

TORTOISE ENERGY INFRASTRUCTURE CORP  
Form N-CSRS  
July 18, 2008

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

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number **811-21462**

**Tortoise Energy Infrastructure Corporation**  
(Exact name of registrant as specified in charter)

**11550 Ash Street, Suite 300, Leawood, KS 66211**  
(Address of principal executive offices) (Zip code)

**David J. Schulte**  
**11550 Ash Street, Suite 300, Leawood, KS 66211**  
(Name and address of agent for service)

**913-981-1020**  
Registrant's telephone number, including area code

Date of fiscal year end: **November 30**

Date of reporting period: **May 31, 2008**

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**Item 1. Reports to Stockholders.**

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**Company at a Glance**

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Tortoise Energy Infrastructure Corp. is a pioneering closed-end investment company investing primarily in equity securities of publicly-traded Master Limited Partnerships (MLPs) operating energy infrastructure assets.

### **Investment Goals: Yield, Growth and Quality**

We seek a high level of total return with an emphasis on current distributions paid to stockholders.

In seeking to achieve **yield**, we target distributions to our stockholders that are roughly equal to the underlying yield on a direct investment in MLPs. In order to accomplish this, we maintain our strategy of investing primarily in energy infrastructure MLPs with attractive current yields and growth potential.

Tortoise Energy achieves distribution **growth** as revenues of our underlying companies grow with the economy, with the population and through rate increases. This revenue growth leads to increased operating profits, and when combined with internal expansion projects and acquisitions, is expected to provide attractive growth in distributions to Tortoise Energy. We also seek distribution growth through capital market strategies involving timely debt and equity offerings by Tortoise Energy that are primarily invested in MLP issuer direct placements.

We seek to achieve **quality** by investing in companies operating energy infrastructure assets that are critical to the U.S. economy. Often these assets would be difficult to replicate. We also back experienced management teams with successful track records. By investing in Tortoise Energy, our stockholders have access to a portfolio that is diversified through geographic regions and across product lines, including natural gas, natural gas liquids, crude oil and refined products.

### **About Master Limited Partnerships**

MLPs are limited partnerships whose units trade on public exchanges such as the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX) and NASDAQ. Buying MLP units makes an investor a limited partner in the MLP. There are currently more than 70 MLPs in the market, mostly in industries related to energy and natural resources.

Tortoise Energy invests primarily in MLPs and their affiliates in the energy infrastructure sector. Energy infrastructure MLPs are engaged in the transportation, storage and processing of crude oil, natural gas and refined products from production points to the end users. Our investments are primarily in mid-stream (mostly pipeline) operations, which typically produce steady cash flows with less exposure to commodity prices than many alternative investments in the broader energy industry. With the growth potential of this sector along with our disciplined investment approach, we endeavor to generate a predictable and increasing distribution stream for our investors.

### **A Tortoise Energy Investment Versus a Direct Investment in MLPs**

Tortoise Energy provides its stockholders an alternative to investing directly in MLPs and their affiliates. A direct MLP investment potentially offers an attractive distribution with a significant portion treated as return of capital, and a historically low correlation to returns on stocks and bonds. However, the tax characteristics of a direct MLP investment are generally undesirable for tax-exempt investors such as retirement plans. Tortoise Energy is structured as a C Corporation □ accruing federal and state income taxes, based on taxable earnings and profits. Because of this innovative structure, pioneered by Tortoise Capital Advisors, institutions and retirement accounts are able to join individual stockholders as investors in MLPs.

Additional features of Tortoise Energy include:

- One Form 1099 per stockholder at the end of the year, thus avoiding multiple K-1s and multiple state filings for individual partnership investments;
- A professional management team, with nearly 100 years combined investment experience, to select and manage the portfolio on your behalf;
- The ability to access investment grade credit markets to enhance stockholder return; and
- Access to direct placements and other investments not available through the public markets.

July 10, 2008

DEAR FELLOW STOCKHOLDERS,

Tortoise Energy Infrastructure Corp. (NYSE: TYG) experienced a relatively flat second quarter with respect to the valuation of our MLP holdings even though these companies generally continued to deliver attractive distribution growth. Although MLP valuations deteriorated along with the broad market subsequent to quarter-end, we continue to believe MLP business fundamentals remain attractive and we expect our portfolio companies to again report distribution growth in the upcoming quarter. In addition, we further reduced our exposure to the auction rate market by refinancing some of our notes and preferred stock with proceeds from the issuance of new fixed-rate notes and an equity offering.

#### **Performance Review**

Our total return for the quarter ended May 31, 2008 was 4.43 percent based on market value, including the reinvestment of distributions. Our recent distribution of \$0.5575 per common share (\$2.23 annualized) was our 14th consecutive distribution increase since full investment of initial public offering proceeds. This reflects a 2.3 percent increase over the distribution paid in the same quarter of the prior year and a 0.5 percent increase over the distribution paid in the prior quarter. This distribution represented an annualized yield of 6.8 percent based on the closing price of \$32.60 on May 30, 2008, or an 8.1 percent annualized yield based on today's closing stock price of \$27.39. We expect a portion of this distribution to be return of capital for income tax purposes, although the ultimate determination of its character will not be made until determination of our earnings and profits after our year-end.

We maintain our expectation that long-term distribution growth will be approximately four percent on an annualized basis.

#### **Leverage Review**

On April 10, 2008, we closed a \$150 million private placement of Series E Senior Notes and used the proceeds of the offering to redeem our \$70 million Series D Senior Notes, \$15 million each of our Series III and Series IV MMP Stock and to pay off the outstanding balance on our bank line of credit of \$48.3 million. On June 19, 2008, we issued 1.6 million shares of our common stock and received net proceeds of approximately \$48 million from the offering. We intend to use these proceeds, along with borrowings under our bank line of credit, to redeem our remaining \$35 million of Series III MMP Stock and \$30 million of Series IV MMP Stock later this month. In addition, we have terminated the corresponding swap agreements. These actions should result in lower and more predictable leverage costs. We believe the leverage management strategy we began to execute nearly a year ago has netted attractive terms that will provide beneficial returns to common stockholders through MLP investments that would not be available without the use of leverage.

#### **Investment Review**

During the quarter, we completed a \$7.5 million direct placement in Copano Energy, L.L.C. and invested \$2.9 million in the IPO of Western Gas Partners LP. Since our inception in February 2004 through the date of this letter, we have financed energy infrastructure growth through the completion of 54 direct placement and IPO purchases totaling approximately \$562 million.

#### **Master Limited Partnership Investment Overview and Outlook**

For our quarter ending May 31, 2008, the Wachovia MLP Index reflected a total return of 1.23 percent, compared to a total return of -1.18 percent for the quarter ending Feb. 29, 2008 and 10.87 percent for the quarter ending May 31, 2007. These returns are based on market value,

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including the reinvestment of quarterly dividends. MLP distribution yield is a key performance measure and continues to surpass REITs and Utilities. On May 31, 2008, the Atlantic Asset Management MLP Energy Index dividend yield was 7.06 percent compared to the FTSE NAREIT Equity REIT Index yield of 4.74 percent and the Dow Jones Utility Average Index yield of 3.12 percent. We believe MLPs offer income investors attractive risk and return qualities relative to REITs and utilities.

During the quarter, MLP companies were able to access the capital markets to issue about \$1.4 billion of new equity. The companies also took advantage of the continued low interest rate environment and issued over \$8 billion in debt. By our estimates, there are more than \$55 billion in expected MLP organic growth projects and acquisition opportunities on the horizon between now and 2011. We expect commodity demand to grow about 0.8 percent annually for the next decade. In the face of this expected growth, the weak economy has created modest challenges for the sector. These challenges include a short-term decline in consumer demand for gasoline and other refined products, rising steel prices due to increased worldwide demand and labor shortages. As the credit markets stabilize and economic conditions improve, we believe these challenges will dissipate. We believe we remain well situated to provide capital to the sector through the ups and downs of the market cycle.

#### **Conclusion**

We remain long-term investors focused on a sector that has increased distributions by an average of approximately 10 percent per year over the past five years. We believe that recent market conditions have created opportunities to invest in quality companies trading at attractive prices.

Thank you for investing in our company.

Sincerely,

The Managing Directors  
Tortoise Capital Advisors, L.L.C.  
*The adviser to Tortoise Energy Infrastructure Corp.*

H. Kevin Birzer

Zachary A. Hamel

Kenneth P. Malvey

Terry Matlack

David J. Schulte

□ *Steady Wins*®

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SUMMARY FINANCIAL INFORMATION (*Unaudited*)

**Six Months Ended**

	<b>May 31, 2008</b>
Market value per share	\$ 32.60
Net asset value per share	30.35
<b>Total net assets</b>	<b>626,340,665</b>
Net unrealized depreciation of investments (excluding interest rate swap contracts) before income taxes	(38,023,825)
Net unrealized depreciation of investments and interest rate swap contracts after income taxes	(19,674,203)
Net investment loss	(5,039,085)
Net realized gain on investments and interest rate swaps after income taxes	2,140,612
Total investment return based on market value <sup>(1)</sup>	4.07%

(1) See footnote 7 to the Financial Highlights on page 22 for further disclosure.

