, 2011 based on the 2011 tax reporting information received from the individual portfolio companies. This reclassification amounted to a decrease in net distributions and dividend income on securities of approximately \$448,000 or \$.05 per share (\$281,000 or \$0.03 per share, net of deferred tax benefit); an increase in net realized and unrealized gains on trading and other equity securities of \$448,000 or \$.05 per share (\$281,000 or \$0.03 per share, net of deferred tax expense) for the year ended November 30, 2011.

Subsequent to the period ended May 31, 2012, the Company allocated the amount of investment income and return of capital recognized in the current fiscal year based on its revised 2012 estimates, after considering the final allocations for 2011. This reclassification amounted to a decrease in net distributions and dividend income on securities of approximately \$95,000 or \$.01 per share (\$60,000 or \$0.007 per share, net of deferred tax benefit); an increase in net realized and unrealized gains on trading and other equity securities of \$95,000 or \$.01 per share (\$60,000 or \$0.007 per share, net of deferred tax expense) for the nine month period from December 1, 2011 to August 31, 2012.

- *Realized and unrealized gains (losses) on trading securities and other equity securities* Changes in the fair values of the Company's securities during the period reported and the gains or losses realized upon sale of securities during the period are reflected as other income within the accompanying Consolidated Statements of Income.

**G. Cost of Sales** Included in the Company's cost of sales are the amounts paid for gas and propane that are delivered to customers as well as the cost of material and labor related to the expansion of the natural gas distribution system.

**H. Distributions to Stockholders** The amount of any quarterly distributions to stockholders will be determined by the Board of Directors. Distributions to stockholders are recorded on the ex-dividend date. The character of distributions made during the year may differ from their ultimate characterization for federal income tax purposes. For the year ended November 30, 2011 and the nine month period ended August 31, 2012 the primary source of the Company's distributions for book purposes distributions was

received from investment securities. For the year ended November 30, 2011, the Company's distributions for tax purposes were comprised of 100 percent qualified dividend income. The tax character of distributions paid to common stockholders in the current year will be determined subsequent to November 30, 2012.

*I. 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. 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's trading securities and other equity securities are 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 Consolidated Statements of Income. 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.

*J. Leases* The Company includes assets subject to lease arrangements within Leased property, net of accumulated depreciation in the Consolidated Balance Sheet. Lease payments received are reflected on the Consolidated Statements of Income, net of amortization of any off market adjustments.

*K. Long-Lived Assets and Intangibles* Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from five to twenty years. Expenditures for repairs and maintenance are charged to operations as incurred, and improvements, which extend the useful lives of assets, are capitalized and depreciated over the remaining estimated useful life of the asset.

The Company initially records long-lived assets at their acquisition cost, unless the transaction is accounted for as a business combination. If the transaction is accounted for as a business combination, the Company allocates the purchase price to the acquired tangible and intangible assets and liabilities based on their estimated fair values. The Company determines the fair values of assets and liabilities based on discounted cash flow models using current market assumptions, appraisals, recent transactions involving similar assets or liabilities and/or other objective evidence, and depreciates the asset values over the estimated remaining useful lives.

In connection with these transactions, the Company may acquire long-lived assets that are subject to an existing lease contract with the seller or other lessee party and the Company may assume outstanding debt of the seller as part of the consideration paid. If, at the time of acquisition, the existing lease or debt contract is not at current market terms, the Company will record an asset or liability at the time of acquisition representing the amount by which the fair value of the lease or debt contract differs from its contractual value. Such amount is then amortized over the remaining contract term as an adjustment to the related lease revenue or interest expense.

*L. Asset Acquisition Costs* Costs in connection with the acquisition of real property are expensed as incurred.

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

*N. Recent Accounting Pronouncement* In May 2011, the FASB issued ASU No. 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and the International Financial Reporting Standards (IFRSs). ASU No. 2011-04 amends FASB ASC Topic 820, Fair Value Measurements and Disclosures, to establish common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRSs. ASU No. 2011-04 is effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. Management has adopted these amendments, which did not have a material impact on the Company's consolidated financial statements.

### 3. CONCENTRATIONS

The Company has historically invested in securities of privately-held and publicly-traded companies in the midstream and downstream segments of the U.S. energy infrastructure sector. As of August 31, 2012, investments in securities of energy infrastructure companies represented approximately 69 percent of the Company's total assets. The Company is now focused on identifying and acquiring real property assets in the U.S. energy infrastructure sector that are REIT qualified.



The Company's leased property at August 31, 2012 is leased to a single entity, Public Service Company of New Mexico, as further described in Note 8. Public Service Company of New Mexico's financial condition and ability and willingness to satisfy its obligations under its leases with the Company has a considerable impact on the Company's results of operations.

Omega has a ten-year contract expiring in 2015 to supply natural gas to the Department of Defense ( DOD ). Revenue related to the DOD contract accounted for 69 percent of sales revenues for the three month period from May 1, 2012 through August 31, 2012 and 82 percent of sales revenues for the nine month period from December 1, 2011 through August 31, 2012. Mowood, through its wholly owned subsidiary Omega, performs management and supervision services related to the expansion of the natural gas distribution system used by the DOD. Amounts due from the DOD, account for 76 percent of the consolidated accounts receivable balance at August 31, 2012.

Mowood's contracts for its supply of natural gas are concentrated among select providers. Payments to its largest supplier of natural gas to-date during 2012, accounted for 5 percent of cost of sales for the three month period from May 1, 2012 through August 31, 2012, and 30 percent of cost of sales for the nine month period from December 1, 2011 through August 31, 2012.

#### 4. AGREEMENTS

On December 1, 2011, the Company executed a Management Agreement ( Agreement ) with Corridor InfraTrust Management, LLC ( Corridor ). The terms of the Management Agreement include a quarterly management fee equal to 0.25 percent (1.00 percent annualized) of the value of the Company's average monthly Managed Assets for such quarter. For purposes of the Agreement, Managed assets means all of the securities of the Company and all of the real property assets of the Company (including any securities or real property assets purchased with or attributable to any borrowed funds) minus all of the accrued liabilities other than (1) deferred taxes and (2) debt entered into for the purpose of leverage. For purposes of the definition of Managed Assets, securities includes the Company's security portfolio, valued at then current market value. For purposes of the definition of Managed Assets, real property assets includes the assets of the Company invested, directly or indirectly, in equity interests in or loans secured by real estate and personal property owned in connection with such real estate (including acquisition related costs and acquisition costs that may be allocated to intangibles or are unallocated, valued at the aggregate historical cost, before reserves for depreciation, amortization, impairment charges or bad debts or other similar noncash reserves.) The Management Agreement also includes a quarterly incentive fee of 10 percent of the increase in distributions paid over a threshold distribution equal to \$0.125 per share per quarter. The Management Agreement also requires at least half of any incentive fees to be reinvested in the Company's common stock. In addition, the Company entered into a new Advisory Agreement by and among the Company, Tortoise Capital Advisors, L.L.C. and Corridor under which Tortoise Capital Advisors, L.L.C. will provide certain securities focused investment services necessary to evaluate, monitor and liquidate the Company's remaining securities portfolio and also provide the Company with certain operational (i.e. non-investment) services. Corridor will compensate Tortoise Capital Advisors, L.L.C. for such services provided to the Company.

