Tortoise Capital Resources Corp.
2011 Third Quarter Conference Call
October 13, 2011
Prepared Remarks

Pam Kearney: Thank you and welcome to the 2011 third quarter conference call for Tortoise Capital Resources. I'm joined today by David Schulte, CEO, Ed Russell, President, Connie Savage, Controller and Rick Green, Corridor Energy Managing Director. An audio replay of our conference call will be available on our website. This information is included in the press release issued today which is also posted on our website at www.tortoiseadvisors.com.

We would like to remind you that statements made during the course of this presentation that are not purely historical may be forward-looking statements regarding TTO's or management's intentions, estimates, projections, assumptions, beliefs, expectations, and strategies for the future. All such forward-looking statements are intended to be subject to the safe harbor protection available under applicable securities law.

Because such statements deal with future events, they are subject to various risks and uncertainties and actual outcomes and results may differ materially from those projected in the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward looking statements are discussed in our filings with the SEC including the Quarterly Report on Form 10-Q which was filed earlier today, and our Annual Report on Form 10-K which was filed in February.

These documents can also be accessed through the investor relations section of our website. We do not update our forward looking statements and with that, I'll turn the call over to Dave.

Dave Schulte:
Thank you Pam, and good afternoon to everyone. Thank you for joining us today for our third quarter conference call. I will start by giving an update on our real asset strategy and transition. Ed Russell will then give an update on our private companies, Connie Savage will discuss our financial results and then we will open the phone lines for questions. Rick Green, Managing Director of Corridor Energy, an affiliate of Tortoise Capital Advisors, will join us for the Q&A portion of the call.

We are continuing to make progress in repositioning TTO. On June 30th, 2011, we acquired a 40% undivided interest in the Eastern Interconnect Project, transmission line in New Mexico that is operated by the Public Service Company of New Mexico. The utility has performed as expected and a recent strategy announcement led to Standard & Poor's upgrading the utility's senior unsecured debt rating to BBB- from BB+.

Corridor has begun what we hope will be a long-term relationship with the utility's senior management.

The EIP transaction is reflected in our financial statements for the period ending August 31 2011 as a business combination. The acquisition consisted of leased asset property of $14.1 million, lease receivables assumed of $700,000, an intangible lease asset of $1.1 million, interest payable assumed of $100,000 and a fair value premium on debt assumed of $200,000. We incurred transaction costs of approximately $600,000, which were expensed as incurred. We expect future real property acquisitions to be accounted for in a similar manner.

On Sept. 21, 2011, we filed the withdrawal of our election to be regulated as a BDC with the SEC. The withdrawal supports the real asset strategy and allowed us to facilitate progress on our shelf registration statement, which effectively converted our previously filed N-2 registration statement under the 1940 Act, to an S-3 registration statement under the 1933 Act. When effective, the shelf registration will allow us to raise additional capital to acquire additional real property assets as described in the registration document. We do not currently have any agreements or plans for any issuance of debt or equity securities, and would be reluctant to raise equity at the current stock price.

The market opportunity for acquiring real property assets is substantial. Industry sources estimate the amount of capital to be invested in the electric grid construction at approximately $10 billion per year. The pipeline network represents another $10-$15 billion per year. We believe that lease funding is an advantageous option for operators of these networks, as it conserves their equity capital and provides another tool for funding growth.

The acquisition of the New Mexico transmission line has strengthened our pipeline of potential deals. Inquiries and opportunities have arisen for similar assets, other energy transportation and distribution assets, and some energy and chemical storage facilities. Our relationships with current private portfolio companies could also lead to additional REIT-qualifying investments, and we are reviewing the REIT eligibility of our existing holdings.

We generally target real property assets with long-lives, stable cash flows and limited commodity price sensitivity, experienced management teams, limited technology risk and growth opportunities. We seek to enter into leases that provide base rent and participating rent over the lease term. These increases are expected to be fixed or tied generally to increases in indices such as the Consumer Price Index. Although PNM is an investment grade utility, we expect to lease our property to both investment grade and non-investment grade operators. We anticipate structuring the lease payment to reflect the risk profile of both the underlying asset and the operating company.

Our objective is for each new real asset acquisition and lease agreement to provide stockholders with an attractive risk-adjusted total return, with an emphasis on distributions and distribution growth. Our belief is that upon REIT qualification, our risk and return characteristics can be compared favorably to utilities and other REITs. Furthermore, we believe it is important that all acquisitions are accretive to stockholder distributions.

We continue to diligently seek additional acquisitions, and believe that 2012 REIT qualification is attainable. However, low interest rates and current economic and market pressures have tempered the environment for acquisitions and could lengthen our timeline for REIT qualification. If that is the case, we would continue to be a taxable corporation throughout 2012, but would not anticipate any change in our distribution paying capacity in 2012 from 2011.

On or before the end of the current fiscal year, we anticipate terminating the current Investment Advisory Agreement with Tortoise Capital Advisors and entering into a Management Agreement directly with Corridor Energy pursuant to which Corridor will provide full management services in connection with our real asset investments. This agreement is expected to contain economic terms no less favorable to us than the terms of the Investment Advisory Agreement entered into with Tortoise Capital Advisors. Upon execution of the Management Agreement with Corridor Energy and Corridor will be our primary manager. We would then enter into a new Advisory Agreement with Tortoise Capital Advisors to continue to provide services necessary to liquidate our securities portfolio and certain other day-to-day non-investment operational services. We believe that Corridor has demonstrated the expertise for pursuing TTO’s future strategy, supported by Tortoise’s platform of research and relationships.