### **Allocation of Portfolio Assets**

*May 31, 2008 (Unaudited)*

*(Percentages based on total investment portfolio)*

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#### KEY FINANCIAL DATA (Unaudited)

*(dollar amounts in thousands unless otherwise indicated)*

**The information presented below regarding Distributable Cash Flow and Selected Operating Ratios is supplemental non-GAAP financial information, which we believe is meaningful to understanding our operating performance. The Selected Operating Ratios are the functional equivalent of EBITDA for non-investment companies, and we believe they are an important supplemental measure of performance and promote comparisons from period-to-period. Supplemental non-GAAP measures should be read in conjunction with our full financial statements.**

	<b>2007 Q2<sup>(1)</sup></b>
<b>Total Distributions Received from Investments</b>	
Distributions received from master limited partnerships	\$ 16,056
Dividends paid in stock	2,802
Dividends from common stock	□
Short-term interest and dividend income	154
Total from investments	19,012
<b>Operating Expenses Before Leverage Costs and Current Taxes</b>	
Advisory fees, net of expense reimbursement	2,748
Other operating expenses	388
	3,136
Distributable cash flow before leverage costs and current taxes	15,876
Leverage costs <sup>(2)</sup>	4,912
Current income tax expense	49

**Distributable Cash Flow<sup>(3)</sup>** \$ 10,915

Distributions paid on common stock	\$ 10,192
Distributions paid on common stock per share	0.5450
Payout percentage for period <sup>(4)</sup>	93.4%
Net realized gain (loss), net of income taxes	8,264
Total assets, end of period	1,393,637
Average total assets during period <sup>(5)</sup>	1,282,827
Leverage (Long-Term Debt Obligations, Preferred Stock and Short-Term Borrowings) <sup>(6)</sup>	435,000
Leverage as a percent of total assets	31.2%
Unrealized appreciation net of income taxes, end of period	338,616
Net assets, end of period	724,194
Average net assets during period <sup>(7)</sup>	706,449
Net asset value per common share	38.73
Market value per share	42.12
Shares outstanding	18,700,689

**Selected Operating Ratios<sup>(8)</sup>**

**As a Percent of Average Total Assets**

Total distributions received from investments	5.88%
Operating expenses before leverage costs and current taxes	0.97%
Distributable cash flow before leverage costs and current taxes	4.91%

**As a Percent of Average Net Assets**

Distributable cash flow <sup>(3)</sup>	6.13%
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- (1) Q1 is the period from December through February. Q2 is the period from March through May. Q3 is the period from June through August. Q4 is the period from September through November.
- (2) Leverage costs include interest expense, recurring auction agent fees, interest rate swap expenses and distributions to preferred stockholders.
- (3) [Net investment income (loss), before income taxes] on the Statement of Operations is adjusted as follows to reconcile to Distributable Cash Flow (DCF): increased by the return of capital on MLP distributions and the value of paid-in-kind distributions, non-recurring auction agent fees and amortization of debt issuance costs; and decreased by distributions to preferred stockholders, current taxes paid, and realized and unrealized gains (losses) on interest rate swap settlements.
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2007		2008	
Q3 <sup>(1)</sup>	Q4 <sup>(1)</sup>	Q1 <sup>(1)</sup>	Q2 <sup>(1)</sup>
\$ 17,049	\$ 17,075	\$ 18,455	\$ 18,502
2,869	3,082	3,092	2,837
50	26	21	21
40	328	71	130
20,008	20,511	21,639	21,490
2,966	2,735	2,612	2,560
433	464	332	373
3,399	3,199	2,944	2,933
16,609	17,312	18,695	18,557
6,191	7,688	7,982	8,059

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33	118	190	190
\$ 10,385	\$ 9,506	\$ 10,523	\$ 10,308
\$ 10,300	\$ 10,365	\$ 11,426	\$ 11,504
0.5500	0.5525	0.5550	0.5575
99.2%	109.0%	108.6%	111.6%
3,795	12,581	2,749	(609)
1,332,533	1,261,638	1,285,116	1,212,938
1,396,907	1,291,387	1,264,450	1,217,415
490,000	458,050	454,700	410,700
36.8%	36.3%	35.4%	33.9%
274,539	247,696	224,274	228,022
648,551	618,412	637,749	626,341
694,971	634,928	608,322	616,498
34.63	32.96	30.98	30.35
39.52	32.46	31.78	32.60
18,727,411	18,760,441	20,587,891	20,634,877
5.68%	6.37%	6.88%	7.02%
0.97%	0.99%	0.94%	0.96%
4.71%	5.38%	5.94%	6.06%
5.93%	6.01%	6.96%	6.65%

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

(5) Computed by averaging month-end values within each period.

(6) The balance on the short-term credit facility was \$15,700,000 as of May 31, 2008.

(7) Computed by averaging daily values within each period.

(8) Annualized for periods less than one full year. Operating ratios contained in our Financial Highlights are based on net assets as required by GAAP, and include current and deferred income tax expense and leverage costs.

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## MANAGEMENT'S DISCUSSION

The information contained in this section should be read in conjunction with our Financial Statements and the Notes thereto. In addition, this report contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives and can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," or "continue" or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors that could cause actual results and conditions to differ materially from those projected in these forward-looking statements are set forth in the "Risk Factors" section of our public filings with the SEC.

### Overview

Tortoise Energy's goal is to provide a growing distribution stream to our investors. We seek to provide our stockholders with an efficient vehicle to invest in the energy infrastructure sector. While we are a registered investment company under the Investment Company Act of 1940, as amended (the "1940 Act"), we are not a "regulated investment company" for federal tax purposes. Our distributions do not generate unrelated business taxable income (UBTI) and our stock may therefore be suitable for holding by pension funds, IRAs and mutual funds, as well as taxable accounts.

We invest primarily in MLPs through private and public market purchases. MLPs are publicly traded partnerships whose equity interests are traded in the form of units on public exchanges, such as the NYSE or NASDAQ. Our private purchases principally involve financing directly to an MLP through equity investments, which we refer to as direct placements. MLPs typically use this financing to fund growth, acquisitions, recapitalizations, debt repayments and bridge financings. We generally invest in companies that are publicly reporting, but for which a private financing offers advantages. These direct placement opportunities generally arise from our long-term relationships with energy infrastructure MLPs and our expertise in origination, structuring, diligence and investment oversight.

### **Critical Accounting Policies**

The financial statements 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. Our critical accounting policies are those applicable to the valuation of investments and certain revenue recognition matters as discussed in Note 2 in the Notes to Financial Statements.

### **Determining Distributions To Stockholders**

Our portfolio generates cash flow from which we pay distributions to stockholders. Our Board of Directors considers our distributable cash flow ("DCF") in determining distributions to stockholders. Our Board of Directors reviews the distribution rate quarterly, and may adjust the quarterly distribution throughout the year. Our goal is to declare what we believe to be sustainable increases in our regular quarterly distributions. We have targeted to pay at least 95 percent of DCF on an annualized basis.

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## **MANAGEMENT'S DISCUSSION**

*(Continued)*

### **Determining DCF**

DCF is simply distributions received from investments less expenses. The total distributions received from our investments include the amount received by us as cash distributions from MLPs, paid-in-kind distributions, and dividend and interest payments. The total expenses include current or anticipated operating expenses, leverage costs and current income taxes on our operating income. Each are summarized for you in the table on pages 4 and 5 and are discussed in more detail below.

The key financial data table discloses the calculation of DCF. The difference between distributions received from investments in the DCF calculation and total investment income as reported in the Statement of Operations, is reconciled as follows: (1) the Statement of Operations, in conformity with U.S. generally accepted accounting principles (GAAP), recognizes distribution income from MLPs and common stock on their ex-dates, whereas the DCF calculation reflects distribution income on their pay dates; (2) GAAP recognizes that a significant portion of the cash distributions received from MLPs are treated as a return of capital and therefore excluded from investment income, whereas the DCF calculation includes the return of capital; and (3) distributions received from investments in the DCF calculation include the value of dividends paid-in-kind (additional stock or MLP units), whereas such amounts are not included as income for GAAP purposes. The treatment of expenses in the DCF calculation also differs from what is reported in the Statement of Operations. In addition to the total operating expenses as disclosed in the Statement of Operations, the DCF calculation reflects interest expense, recurring auction agent fees, distributions to preferred stockholders and realized and unrealized gains (losses) on interest swap settlements as leverage costs, as well as current taxes paid.

### **Distributions Received from Investments**

Our ability to generate cash is dependent on the ability of our portfolio of investments to generate cash flow from their operations. In order to maintain and grow our distributions to our stockholders, we evaluate each holding based upon its contribution to our investment income, our expectation for its growth rate, and its risk relative to other potential investments.



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We concentrate on MLPs we believe can expect an increasing demand for services from economic and population growth. We seek well-managed businesses with hard assets and stable recurring revenue streams.

Our focus remains primarily on investing in fee-based service providers that operate long-haul, interstate pipelines. We further diversify among issuers, geographies and energy commodities to seek a distribution payment which approximates an investment directly in energy infrastructure MLPs. In addition, most energy infrastructure companies are regulated and utilize an inflation escalator index that factors in inflation as a cost pass-through. So, over the long-term, we believe MLPs' distributions will outpace inflation and interest rate increases, and produce positive returns.

Total distributions received from our investments for the 2nd quarter 2008 was approximately \$21.5 million, representing a 13 percent increase as compared to 2nd quarter 2007 and a 0.7 percent decrease as compared to 1st quarter 2008. Excluding non-recurring distributions of approximately \$980,000 received from MLPs in the 1st quarter 2008, 2nd quarter 2008 distributions increased 4 percent as compared to 1st quarter 2008. This change for the 2nd quarter 2008 reflects the results of recent portfolio activity and distribution increases from our MLP investments.

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### MANAGEMENT'S DISCUSSION

*(Continued)*

#### Expenses

We incur two types of expenses: (1) operating expenses, consisting primarily of the advisory fee; and (2) leverage costs. On a percentage basis, operating expenses before leverage costs and current taxes were an annualized 0.96 percent of average total assets for the 2nd quarter 2008 as compared to 0.97 percent for the 2nd quarter 2007 and 0.94 percent for the 1st quarter 2008. Advisory fees for the 2nd quarter 2008, net of expense reimbursement, decreased 2 percent as a result of reduced average managed assets.

Leverage costs consist of four major components: (1) the direct interest expense on our Tortoise Notes and short-term credit facility; (2) the auction agent fees, which are the marketing costs for the auction rate leverage; (3) the realized and unrealized gain or loss on our interest rate swap settlements; and (4) distributions to preferred stockholders.

Total leverage costs for DCF purposes was approximately \$8.06 million for the 2nd quarter 2008 as compared to \$4.91 million for the 2nd quarter 2007 and \$7.98 million for the 1st quarter 2008, as detailed below.

