TORTOISE CAPITAL RESOURCES CORP
Form 10-K/A
June 01, 2012

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-K/A
**(Amendment No. 2 )**

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended November 30, 2011
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

**COMMISSION FILE NUMBER: 001-33292**

# TORTOISE CAPITAL RESOURCES CORPORATION
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Maryland** | **20-3431375** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(IRS Employer Identification No.)** |
| **11550 Ash Street, Suite 300**<br>**Leawood, Kansas** | **66211** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**Registrant s Telephone Number, Including Area Code: (913) 981-1020**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name Of Each Exchange On Which Registered |
|---|---|
| Common Stock, par value $0.001 per share | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant 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 o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of common stock held by non-affiliates of the registrant on May 31, 2011 based on the closing price on that date of $8.55 on the New York Stock Exchange was $77,562,171. Common shares held by each executive officer and director and by each person who owns 10% or more of the outstanding common shares (as determined by information provided to the registrant) have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of December 31, 2011, the registrant had 9,176,889 common shares outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant s Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Form 10-K.

# TORTOISE CAPITAL RESOURCES CORPORATION
# FORM 10-K/A

**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

**Explanatory Note**

This Amendment No. 2 to the Annual Report on Form 10-K (the Amendment No. 2 ) of Tortoise Capital Resources Corporation (the Company, we or us ) amends the Company s Annual Report on Form 10-K for the fiscal year ended November 30, 2011 that was originally filed with the Securities and Exchange Commission (the Commission ) on February 13, 2012 (the Original 10-K ) and amended on May 1, 2012 (the Amended 10-K ). This Amendment No. 2 is being filed solely to include in Note 15 to the Company s consolidated financial statements certain financial statements of a portfolio company and to update information in Note 16 regarding the expected merger involving that portfolio company.

In addition, as required by Rule 12b-15 of the Securities Exchange Act of 1934, new certifications by our principal executive officer and principal financial officer are included herein as exhibits to the Amendment No. 2.

Except as described in this explanatory note, no other information in the Original 10-K or the Amended 10-K has been modified, updated or amended by the Amendment No. 2. Accordingly, the Amendment No. 2 should be read in conjunction with the Original 10-K, the Amended 10-K and the Company s other filings with the Commission. The Amendment No. 2 consists solely of the preceding cover page, this explanatory note, Part II Item 8 and Item 9A, the signature page and the exhibits identified in Part IV.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our financial statements and financial statement schedules are set forth beginning on page F-1 in this Annual Report and are incorporated herein by reference.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

The Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the Company s reports under the Securities Exchange Act of 1934, as amended (the Exchange Act ), is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to management, including the Company s Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In connection with the preparation of the Annual Report on Form 10-K, an evaluation is performed under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, the Company's CEO and CFO conclude whether the Company's disclosure controls and procedures are effective as of the reporting date at the reasonable assurance level.

In connection with this Annual Report on Form 10-K for the year ended November 30, 2011, an evaluation was performed of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of November 30, 2011. Based on that evaluation, the Company s CEO and CFO concluded that the disclosure controls and procedures were effective as of November 30, 2011 at the reasonable assurance level.

*Management s Report on Internal Control Over Financial Reporting*

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducts an evaluation and assesses the effectiveness of the Company s internal control over financial reporting as of the reporting date. In making its assessment of internal control over financial reporting, management uses the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in *Internal Control-Integrated Framework.*

A material weakness is a control deficiency, or combination of control deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of November 30, 2011, management conducted an evaluation and assessed the effectiveness of the Company s internal control over financial reporting. Based on its evaluation, management concluded that the Company s internal control over financial reporting was effective as of November 30, 2011. Ernst & Young LLP, the Company s independent registered public accounting firm, has audited the consolidated financial statements of the Company for the year ended November 30, 2011, and has also issued an audit report dated February 13, 2012, on the effectiveness of the Company s internal control over financial reporting as of November 30, 2011, which is included in this Annual Report on Form 10-K.