Tortoise Capital Advisors, L.L.C. serves as the Company's Administrator. The Company pays the Administrator a fee equal to an annual rate of 0.04 percent of aggregate average daily managed assets, with a minimum annual fee of \$30,000. This fee is calculated and accrued daily and paid quarterly in arrears.

## 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, 2012 and November 30, 2011 are as follows:

	August 31, 2012	November 30, 2011
<b>Deferred Tax Assets:</b>		
Organization costs	\$ (18,220)	\$ (20,068)
Net operating loss carry forwards	(4,893,990)	(2,624,525)
Cost recovery of leased assets	(57,038)	(119,970)
Asset acquisition costs	(88,065)	
AMT and state of Kansas credit	(196,197)	(205,039)
Sub-total	\$ (5,253,510)	\$ (2,969,602)
<b>Deferred Tax Liabilities:</b>		
Basis reduction of investment in partnerships	\$ 10,155,864	\$ 2,244,914
Net unrealized gain on investment securities	2,485,706	697,152
Sub-total	\$ 12,641,570	\$ 2,942,066
<b>Total net deferred tax liability (asset)</b>	<b>\$ 7,388,060</b>	<b>\$(27,536)</b>

At August 31, 2012, a valuation allowance on deferred tax assets was not deemed necessary because the Company believes it is more likely than not that there is an ability to realize its deferred tax assets through future taxable income. Any adjustments to the Company's estimates of future taxable income will be made in the period such determination is made. The Company's policy is to record interest and penalties on uncertain tax positions as part of tax expense. As of August 31, 2012, the Company had no uncertain tax positions and no penalties and interest were accrued. Tax years subsequent to the year ending November 30, 2006 remain open to examination by federal and state tax authorities.

Total income tax expense differs from the amount computed by applying the federal statutory income tax rates of 35 percent for the three and nine months ended August 31, 2012 and 2011 to gain (loss) from operations and other income for the periods presented, as follows:

	For the Three Month Periods Ended		For the Nine Month Periods Ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
Application of statutory income tax rate	\$ 2,722,054	\$ 427,310	\$ 7,055,010	\$ 2,190,982
State income taxes, net of federal tax benefit	155,106	69,602	479,459	164,011
Dividends received deduction	12		(1,221)	
Change in deferred tax valuation allowance				(558,533)
Other	(88,387)	(14,872)	(88,387)	(23,432)
<b>Total income tax expense</b>	<b>\$ 2,788,785</b>	<b>\$ 482,040</b>	<b>\$ 7,444,861</b>	<b>\$ 1,773,028</b>

Total income taxes are computed by applying the federal statutory rate plus a blended state income tax rate. During the period, the Company re-evaluated its overall federal and state income tax rate, decreasing it from 37.62 percent to 37.26 percent due to anticipated state apportionment of income and gains. The components of income tax expense include the following for the periods presented:

	For the Three Month Periods Ended		For the Nine Month Periods Ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
<b>Current tax expense:</b>				
AMT expense (benefit)	\$ (18,842)	\$	\$ (8,842)	\$ 200,000
State tax expense	38,107		38,107	
Total current tax expense	\$ 19,265	\$	\$ 29,265	\$ 200,000
<b>Deferred tax expense:</b>				
Federal	\$ 2,601,535	\$ 448,469	\$ 6,965,804	\$ 1,463,476



Edgar Filing: TORTOISE CAPITAL RESOURCES CORP - Form 10-Q

State (net of federal tax benefit)	167,985	33,571	449,792	109,552
Total deferred tax expense	2,769,520	482,040	7,415,596	1,573,028
<b>Total income tax expense</b>	<b>\$ 2,788,785</b>	<b>\$ 482,040</b>	<b>\$ 7,444,861</b>	<b>\$ 1,773,028</b>

## Edgar Filing: TORTOISE CAPITAL RESOURCES CORP - Form 10-Q

The deferred income tax expense for the nine months ended August 31, 2011 includes the impact of the change in valuation allowance.

As of November 30, 2011, the Company had a net operating loss for federal income tax purposes of approximately \$7,387,000. The net operating loss may be carried forward for 20 years. If not utilized, this net operating loss will expire as follows: \$8,000, \$4,002,000, \$3,353,000 and \$24,000 in the years ending November 30, 2028, 2029, 2030 and 2031, respectively. The amount of deferred tax asset for net operating losses at August 31, 2012 includes amounts for the period from December 1, 2011 through August 31, 2012. As of November 30, 2011, the Company utilized its capital loss carry forward. As of November 30, 2011, an alternative minimum tax credit of \$194,267 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, 2012	November 30, 2011
Aggregate cost for federal income tax purposes	\$ 47,508,824	\$ 65,471,208
Gross unrealized appreciation	30,269,676	8,307,122
Gross unrealized depreciation	(927,215)	(4,883,958)
<b>Net unrealized appreciation</b>	<b>\$ 29,342,461</b>	<b>\$ 3,423,164</b>

### 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- Level 1 quoted prices in active markets for identical investments.
- Level 2 other significant observable inputs (including quoted prices for similar investments, market corroborated inputs, etc.).
- Level 3 significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

#### *Valuation Techniques*

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

An equity security of a publicly traded company acquired in a private placement transaction without registration under the Securities Act of 1933, as amended (the "1933 Act"), is subject to restrictions on resale that can affect the security's liquidity (and hence its fair value). If the security has a common share counterpart trading in a public market, the Company generally determines an appropriate percentage discount for the security in light of the restrictions that apply to its resale (taking into account, for example, whether the resale restrictions of Rule 144 under the 1933 Act apply). This pricing methodology applies to the Company's Level 2 trading securities.

The Company's other equity securities, which represent security interests in private companies, are classified as Level 3 assets. Valuation of these investments is determined by weighting various valuation metrics for each security. Significant judgment is required in selecting the assumptions used to determine the fair values of these investments. Decreases in the valuation multiples and increases in the discount rates used would result in decreased fair values of these investments.

Security Investment	Valuation Technique	Valuation Metric and Weighting Used
Lightfoot Capital Partners LP	Weighting of various valuation metrics	Public company comparables historical EBITDA multiples (20.0%) Public company comparables projected EBITDA multiples (20.0%) Historical EBITDA multiples for recent comparables industry transactions (20.0%) Discounted cash flow analysis of EBITDA (20.0%)
VantaCore Partners LP	Weighting of various valuation metrics	Distributable cash flows yield analysis (20.0%) Public company comparables historical EBITDA multiples (12.5%) Public company comparables projected EBITDA multiples (12.5%)

Historical EBITDA multiples for recent comparables industry transactions (12.5%)  
Discounted cash flow analysis of EBITDA (12.5%)  
Recent capital transaction of the company (50.0%)

Edgar Filing: TORTOISE CAPITAL RESOURCES CORP - Form 10-Q

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following tables provide the fair value measurements of applicable Company assets and liabilities by level within the fair value hierarchy as of August 31, 2012 and November 30, 2011. These assets and liabilities are measured on a recurring basis.