	2Q 07	1Q 08	2Q 08
Interest expense	\$ 3,934,845	\$ 4,311,645	\$ 4,163,676
Auction agent fees	198,438	232,536	139,449
Net realized and unrealized (gain)/loss on interest rate swap settlements	(679,070)	438,379	1,112,069
Distributions to preferred stockholders	1,457,640	2,999,581	2,643,459
<b>Total leverage costs</b>	<b>\$ 4,911,853</b>	<b>\$ 7,982,141</b>	<b>\$ 8,058,653</b>
Average outstanding leverage (in millions)	\$ 385.6	\$ 458.2	\$ 438.9

The average annualized total cost of leverage (total leverage costs divided by average outstanding leverage) was 7.28 percent for the 2nd quarter 2008 as compared to 7.01 percent for the 1st quarter 2008, and 5.05 percent for 2nd quarter 2007. The increases from 2nd quarter 2007 to the current fiscal periods reflect the impact of the dislocation of the 20 year old auction rate market. Historically, our auctions have reset at rates slightly above or below LIBOR. Earlier this year, our auctions, like most others, began resetting at their maximum rate, which in our

case has been 200 percent of the applicable LIBOR. As a result, we did not benefit, as we otherwise would have, from the lowering LIBOR. The change from 1st quarter 2008 to 2nd quarter 2008 is primarily the result of an increase of approximately \$674,000 in realized and unrealized losses on interest rate swap settlements which occur with a decline in LIBOR, offsetting lower effective rates on leverage.

We anticipate reduced total leverage costs in the near-term as a result of the various steps we have completed in restructuring our leverage. On April 10, 2008, we issued \$150 million Series E Notes, proceeds of which were used to refinance auction rate securities. As a result of this fixed-rate financing, our pro forma current cost of leverage is 6.48 percent including the Series E Notes and the remaining outstanding auction rate securities that have extended auction reset dates. While this rate may vary as existing Notes mature or extended auction rate leverage is reset or refinanced, this is an 80 basis point decrease in our cost of leverage as compared to the 2nd quarter 2008. Additional information on our leverage and restructuring is included in the Liquidity and Capital Resources section below.

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## MANAGEMENT'S DISCUSSION (Continued)

While historically we utilized interest rate swap contracts in an attempt to reduce a portion of the interest risk arising from our auction rate leverage, we have now terminated all of our swap contracts as a result of changes in our leverage structure. Information on swap contracts is outlined below in the Liquidity and Capital Resources section, and Note 12 and Note 15 in our Notes to Financial Statements.

### **Distributable Cash Flow**

For 2nd quarter 2008, our DCF was approximately \$10.3 million, a decrease of \$607,000 or 5.6 percent as compared to 2nd quarter 2007 and a decrease of \$215,000 or 2.0 percent as compared to 1st quarter 2008. Excluding the impact of non-recurring distributions of approximately \$980,000 received from MLPs in the 1st quarter 2008, 2nd quarter 2008 DCF increased 8 percent as compared to 1st quarter 2008. We paid a distribution of \$11.5 million, or 111.6 percent of DCF, during the quarter. Long-term, we expect continued growth in distributions from our investments in MLPs to provide growth in DCF. We believe this, when combined with anticipated near-term reduced leverage costs and occasionally small portions of the \$61 million in cumulative net realized gains from investments, should provide stable and growing distributions. On a per share basis, we declared a \$0.5575 distribution on May 12, 2008, for an annualized run-rate of \$2.23. This is an increase of 2.3 percent as compared to 2nd quarter 2007 and 0.5 percent as compared to 1st quarter 2008.

### **Taxation of our Distributions**

We invest in partnerships which generally have larger distributions of cash than the accounting income which they generate. Accordingly, the distributions include a return of capital component for accounting and tax purposes. Distributions declared and paid by Tortoise Energy in a year generally differ from taxable income for that year, as such distributions may include the distribution of current year taxable income or return of capital.

The taxability of the distribution you receive depends on whether Tortoise Energy has annual earnings and profits. If so, those earnings and profits are first allocated to the preferred shares and then to the common shares.

In the event Tortoise Energy has earnings and profits, all or a portion of our distribution would be taxable at the 15 percent Qualified Dividend Income (QDI) rate, assuming various holding requirements are met by the stockholder. The portion of our distribution that is taxable may vary for either of two reasons: first, the characterization of the distributions we receive from MLPs could change annually based upon the K-1s we receive and become less return of capital and more in the form of income. Second, we could sell an MLP investment in which Tortoise Energy has a gain at any time. The unrealized gain we have in the portfolio is reflected in the Statement of Assets and Liabilities. At May 31, 2008, Tortoise Energy's investments at value are \$1.21 billion, with an adjusted cost of \$830 million. The \$380 million difference reflects gain that would be realized if those investments were sold at those values. A sale could give rise to earnings and profits in that period and make all or a portion of the distributions taxable qualified dividends. Note, however, that the Statement of Assets and Liabilities reflects as a deferred tax liability

the possible future tax liability we would pay if all investments were liquidated at their indicated value. It is for these reasons that we inform you of the tax treatment after the close of each year because the ultimate result is undeterminable and difficult to predict until the year is over. For tax purposes, distributions to stockholders for the fiscal

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## MANAGEMENT'S DISCUSSION

*(Continued)*

year ended 2007 were comprised of approximately 59 percent return of capital and 41 percent qualified dividend income (presuming a stockholder held the shares for the requisite holding period). We currently expect that a portion of our 2008 distributions will consist of return of capital, although the ultimate determination will not be made until January 2009, after determining our earnings and profits.

### **Liquidity And Capital Resources**

Tortoise Energy had total assets of \$1.213 billion at quarter-end. Our total assets reflect the value of our investments, which are itemized in the Schedule of Investments. It also reflects cash, interest and other receivables and any expenses that may have been prepaid. During 2nd quarter 2008, total assets decreased from \$1.285 billion to \$1.213 billion, a decrease of \$72 million or 5.6 percent. This change was primarily the result of the use of proceeds from our February common equity offering to fund the redemption of the Series C Notes in early March and unrealized depreciation of investments of approximately \$10 million during the quarter.

Since August 2007, we have been executing on a plan to maintain financial flexibility and eliminate our current exposure to the auction rate markets. As of July 24, 2008, the initial portion of the plan will be complete as we will have either redeemed, refinanced or extended the auction periods of our auction rate securities.

During 2nd quarter 2008, we redeemed a total of \$175 million of auction rate leverage (\$125 million in senior notes and \$50 million in Preferred Stock) using proceeds of the \$48.6 million common stock issuance completed in February and the issuance of \$150 million of private placement fixedrate senior notes in April. Details of these redemptions are disclosed in Note 10 and Note 11 in our Notes to Financial Statements.

Subsequent to quarter-end, we issued 1,600,000 shares of common stock at \$31.25 per share with net proceeds of approximately \$48 million. These net proceeds, combined with use of our revolving credit facility, will be used to redeem in full the remaining \$35 million of our MMP III Stock and \$30 million of our MMP IV Stock, on July 24th and July 23rd, respectively.

Associated with these redemptions, we subsequently closed-out all \$290 million notional amount of interest rate swap contracts. Additional information on these transactions is included in Note 12 and Note 15 in our Notes to Financial Statements.

Total leverage outstanding at May 31, 2008 of \$411 million is comprised of \$260 million in senior notes, \$135 million in preferred shares and approximately \$16 million outstanding under the credit facility. Total leverage represented 33.9 percent of total assets at May 31, 2008. Our long-term target for leverage remains approximately 33 percent of total assets, although temporary increases up to 38 percent are allowed. In this event, we intend to reduce leverage to our long-term target over time by executing portfolio sales and/or an equity offering. We may continue to utilize our line of credit to make desirable investments as they become available and provide flexibility in managing our capital structure.

## SCHEDULE OF INVESTMENTS (Unaudited)

	May 31, 2008	
	Shares	Fair Value
<b>Common Stock</b> $\square$ 0.2%(1)		
<b>Shipping</b> $\square$ 0.2%(1)		
<b>Republic of the Marshall Islands</b> $\square$ 0.2%(1)		
Capital Product Partners L.P. (Cost \$1,136,941)	52,881	\$ 1,074,542
<b>Master Limited Partnerships and Related Companies</b> $\square$ 192.9%(1)		
<b>Crude/Refined Products Pipelines</b> $\square$ 87.2%(1)		
<b>United States</b> $\square$ 87.2%(1)		
Buckeye Partners, L.P.	533,367	25,489,609
Enbridge Energy Partners, L.P.	925,300	46,542,590
Enbridge Energy Partners, L.P.(2) (3)	1,027,390	50,578,427
Global Partners LP	208,501	3,934,414
Holly Energy Partners, L.P.(4)	427,070	19,367,624
Kinder Morgan Management, LLC(3) (5)	1,722,443	94,992,740
Magellan Midstream Partners, L.P.	1,896,000	73,451,040
NuStar Energy L.P.	1,112,482	54,511,618
NuStar GP Holdings, LLC	313,600	7,796,096
Plains All American Pipeline, L.P.	1,683,581	82,259,768
SemGroup Energy Partners, L.P.	271,982	7,408,790
Sunoco Logistics Partners L.P.	912,600	47,683,350
TEPPCO Partners, L.P.	734,200	26,159,546
TransMontaigne Partners L.P.	207,800	6,234,000
		546,409,612
<b>Natural Gas/Natural Gas Liquids Pipelines</b> $\square$ 54.1%(1)		
<b>United States</b> $\square$ 54.1%(1)		
Boardwalk Pipeline Partners, LP	1,144,700	30,609,278
El Paso Pipeline Partners, L.P.	1,062,181	24,334,567
Energy Transfer Equity, L.P.	729,661	23,692,093
Energy Transfer Partners, L.P.	1,722,250	83,270,788
Enterprise GP Holdings L.P.	173,300	5,517,872
Enterprise Products Partners L.P.	2,735,300	82,797,531
ONEOK Partners, L.P.	267,455	16,405,690
Spectra Energy Partners, LP	432,400	10,701,900
TC PipeLines, LP	1,307,759	46,229,281
Williams Pipeline Partners L.P.	819,600	15,080,640
		338,639,640

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SCHEDULE OF INVESTMENTS (Unaudited)  
(Continued)