*Changes in Internal Control Over Financial Reporting*

There have been no changes in the Company s internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders
Tortoise Capital Resources Corporation

We have audited Tortoise Capital Resources Corporation internal control over financial reporting as of November 30, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Tortoise Capital Resources Corporation s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Tortoise Capital Resources Corporation maintained, in all material respects, effective internal control over financial reporting as of November 30, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Tortoise Capital Resources Corporation (the Company) as of November 30, 2011 and 2010, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended November 30, 2011 and our report dated February 13, 2012, except for Note 15 and Note 16, as to which the date is June 1, 2012, expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Kansas City, Missouri
February 13, 2012

**Oversight and Monitoring**

As part of our internal control processes; we monitor, on an ongoing basis, compliance by tenants with their lease obligations and other factors that could affect the financial performance of any of our properties. Monitoring involves receiving assurances that each tenant has paid real estate taxes, assessments and other expenses relating to the properties it occupies and confirming that appropriate insurance coverage is being maintained by the tenant. We review financial statements of tenants and undertake regular physical inspections of the condition and maintenance of properties. Additionally, we periodically analyze each tenant s financial condition, the industry in which each tenant operates and each tenant s relative strength in its industry. In addition, monitoring may be accomplished by attendance at Board of Directors meetings, the review of periodic operating and financial reports, an analysis of capital expenditure plans as they relate to the owned assets, and periodic consultations with engineers, geologists and other experts. The performance of each asset will be periodically compared to performance of similarly sized companies with comparable assets and businesses to assess performance relative to peers. Other monitoring activities are expected to provide the necessary access to monitor compliance with existing covenants, enhance ability to make qualified valuation decisions, and assist in the evaluation of the nature of the risks involved in the various components of the portfolio.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Annual Report on Form 10-K:

1. The Financial Statements listed in the Index to Financial Statements on Page F-1.
2. The Exhibits listed in the Exhibit Index below.

| Exhibit No. | Description of Document |
|---|---|
| *31.1* | *Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.* |
| *31.2* | *Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.* |

**INDEX TO FINANCIAL STATEMENTS**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders
Tortoise Capital Resources Corporation

We have audited the accompanying consolidated balance sheets of Tortoise Capital Resources Corporation (the Company) as of November 30, 2011 and 2010, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended November 30, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tortoise Capital Resources Corporation at November 30, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Tortoise Capital Resources Corporation s internal control over financial reporting as of November 30, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2012, expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Kansas City, Missouri
February 13, 2012
except for Note 15 and Note 16, as to which the date is
June 1, 2012

## Tortoise Capital Resources Corporation
### CONSOLIDATED BALANCE SHEETS

| | November 30, 2011 | November 30, 2010 |
|---|---|---|
| **Assets** | | |
| Trading securities, at fair value | $ 27,037,642 | $ 20,806,821 |
| Other equity securities, at fair value | 41,856,730 | 72,929,409 |
| Leased property, net of accumulated depreciation of $294,309 | 13,832,540 | |
| Cash and cash equivalents | 2,793,326 | 1,466,193 |
| Property and equipment, net of accumulated depreciation of $1,483,616 | 3,842,675 | |
| Escrow receivable | 1,677,052 | |
| Accounts receivable | 1,402,955 | |
| Intangible lease asset, net of accumulated amortization of $121,641 | 973,130 | |
| Lease receivable | 474,152 | |
| Prepaid expenses | 140,017 | 25,023 |
| Receivable for Adviser expense reimbursement | 121,962 | 109,145 |
| Interest receivable | | 42,778 |
| Deferred tax asset | 27,536 | 656,743 |
| Other assets | 107,679 | 5,281 |
| **Total Assets** | 94,287,396 | 96,041,393 |
| | | |
| **Liabilities and Stockholders Equity** | | |
| **Liabilities** | | |
| Management fees payable to Adviser | 365,885 | 327,436 |
| Accounts payable | 597,157 | |
| Long-term debt | 2,279,883 | |
| Lease obligation | 107,550 | |
| Accrued expenses and other liabilities | 510,608 | 234,784 |
| **Total Liabilities** | 3,861,083 | 562,220 |
| | | |
| **Stockholders Equity** | | |
| Warrants, no par value; 945,594 issued and outstanding at November 30, 2011 and November 30, 2010 (5,000,000 authorized) | $ 1,370,700 | $ 1,370,700 |
| Capital stock, non-convertible, $0.001 par value; 9,176,889 shares issued and outstanding at November 30, 2011 and 9,146,506 shares issued and outstanding at November 30, 2010 (100,000,000 shares authorized) | 9,177 | 9,147 |
| Additional paid-in capital | 95,682,738 | 98,444,952 |
| Accumulated deficit | (6,636,302) | (4,345,626) |
| **Total Stockholders Equity** | $ 90,426,313 | $ 95,479,173 |
| **Total Liabilities and Stockholders Equity** | $ 94,287,396 | $ 96,041,393 |
| | | |
| **Book value per share (total stockholders equity divided by shares outstanding)** | $ 9.85 | $ 10.44 |