With that I will turn the call over to Ed Russell who will give an update on our private companies.

Ed Russell: Thanks Dave. I’ll begin by mentioning our previous distribution guidance in that we expect our earned distributable cash flow to support an annualized distribution of not less than $0.40 per share, with upside potential to that rate depending on the performance of our private portfolio. We believe this guidance provides the basis for our stockholders to have confidence in the sustainability of our distribution at this level.

In June 2011, we invested $9.9 million in Magnetar MLP Investment LP representing an indirect investment into Lightfoot Capital Partners portfolio company, Arc Terminals. Arc is an independent operator of above ground storage and delivery services for petroleum products and chemicals including refined products, renewable fuels and crude oil. As of August 2011, Arc had nine terminals located in the United States with a combined working capacity of 3.6 million barrels. At the time of our investment, Lightfoot also held approximately $60 million in cash set aside for other platform investments or additional investments in Arc.

High Sierra's fair value increased approximately $2.7 million this quarter. In May, High Sierra completed the sale of Monroe Gas Storage. In June, High Sierra acquired the assets of Marcum Midstream, a Colorado-based water disposal company serving the oil and gas industry. The completion of these transactions, along with a new credit facility which closed in March, is expected to result in a modest increase in the quarterly cash distribution next quarter. Over the last two quarters, we have seen a meaningful increase in High Sierra's fair value, which has been a direct result of management's efforts to sell non-strategic assets, close on a bank facility that gives them sufficient capital to grow, and expand their water recycling business.

I would, however, caution investors that given the volatility of High Sierra's businesses, it is unlikely that we will see distributions return to historical levels in the near future. Instead, I would expect management and the board to focus on providing predictable and stable distributions based on expected distributable cash flow.

Mowood's fair value increased approximately $300,000 this quarter. Mowood reported a very strong third quarter, due largely to Omega's July performance in which revenues and EBITDA were well above projections. Omega's pipeline assets in Fort Leonard Wood, Missouri continue to grow, and we expect scheduled construction revenues to bolster its performance for the remainder of 2011.

In August 2011, VantaCore completed an acquisition of Cherry Grove Quarry in Todd County, Kentucky. TTO provided VantaCore $1.2 million in August to help fund the acquisition in exchange for newly issued Preferred B units. The fair value of VantaCore's securities decreased approximately $3.3 million in total in the quarter, exclusive of these Preferred B units. As VantaCore was unable to meet its minimum quarterly distribution of $0.475 per unit for its quarter ended June 30, 2011, TTO received 27,167 preferred units in addition to $0.04 in cash per common and preferred unit. We expect the Cherry Grove acquisition and the continued operating improvements at Southern Aggregates to improve profit margins. And I would expect the company to continue to make additional investments in equipment or improvements to facilities.

I don't expect a dramatic improvement in Southern Aggregate's volumes in the near future which will likely result in us continuing to see a significant portion of our distribution in the form of PIK units instead of cash.

I will now turn the call over to Connie Savage for a discussion of TTO's financial results.

Connie: Thanks Ed. Our net asset value per share was $10.62 as of August 31, 2011, compared to $10.66 per share last quarter. The fair value of our investment securities, excluding short-term investments, at Aug. 31, 2011, was approximately $81.5 million, with approximately $54.5 million in private securities and about $27.0 million in publicly-traded securities. The transmission line acquisition is reflected on our balance sheet separately from our investment securities, as Dave previously described.

We had a net investment loss for the quarter of approximately $610,000, which includes approximately $583,000 in transactions costs related to the transmission line acquisition which were expensed as incurred We had a net increase in unrealized gains before income taxes of about $1.4 million and a net realized gain before income taxes of about $611,000. In summary, we had a net increase in net assets resulting from operations for this quarter of approximately $591,000.

Our DCF this quarter consisted of approximately $1.4 million total from our investments, less approximately $492,000 in operating expenses. This left us with distributable cash flow of approximately $888,000, or about $9.7 cents per share, and we paid out $.10 per share in distribution to stockholders.

The financial statements included in our current Form 10-Q are prepared in conformity with GAAP specifically as an investment company. As a result of the withdrawal of our election to be regulated as a BDC, we will no longer qualify as an investment company for purposes of applying U.S. GAAP and this will result in a significant change in our future financial statement presentation. The most notable changes include the removal of the Schedule of Investments and Financial Highlights, and consolidation of our wholly-owned portfolio company, Mowood, LLC. Exclusive of Mowood, we expect our other equity investments, both public and private, to continue to be reported at fair value under provisions of GAAP within our financial statements.

NAV and DCF have historically been meaningful measures of our operating performance and distribution-paying capacity. As our regulatory and operating structure transitions towards investing in real property assets, some of these historical measurements may become less meaningful or may be presented in a different context. We intend to, where appropriate, provide supplemental GAAP and non-GAAP information in order to enhance our investors' overall understanding of our financial statements. These items would likely include supplemental fair value information regarding Mowood, our net asset value (or book value) per share, and cash flow coverage of our distributions.

With that, I'll now turn the call over to Dave Schulte for final comments

Conclusion: Thanks again to everyone joining us on our call today. Operator, that concludes our prepared remarks and we are now ready to open the phone lines for any questions.