**August 31, 2012**

Description	August 31, 2012	Fair Value		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Trading securities	\$ 57,321,502	\$ 27,172,862	\$ 30,148,640	\$
Other equity securities	19,529,783			19,529,783
<b>Total Assets</b>	<b>\$ 76,851,285</b>	<b>\$ 27,172,862</b>	<b>\$ 30,148,640</b>	<b>\$ 19,529,783</b>

**November 30, 2011**

Description	November 30, 2011	Fair Value		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Trading securities	\$ 27,037,642	\$ 27,037,642	\$	\$
Other equity securities	41,856,730			41,856,730
<b>Total Assets</b>	<b>\$ 68,894,372</b>	<b>\$ 27,037,642</b>	<b>\$</b>	<b>\$ 41,856,730</b>

The changes for all Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs for the nine months ended August 31, 2012 and August 31, 2011, are as follows:

Description	For the Nine Month Periods Ended	
	August 31, 2012	August 31, 2011
Fair value beginning balance	\$ 41,856,730	\$ 72,929,409
Total realized and unrealized gains (losses) included in net income	15,467,845	3,655,464
Purchases		11,490,789
Sales	(35,919,672)	(32,734,818)
Return of capital adjustments impacting cost basis of securities	(1,875,120)	(861,917)
<b>Fair value ending balance</b>	<b>\$ 19,529,783</b>	<b>\$ 54,478,927</b>
The amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date which are included in net realized and unrealized gain on other equity securities within the statement of income	\$ (355,223)	\$ (434,354)

As of May 31, 2012, the Company's other equity securities, which represented security interests in private companies, and were classified as Level 3 assets, included High Sierra Energy, LP. On June 19, 2012, NGL Energy Partners, LP and certain of its affiliates (collectively "NGL") acquired High Sierra Energy, LP and High Sierra Energy GP, LLC (collectively "High Sierra") pursuant to which NGL, a New York Stock Exchange listed company, paid to the limited partners of High Sierra approximately \$9.4 million in cash and approximately 1.2 million newly issued units of NGL. A realized gain of \$15.8 million was recognized during the third quarter upon the sale. NGL is classified as a Level 2 Trading security above. (See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Private Company and Wholly Owned Subsidiary Update, High Sierra.)

The Company utilizes the beginning of reporting period method for determining transfers between levels. There were no transfers between levels for the nine months ended August 31, 2012 and August 31, 2011, respectively.



## Edgar Filing: TORTOISE CAPITAL RESOURCES CORP - Form 10-Q

Certain condensed financial information of the unconsolidated affiliates follows. The information is the most recently available financial information for these companies, which is the nine months ending June 30, 2012 as reported by the portfolio companies for VantaCore Partners LP (11 percent equity interest), and Lightfoot Capital Partners LP (6.7 percent equity interest).

<table border="0" style="width: 100%;"> <tr> <td style="width: 30%;">Revenues</td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 60%; text-align: right;">55,797,834</td> </tr> <tr> <td>Operating expenses</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">42,793,623</td> </tr> <tr> <td>Net income</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">1,283,754</td> </tr> </table>	Revenues	\$	55,797,834	Operating expenses	\$	42,793,623	Net income	\$	1,283,754	<table border="0" style="width: 100%;"> <tr> <td style="width: 30%;">Current assets</td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 60%; text-align: right;">31,552,000</td> </tr> <tr> <td>Noncurrent assets</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">296,706,000</td> </tr> <tr> <td>Current liabilities</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">16,974,000</td> </tr> <tr> <td>Noncurrent liabilities</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">108,331,000</td> </tr> <tr> <td>Partner s equity</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">202,953,000</td> </tr> </table>	Current assets	\$	31,552,000	Noncurrent assets	\$	296,706,000	Current liabilities	\$	16,974,000	Noncurrent liabilities	\$	108,331,000	Partner s equity	\$	202,953,000
Revenues	\$	55,797,834																							
Operating expenses	\$	42,793,623																							
Net income	\$	1,283,754																							
Current assets	\$	31,552,000																							
Noncurrent assets	\$	296,706,000																							
Current liabilities	\$	16,974,000																							
Noncurrent liabilities	\$	108,331,000																							
Partner s equity	\$	202,953,000																							

The following section describes the valuation methodologies used by the Company for estimating fair value for financial instruments not recorded at fair value as required under disclosure guidance related to the fair value of financial instruments.

*Cash and Cash Equivalents* The carrying value of cash, amounts due from banks, federal funds sold and securities purchased under resale agreements approximates fair value.

*Escrow Receivable* The escrow receivable due the Company, which relates to the sale of International Resource Partners, LP, is anticipated to be released upon satisfaction of certain post-closing obligations and/or the expiration of certain time periods (the shortest of which was to be 14 months from the April 2011 closing date of the sale). The fair value of the escrow receivable reflects a discount for the potential that the full amount due to the Company will not be realized. During the third quarter, the carrying value of the escrow receivable was reduced by \$335,486 to its fair value as of August 31, 2012.

*Long-term Debt* The fair value of the Company s long-term debt is calculated, for disclosure purposes, by discounting future cash flows by a rate equal to the Company s current expected rate for an equivalent transaction.

*Line of Credit* The carrying value of the line of credit approximates the fair value due to its short term nature.

Description	Level within the Fair Value Hierarchy	August 31, 2012		November 30, 2011	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>					
Cash and cash equivalents	Level 1	\$ 11,783,529	\$ 11,783,529	\$ 2,793,326	\$ 2,793,326
Escrow receivable	Level 2	\$ 1,341,566	\$ 1,341,566	\$ 1,677,052	\$ 1,677,052
<b>Financial Liabilities</b>					
Long-term debt	Level 2	\$ 910,863	\$ 947,985	\$ 2,279,883	\$ 2,320,851
Line of credit	Level 1	\$ 125,000	\$ 125,000	\$	\$

## 7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Description	August 31, 2012	November 30, 2011
Natural gas pipeline	\$ 5,215,424	\$ 5,215,424
Vehicles and storage trailers	110,782	98,717
Computers	14,018	12,150
Gross property and equipment	5,340,224	5,326,291
Less accumulated depreciation	(1,680,984)	(1,483,616)
<b>Net property and equipment</b>	<b>\$ 3,659,240</b>	<b>\$ 3,842,675</b>



**8. LEASES**

The Company's investment in the Eastern Interconnect Project ( EIP ) is leased under net operating leases with various terms to Public Service Company of New Mexico ( PNM ). PNM is referred to as the Major Tenant .

The future contracted minimum rental receipts for all net leases as of August 31, 2012 are as follows:

	<b>Amount</b>
September 1 2012 - November 30, 2012	\$ 1,422,457
2013	2,844,914
2014	2,844,914
2015	1,422,457
Thereafter	
<b>Total</b>	<b>\$ 8,534,742</b>

In view of the fact that the Major Tenant leases a substantial portion of the Company's net leased property which is a significant source of revenues and operating income, its financial condition and ability and willingness to satisfy its obligations under its lease with the Company, has a considerable impact on the results of operation.