*See accompanying Notes to Consolidated Financial Statements.*

## Tortoise Capital Resources Corporation
### CONSOLIDATED STATEMENTS OF INCOME

| | Year Ended November 30, 2011 | Year Ended November 30, 2010 | Year Ended November 30, 2009 |
|---|---|---|---|
| **Revenue** | | | |
| Sales Revenue | $ 2,161,723 | $ | $ |
| Lease income | 1,063,740 | | |
| **Total Revenue** | 3,225,463 | | |
| **Expenses** | | | |
| Cost of sales | 1,689,374 | | |
| Management fees, net of expense reimbursements | 968,163 | 925,820 | 1,126,327 |
| Asset acquisition expense | 638,185 | | |
| Professional fees | 548,759 | 590,486 | 553,856 |
| Depreciation expense | 364,254 | | |
| Operating expenses | 196,775 | | |
| Directors fees | 70,192 | 92,053 | 90,257 |
| Interest expense | 36,508 | 45,619 | 627,707 |
| Other expenses | 183,674 | 244,398 | 267,666 |
| **Total Expenses** | 4,695,884 | 1,898,376 | 2,665,813 |
| **Loss from Operations** | (1,470,421) | (1,898,376) | (2,665,813) |
| **Other Income** | | | |
| Net realized and unrealized gain (loss) on trading securities | 2,299,975 | (894,531) | 144,723 |
| Net realized and unrealized gain on other equity securities | 2,283,773 | 20,340,602 | 981,909 |
| Distributions and dividend income, net | 651,673 | 1,853,247 | 1,743,017 |
| Other income | 40,000 | 38,580 | 61,514 |
| **Total Other Income** | 5,275,421 | 21,337,898 | 2,931,163 |
| **Income before Income Taxes** | 3,805,000 | 19,439,522 | 265,350 |
| Current tax expense | (253,650) | | |
| Deferred tax expense | (629,207) | (4,772,648) | (254,356) |
| Income tax expense, net | (882,857) | (4,772,648) | (254,356) |
| **Net Income** | $ 2,922,143 | $ 14,666,874 | $ 10,994 |
| Earnings Per Common Share: | | | |
| Basic and Diluted | $ 0.32 | $ 1.61 | $ 0.00 |
| Weighted Average Shares of Common Stock Outstanding: | | | |
| Basic and Diluted | 9,159,809 | 9,107,070 | 8,997,145 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Capital Stock Shares | Amount | Warrants | Additional Paid-in Capital | Retained Earnings (Accumulated Deficit) | Total |
|---|---|---|---|---|---|---|
| **Balance at December 1, 2008** | 8,962,147 | $ 8,962 | $ 1,370,700 | $ 106,869,132 | $ (19,023,494) | $ 89,225,300 |
| Net Income | | | | | 10,994 | 10,994 |
| Distributions to stockholders sourced as return of capital | | | | (5,582,473) | | (5,582,473) |
| Reinvestment of distributions to stockholders | 115,943 | 116 | | 642,648 | | 642,764 |
| **Balance at November 30, 2009** | 9,078,090 | 9,078 | 1,370,700 | 101,929,307 | (19,012,500) | 84,296,585 |
| Net Income | | | | | 14,666,874 | 14,666,874 |
| Distributions to stockholders sourced as return of capital | | | | (3,915,124) | | (3,915,124) |
| Reinvestment of distributions to stockholders | 68,416 | 69 | | 430,769 | | 430,838 |
| **Balance at November 30, 2010** | 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) |
| **Balance at November 30, 2011** | 9,176,889 | $ 9,177 | $ 1,370,700 | $ 95,682,738 | $ (6,636,302) | $ 90,426,313 |