	May 31, 2008	
	Shares	Fair Value
<b>Natural Gas Gathering/Processing</b> □ 37.8%(1)		
<b>United States</b> □ 37.8%(1)		
Copano Energy, L.L.C.	1,243,939	\$ 45,839,152
Copano Energy, L.L.C. (2) (6)	285,740	7,877,852
Crosstex Energy, L.P.	981,347	30,117,539
Crosstex Energy, L.P. (2) (6)	193,767	5,212,332
DCP Midstream Partners, LP	413,825	12,861,681
Duncan Energy Partners L.P.	433,700	8,717,370
Exterran Partners, L.P.	323,493	10,306,487
Hiland Partners, LP	41,048	2,051,990
MarkWest Energy Partners, L.P.	2,201,640	79,391,138
Regency Energy Partners LP	36,425	983,839
Targa Resources Partners LP	140,300	3,722,159
Western Gas Partners LP	211,775	3,547,231
Williams Partners L.P.	733,992	26,196,174
		236,824,944
<b>Propane Distribution</b> □ 8.9%(1)		
<b>United States</b> □ 8.9%(1)		
Inergy, L.P.	1,916,784	53,880,798
Inergy Holdings, L.P.	49,715	1,976,171
		55,856,969
<b>Shipping</b> □ 4.8%(1)		
<b>Republic of the Marshall Islands</b> □ 0.7%(1)		
Teekay LNG Partners L.P.	156,200	4,568,850
<b>United States</b> □ 4.1%(1)		
K-Sea Transportation Partners L.P. (4)	612,800	21,331,568
OSG America L.P.	293,235	4,398,525
		25,730,093
		30,298,943
Total Master Limited Partnerships and Related Companies (Cost \$828,415,764)		1,208,030,108

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SCHEDULE OF INVESTMENTS (Unaudited)  
(Continued)

	May 31, 2008	
	Shares	Fair Value
<b>Short-Term Investment</b> □ 0.1%(1)		
<b>United States Investment Company</b> □ 0.1%(1)		
First American Government Obligations Fund □ Class Y, 2.01%(7) (Cost \$336,015)	336,015	\$ 336,015
<b>Total Investments</b> □ 193.1%(1)		

<b>(Cost \$829,888,720)</b>	1,209,440,665
<b>Long-Term Debt Obligations</b> □ (41.5%) <sup>(1)</sup>	(260,000,000)
<b>Interest Rate Swap Contracts</b> □ (0.8%) <sup>(1)</sup>	
\$135,000,000 notional □ Unrealized Depreciation <sup>(8)</sup>	(5,191,044)
<b>Liabilities in Excess of Cash and Other Assets</b> □ (29.2%) <sup>(1)</sup>	(182,908,956)
<b>Preferred Shares at Redemption Value</b> □ (21.6%) <sup>(1)</sup>	(135,000,000)
<b>Total Net Assets Applicable to</b>	
<b>Common Stockholders</b> □ 100.0% <sup>(1)</sup>	\$ 626,340,665

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

(2) Restricted securities have a total fair value of \$63,668,611 which represents 10.2% of net assets. See Note 7 to the financial statements for further disclosure.

(3) Security distributions are paid-in-kind.

(4) Affiliated investment; the Company owns 5% or more of the outstanding voting securities of the issuer. See Note 8 to the financial statements for further disclosure.

(5) All or a portion of the security is segregated as collateral for the unrealized depreciation of interest rate swap contracts.

(6) Non-income producing.

(7) Rate indicated is the 7-day effective yield as of May 31, 2008.

(8) See Note 12 to the financial statements for further disclosure.  
See accompanying Notes to Financial Statements.

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#### STATEMENT OF ASSETS & LIABILITIES (Unaudited)

	May 31, 2008
<b>Assets</b>	
Investments at fair value, non-affiliated (cost \$808,347,922)	\$ 1,168,741,473
Investments at fair value, affiliated (cost \$21,540,798)	40,699,192
Total investments (cost \$829,888,720)	1,209,440,665
Receivable for Adviser expense reimbursement	204,289
Receivable for investments sold	470,381
Interest and dividend receivable	19,299
Prepaid expenses and other assets	2,803,000
Total assets	1,212,937,634
<b>Liabilities</b>	
Payable to Adviser	1,940,740
Payable for investments purchased	23,051
Distribution payable to common stockholders	11,503,944
Distribution payable to preferred stockholders	29,749
Accrued expenses and other liabilities	17,158,049
Unrealized depreciation of interest rate swap contracts	5,191,044
Short-term borrowings	15,700,000
Current tax liability	704,347
Deferred tax liability	139,346,045
Long-term debt obligations	260,000,000
Total liabilities	451,596,969

**Preferred Stock**

\$25,000 liquidation value per share applicable to 5,400 outstanding shares (15,000 shares authorized)	135,000,000
Net assets applicable to common stockholders	\$ 626,340,665
<b>Net Assets Applicable to Common Stockholders Consist of:</b>	
Capital stock, \$0.001 par value; 20,634,877 shares issued and outstanding (100,000,000 shares authorized)	\$ 20,635
Additional paid-in capital	387,507,523
Accumulated net investment loss, net of income taxes	(27,380,734)
Undistributed realized gain, net of income taxes	38,171,599
Net unrealized gain on investments and interest rate swap contracts, net of income taxes	228,021,642
Net assets applicable to common stockholders	\$ 626,340,665
Net Asset Value per common share outstanding (net assets applicable to common stock, divided by common shares outstanding)	\$ 30.35

See accompanying Notes to Financial Statements.

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## STATEMENT OF OPERATIONS (Unaudited)

	Period from December 1, 2007 through May 31, 2008
<b>Investment Income</b>	
Distributions from master limited partnerships (including \$1,542,722 from affiliates)	\$ 36,564,160
Less return of capital on distributions (including \$1,234,178 from affiliates)	(28,119,153)
Net distributions from master limited partnerships	8,445,007
Dividends from common stock	42,040
Dividends from money market mutual funds	201,092
Other income	393,333
<b>Total Investment Income</b>	<b>9,081,472</b>
<b>Operating Expenses</b>	
Advisory fees	5,780,576
Administrator fees	244,953
Professional fees	165,307
Directors' fees	68,186
Custodian fees and expenses	65,590
Reports to stockholders	50,698
Fund accounting fees	41,324
Registration fees	35,076
Stock transfer agent fees	4,745
Other expenses	29,378
<b>Total Operating Expenses</b>	<b>6,485,833</b>

Interest expense	8,475,321
Auction agent fees	371,985
Amortization of debt issuance costs	1,652,627
<b>Total Interest, Auction Agent and Debt Issuance Costs</b>	10,499,933
<b>Total Expenses</b>	16,985,766
Less expense reimbursement by Adviser	(608,481)
<b>Net Expenses</b>	16,377,285
<b>Net Investment Loss, before Income Taxes</b>	(7,295,813)
Current tax expense	(1,086,647)
Deferred tax benefit	3,343,375
Income tax benefit, net	2,256,728
<b>Net Investment Loss</b>	(5,039,085)

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STATEMENT OF OPERATIONS (Unaudited)  
(Continued)

	Period from December 1, 2007 through May 31, 2008
<b>Realized and Unrealized Gain (Loss) on Investments and Interest Rate Swaps</b>	
Net realized gain on investments	\$ 14,726,501
Net realized loss on interest rate swap settlements	(1,446,029)
Net realized loss on termination of interest rate swap contracts	(9,771,848)
Net realized gain, before income taxes	3,508,624
Current tax expense	(2,577,535)
Deferred tax benefit	1,209,523
Income tax expense, net	(1,368,012)
Net realized gain on investments and interest rate swaps	2,140,612
Net unrealized depreciation of investments	(38,023,825)
Net unrealized appreciation of interest rate swap contracts	5,776,319
Net unrealized depreciation, before income taxes	(32,247,506)
Current tax expense	(11,664,391)
Deferred tax benefit	24,237,694
Income tax benefit, net	12,573,303
Net unrealized depreciation of investments and interest rate swap contracts	(19,674,203)
<b>Net Realized and Unrealized Loss on Investments and Interest Rate Swaps</b>	(17,533,591)
<b>Distributions to Preferred Stockholders</b>	(5,643,040)
<b>Net Decrease in Net Assets Applicable to Common Stockholders Resulting from Operations</b>	\$ (28,215,716)

See accompanying Notes to Financial Statements.



## STATEMENT OF CHANGES IN NET ASSETS

	Period from December 1, 2007 through May 31, 2008 <i>(Unaudited)</i>	Year Ended November 30, 2007
<b>Operations</b>		
Net investment loss	\$ (5,039,085)	\$ (12,470,739)
Net realized gain on investments and interest rate swaps	2,140,612	26,630,652
Net unrealized appreciation (depreciation) of investments and interest rate swap contracts	(19,674,203)	51,659,116
Distributions to preferred stockholders	(5,643,040)	(7,250,380)
Net increase (decrease) in net assets applicable to common stockholders resulting from operations	(28,215,716)	58,568,649
<b>Distributions to Common Stockholders</b>		
Net investment income	□	□
Return of capital	(22,930,223)	(40,702,410)
Total distributions to common stockholders	(22,930,223)	(40,702,410)
<b>Capital Stock Transactions</b>		
Proceeds from shelf offerings of 1,827,450 and 1,927,915 common shares, respectively	61,000,831	68,101,321
Underwriting discounts and offering expenses associated with the issuance of common stock	(2,217,020)	(2,311,224)
Underwriting discounts and offering expenses associated with the issuance of preferred stock	□	(1,408,368)
Issuance of 46,986 and 100,461 common shares from reinvestment of distributions to stockholders	1,455,626	3,730,843
Net increase in net assets, applicable to common stockholders, from capital stock transactions	60,239,437	68,112,572
Total increase in net assets applicable to common stockholders	9,093,498	85,978,811
<b>Net Assets</b>		
Beginning of period (Note 5)	617,247,167	532,433,365
End of period	\$ 626,340,665	\$ 618,412,176
Accumulated net investment loss, net of income taxes, at the end of period	\$ (27,380,734)	\$ (21,176,639)

See accompanying Notes to Financial Statements.