The Major Tenant is currently subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and is required to file with the SEC annual reports containing audited financial statements and quarterly reports containing unaudited financial statements. The audited financial statements and unaudited financial statements of the Major Tenant can be found on the SEC's website at [www.sec.gov](http://www.sec.gov). The Company makes no representation as to the accuracy or completeness of the audited and unaudited financial statements of the Major Tenant but has no reason not to believe the accuracy or completeness of such information. In addition, the Major Tenant has no duty, contractual or otherwise, to advise the Company of any events that might have occurred subsequent to the date of such financial statements which could affect the significance or accuracy of such information. None of the information in the public reports of the Major Tenant that are filed with the SEC is incorporated by reference into, or in any way forms a part of this filing.

On February 9, 2010, Mowood sold one of its wholly owned subsidiaries to an unrelated third party. As part of that agreement, Mowood assumed a lease obligation, including insurance and other maintenance costs, for office space to be used by the subsidiary that was sold, through April 2013. The fair value of the future minimum lease payments and estimated costs were recorded as a liability upon the sale of the subsidiary.

Period	Lease Obligation	Interest Portion	Estimated Expenses	Total Obligation
September 1, 2012 - November 30, 2012	\$ 20,309	\$ (437)	\$ 454	\$ 20,326
December 1, 2012 - March 31, 2013	27,162	(245)	605	27,522
<b>Total</b>	<b>\$ 47,471</b>	<b>\$ (682)</b>	<b>\$ 1,059</b>	<b>\$ 47,848</b>

**9. INTANGIBLES**

The Company has recorded an intangible lease asset for the fair value of the amount by which the remaining contractual lease payments exceed market lease rates at the time of acquisition. The intangible lease asset is being amortized on a straight-line basis over the life of the lease term, which expires on April 1, 2015. Amortization of the intangible lease asset is reflected in the accompanying Consolidated Statements of Income as a reduction to lease income.

Description	August 31, 2012	November 30, 2011
Intangible lease asset	\$ 1,094,771	\$ 1,094,771
Accumulated amortization	(340,595)	(121,641)
<b>Net Intangible lease asset</b>	<b>\$ 754,176</b>	<b>\$ 973,130</b>

Remaining estimated amortization on the lease is as follows:



Edgar Filing: TORTOISE CAPITAL RESOURCES CORP - Form 10-Q

<b>Period</b>	<b>Amount</b>
September 1 - November 30, 2012	\$ 72,985
2013	291,939
2014	291,939
2015	97,313
Thereafter	
<b>Total</b>	<b>\$ 754,176</b>

## 10. CREDIT FACILITIES

On November 30, 2011, the Company entered into a 180-day rolling evergreen margin loan facility with Bank of America, N.A. The terms of the agreement provide for a \$10,000,000 facility that is secured by certain of the Company's assets. Outstanding balances generally will accrue interest at a variable rate equal to one-month LIBOR plus 0.75 percent and unused portions of the facility will accrue a fee equal to an annual rate of 0.25 percent. The Company did not have any borrowings outstanding as of November 30, 2011, and the facility was not utilized during the nine month period of December 1, 2011 through August 31, 2012. As of August 31, 2012, the Company had segregated trading securities with an aggregate value of \$1,205,140 to serve as collateral for potential borrowings under the loan facility.

On October 29, 2011, Mowood entered into a revolving note payable with a financial institution with a maximum borrowing base of \$1,250,000. Borrowings on the note are secured by all of Mowood's assets. Interest accrues at one-month LIBOR, plus a 400 percent margin (4.235 percent on August 31, 2012), is payable monthly, with all outstanding principal and accrued interest payable on October 29, 2012. Mowood had outstanding borrowings of \$125,000 at August 31, 2012. The agreement contains various restrictive covenants, with the most significant relating to minimum consolidated fixed charge ratio, the incidence of additional indebtedness, member distributions, and extension of guaranties, future investments in other subsidiaries and change in ownership. As of August 31, 2012, the Company was in compliance with all covenants.

## 11. WARRANTS

At August 31, 2012 and November 30, 2011, the Company had 945,594 warrants issued and outstanding. The warrants were issued to stockholders that invested in the Company's initial private placements and 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 \$11.41 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 have no voting rights until such common shares are received upon exercise of the warrants. All warrants expire on February 6, 2014.

## 12. EARNINGS PER SHARE

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

Description	For the Three Month Periods Ended		For the Nine Month Periods Ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
Net income	\$ 4,988,508	\$ 590,639	\$ 12,712,309	\$ 4,486,921
Basic and diluted weighted average shares <sup>(1)</sup>	9,182,699	9,164,865	9,180,776	9,156,171
Basic and diluted earnings per share	\$ 0.54	\$ 0.06	\$ 1.38	\$ 0.49

*(1) Warrants to purchase shares of common stock 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.*

The changes in earnings per share for the three and nine month periods ended August 31, 2012, to the three and nine month periods ended August 31, 2011, reflect the weighted average change in overall net income related to the consolidation of Mowood financial information and lease operating and securities transactions.

## 13. SUBSEQUENT EVENTS

### *Distribution*

On August 7, 2012, the Company declared a dividend of \$0.11 per share for a total distribution of \$1,010,291. The distribution was paid on September 4, 2012 to stockholders of record on August 24, 2012. The dividend reinvestment amounted to approximately \$27,000.

### *Formerly Owned International Resource Partners, LP*

Upon the satisfaction of certain post-closing obligations, \$628,863 of the escrow receivable due the Company, which relates to the sale of International Resource Partners, LP, was released and paid to the Company on September 20, 2012. No clear agreement has been reached as to the remaining escrow balance and Management anticipates that it may take more than a year to satisfy other post-closing obligations prior to receiving the approximately \$713,000 escrow receivable balance remaining.



**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 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.

Forward-looking statements discuss our plans, strategies and intentions. 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," "perhaps" or comparable terminology. In addition, these words may use the positive or negative or other variation of those terms. The list of factors is not all-inclusive because it is not possible to predict all factors. Part II Item 1A Risk Factors included in this report, together with the risk factors in our 2011 Annual Report on Form 10-K under Part I Item 1A, should be carefully read for further understanding of potential risks. Other sections of this report and other periodic reports filed by the Company with the Securities and Exchange Commission (SEC) should also be read for more information regarding risk factors. Each forward-looking statement speaks only as of the date of the particular statement. The Company undertakes no obligation to publically update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

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, the performance of our leases 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.

In the following discussion, unless otherwise noted, references to increases or decreases in income and expense items are based on the three and nine month periods ended August 31, 2012.

**RESULTS OF OPERATIONS**

Stockholders' equity per share for the Company was \$10.91 at August 31, 2012 compared to \$9.85 at November 30, 2011.

Description	August 31, 2012	November 30, 2011
Total Stockholders' Equity per Consolidated Balance Sheets	\$ 100,175,854	\$ 90,426,313
Total shares issued and outstanding per Consolidated Balance Sheets	9,184,463	9,176,889
Stockholders' Equity per share <sup>(1)</sup>	\$ 10.91	\$ 9.85

(1) Stockholders' Equity per share is calculated by dividing total Stockholders' Equity by total shares issued and outstanding as of the balance sheet date.

**NET SALES AND REVENUES/OPERATING INCOME/NET EARNINGS**

Following is a comparison of net sales and revenues, operating income and net earnings for the three and nine month periods ended August 31, 2012 and August 31, 2011.