*See accompanying Notes to Consolidated Financial Statements.*

## Tortoise Capital Resources Corporation
### CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended November 30, 2011 | Year Ended November 30, 2010 | Year Ended November 30, 2009 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net Income | $ 2,922,143 | $ 14,666,874 | $ 10,994 |
| Adjustments: | | | |
| Distributions received from investment securities | 2,845,434 | 3,064,204 | 6,791,394 |
| Deferred income tax expense, net | 629,207 | 4,772,648 | 254,356 |
| Depreciation expense | 364,254 | | |
| Amortization of intangible lease asset | 121,641 | | |
| Amortization of assumed debt premium | (94,611) | | |
| Realized and unrealized (gain) loss on trading securities | (2,299,975) | 894,531 | (144,723) |
| Realized and unrealized (gain) loss on other equity securities | (2,283,773) | (20,340,602) | (981,909) |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in interest, dividend and distribution receivable | 42,778 | (42,774) | 77,218 |
| Decrease in lease receivable | 237,077 | | |
| Increase in accounts receivable | (92,473) | | |
| Decrease in income tax receivable | | | 212,054 |
| Decrease (increase) in prepaid expenses and other assets | 70,109 | (13,429) | 91,004 |
| Increase (decrease) in management fees payable to Adviser, net of expense reimbursement | 25,632 | (30,926) | (195,410) |
| Increase in accounts payable | 236,579 | | |
| Increase (decrease) in accrued expenses and other liabilities | 38,424 | (47,625) | (79,874) |
| Net cash provided by operating activities | $ 2,762,446 | $ 2,922,901 | $ 6,035,104 |
| **Investing Activities** | | | |
| Purchases of long-term investments | (38,060,281) | (10,633,882) | (6,669,391) |
| Proceeds from sales of long-term investments | 53,950,583 | 15,762,612 | 24,312,558 |
| Cash paid in business combination | (12,250,000) | | |
| Purchases of property and equipment | (1,045) | | |
| Net cash provided by investing activities | $ 3,639,257 | $ 5,128,730 | $ 17,643,167 |
| **Financing Activities** | | | |
| Payments on long-term debt | (1,221,000) | | |
| Payments on lease obligation | (44,816) | | |
| Advances from revolving line of credit | | | 900,000 |
| Repayments on revolving line of credit | (400,000) | (4,600,000) | (18,500,000) |
| Distributions paid to common stockholders | (3,503,365) | (3,484,284) | (4,939,797) |
| Net cash used in financing activities | $ (5,169,181) | $ (8,084,284) | $ (22,539,797) |
| Net Change in Cash and Cash Equivalents | $ 1,232,522 | $ (32,653) | $ 1,138,474 |
| Consolidation of wholly-owned subsidiary | 94,611 | | |
| Cash and Cash Equivalents at beginning of year | 1,466,193 | 1,498,846 | 360,372 |
| Cash and Cash Equivalents at end of year | $ 2,793,326 | $ 1,466,193 | $ 1,498,846 |
| **Supplemental Disclosure of Cash Flow Information** | | | |
| Interest paid | $ 176,595 | $ 66,703 | $ 674,245 |
| Income taxes paid | $ 253,650 | $ | $ |
| **Non-Cash Financing Activities** | | | |
| Reinvestment of distributions by common stockholders in additional common shares | $ 252,242 | $ 430,838 | $ 642,764 |

*See accompanying Notes to Consolidated Financial Statements.*

## Tortoise Capital Resources Corporation

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2011

### 1. Organization

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.