## STATEMENT OF CASH FLOWS (Unaudited)

	Period from December 1, 2007 through May 31, 2008
<b>Cash Flows From Operating Activities</b>	
Distributions received from master limited partnerships	\$ 36,564,160
Interest and dividend income received	227,851
Purchases of long-term investments	(51,915,355)
Proceeds from sales of long-term investments	48,311,604
Purchases of short-term investments, net	(171,622)
Payments on interest rate swaps, net	(12,940,956)
Other income received	393,333
Interest expense paid	(7,738,064)
Income taxes paid	(395,067)
Operating expenses paid	(6,221,899)
Net cash provided by operating activities	6,113,985
<b>Cash Flows From Financing Activities</b>	
Advances from revolving line of credit	125,450,000
Repayments on revolving line of credit	(147,800,000)
Issuance of common stock	61,000,831
Redemption of preferred stock	(50,000,000)
Issuance of auction rate senior notes	150,000,000
Redemption of auction rate senior notes	(125,000,000)
Common and preferred stock issuance costs	(2,022,427)
Debt issuance costs	(598,920)
Distributions paid to common stockholders	(11,219,939)
Distributions paid to preferred stockholders	(5,923,530)
Net cash used in financing activities	(6,113,985)
Net change in cash	
Cash beginning of period	
Cash end of period	\$

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STATEMENT OF CASH FLOWS (Unaudited)  
(Continued)

	Period from December 1, 2007 through May 31, 2008
<b>Reconciliation of net decrease in net assets applicable to common stockholders resulting from operations to net cash provided by operating activities</b>	

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Net decrease in net assets applicable to common stockholders resulting from operations	\$ (28,215,716)
Adjustments to reconcile net decrease in net assets applicable to common stockholders resulting from operations to net cash provided by operating activities:	
Purchases of long-term investments	(51,938,406)
Return of capital on distributions received	28,119,153
Proceeds from sales of long-term investments	41,523,549
Purchases of short-term investments, net	(171,622)
Deferred tax benefit	(28,790,592)
Effect of FIN 48 adoption	(1,165,009)
Net unrealized depreciation of investments and interest rate swap contracts	32,247,506
Net realized gain on investments	(14,726,501)
Amortization of debt issuance costs	1,652,627
Distributions to preferred stockholders	5,643,040
Changes in operating assets and liabilities:	
Increase in interest, dividend and distribution receivable	(15,281)
Increase in prepaid expenses and other assets	(51,036)
Decrease in receivable for investments sold	6,788,055
Increase in payable for investments purchased	23,051
Decrease in payable for termination of interest rate swap contracts	(1,722,483)
Increase in current tax liability	646,241
Decrease in payable to Adviser, net of expense reimbursement	(88,635)
Increase in accrued expenses and other liabilities	16,356,044
Total adjustments	34,329,701
Net cash provided by operating activities	\$ 6,113,985
<b>Non-Cash Financing Activities</b>	
Reinvestment of distributions by common stockholders in additional common shares	\$ 1,455,626

See accompanying Notes to Financial Statements.

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FINANCIAL HIGHLIGHTS

	Period from December 1, 2007 through May 31, 2008 (Unaudited)
<b>Per Common Share Data(2)</b>	
Net Asset Value, beginning of period	\$ 32.96
Public offering price	□
Underwriting discounts and offering costs on issuance	

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of common and preferred stock <sup>(3)</sup>	(0.01)
Premiums less underwriting discounts and offering costs on offerings <sup>(4)</sup>	0.02
Income (loss) from Investment Operations:	
Net investment loss <sup>(5)(6)</sup>	(0.20)
Net realized and unrealized gains (losses) on investments <sup>(5)(6)</sup>	(1.03)
Total increase (decrease) from investment operations	(1.23)
Less Distributions to Preferred Stockholders:	
Net investment income	□
Return of capital	(0.28)
Total distributions to preferred stockholders	(0.28)
Less Distributions to Common Stockholders:	
Net investment income	□
Return of capital	(1.11)
Total distributions to common stockholders	(1.11)
Net Asset Value, end of period	\$ 30.35
Per common share market value, end of period	\$ 32.60
Total Investment Return Based on Market Value <sup>(7)</sup>	4.07%
<b>Supplemental Data and Ratios</b>	
Net assets applicable to common stockholders, end of period (000□s)	\$ 626,341
Ratio of expenses (including current and deferred income tax (benefit) expense) to average net assets before waiver <sup>(8)(9)(10)</sup>	1.15%
Ratio of expenses (including current and deferred income tax (benefit) expense) to average net assets after waiver <sup>(8)(9)(10)</sup>	0.95%
Ratio of expenses (excluding current and deferred income tax (benefit) expense) to average net assets before waiver <sup>(8)(9)(11)</sup>	5.55%
Ratio of expenses (excluding current and deferred income tax (benefit) expense) to average net assets after waiver <sup>(8)(9)(11)</sup>	5.35%
Ratio of expenses (excluding current and deferred income tax (benefit) expense), without regard to non-recurring organizational expenses, to average net assets before waiver <sup>(8)(9)(11)</sup>	5.55%
Ratio of expenses (excluding current and deferred income tax (benefit) expense), without regard to non-recurring organizational expenses, to average net assets after waiver <sup>(8)(9)(11)</sup>	5.35%
Ratio of net investment loss to average net assets before waiver <sup>(8)(9)(11)</sup>	(2.58)%
Ratio of net investment loss to average net assets after waiver <sup>(8)(9)(11)</sup>	(2.38)%

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Period from  
February 27,  
2004<sup>(1)</sup>  
through  
November 30,  
2004

Year Ended  
November 30,  
2007

Year Ended  
November 30,  
2006

Year Ended  
November 30,  
2005

\$ 31.82	\$ 27.12	\$ 26.53	\$ 25.00
(0.08)	(0.14)	(0.02)	(1.23)
(0.61)	(0.32)	(0.16)	(0.03)
4.33	7.41	2.67	3.77
3.72	7.09	2.51	3.74
(0.39)	(0.23)	(0.11)	(0.01)
(0.39)	(0.23)	(0.11)	(0.01)
(2.19)	(2.02)	(1.79)	(0.97)
(2.19)	(2.02)	(1.79)	(0.97)
\$ 32.96	\$ 31.82	\$ 27.12	\$ 26.53
\$ 32.46	\$ 36.13	\$ 28.72	\$ 27.06
(4.43)%	34.50%	13.06%	12.51%
\$ 618,412	\$ 532,433	\$ 404,274	\$ 336,553
11.19%	20.03%	9.10%	15.20%
11.00%	19.81%	8.73%	14.92%
4.75%	3.97%	3.15%	2.01%
4.56%	3.75%	2.78%	1.73%
4.75%	3.97%	3.15%	1.90%
4.56%	3.75%	2.78%	1.62%
(3.24)%	(2.24)%	(1.42)%	(0.45)%
(3.05)%	(2.02)%	(1.05)%	(0.17)%

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FINANCIAL HIGHLIGHTS  
(Continued)

Period from  
December 1, 2007

	<b>through</b>	
	<b>May 31, 2008</b>	
	<i>(Unaudited)</i>	
Ratio of net investment income (loss) to average net assets after current and deferred income tax benefit (expense), before waiver <sup>(8)(9)(10)</sup>		1.82%
Ratio of net investment income (loss) to average net assets after current and deferred income tax benefit (expense), after waiver <sup>(8)(9)(10)</sup>		2.02%
Portfolio turnover rate <sup>(8)</sup>		6.81%
Short-Term Borrowings, end of period (000□s)	\$	15,700
Long-Term Debt Obligations, end of period (000□s)	\$	260,000
Preferred Stock, end of period (000□s)	\$	135,000
Per common share amount of long-term debt obligations outstanding, at end of period	\$	12.60
Per common share amount of net assets, excluding long-term debt obligations, at end of period	\$	42.95
Asset coverage, per \$1,000 of principal amount of long-term debt obligations and short-term borrowings <sup>(12)</sup>	\$	3,761
Asset coverage ratio of long-term debt obligations and short-term borrowings <sup>(12)</sup>		376%
Asset coverage, per \$25,000 liquidation value per share of preferred stock <sup>(13)</sup>	\$	140,989
Asset coverage, per \$25,000 liquidation value per share of preferred stock <sup>(14)</sup>	\$	63,126
Asset coverage ratio of preferred stock <sup>(14)</sup>		253%

(1) Commencement of Operations.

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

(3) Represents the dilution per common share from underwriting and other offering costs for the period from December 1, 2007 through May 31, 2008. Represents the issuance of preferred stock for the year ended November 30, 2007. Represents the dilution per common share from underwriting and other offering costs for the year ended November 30, 2006. Represents the issuance of preferred stock for the year ended November 30, 2005. Represents \$(1.17) and \$(0.06) for the issuance of common and preferred stock, respectively, for the period from February 27, 2004 through November 30, 2004.

(4) Represents the premium on the shelf offering of \$0.12 per share, less the underwriting and offering costs of \$0.10 per share for the period from December 1, 2007 through May 31, 2008. Represents the premium on the shelf offerings of \$0.21 per share, less the underwriting and offering costs of \$0.13 per share for the year ended November 30, 2007. The amount is less than \$0.01 per share, and represents the premium on the secondary offering of \$0.14 per share, less the underwriting discounts and offering costs of \$0.14 per share for the year ended November 30, 2005.

(5) The per common share data for the years ended November 30, 2007, 2006, 2005 and 2004 do not reflect the change in estimate of investment income and return of capital, for the respective period. See Note 2C to the financial statements for further disclosure.

(6) The per common share data for the period from December 1, 2007 through May 31, 2008 reflects the cumulative effect of adopting FIN 48, which was a \$1,165,009 decrease to the beginning balance of accumulated net investment income, or \$(0.06) per share. See Note 5 to the financial statements for further disclosure.

(7) Not annualized. Total investment return is calculated assuming a purchase of common stock at the market price on the first day (or initial public offering price) and a sale at the current market price on the last day of the period reported (excluding brokerage commissions). The calculation also assumes reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan.

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

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Year Ended November 30, 2007	Year Ended November 30, 2006	Year Ended November 30, 2005	Period from February 27, 2004 <sup>(1)</sup> through November 30, 2004
(9.68)%	(18.31)%	(7.37)%	(13.37)%
(9.49)%	(18.09)%	(7.00)%	(13.65)%
9.30%	2.18%	4.92%	1.38%
\$ 38,050	\$ 32,450	□	
\$ 235,000	\$ 165,000	\$ 165,000	\$ 110,000
\$ 185,000	\$ 70,000	\$ 70,000	\$ 35,000
\$ 12.53	\$ 9.86	\$ 11.07	\$ 8.67
\$ 45.49	\$ 41.68	\$ 38.19	\$ 35.21
\$ 3,942	\$ 4,051	\$ 3,874	\$ 4,378
394%	405%	387%	438%
\$ 108,569	\$ 215,155	\$ 169,383	\$ 265,395
\$ 58,752	\$ 74,769	\$ 68,008	\$ 83,026
235%	299%	272%	332%

(9) The expense ratios and net investment income (loss) ratios do not reflect the effect of distributions to preferred stockholders.