	For the Three Month Periods Ended		For the Nine Month Periods Ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
<b>OPERATIONS</b>				
Sales revenue	\$ 1,927,626	\$ 425,496	\$ 5,804,894	\$ 425,496
Lease revenue	638,244	425,496	1,914,732	425,496
Total Revenue	2,565,870	425,496	7,719,626	425,496
Expenses	2,778,903	1,206,835	7,862,297	1,993,563
<b>Income (Loss) from Operations</b>	<b>(213,033)</b>	<b>(781,339)</b>	<b>(142,671)</b>	<b>(1,568,067)</b>
<b>OTHER INCOME</b>				
Net distributions and dividend income on securities	(502,176)	(189,001)	(361,452)	666,181
Net realized and unrealized gain (loss) on securities	8,492,502	2,043,019	20,661,293	7,161,835
<b>Total Other Income</b>	<b>7,990,326</b>	<b>1,854,018</b>	<b>20,299,841</b>	<b>7,828,016</b>

Edgar Filing: TORTOISE CAPITAL RESOURCES CORP - Form 10-Q

<b>Income before Income Taxes</b>	<b>\$ 7,777,293</b>	<b>\$ 1,072,679</b>	<b>\$ 20,157,170</b>	<b>\$ 6,259,949</b>
Net earnings per share (basic and diluted)	\$ 0.54	\$ 0.06	\$ 1.38	\$ 0.49
Weighted Average Shares	9,182,699	9,164,865	9,180,776	9,156,171

**REVENUE FROM OPERATIONS**

Revenue for the three and nine month periods ended August 31, 2012 represents sales revenue from our wholly owned subsidiary, Mowood, as well as lease income from our investment in the Eastern Interconnect Project ( EIP ). Amounts related to our investment securities previously reported as revenue in prior periods are now reflected below Income (Loss) from Operations in the line item Net distributions and dividend income on securities within Other Income. Total revenue for the three and nine month periods ended August 31, 2012 was \$2,565,870 and \$7,719,626, respectively. Analysis of the variances is as follows:

- Sales revenue relating to Mowood operations for the three and nine month periods ended August 31, 2012 was \$1,927,626 and \$5,804,894, respectively. Mowood was consolidated as of September 21, 2011 as a result of the Company's withdrawal as a BDC. As such, there were no reportable sales figures for the periods ended August 31, 2011.

Had Mowood been consolidated as an operating entity during the three and nine month periods ended August 31, 2011, examination of their unaudited financial statements for that period reveal sales revenue of \$2,144,847 and \$7,283,192, respectively. The revenue reduction for the three and nine month periods of 2012 compared to the 2011 three and nine month periods of 2011 is largely attributable to the decrease in volumes sold as a result of warmer weather in 2012.

- Lease revenue for the three and nine month periods ended August 31, 2012 was \$638,244 and \$1,914,732, respectively. Lease revenue for the three and nine month periods ended August 31, 2011 was \$425,496. The revenue increase of \$212,748 and \$1,489,236, respectively, for the three and nine month periods ended August 31, 2012, compared to the 2011 periods, is attributable to the June 30, 2011 acquisition date of the lease, and therefore, only two months of lease activity reported in the three and nine month periods ended August 31, 2011. Lease revenue is represented by our investment in the EIP. The Company's investment in EIP is leased under net operating leases with various terms.

As of August 31, 2012, 100 percent of the Company's leased property, based on the gross book value of real estate investments, was leased to Public Service Company of New Mexico ( PNM ).

Approximately 25 percent and 100 percent of the Company's total revenue from operations were derived from PNM for the three and nine month periods ended August 31, 2012 and August 31, 2011, respectively.

**EXPENSES FROM OPERATIONS**

Total reported expenses for the three month period ended August 31, 2012 increased \$1,572,068 over expenses of \$1,206,835 at August 31, 2011 to \$2,778,903, and \$5,868,734 over expenses of \$1,993,563 for the nine month period ended August 31, 2011 to \$7,862,297. The increase was primarily due to the consolidation of Mowood as well as expenses associated with the EIP lease. The most significant components of the variation are outlined in the following table:

	For the Three Month Periods Ended		For the Nine Month Periods Ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
Cost of Sales	\$ 1,381,161	\$	\$ 4,416,947	\$
Management fees, net of expense reimbursements	298,051	248,367	800,397	724,240
Asset acquisition expenses	144,270	583,248	238,969	583,248
Depreciation	246,804	117,724	740,437	117,724
Operating expenses	196,644		558,450	
Interest expense	16,780	14,064	69,418	14,064
Professional fees/directors fees/other	495,193	243,432	1,037,679	554,287
<b>Total</b>	<b>\$ 2,778,903</b>	<b>\$ 1,206,835</b>	<b>\$ 7,862,297</b>	<b>\$ 1,993,563</b>

- Costs of sales for our wholly owned subsidiary, Mowood, for the three and nine month periods ended August 31, 2012 were \$1,381,161 and \$4,416,947, respectively. Mowood was consolidated as of September 21, 2011 as a result of the Company's withdrawal as a BDC. As such, there are no reportable comparable expenditure figures for the periods ended August 30, 2011.

The full cost of sales for Mowood represents 88 percent of the increase in overall expenditures for the three month period ended August 31, 2012 and 75 percent of the increase in overall expenditures for the nine month period ended August 31, 2012.

Edgar Filing: TORTOISE CAPITAL RESOURCES CORP - Form 10-Q

Had Mowood been consolidated as an operating entity during the three and nine month period ended August 31, 2011, examination of their unaudited financial statements for that period reveal cost of sales of \$1,617,969 and \$5,892,508, respectively. The variation in cost of sales for the three and nine month periods ended August 31, 2012, reflect a 15 percent and a 25 percent decrease, respectively, and are primarily the result of the warmer weather experienced.

- Depreciation expense of \$176,586 and \$117,724 was incurred on our leased property for the quarters ended August 31, 2012 and August 31, 2011, respectively. The lease was acquired on June 30, 2011 and as such, there was only two months of depreciation expense for the three and nine month periods ended August 31, 2011. In addition, depreciation of \$70,218 was incurred on our Mowood assets for the three month period ended August 31, 2012. Since Mowood was not consolidated until September 21, 2011 there are no comparable depreciation numbers for the three month period ended August 31, 2011. However, based on a review of Mowood's unaudited financial statements for the three month period ended August 31, 2011, Mowood's depreciation expense was substantially level period over period.
- Operating expenses as reported in our consolidated financials relate to Mowood's operations. Had Mowood been consolidated as an operating entity during the three and nine month periods ended August 31, 2011, examination of their unaudited financial statements for that period reveal operating expenses of \$161,771 and \$514,065, respectively. These unconsolidated variances represent a 22 percent increase in operating expenses for the three month period ended August 31, 2011 and August 31, 2012 and a 9 percent increase in operating expenses for the nine month period ended. The increase in operating expenditures is primarily driven by timing variances and higher than average operating expenses for 2012.
- Management fees, net of expense reimbursements for the three and nine month periods ended August 31, 2012 were \$298,051 and \$800,397, respectively. Management fees, net of expense reimbursements for the three and nine month periods ended August 31, 2011 were \$248,367 and \$724,240, respectively. The 20 percent and 11 percent increases are due to an increase in the average value of our investment portfolio.
- Interest expense for the three month period ended August 31, 2012 of \$16,780, and for the nine month period ended August 31, 2012 of \$69,418, represents a combination of the interest on PNM debt, margin loan fees on the Company's line of credit and Mowood's credit facility. Interest on the PNM debt for the three and nine month periods ended August 31, 2012 was \$23,191 and \$113,408, respectively. Interest expense, netted against amortization on above market debt for the quarter and nine month period ended August 31, 2012 of \$17,590 and \$86,020, respectively, results in a net interest expense on the PNM debt of \$5,601 and \$27,388, respectively. The lease was acquired on June 30, 2011 and as such, there was only two months of interest expense for the three and nine month periods ended August 31, 2011. Interest on the PNM debt for the three and nine month periods ended August 31, 2011 was \$58,237. Interest expense, netted against amortization on above market debt for the three and nine months ended August 31, 2011 of \$44,173, results in a net interest expense on the PNM debt of \$14,064.
- All other expenses, which include acquisition costs, professional and directors' fees and other expenses, for the three and nine month periods ended August 31, 2012 totaled \$639,463 and \$1,276,648, respectively. This represents a decrease of \$187,217, or 23 percent, and an increase of \$139,113, or 12 percent, compared to the three and nine month periods ended August 31, 2011, respectively. The variances primarily reflect the combination of legal and external audit fees associated with the various interactions with the SEC, the new XBRL filing requirements, and the pursuit of asset acquisitions.