### 2. Significant Accounting Policies

A. *Use of Estimates* 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.

B. *Basis of Presentation* The Company s consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Mowood, LLC ( Mowood ). Mowood is the holding company for Omega Pipeline Company ( Omega ). Omega is a natural gas local distribution company that 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.

Consolidation of Mowood was triggered 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 ). The accompanying consolidated financial statements reflect the results of the Company s operations for the years ended November 30, 2009 and 2010 and the period from December 1, 2010 to September 21, 2011, during which time the Company reported under the Guide, and therefore reported and accounted for Mowood as an investment carried at fair value. Subsequent to September 21, 2011, the Company ceased reporting under the Guide. The results of operations for Mowood for the period from September 21, 2011 to November 30, 2011 and related balances at November 30, 2011 are included in the Company s consolidated financial statements as of and for the year ended November 30, 2011. Certain prior year balances 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 for prior years, which are summarized below, did not impact the Company s financial position or reported net results of operations:

- Investments at fair value, including securities of control, affiliated and non-affiliated companies, at November 30, 2010 have been reclassified as either trading or other equity securities.
- Components of Stockholders Equity on the Consolidated Balance Sheets as of November 30, 2010 have been combined. Accumulated net investment loss, net of income taxes of $(3,308,522), accumulated realized loss, net of income taxes of $(18,532,648), and net unrealized appreciation of investments, net of income taxes of $17,495,544 have been combined into Accumulated Deficit.
- Items on the Consolidated Statements of Income for the years ended November 30, 2010 and 2009 have been reclassified and aggregated to conform to the presentation of the results of operations for the year ended November 30, 2011. However, there was no impact to net income or earnings per share. Income from investment securities are no longer considered to be part of the Company s operations and therefore have been classified as Other Income.
- Components of cash flows for the years ended November 30, 2010 and 2009 have been reclassified and aggregated to conform to the presentation of cash flows for the year ended November 30, 2011.

C. *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.

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

- The independent valuation firm prepares the preliminary valuations and the supporting analysis. At November 30, 2011, the independent valuation firm performed positive assurance valuation procedures on five portfolio companies comprising approximately 99.9 percent of the total fair value of other equity securities;
- The investment professionals of the Adviser review the preliminary valuations and supporting analyses, and consider and assess, as appropriate, any changes that may be required to the preliminary valuations;
- The Investment Committee of the Adviser reviews the preliminary valuations and supporting analyses, and considers and assesses, as appropriate, any changes that may be required to the preliminary valuations;
- The Board of Directors assesses the final valuations and ultimately determines the fair value of each investment in the Company s portfolio in good faith.

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 fair value of the escrow receivable due the Company, which relates to the sale of International Resource Partners, LP, will be released upon satisfaction of certain post closing obligations and/or the expiration of certain time periods (the shortest of which is 14 months from the April 2011 closing date of the sale).

*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.

The estimated fair values of the Company s financial instruments are shown in the table below:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Carrying Amount | Fair value | Carrying Amount | Fair value |
| **Financial assets** | | | | |
| Cash and cash equivalents | $ 2,793,326 | $ 2,793,326 | $ 1,466,193 | $ 1,466,193 |
| Escrow Receivable | 1,677,052 | 1,677,052 | | |
| **Financial Liabilities** | | | | |
| Long-term debt | 2,279,883 | 2,320,851 | | |

E. *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.

F. *Accounts Receivable* Accounts receivable are 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. Management determined that an allowance for doubtful accounts was not necessary at November 30, 2011.