(10) For the period from December 1, 2007 through May 31, 2008, the Company accrued \$15,328,573 for current tax expense and \$28,790,592 for deferred income tax benefit. The Company accrued \$42,516,321, \$71,661,802, \$24,659,420 and \$30,330,018 for the years ended November 30, 2007, 2006 and 2005 and for the period from February 27, 2004 through November 30, 2004, respectively, for current and deferred income tax expense.

(11) The ratio excludes the impact of current and deferred income taxes.

(12) Represents value of total assets less all liabilities and indebtedness not represented by long-term debt obligations, short-term borrowings and preferred stock at the end of the period divided by long-term debt obligations and short-term borrowings outstanding at the end of the period.

(13) Represents value of total assets less all liabilities and indebtedness not represented by preferred stock at the end of the period divided by preferred stock outstanding at the end of the period, assuming the retirement of all long-term debt obligations and short-term borrowings.

(14) Represents value of total assets less all liabilities and indebtedness not represented by long-term debt obligations, short-term borrowings and preferred stock at the end of the period divided by long-term debt obligations, short-term borrowings and preferred stock outstanding at the end of the period.

See accompanying Notes to Financial Statements.

## 1. Organization

Tortoise Energy Infrastructure Corporation (the "Company") was organized as a Maryland corporation on October 29, 2003, and is a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act"). The Company's investment objective is to seek a high level of total return with an emphasis on current distributions paid to stockholders. The Company seeks to provide its stockholders with an efficient vehicle to invest in the energy infrastructure sector. The Company commenced operations on February 27, 2004. The Company's stock is listed on the New York Stock Exchange under the symbol "TYG."

## 2. Significant Accounting Policies

### A. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, recognition of distribution income and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

### B. Investment Valuation

The Company primarily owns securities that are listed on a securities exchange. The Company values those securities at their last sale price on that exchange on the valuation date. If the security is listed on more than one exchange, the Company will use the price of 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 NASDAQ on such day, the security will be valued at the mean between bid and ask price on such day.

The Company may invest up to 30 percent of its total assets in restricted securities. Restricted securities are subject to statutory or contractual restrictions on their public resale, which may make it more difficult to obtain a valuation and may limit the Company's ability to dispose of them. Investments in private placement securities and other securities for which market quotations are not readily available will be valued in good faith by using fair value procedures approved by the Board of Directors. Such fair value procedures consider factors such as discounts to publicly traded issues, securities with similar yields, quality, type of issue, coupon, duration and rating. If events occur that will affect the value of the Company's portfolio securities before the net asset value has been calculated (a "significant event"), the portfolio securities so affected will generally be priced using a fair value procedure.

The Company generally values short-term debt securities at prices based on market quotations for such securities, except those securities purchased with 60 days or less to maturity are valued on the basis of amortized cost, which approximates market value.

The Company generally values its interest rate swap contracts using industry-accepted models which discount the estimated future cash flows based on the stated terms of the interest rate swap agreement by using interest rates currently available in the market, or based on dealer quotations, if available.

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## NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

Effective December 1, 2007, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is applicable in conjunction with other accounting pronouncements that require or permit fair value measurements, but does not expand the use of fair value to any new circumstances. More specifically, SFAS 157 emphasizes that fair value is a market based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority given to quoted prices in active markets and the lowest priority to unobservable inputs. The Company's adoption of SFAS 157 did not have a material impact on its financial



condition or results of operations. See Note 6 □ Fair Value of Financial Instruments for further disclosure.

### **C. Security Transactions and Investment Income**

Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis. Interest income is recognized on the accrual basis, including amortization of premiums and accretion of discounts. Distributions are recorded on the ex-dividend date. Distributions received from the Company's investments in master limited partnerships (□MLPs□) generally are comprised of ordinary income, capital gains and return of capital from the MLP. 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 historical information available from each MLP and other industry sources. These estimates may subsequently be revised based on information received from MLPs after their tax reporting periods are concluded, as the actual character of these distributions is not known until after the fiscal year-end of the Company.

For the period from December 1, 2006 through November 30, 2007, the Company estimated the allocation of investment income and return of capital for the distributions received from MLPs within the Statement of Operations. For this period, the Company had estimated approximately 14 percent as investment income and approximately 86 percent as return of capital.

Subsequent to November 30, 2007, the Company reclassified the amount of investment income and return of capital it recognized based on the 2007 tax reporting information received from the individual MLPs. This reclassification amounted to an increase in pre-tax net investment income of approximately \$3,542,000 or \$0.172 per share (\$2,161,000 or \$0.105 per share, net of deferred tax expense); a decrease in unrealized appreciation of investments of approximately \$3,882,000 or \$0.188 per share (\$2,368,000 or \$0.115 per share, net of deferred tax benefit) and an increase in realized gains of approximately \$340,000 or \$0.016 per share (\$207,000 or \$0.010 per share, net of deferred tax expense) for the period from December 1, 2007 through May 31, 2008.

Subsequent to the period ended February 29, 2008, the Company reclassified the amount of investment income and return of capital reported in the current fiscal year based on its revised 2008 estimates. This reclassification amounted to a decrease in pre-tax net investment income of approximately \$152,000 or \$0.007 per share (\$93,000 or \$0.004 per share, net of deferred tax benefit); an increase in unrealized appreciation of investments of approximately \$87,000 or \$0.004

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### **NOTES TO FINANCIAL STATEMENTS (Unaudited)** (Continued)

per share (\$53,000 or \$0.002 per share, net of deferred tax expense) and an increase in realized gains of approximately \$65,000 or \$0.003 per share (\$40,000 or \$0.002 per share, net of deferred tax expense).

### **D. Distributions to Stockholders**

Distributions to common stockholders are recorded on the ex-dividend date. The character of distributions to common stockholders made during the year may differ from their ultimate characterization for federal income tax purposes. For the year ended November 30, 2007 and the period ended May 31, 2008, the Company's distributions for book purposes were comprised of 100 percent return of capital. For the year ended November 30, 2007, the Company's distributions, for tax purposes, were comprised of approximately 41.3 percent qualified dividend income and 58.7 percent return of capital. The tax character of distributions paid for the period ended May 31, 2008 will be determined subsequent to November 30, 2008.

Distributions to preferred stockholders are based on variable rates set at auctions, normally held every 28 days unless a special rate period is designated. Distributions to preferred stockholders are accrued on a daily basis for the subsequent rate period at a rate determined on the auction date. Distributions to preferred stockholders are payable on the first day following the end of the rate period or the first day of the month if the rate period is longer

than one month. The character of distributions to preferred stockholders made during the year may differ from their ultimate characterization for federal income tax purposes. For the year ended November 30, 2007, for tax purposes, the Company determined the distributions to preferred stockholders were comprised entirely of qualified dividend income. The tax character of distributions paid for the period ended May 31, 2008 will be determined subsequent to November 30, 2008.

#### **E. Federal Income Taxation**

The Company, as a corporation, is obligated to pay federal and state income tax on its taxable income. Currently, the regular federal income tax rate for a corporation is 35 percent; however the Company anticipates a marginal effective rate of 34.5 percent due to expectations of the level of taxable income relative to the federal graduated tax rates, including the tax rate anticipated when temporary differences reverse. The Company may be subject to a 20 percent federal alternative minimum tax on its federal alternative minimum taxable income to the extent that its alternative minimum tax exceeds its regular federal income tax.

The Company invests its assets primarily in MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner in the MLPs, the Company reports its allocable share of the MLP's taxable income in computing its own taxable income. The Company's tax expense or benefit is included in the Statement of Operations based on the component of income or gains (losses) to which such expense or benefit relates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized.

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#### **NOTES TO FINANCIAL STATEMENTS (Unaudited)** (Continued)

On December 1, 2007, the Company adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. For additional information regarding adoption of FIN 48, see Note 5 - Income Taxes.

#### **F. Organization Expenses, Offering and Debt Issuance Costs**

The Company is responsible for paying all organizational expenses, which were expensed as incurred. Offering costs related to the issuance of common and preferred stock are charged to additional paid-in capital when the stock is issued. Offering costs (excluding underwriter commissions) of \$92,094 and \$278,139 were charged to additional paid-in capital for the issuance of common stock in December 2007 and February 2008, respectively. Offering costs of \$40,250 related to the issuance of preferred stock in April 2007 and August 2007 were charged to additional paid-in capital during the period ended May 31, 2008. Debt issuance costs related to the long-term debt obligations are capitalized and amortized over the period the debt is outstanding. The amount of such capitalized costs for the Series E Senior Notes issued in April 2008 was \$559,024.

#### **G. Derivative Financial Instruments**

The Company uses derivative financial instruments (principally interest rate swap contracts) in an attempt to manage interest rate risk. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not hold or issue derivative financial instruments for speculative purposes. All derivative financial instruments are recorded at fair value with changes in fair value during the reporting period and amounts accrued under the derivative instruments included as unrealized gains or losses in the accompanying Statement of Operations. Monthly cash settlements under the terms of the derivative instruments and the termination of such contracts are recorded as realized gains or losses in the Statement of Operations.

**H. Indemnifications**

Under the Company's organizational documents, its officers and directors are indemnified against certain liabilities arising out of the performance of their duties to the Company. In addition, in the normal course of business, the Company may enter into contracts that provide general indemnification to other parties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred, and may not occur. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

**I. Recent Accounting Pronouncement**

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161 (SFAS 161) *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133, which requires enhanced disclosures about an entity's derivative and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments; (b) how

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**NOTES TO FINANCIAL STATEMENTS (Unaudited)**  
*(Continued)*

derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Management is currently evaluating what impact the adoption of SFAS 161 will have on the Company's financial statements and related disclosures.