## Seasonality

The Company's subsidiary, Mowood, experiences a substantial amount of seasonality in gas sales. As a result, overall sales and operating income are generally higher in the first and fourth quarters and lower during the second and third quarters of each year. Due to the seasonal nature of Mowood, operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year.

## Other Income

As we do not plan to make additional investments in securities (other than short term, highly liquid investments to be held pending acquisition of real property assets) and intend to liquidate our securities portfolio in an orderly manner, investments are no longer considered part of our operations, consistent with our intentions to invest in real property assets which can be leased. As such, income related to our securities is shown below the line of Gain/(Loss) from Operations.

Other Income includes earnings on our portfolio of trading securities and other equity securities and realized and unrealized gains (losses) on such securities. Other income for the three month period ended August 31, 2012 totaled \$7,990,326, representing an increase of \$6,136,308, or 331 percent, as compared to the three month period ended August 31, 2011. Other income for the nine month period ended August 31, 2012 totaled \$20,299,841, representing an increase of \$12,471,825, or 159 percent, as compared to the nine month period ended August 31, 2011. These changes were primarily related to the sale of other equity investments, High Sierra Energy, LP and High Sierra Energy GP, LLC (collectively High Sierra), and changes in the fair value of our securities investments reflected within net realized and unrealized gains on our trading and other equity securities. (For further discussion, see High Sierra Energy, LP and High Sierra Energy, GP (High Sierra) below.)





Other Income also reflects the distributions we receive from our securities portfolio. The following table shows gross income received from investment securities on a cash basis, less the amounts that were a distribution received from investment securities:

Description	For the Three Month Periods Ended		For the Nine Month Periods Ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
Gross distributions and dividend income received from investment securities	\$ 939,879	\$ 939,697	\$ 3,324,141	\$ 2,576,122
Less distributions and dividends not reported in income received from investment securities	(1,442,055)	(1,128,698)	(3,685,593)	(1,909,941)
<b>Income received from investment securities, net</b>	<b>\$ (502,176)</b>	<b>\$ (189,001)</b>	<b>\$ (361,452)</b>	<b>\$ 666,181</b>

### Private Company and Wholly-Owned Subsidiary Update

Following is a summary of the fair values of the other equity securities that we held at August 31, 2012 as they compare to the fair values at May 31, 2012.

Description	Fair Value August 31, 2012	Fair Value May 31, 2012	Change
Lightfoot	\$ 8,670,246	\$ 8,609,517	\$ 60,729
VantaCore	\$ 10,859,537	\$ 9,355,858	\$ 1,503,679

### *Lightfoot Capital Partners LP and Lightfoot Capital Partners GP LLC ( Lightfoot )*

The Company holds a direct investment in Lightfoot Capital Partners LP (6.7 percent) and Lightfoot Capital Partners GP (collectively Lightfoot ) (1.5 percent). Lightfoot's assets consist of an 83.5 percent interest in Arc Terminals ( Arc ) and a minority position in a Liquefied Natural Gas facility located in Mississippi. Arc provides storage and delivery services for petroleum, petrochemical and chemical products to customers under long term storage and throughput contracts. Arc has eleven terminals located in the United States with a combined working capacity of approximately 3.53 million barrels.

The fair value of Lightfoot at August 31, 2012 increased by \$60,729 as compared to the valuation at May 31, 2012, driven by improved performance. For the second quarter of 2012, Arc paid a full distribution to Lightfoot. Lightfoot in turn declared and paid a quarterly distribution of \$0.12 per unit in September of 2012, or approximately 64% of the total amount it received from Arc, with the remainder retained by Lightfoot for outstanding due diligence costs should a potential acquisition not close. If the transaction closes, Lightfoot is expected to distribute the amount it previously retained.

Arc continues to concentrate a majority of its capital expenditures on projects that increase revenue and reduce operating expenses, primarily focused on completion of the Blakeley Terminal. Arc is also analyzing various strategic alternatives that would be expected to provide incremental EBITDA.

### *VantaCore Partners LP ( VantaCore )*

VantaCore was formed to acquire the assets of four separate companies who provide sand, gravel and other aggregates to customers in and around Clarksville, Tennessee. In August 2008, VantaCore completed the acquisition of Southern Aggregates, LLC which operates four sand and gravel pits located northeast of Baton Rouge, Louisiana. In August 2011, VantaCore acquired the Cherry Grove limestone quarry ( Cherry Grove ) from North American Limestone Corporation. We hold approximately 11 percent of the total equity interests of VantaCore. In addition, we hold observation rights on VantaCore's Board of Directors.

The fair value of VantaCore increased \$1,503,679, or approximately 16 percent, as compared to the fair value at May 31, 2012. The increase is attributable to VantaCore's continued improved performance, mostly driven by the incremental results of Laurel Aggregates, as well as the success of its cost cutting initiatives and the price increases that have gone into effect. Also, in August of 2012 the Company received an additional 21,260 common units as part of its preferred B investment, which called for investors to receive one common unit for every four preferred units purchased related to the Cherry Grove funding and acquisition. Similar to its quarter ended March 31, 2012, VantaCore was unable to meet its minimum quarterly distribution in cash for its quarter ended June 30, 2012. Therefore, the common and preferred unit holders elected to receive their distributions as a combination of \$0.30 per unit in cash and the remainder in preferred units. The Company received

Edgar Filing: TORTOISE CAPITAL RESOURCES CORP - Form 10-Q

approximately \$338,000 in cash and 12,613 additional preferred units during the three month period ended August 31, 2012.

On June 8, 2012, VantaCore acquired Laurel Aggregates LP, a regional provider of limestone aggregate products to the energy and construction industries in SW Pennsylvania (Marcellus), Northern West Virginia, Western Maryland and Eastern Ohio.