G. *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.

- *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 comprised of ordinary income, capital gains and return of capital. The Company records investment income, capital gains and return of capital based on estimates made at the time such distributions are received. Such estimates are based on information available from each company and/or other industry sources. These estimates may subsequently be revised based on information received from the entities after their tax reporting periods are concluded, as the actual character of these distributions is not known until after the fiscal year end of the Company.

  During the year ended November 30, 2011, the Company reallocated the amount of 2010 income and return of capital it recognized for the period from December 1, 2009 through November 30, 2010 based on the 2010 tax reporting information received from the individual portfolio companies. This reclassification amounted to a decrease in pre-tax net income of approximately $422,000 or $0.046 per share ($263,000 or $0.029 per share, net of deferred tax benefit); an increase in net realized and unrealized gains on trading securities of approximately $47,000 or $0.005 per share ($29,000 or $0.003 per share, net of deferred tax expense) and an increase in net realized and unrealized gains on other equity securities of approximately $375,000 or $0.041 per share ($234,000 or $0.026 per share, net of deferred tax expense) for the year ended November 30, 2011.

- *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.

- *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 assumed. 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.

H. *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.

I. *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 years ended November 30, 2011, November 30, 2010 and November 30, 2009, the source of the Company s distributions for book purposes was 100 percent return of capital. For the year ended November 30, 2011, the Company s distributions for tax purposes were comprised of 100 percent qualified dividend income. For the years ended November 30, 2010 and November 30, 2009, the Company s distributions for tax purposes were comprised of 100 percent return of capital.

J. *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.

K. *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 in lease income on the Consolidated Statements of Income, net of amortization of any off market adjustments.

L. *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.

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 is currently evaluating the impact of these amendments and does not believe they will 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 November 30, 2011, investments in securities of energy infrastructure companies represented approximately 73 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 November 30, 2011 is leased to a single entity, Public Service Company of New Mexico, as further described in Note 7 below. Public Service Company of New Mexico s financial condition and ability and willingness to satisfy its obligations under its leases with the Company have a considerable impact on the Company s results of operations and ability to service its indebtedness.

Mowood, the Company s wholly owned subsidiary, 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 88 percent of sales revenues for the period from September 21, 2011 through November 30, 2011. 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. Revenues related to these services accounted for 16 percent of sales revenues for the period from September 21, 2011 through November 30, 2011. Amounts due from the DOD account for 85 percent of the consolidated accounts receivable balance at November 30, 2011.

Mowood s contracts for its supply of natural gas are concentrated among select providers. Payments to the top supplier of natural gas accounted for 60 percent of cost of sales for the period from September 21, 2011 through November 30, 2011.

**4. Agreements**

The Company entered into a new management agreement after its fiscal year end as more fully described in Note 15. From the Company s inception through November 30, 2011, it had an Investment Advisory Agreement with Tortoise Capital Advisors, L.L.C. Under the terms of the Investment Advisory Agreement, the Adviser is paid a fee consisting of a base management fee and an incentive fee. The base management fee is 0.375 percent (1.5 percent annualized) of the Company s average monthly Managed Assets, calculated and paid quarterly in arrears within thirty days of the end of each fiscal quarter. The term Managed Assets as used in the calculation of the management fee means total assets (including any assets purchased with or attributable to borrowed funds but excluding any net deferred tax asset) minus accrued liabilities other than (1) net deferred tax liabilities, (2) debt entered into for the purpose of leverage and (3) the aggregate liquidation preference of any outstanding preferred shares. The base management fee for any partial quarter is appropriately prorated.

The Adviser reimbursed the Company for certain expenses in an amount equal to an annual rate of 0.25 percent of the Company s average monthly Managed Assets during the period from December 1, 2008 through May 31, 2010 and in an amount equal to an annual rate of 0.50 percent of the Company s average monthly Managed Assets from June 1, 2010 through November 30, 2011. During the years ended November 30, 2011, November 30, 2010 and November 30, 2009, the Adviser reimbursed the Company $484,082, $308,003 and $225,266, respectively, which are included in management fees, net of expense reimbursement in the Consolidated Statements of Income. If the Adviser had not reimbursed the Company for these fees, management fees would have been higher.