**3. Concentration of Risk**

The Company's investment objective is to seek a high level of total return with an emphasis on current distributions paid to its stockholders. Under normal circumstances, the Company intends to invest at least 90 percent of its total assets in securities of energy infrastructure companies, and to invest at least 70 percent of its total assets in equity securities of MLPs. The Company will not invest more than 10 percent of its total assets in any single issuer as of the time of purchase. The Company may invest up to 25 percent of its assets in debt securities, which may include below investment grade securities. In determining application of these policies, the term "total assets" includes assets obtained through leverage. Companies that primarily invest in a particular sector may experience greater volatility than companies investing in a broad range of industry sectors. The Company may, for defensive purposes, temporarily invest all or a significant portion of its assets in investment grade securities, short-term debt securities and cash or cash equivalents. To the extent the Company uses this strategy, it may not achieve its investment objective.

**4. Agreements**

The Company has entered into an Investment Advisory Agreement with Tortoise Capital Advisors, L.L.C. (the "Adviser"). Under the terms of the agreement, the Company will pay the Adviser a fee equal to an annual rate of 0.95 percent of the Company's average monthly total assets (including any assets attributable to leverage) minus the sum of accrued liabilities (other than deferred income taxes, debt entered into for purposes of leverage and the aggregate liquidation preference of outstanding preferred stock) ("Managed Assets"), in exchange for the investment advisory services provided. Effective March 1, 2006 through February 28, 2009, the Adviser has agreed to waive or reimburse the Company for fees and expenses in an amount equal to 0.10 percent of the average monthly Managed Assets of the Company.

The Company has engaged U.S. Bancorp Fund Services, LLC to serve as the Company's administrator. The Company pays the administrator a monthly fee computed at an annual rate of 0.04 percent of the first \$1,000,000,000 of the Company's Managed Assets, 0.03 percent on the next \$1,000,000,000 of Managed Assets and 0.02 percent on the balance of the Company's Managed Assets.

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Computershare Trust Company, N.A. serves as the Company's transfer agent, dividend paying agent, and agent for the automatic dividend reinvestment and cash purchase plan.

U.S. Bank, N.A. serves as the Company's custodian. The Company pays the custodian a monthly fee computed at an annual rate of 0.015 percent on the first \$100,000,000 of the Company's portfolio assets and 0.01 percent on the balance of the Company's portfolio assets.

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NOTES TO FINANCIAL STATEMENTS (Unaudited)  
(Continued)

**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 May 31, 2008, are as follows:

Deferred tax assets:		
	Net operating loss carryforwards	\$ 22,419,924
	Deferred expense associated with interest rate swap terminations	1,795,556
	Organization costs	13,713
	Accrued expenses	5,331,024
		29,560,217
Deferred tax liabilities:		
	Net unrealized gains on investment securities and interest rate swap contracts	138,384,726
	Basis reduction of investment in MLPs	30,521,536
		168,906,262
	<b>Total net deferred tax liability</b>	<b>\$ 139,346,045</b>

At May 31, 2008, a valuation allowance was not recorded because the Company believes it is more likely than not that there is an ability to realize its deferred tax assets.

Total income tax benefit differs from the amount computed by applying the federal statutory income tax rate of 34.5 percent to net investment loss and realized gains and unrealized losses on investments and interest rate swap contracts before taxes for the period ended May 31, 2008, as follows:

Application of statutory income tax rate	\$ (12,431,969)
State income taxes, net of federal tax benefit	(1,617,958)
Foreign taxes, net of federal tax benefit	1,041,307
Other	(453,399)
<b>Total</b>	<b>\$ (13,462,019)</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 39.00 percent to 38.99 percent. The decrease in tax rate resulted in a \$47,386 increase to deferred tax benefit. The cumulative effect of adopting FIN 48 was a \$1,165,009 decrease to the beginning balance of accumulated net investment income.

The Company also re-evaluated its anticipated state tax positions, resulting in a reclass of approximately \$15 million from deferred tax liability to other liabilities related to anticipated rates at which state taxes are expected

to be paid versus reserved. The Company's policy is to record interest and penalties on uncertain tax positions as part of tax expense. The total amount of unrecognized tax benefits at November 30, 2007 was \$15,387,454. No interest or penalties were accrued at such date. All such amounts would affect the effective tax rate if recognized. All tax years since inception remain open to examination by federal and state tax authorities. The Company does not expect the amount of unrecognized tax positions at November 30, 2007 to change significantly over the next twelve months from such date.

NOTES TO FINANCIAL STATEMENTS (Unaudited)  
(Continued)

For the period from December 1, 2007 to May 31, 2008, the components of income tax expense include current foreign tax expense (net of federal tax benefit) of \$1,041,307, current federal and state income tax expense (net of federal tax benefit) of \$12,522,062, and \$1,765,204, respectively, and deferred federal and state income tax benefit (net of federal tax effect) of \$25,407,430 and \$3,383,162, respectively. As of November 30, 2007, the Company had a net operating loss for federal income tax purposes of approximately \$42,293,000. If not utilized, this net operating loss will expire as follows: \$2,883,000, \$15,979,000, \$22,275,000 and \$1,156,000 in the years ending November 30, 2024, 2025, 2026 and 2027, respectively. The amount of the deferred tax asset for net operating losses at May 31, 2008 also includes an amount for the period from December 1, 2007 through May 31, 2008.

As of May 31, 2008, the aggregate cost of securities for federal income tax purposes was \$747,129,532. At May 31, 2008, the aggregate gross unrealized appreciation for all securities in which there was an excess of fair value over tax cost was \$478,085,314, the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over fair value was \$15,774,181 and the net unrealized appreciation was \$462,311,133.

## 6. Fair Value of Financial Instruments

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

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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following table provides the fair value measurements of applicable Company assets and liabilities by level within the fair value hierarchy as of May 31, 2008. These assets and liabilities are measured on a recurring basis.

Description	Fair Value at May 31, 2008	Fair Value Measurements at Reporting Date Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<b>Assets:</b>			
Investments	\$ 1,209,440,665	\$ 1,145,772,054	\$ 63,668,611
<b>Liabilities:</b>			

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Interest Rate Swap Contracts \$ 5,191,044 \$ 5,191,044

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NOTES TO FINANCIAL STATEMENTS (Unaudited)  
(Continued)

**7. Restricted Securities**

Certain of the Company's investments are restricted and are valued as determined in accordance with procedures established by the Board of Directors as more fully described in Note 2. The table below shows the number of units held, acquisition date, acquisition cost, fair value per unit of such securities and percent of net assets which the securities comprise at May 31, 2008.

Investment Security	Number of Units	Acquisition Date	Acquisition Cost	Fair Value Per Unit	Fair Value as Percent of Net Assets
Copano Energy, L.L.C. Class D Common Units	285,740	3/14/08	\$ 7,500,675	\$ 27.57	1.3%
Crosstex Energy, L.P. Series D Subordinated Units	193,767	3/23/07	5,000,002	26.90	0.8
Enbridge Energy Partners, L.P. Class C Common Units	1,027,390	4/02/07	50,000,000	49.23	8.1
			\$62,500,677		10.2%

The carrying value per unit of unrestricted common units of Copano Energy, L.L.C. was \$35.90 on March 7, 2008, the date of the purchase agreement and date an enforceable right to acquire the restricted Copano Energy, L.L.C. units was obtained by the Company.

**8. Investments in Affiliates**

Investments representing 5 percent or more of the outstanding voting securities of a portfolio company result in that company being considered an affiliated company, as defined in the 1940 Act. The aggregate fair value of all securities of affiliates held by the Company as of May 31, 2008 amounted to \$40,699,192, representing 6.5 percent of net assets applicable to common stockholders. A summary of affiliated transactions for each company which is an affiliate at May 31, 2008 or was an affiliate during the period ended May 31, 2008, is as follows:

	Share Balance	Gross Additions	Gross Reductions	Realized Gain	Gross Distributions Received	May 31, 2008	
	11/30/07			(Loss)		Share Balance	Fair Value
Holly Energy Partners, L.P.	427,070	\$ 0	\$ 0	\$ 0	\$ 623,522	427,070	\$ 19,367,624
K-Sea Transportation Partners L.P.	612,800			0	919,200	612,800	21,331,568
MarkWest Energy Partners, L.P.(1)	2,201,640			0	2,575,919	2,201,640	79,391,138
		\$ 0	\$ 0	\$ 0	\$4,118,641		\$120,090,330

(1) Not deemed an affiliate as of May 31, 2008.

NOTES TO FINANCIAL STATEMENTS (Unaudited)  
(Continued)

**9. Investment Transactions**

For the period ended May 31, 2008, the Company purchased (at cost) and sold securities (proceeds) in the amount of \$51,938,406 and \$41,523,549 (excluding short-term debt securities and interest rate swaps), respectively.

**10. Long-Term Debt Obligations**

The Company has \$110,000,000 aggregate principal amount of auction rate senior notes (Series A and Series B) and \$150,000,000 aggregate principal amount of private senior notes (Series E), (collectively, the "Notes") outstanding. Holders of the Notes are entitled to receive cash interest payments at an annual rate that may vary for each rate period. Estimated fair value of Series A, Series B and Series E Notes was calculated using the spread between the current rate and the U.S. Treasury rate with an equivalent maturity date. At May 31, 2008, the spread was applied to the equivalent U.S. Treasury rate for each series and future cash flows were discounted to determine estimated fair value. The table below shows the maturity date, notional/carrying amount, estimated fair value, current rate as of May 31, 2008, the weighted-average rate for the period ended May 31, 2008 and the typical rate period for each series of Notes outstanding at May 31, 2008. The Company may designate a rate period that is different than the rate period indicated in the table below.

Series	Maturity Date	Notional/Carrying Amount	Estimated Fair Value	Current Rate	Weighted-Average Rate	Rate Period
Series A	July 15, 2044	\$ 60,000,000	\$ 61,292,028	6.75% <sup>(1)</sup>	6.75%	28 days <sup>(1)</sup>
Series B	July 15, 2044	50,000,000	50,299,090	7.00% <sup>(2)</sup>	7.00%	28 days <sup>(2)</sup>
Series E	April 10, 2015	150,000,000	145,315,924	6.11%	6.11% <sup>(3)</sup>	Fixed
		\$ 260,000,000	\$ 256,907,042			

(1) Special rate period effective September 5, 2007 through September 4, 2012.

(2) Special rate period effective September 12, 2007 through September 11, 2008.

(3) Rate period from April 10, 2008 (date of issuance) through May 31, 2008.