The company produces around 3.0 million tons per year and brokers an additional 600 thousand tons primarily to eastern Ohio customers. The Company did not participate in the funding for this acquisition.

***Formerly Owned High Sierra Energy, LP and High Sierra Energy, GP ( High Sierra )***

High Sierra was a holding company that identified, acquired, managed and integrated businesses and revenue generating assets in the natural resources industry, primarily in connection with the transportation, processing, storage and marketing of hydrocarbons. High Sierra maintained four distinct business segments identified as: Water Services, Crude Oil and Marketing; Logistics Terminaling & Storage and Energy Marketing. High Sierra began operations in December 2004 and our investments in High Sierra Energy, LP occurred on November 2, 2006 and June 15, 2007. Our investments in High Sierra Energy, GP occurred on November 2, 2006 and May 1, 2007. We held a 7.1 percent LP equity interest and a 2.4 percent GP equity interest. We also held board of director s observation rights for High Sierra.

On June 19, 2012, NGL Energy Partners, LP and certain of its affiliates (collectively NGL ) acquired High Sierra. Tortoise Capital Resources Corporation originally invested approximately \$26.8 million in High Sierra Limited Partnership and General Partnerships interests and received, in exchange, approximately \$9.4 million in cash and approximately 1.2 million newly issued units of NGL. The Company recognized a third quarter realized gain of approximately \$15.83 million upon the sale. The NGL units are not subject to a lock-up agreement, however they can only be sold pursuant to an exemption from the Securities and Exchange Commission ( SEC ) s registration requirements such as Rule 144. The Company received one-third of the total quarterly distribution for its NGL common units this quarter. Beginning with NGL s quarter ending September 30, 2012, the Company will be entitled to receive full distributions for the common units held.

***Mowood, LLC ( Mowood ) Wholly Owned Subsidiary***

Mowood is the holding company of Omega Pipeline, LLC ( Omega ). Omega is a natural gas local distribution company located on the Fort Leonard Wood military installation in south-central Missouri. Omega serves the natural gas needs of Fort Leonard Wood and other customers in the surrounding area. We hold 100 percent of the equity interests in Mowood and hold a seat on its board of directors. The Company provides a revolving line of credit to Mowood which allows for a maximum principal balance of \$5.3 million. At August 31, 2012, the principal balance outstanding was \$3.8 million. Omega s results for the first nine months are moderately higher than originally expected as the base business realized higher margins. In addition, revenues from several construction projects were recognized in the third quarter, which made a significant contribution to overall year-to-date results. Omega anticipates that full year results may be higher than planned, as the base business is expected to achieve stable results, and additional revenues from construction projects are expected to be recognized prior to year-end.

***Formerly Owned International Resource Partners, LP***

The escrow receivable due the Company, which relates to the sale of International Resource Partners, LP, is anticipated to be released upon satisfaction of certain post-closing obligations and/or the expiration of certain time periods (the shortest of which was to be 14 months from the April 2011 closing date of the sale). The fair value of the escrow receivable reflects a discount for the potential that the full amount due to the Company will not be realized. During the third quarter of 2012, the carrying value of the escrow receivable was reduced by \$335,486 to its fair value as of August 31, 2012.

Upon the satisfaction of certain post-closing obligations, \$642,837 of the escrow receivable due the Company, which relates to the sale of International Resource Partners, LP, was released and paid to the Company on September 20, 2012. No clear agreement has been reached as to the remaining escrow balance and Management anticipates that it may take more than a year to satisfy other post-closing obligations prior to receiving the approximately \$713,000 escrow receivable balance remaining.

**Distributions**

Our portfolio of real property assets and investment securities generate cash flow to us from which we pay distributions to stockholders. As of the third quarter 2012, the most significant source of our stockholder distributions continues to be the distributions from our investment securities. This information was utilized to provide the Board of Directors with guidance regarding distribution payout. The amount of distribution payout is recorded on the ex-dividend date.

The character of distributions made during the year may differ from their ultimate characterization for federal income tax purposes. For the quarter ended August 31, 2012, the Board of Directors declared a distribution of \$1,010,291 or \$0.11 per share. This compares to distributions declared for the quarter ended August 31, 2011 of \$916,487 or \$0.10 per share. The increase in distributions was primarily due to the increased performance of our securities portfolio in the second quarter of 2012. We continue to believe that our investments should support a sustainable 2012 annualized distribution of not less than \$0.44 per share.



Once we attain REIT status, we intend to provide standard performance measures utilized by REITs including Funds from Operations ( FFO ) and Adjusted Funds from Operations ( AFFO ). Our investments in securities and real property assets will generate cash flow to us from which we expect to pay distributions to stockholders. The Board of Directors will determine the amount of any distribution we expect to pay our stockholders. A REIT is generally required to distribute during the taxable year an amount equal to at least 90 percent of the REIT taxable income (determined under IRC section 857(b)(2), without regard to the deduction for dividends paid). We intend to adhere to this requirement in order to qualify as a REIT.

As defined by the National Association of Real Estate Investment Trusts ( NAREIT ), FFO represents net income, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. It was intended to be a standard supplemental measure of REIT operating performance that excluded historical cost depreciation from or added it back to GAAP net income. Since introduction of the definition, the term has come to be widely used by REITs.

AFFO is another non-GAAP metric which makes adjustments for certain non-operating and non-cash items included in the calculation of FFO such as impairment charges, acquisition fees and mark to market adjustments. We believe that AFFO allows securities analysts, investors and other interested parties to evaluate current period results to results prior to acquisitions.

### Federal and State Income Taxation

As a corporation, we are obligated to pay federal and state income tax on our taxable income. Our tax expense or benefit is included in the Consolidated Statements of Income. 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.

If we elect REIT status in the future, we will be taxed as a REIT rather than a C corporation and generally will not pay federal income tax on taxable income that is distributed to our stockholders. Before withdrawal of the BDC election, our distributions from earnings and profits were treated as qualified dividend income ( QDI ) and return of capital. Following the withdrawal, and assuming we subsequently elect REIT status, our distributions from earnings and profits will be treated as ordinary income and generally will not qualify as QDI. We do not expect to qualify as a REIT prior to 2013, and therefore, our distributions would continue to be treated as QDI and return of capital. Thereafter, under existing law, our distributions would be treated as ordinary income and return of capital.

### 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.

### Contractual Obligations

The following table summarizes our significant contractual payment obligations as of August 31, 2012.

	Payments due by period				
	Total	< 1 year	1-3 years	3-5 years	>5 years
Long-term debt	\$ 905,000	\$ 905,000			
Operating lease	\$ 47,848	\$ 47,848			
Line of credit	\$ 125,000	\$ 125,000			

Note: At August 31, 2012, the principal balance outstanding on the debt assumed in the Eastern Interconnect Project was \$905,000. The remaining principal balance is due on the maturity date of October 1, 2012.

### LIQUIDITY AND CAPITAL RESOURCES

We entered into a 180-day rolling evergreen margin loan facility with Bank of America, N.A. on November 30, 2011. The terms of the agreement are outlined in Footnote 10 herein. The terms of the agreement provide for a \$10,000,000 facility that is secured by certain of the Company's assets. There were no outstanding borrowings on the margin loan facility at August 31, 2012.