The incentive fee consists of two parts. The first part, the investment income fee, is equal to 15 percent of the excess, if any, of the Company s Net Investment Income for the fiscal quarter over a quarterly hurdle rate equal to 2 percent (8 percent annualized), and multiplied, in either case, by the Company s average monthly Net Assets for the quarter. Net Assets means the Managed Assets less deferred taxes, debt entered into for the purposes of leverage and the aggregate liquidation preference of any outstanding preferred shares. Net Investment Income means interest income (including accrued interest that we have not yet received in cash), dividend and distribution income from equity investments (but excluding that portion of cash distributions that are treated as a return of capital), and any other income (including any fees such as commitment, origination, syndication, structuring, diligence, monitoring, and consulting fees or other fees that the Company is entitled to receive from portfolio companies) accrued during the fiscal quarter, minus the Company s operating expenses for such quarter (including the base management fee, expense reimbursements payable pursuant to the Investment Advisory Agreement, any interest expense, any accrued income taxes related to net investment income, and distributions paid on issued and outstanding preferred stock, if any, but excluding the incentive fee payable). Net Investment Income also includes, in the case of investments with a deferred interest or income feature (such as original issue discount, debt or equity instruments with a payment-in-kind feature, and zero coupon securities), accrued income that the Company has not yet received in cash. Net Investment Income does not include any realized capital gains, realized capital losses, or unrealized capital appreciation or depreciation. The investment income fee is calculated and payable quarterly in arrears within thirty (30) days of the end of each fiscal quarter. The investment income fee calculation is adjusted appropriately on the basis of the number of calendar days in the first fiscal quarter the fee accrues or the fiscal quarter during which the Agreement is in effect in the event of termination of the Agreement during any fiscal quarter. During the years ended November 30, 2011, November 30, 2010 and November 30, 2009, the Company accrued no investment income fees.

The second part of the incentive fee payable to the Adviser, the capital gain incentive fee, is equal to: (A) 15 percent of (i) the Company s net realized capital gains (realized capital gains less realized capital losses) on a cumulative basis from inception to the end of each fiscal year, less (ii) any unrealized capital depreciation at the end of such fiscal year, less (B) the aggregate amount of all capital gain fees paid to the Adviser in prior fiscal years. The capital gain incentive fee is calculated and payable annually within thirty (30) days of the end of each fiscal year. In the event the Investment Advisory Agreement is terminated, the capital gain incentive fee calculation shall be undertaken as of, and any resulting capital gain incentive fee shall be paid

within thirty (30) days of the date of termination. The Adviser may, from time to time, waive or defer all or any part of the compensation described in the Investment Advisory Agreement.

The calculation of the capital gain incentive fee does not include any capital gains that result from that portion of any scheduled periodic distributions made possible by the normally recurring cash flow from the operations of portfolio companies ( Expected Distributions ) that are characterized by the Company as return of capital for U.S. generally accepted accounting principles purposes. In that regard, any such return of capital will not be treated as a decrease in the cost basis of an investment for purposes of calculating the capital gain incentive fee. This does not apply to any portion of any distribution from a portfolio company that is not an Expected Distribution. Realized capital gains on a security will be calculated as the excess of the net amount realized from the sale or other disposition of such security over the adjusted cost basis for the security. Realized capital losses on a security will be calculated as the amount by which the net amount realized from the sale or other disposition of such security is less than the adjusted cost basis of such security. Unrealized capital depreciation on a security will be calculated as the amount by which the Company s adjusted cost basis of such security exceeds the fair value of such security at the end of a fiscal year.