The rates shown in the table above do not include commissions paid to the auction agent which are included in auction agent fees in the accompanying Statement of Operations. At the time the special rate periods commenced, the Company paid commissions for Series A and Series B Notes in the amount of \$240,000 and \$75,000, respectively, which are being amortized over the rate periods. For each subsequent rate period, the interest rate will be determined by an auction conducted in accordance with the procedures described in the Notes' prospectus. The Notes are not listed on any exchange or automated quotation system.

In the event that there are not enough bidders in the auction at rates below the maximum rate as prescribed by the terms of the Series A and Series B Notes, the auction fails. When an auction fails, the rate paid to continuing or new bidders is set at the maximum rate. A failed auction does not

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NOTES TO FINANCIAL STATEMENTS (Unaudited)  
(Continued)

cause an acceleration of, or otherwise have any impact on, outstanding principal amounts due or affect the security's liquidation preference. In the event of a failed auction, interest continues to be paid at the maximum rates and times determined in the indenture. The maximum rate based on the Notes' current ratings is 200 percent of the greater of: (i) the applicable AA Composite Commercial Paper Rate or the applicable Treasury Index Rate or (ii) the applicable LIBOR as of the date of the auction.

On March 4, 2008, the Company fully redeemed the Series C Notes in the amount of \$55,000,000. The weighted-average interest rate for the period from December 1, 2007 through March 4, 2008 (date of redemption) was 5.98 percent. This rate does not include commissions paid to the auction agent which are included in auction agent fees in the accompanying Statement of Operations. The unamortized balance of capitalized costs was expensed and resulted in a loss on early redemption in the amount of \$745,922 which is included in amortization of debt issuance costs in the accompanying Statement of Operations.

On April 25, 2008, the Company fully redeemed the Series D Notes in the amount of \$70,000,000. The weighted-average interest rate for the period from December 1, 2007 through April 25, 2008 (date of redemption) was 6.07 percent. This rate does not include commissions paid to the auction agent which are included in auction agent fees in the accompanying Statement of Operations. The unamortized balance of capitalized costs was expensed and resulted in a loss on early redemption in the amount of \$838,100 which is included in amortization of debt issuance costs in the accompanying Statement of Operations.

The Notes are redeemable in certain circumstances at the option of the Company. The Notes are also subject to a mandatory redemption if the Company fails to meet an asset coverage ratio required by law, or fails to cure in a timely manner a deficiency as stated in the rating agency guidelines applicable to the Notes.

The Notes are unsecured obligations of the Company and, upon liquidation, dissolution or winding up of the Company, will rank: (1) senior to all the Company's outstanding preferred shares; (2) senior to all of the Company's outstanding common shares; (3) on a parity with any unsecured creditors of the Company and any unsecured senior securities representing indebtedness of the Company and (4) junior to any secured creditors of the Company.

#### 11. Preferred Stock

The Company has 15,000 authorized shares of Preferred Stock, of which 5,400 shares are currently outstanding. The Preferred Stock has rights determined by the Board of Directors. The Preferred Stock has a liquidation value of \$25,000 per share plus any accumulated, but unpaid distributions, whether or not declared. Holders of the Preferred Stock are entitled to receive cash distribution payments at an annual rate that may vary for each rate period. Estimated fair value of Auction Preferred I and Auction Preferred II Stock was calculated using the spread between the current rate and the U.S. Treasury rate with an equivalent maturity date. At May 31, 2008, the spread was

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#### NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

applied to the equivalent U.S. Treasury rate for each series and future cash flows were discounted to determine estimated fair value. Estimated fair value of the Money Market Preferred (MMP) III Stock and MMP IV Stock approximates the carrying amount because the distribution rate fluctuates with changes in interest rates available in the current market. The table below shows the number of shares outstanding, aggregate liquidation preference, estimated fair value, current rate as of May 31, 2008, the weighted-average rate for the period ended May 31, 2008 and the typical rate period for each series of Preferred Stock outstanding at May 31, 2008. The Company may designate a rate period that is different than the rate period indicated in the table below.

Series	Shares Outstanding	Aggregate Liquidation Preference	Estimated Fair Value	Current Rate	Weighted- Average Rate	Rate Period
Auction Preferred I						



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Stock	1,400	\$ 35,000,000	\$ 35,444,440	6.25 % <sup>(1)</sup>	6.25 %	28 days <sup>(1)</sup>
Auction Preferred II						
Stock	1,400	35,000,000	35,444,421	6.25 % <sup>(2)</sup>	6.25 %	28 days <sup>(2)</sup>
MMP III Stock	1,400	35,000,000	35,000,000	4.76 %	6.10 %	28 days
MMP IV Stock	1,200	30,000,000	30,000,000	4.76%	6.12 %	28 days
	5,400	\$135,000,000	\$ 135,888,861			

(1) Special rate period effective September 13, 2007 through September 12, 2010.

(2) Special rate period effective September 9, 2007 through September 8, 2010.

The rates shown in the table above do not include commissions paid to the auction agent which are included in auction agent fees in the accompanying Statement of Operations. At the time the special rate periods commenced, the Company paid commissions for Auction Preferred I Stock and Auction Preferred II Stock in the amount of \$175,000 and \$178,500, respectively, which are being amortized over the rate periods. Under the Investment Company Act of 1940, the Company may not declare dividends or make other distributions on shares of common stock or purchases of such shares if, at the time of the declaration, distribution or purchase, asset coverage with respect to the outstanding Preferred Stock would be less than 200 percent.

In the event that there are not enough bidders in the auction at rates below the maximum rate as prescribed by the terms of the Preferred Stock, the auction fails. When an auction fails, the rate paid to continuing or new bidders is set at the maximum rate. A failed auction does not cause a mandatory redemption or affect the security's liquidation preference. In the event of a failed auction, distributions continue to be paid at the maximum rates and times determined in the articles supplementary. The maximum rate on Preferred Stock based on current ratings is 200 percent of the greater of: (i) the applicable AA Composite Commercial Paper Rate or the applicable Treasury Index Rate or (ii) the applicable LIBOR as of the date of the auction.

On April 30, 2008 and May 28, 2008, the Company partially redeemed MMP III Stock at liquidation value in the amounts of \$15,000,000 and \$10,000,000, respectively. On May 1, 2008 and May 29, 2008 the Company partially redeemed MMP IV Stock at liquidation value in the amounts of \$15,000,000 and \$10,000,000, respectively.

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NOTES TO FINANCIAL STATEMENTS (Unaudited)  
(Continued)

The Preferred Stock is redeemable in certain circumstances at the option of the Company. The Preferred Stock is also subject to a mandatory redemption if the Company fails to meet an asset coverage ratio required by law, or fails to cure a deficiency in a timely manner as stated in the rating agency guidelines.

The holders of Preferred Stock have voting rights equal to the holders of common stock (one vote per Preferred share) and will vote together with the holders of shares of common stock as a single class except on matters affecting only the holders of preferred stock or the holders of common stock.

**12. Interest Rate Swap Contracts**

The Company has entered into interest rate swap contracts in an attempt to protect itself from increasing interest and dividend expense on its leverage resulting from increasing short-term interest rates. A decline in interest rates may result in a decline in the fair value of the swap contracts, which may result in a decline in the net assets of the Company. In addition, if the counterparty to the interest rate swap contracts defaults, the Company would not be able to use the anticipated receipts under the swap contracts to offset the interest payments on the Company's leverage. At the time the interest rate swap contracts reach their scheduled termination, there is a risk that the Company would not be able to obtain a replacement transaction, or that the terms of the replacement would not be as favorable as on the expiring transaction. In addition, if the Company is required to terminate any swap contract early due to the Company failing to maintain a required 300 percent and 200 percent asset coverage of the liquidation value of the outstanding long-term and short-term debt obligations and preferred stock, respectively, or if the Company loses its credit rating on its long-term debt obligations or preferred stock, then the Company could be required to make a termination payment, in addition to redeeming all or some of the long-term

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debt obligations, short-term borrowings and preferred stock. Details of the interest rate swap contracts outstanding as of May 31, 2008, are as follows:

Counterparty	Maturity Date	Notional Amount	Fixed Rate Paid by the Company	Floating Rate Received by the Company	Unrealized Depreciation
U.S. Bank, N.A.	7/12/2011	50,000,000	4.64%	1 month U.S. Dollar LIBOR	\$ (1,352,900)
U.S. Bank, N.A.	4/21/2013	60,000,000	5.03%	1 month U.S. Dollar LIBOR	(2,562,085)
U.S. Bank, N.A.	11/12/2020	25,000,000	5.20%	1 month U.S. Dollar LIBOR	(1,276,059)
		\$ 135,000,000			\$ (5,191,044)

The Company is exposed to credit risk on the interest rate swap contracts if the counterparty should fail to perform under the terms of the interest rate swap contracts. The amount of credit risk is limited to the net appreciation of the interest rate swap contracts, if any, as no collateral is pledged by the counterparty.

On March 17, 2008, the Company completely terminated a \$55,000,000 notional swap contract (4.99 percent, maturing 4/21/2012). The Company realized a loss of \$3,489,698, which is included in net realized loss on termination of interest rate swap contracts in the accompanying Statement of Operations.

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NOTES TO FINANCIAL STATEMENTS (Unaudited)  
(Continued)

On April 21, 2008, the Company completely terminated a \$55,000,000 notional swap contract (4.54 percent, maturing 5/01/2014). The Company realized a loss of \$2,888,567, which is included in net realized loss on termination of interest rate swap contracts in the accompanying Statement of Operations.

On April 29, 2008, the Company completely terminated a \$35,000,000 notional swap contract (5.21 percent, maturing 11/18/2020) and terminated \$5,000,000 of a \$30,000,000 notional swap contract (5.20 percent, maturing 11/12/2020). The Company realized losses of \$2,627,744 and \$765,856, respectively, which are included in net realized loss on termination of interest rate swap contracts in the accompanying Statement of Operations.

**13. Common Stock**

The Company has 100,000,000 shares of capital stock authorized and 20,634,877 shares outstanding at May 31, 2008. Transactions in common stock for the year ended November 30, 2007 and the period ended May 31, 2008 were as follows:

Shares at November 30, 2006	16,732,065
Shares sold through shelf offerings	1,927,915
Shares issued through reinvestment of distributions	100,461
Shares at November 30, 2007	18,760,441