On October 29, 2011, Mowood entered into a revolving note payable with a financial institution with a maximum borrowing base of \$1,250,000. Borrowings on the note are secured by all of Mowood's assets. At August 31, 2012, the balance on the revolving note was \$125,000.



On June 6, 2012, we filed an S-3/A registration statement with the Securities and Exchange Commission. The registration statement covers a proposed maximum aggregate offering price of \$300,000,000 of securities. The proposed maximum aggregate offering price per class of security will be determined from time to time by us in connection with the issuance by us of the securities registered and is not specified as to each class of security pursuant to General Instruction II.D. of Form S-3 under the Securities Act of 1933, as amended (the Securities Act ). The registration statement was declared effective on June 8, 2012.

As of August 31, 2012 the securities in our portfolio, included: (i) publicly-traded master limited partnership ( MLP ) equity securities and (ii) illiquid securities issued by privately-held companies. The publicly traded securities can be liquidated more readily than the others. With plans to liquidate our securities and transition the fund into the purchase of assets that qualify for being held as a REIT, we are reporting the gains (losses) on the securities transactions as Other Income and separate from Income from Operations.

## STRATEGY

Our objective is to maximize long-term value for stockholders. To achieve this goal, we target annualized total returns of 8 to 10 percent from our current operations and assets that we acquire over the long term. There is no assurance that our targets will be met in any particular period.

We seek to acquire real property assets from energy infrastructure companies and simultaneously lease these properties to the seller under long-term triple net leases, defined as a lease in which the lessee pays rent to the lessor, as well as all taxes, insurance, and maintenance expenses that arise from the use of the property. We expect our leases to be configured to include a base lease fee with additional provisions that enable us to participate in the revenue and/or value of the underlying energy infrastructure real property asset. These provisions would be considered a contingent rent or fair value repurchase option upon lease termination. These sale- leaseback transactions provide the lessee company with a source of financing that is an alternative to other financing sources such as corporate borrowing or equity offerings. Our sale-leaseback transactions may occur in conjunction with acquisitions, recapitalizations, growth projects or other corporate transactions involving the lessee company. We may act as one of several sources of financing for these transactions by purchasing real property from the seller and net leasing it back to the seller or its successor in interest (the lessee).

In 2007, 2009 and 2010 the IRS issued three separate private letter rulings that defined certain energy infrastructure assets as real estate assets for tax purposes. The potential qualifying real estate assets in the energy infrastructure sector are electric transmission and distribution systems, pipeline systems and storage systems and systems used to transfer substances between modes of transportation, also known as terminaling systems. We refer to such REIT-qualifying assets herein as real property assets. While private letter rulings provide insight into the current thinking of the IRS on tax issues, such rulings may only be relied upon by the taxpayer to whom they were issued.

We do not plan to make additional investments in securities (other than short-term, highly liquid investments to be held pending acquisition of real property assets) and intend to liquidate our securities portfolio in an orderly manner.

If we find sufficient suitable REIT-qualifying investments and satisfy the REIT requirements throughout our fiscal year, we expect to make an election to be treated as a REIT for tax purposes for that fiscal year by filing a Form 1120-REIT on or before March 15, of the subsequent fiscal year, or such later date to which we have properly extended filing such income tax return. We do not currently expect that we will be able to elect to be treated as a REIT for tax purposes for the 2012 fiscal year, but also do not expect that our lack of REIT status will hinder our ability to pay distributions on a quarterly basis.

The principal challenge for us will be meeting the requirement that a substantial percentage of our assets be REIT-qualifying investments that produce REIT qualifying income. Our effort to meet that requirement will be accelerated if: (i) we are able to readily identify appropriate opportunities to liquidate our securities portfolio, or (ii) we are able to raise capital to fund new acquisitions. In either event, we will need to have identified and be able to consummate an adequate number of REIT-qualifying investments meeting our investment criteria. We do not currently have any signed agreements or binding letters of intent for such investments. These opportunities are in a preliminary stage of review, and consummation of any of these opportunities depends on a number of factors beyond our control. There can be no assurance that any of these acquisition opportunities will result in consummated transactions. Regardless of our tax status, an investment in us will not result in Unrelated Business Taxable Income ( UBTI ).

The third quarter of 2012 drew to a close without our having acquired sufficient assets to meet the requirements of electing REIT status for the 2012 calendar year. We expect to continue to make progress throughout 2012 so that we can enter 2013 with assets that qualify and generate qualifying income. For acquisitions that we make during the 2012 calendar year, we will seek to acquire



assets that allow for significant tax depreciation in order to shield all or a significant portion of our taxable income for 2012. We do not expect the failure to achieve REIT qualifying assets in 2012 to adversely affect our ability to pay distributions to our stockholders during the remainder of 2012.

### **Portfolio Company Monitoring**

Tortoise Capital Advisors, L.L.C. monitors each securities 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. Tortoise Capital Advisors, L.L.C.'s monitoring activities are expected to provide it with information that will enable us to monitor compliance with existing covenants. Corridor monitors the Company's real asset portfolio. This includes ensuring lease payments are received on a timely basis and that lessees are in compliance with contractual obligations.

### **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 securities portfolio to be our principal market risk. There were no material changes to our market risk exposure at August 31, 2012 as compared to the end of our preceding fiscal period of November 30, 2011.

Our equity and debt securities are reported at fair value in the current period, 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 many of the securities in our portfolio, we value a large portion of our securities 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 securities that do not have readily available market quotations, the fair value of our securities may differ significantly from the fair values that would have been used had a ready market quotation existed for such securities, and these differences could be material.
- As of August 31, 2012, the fair value of our securities portfolio (excluding short-term investments) totaled \$76,851,285. We estimate that the impact of a 10 percent increase or decrease in the fair value of these securities, net of related deferred taxes, would increase or decrease stockholders' equity by approximately \$4,821,650.
- Debt securities in our portfolio may be based on floating or fixed rates. As of August 31, 2012, we had no floating rate debt 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**

The Company carried out an evaluation of its disclosure controls and procedures as defined in rule 13a-15(e) or 15d-15(e) under the Exchange Act. This evaluation was conducted under the supervision and with the participation of the Company's Management including the Chief Executive Officer and the Chief Accounting Officer and the Company's disclosure committee. Based upon this evaluation, the Chief Executive Officer and the Chief Accounting Officer of the Company have concluded as of the end of the period covered by this report that the disclosure controls and procedures of the Company were effective at a reasonable assurance level.

### **Changes in internal control over financial reporting**

There has been no change in the Company's internal control over financial reporting, as defined in rule 13a-15(f) and 15d-15(f) of the Exchange Act that occurred during the quarterly period ending August 31, 2012 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.



## 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 year ended November 30, 2011, which could materially affect our business, financial condition or future results. The risks described in this report and 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 or future 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, 2012 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, 2012.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

### ITEM 5. OTHER INFORMATION

None

### ITEM 6. EXHIBITS

Exhibit	Description
31.1	Certification by Principal 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 Principal Accounting 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.
32.1	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.

**Tortoise Capital Resources Corporation**

**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**  
(Registrant)

By: /s/Rebecca M. Sandring  
**Rebecca M. Sandring**  
Chief Accounting Officer/Treasurer

Date: October 5, 2012