The payable for capital gain incentive fees is a result of the increase or decrease in the fair value of investments and realized gains or losses from investments. For the years ended November 30, 2011, November 30, 2010 and November 30, 2009, the Company accrued no capital gain incentive fees. Pursuant to the Investment Advisory Agreement, the capital gain incentive fee is paid annually only if there are realization events and only if the calculation defined in the agreement results in an amount due. No capital gain incentive fees have been paid since the commencement of operations.

U.S. Bancorp Fund Services, LLC serves as the Company s fund accounting services provider. The Company pays the provider a monthly fee computed at an annual rate of $24,000 on the first $50,000,000 of the Company s Net Assets, 0.0125 percent on the next $200,000,000 of Net Assets, 0.0075 percent on the next $250,000,000 of Net Assets and 0.0025 percent on the balance of the Company s Net Assets.

The Adviser serves as the Company s administrator. The Company paid the administrator a fee equal to an annual rate of 0.07 percent of aggregate average daily Managed Assets up to and including $150,000,000, 0.06 percent of aggregate average daily Managed Assets on the next $100,000,000, 0.05 percent of aggregate average daily Managed Assets on the next $250,000,000, and 0.02 percent on the balance thru November 30, 2010. On December 1, 2010, the Company entered into an Amended Administration Agreement with the administrator that decreased the fee to an amount 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 November 30, 2011 and November 30, 2010 are as follows:

| | November 30, 2011 | November 30, 2010 |
|---|---|---|
| Deferred tax assets: | | |
| Organization costs | $ (20,068) | $ (21,231) |
| Capital loss carryforwards | | (4,268,529) |
| Net operating loss carryforwards | (2,624,525) | (6,343,988) |
| Cost recovery of leased assets | (119,970) | |
| AMT and State of Kansas credit | (205,039) | (5,039) |
| Valuation allowance | | 558,533 |
| | (2,969,602) | (10,080,254) |
| Deferred tax liabilities: | | |
| Basis reduction of investment in partnerships | 2,244,914 | 783,156 |
| Net unrealized gain on investment securities | 697,152 | 8,640,355 |
| | 2,942,066 | 9,423,511 |
| Total net deferred tax asset | $ (27,536) | $ (656,743) |

At November 30, 2011, 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 November 30, 2011, the Company had no uncertain tax positions and no penalties and interest were accrued. The Company does not expect any change to its unrecognized tax positions in the twelve months subsequent to November 30, 2011. 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 year ended November 30, 2011 and 34 percent for the years ended November 30, 2010 and 2009 to net investment loss and net realized and unrealized gains (losses) on investments for the years presented, as follows:

| | For the year ended November 30, 2011 | For the year ended November 30, 2010 | For the year ended November 30, 2009 |
|---|---|---|---|
| Application of statutory income tax rate | $ 1,331,750 | $ 6,609,437 | $ 90,219 |
| State income taxes, net of federal tax benefit | 133,158 | 353,799 | 9,314 |
| Dividends received deduction | (86) | | |
| Change in deferred tax liability due to change in overall tax rate | (23,432) | 288,968 | (68,375) |
| Change in deferred tax valuation allowance | (558,533) | (2,479,556) | 223,198 |
| Total income tax expense | $ 882,857 | $ 4,772,648 | $ 254,356 |

Total income taxes are computed by applying the federal statutory rate plus a blended state income tax rate. During the year, the Company re-evaluated its overall federal and state income tax rate, increasing it from 35.82 percent to 37.62 percent, due to (1) an anticipated 35 percent federal rate, and (2) anticipated state apportionment of income and gains.

The components of income tax expense include the following for the years presented:

| | For the year ended November 30, 2011 | For the year ended November 30, 2010 | For the year ended November 30, 2009 |
|---|---|---|---|
| Current tax expense | | | |
| State (reflects a federal tax benefit in deferred tax expense) | $ 53,650 | $ | $ |
| AMT | 200,000 | | |
| Total current tax expense | 253,650 | | |
| Deferred tax expense | | | |
| Federal | 585,386 | 4,530,152 | 230,554 |
| State (net of federal tax benefit) | 43,821 | 242,496 | |