

TORTOISE ENERGY INFRASTRUCTURE CORP

Form N-CSRS

August 08, 2005

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As filed with the Securities and Exchange Commission on August 8, 2005

**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)
10801 Mastin Blvd., Suite 222, Overland Park, KS 66210
(Address of principal executive offices) (Zip code)
David J. Schulte
10801 Mastin Blvd., Suite 222, Overland Park, KS 66210
(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, 2005**

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Item 1. Report to Stockholders.

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Company at a Glance

A pioneering closed-end investment company investing primarily in equity securities of Master Limited Partnerships (MLPs) operating energy infrastructure assets

Objectives: Yield, Growth, Quality

About Master Limited Partnerships

MLPs are limited partnerships whose interests are traded in the form of units on public exchanges such as the New York Stock Exchange, the NASDAQ and the American Stock Exchange. Buying MLP units makes an investor a limited partner in the MLP. There are currently more than 50 MLPs on the market, mostly in industries related to energy, natural resources, and real estate.

Tortoise Energy Infrastructure Corporation s Investment Objective: Yield, Growth and Quality

Tortoise Energy invests primarily in MLPs in the energy infrastructure sector. Our goal is to provide our stockholders with a high level of total return with an emphasis on current distributions paid to stockholders and dividend growth. 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 midstream and pipeline operations, which 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 dividend stream for our investors.

A Tortoise Energy Investment Versus a Direct Investment in MLPs

The Company provides its stockholders with an efficient alternative to investing directly in MLPs. A direct investment in an MLP offers the opportunity to receive an attractive distribution that is approximately 80% tax deferred with a low correlation to 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 the portfolio size and dividend rate, and

Access to direct placements and other investments not available through the public markets.

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July 29, 2005

Dear Fellow Stockholders,

We are pleased to submit to you our report for Tortoise Energy Infrastructure Corporation for the quarter ended May 31, 2005. Since the last report, we raised an additional \$90 million of investment funds through the issuance of Tortoise Notes and Money Market Preferred Stock. As of May 31, 2005, total assets of Tortoise Energy were approximately \$671 million.

Tortoise Energy paid its second dividend for fiscal year 2005 of \$0.445 per share to stockholders on June 1, 2005.

This increase was due to the successful investment of the Tortoise Notes offering proceeds, and growth in the distributions we received from MLPs. We continue to expect that a significant portion of dividends paid in 2005 will be treated as return of capital for income tax purposes.

Calculation of Distributable Cash Flow (DCF⁽¹⁾)

	Q3 2004	Q4 2004	Q1 2005	Q2 2005
Distributions received from MLPs	\$ 4,609,442	\$ 7,273,590	\$ 7,642,832	\$ 8,546,046
Plus: Stock dividend	537,548	633,690	1,001,416	1,050,924
Interest and dividend income	337,638	237,239	297,857	346,928
Total from investments	\$ 5,484,628	\$ 8,144,519	\$ 8,942,105	\$ 9,943,898
Net operating expenses ⁽²⁾	(1,072,871)	(2,468,641)	(2,478,064)	(3,414,882)
Distributable cash flow	\$ 4,411,757	\$ 5,675,878	\$ 6,464,041	\$ 6,529,016
Shares outstanding	12,644,882	12,684,154	14,744,095	14,787,324
Dividend per share	\$ 0.34	\$ 0.43	\$ 0.44	\$ 0.445
Dividend as a % of DCF	97.5%	96.1%	100.4%	100.8%

(1) *For complete financial information refer to the financial statements and footnotes included in this report.*

(2) *Current and anticipated operating expenses for the period, including leverage costs, less the expense reimbursement and waiver from the adviser.*

Investment Review

Since inception to May 31, 2005, we have invested \$183 million in 12 separate direct placements. Subsequent to quarter end, Tortoise Energy completed two direct purchases from MLP issuers. Tortoise Energy purchased 500,000 common units of K-Sea Transportation Partners L.P. for a purchase price of approximately \$ 16 million. K-Sea will use the proceeds to repay indebtedness incurred in connection with the acquisition of vessels from Bay Gulf Trading, and also for fleet expansion projects. K-Sea Transportation is a provider of refined petroleum products marine transportation, distribution and logistics services in the northeastern United States and the Gulf of Mexico. Tortoise Energy also purchased approximately \$5,350,000 of Senior Subordinated Units of Crosstex Energy, L.P. The Senior Subordinated Units were purchased at \$33.44 each, and convert to Common Units (on a one-for-one basis) on February 24, 2006. Until their conversion to Common Units, the Senior Subordinated Units will receive no distributions from the Partnership. The proceeds will fund the construction of Crosstex's North Texas Pipeline. Crosstex is a mid-stream natural gas company headquartered in Dallas, Texas.

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MLP Overview and Investment Outlook

We continue to believe that MLPs offer a relatively low risk investment, due to the critical role of energy infrastructure to the U.S. economy. Overall positive performance in the MLP sector for the first half of 2005 was driven by:

Strong distribution growth fueled by solid earnings despite volatility in energy commodity prices;

Increased flow of funds into the sector, driven by increased demand for safe investments with attractive yields, and

Contributions from accretive acquisitions.

We look for these trends to continue to contribute to growth in distributions for the remainder of the year.

Financing Activity

In late April 2005, Tortoise Energy issued \$55 million of Tortoise Notes, rated Aaa and AAA by Moody's Investors Services, Inc. and Fitch Ratings, respectively. We entered into an interest rate swap arrangement to hedge our interest payment obligations on these Tortoise Notes through April 2014. We also used favorable market conditions to extend our interest rate swap arrangements with respect to outstanding Series A and Series B Tortoise Notes (\$110mm aggregate principal amount) through June 2011.

After quarter ending May 31, 2005, Tortoise Energy successfully completed an offering of Series II Money Market Cumulative Preferred Shares (Series II MMP Shares) raising a total of \$35 million before fees and expenses of the transaction. The Series II MMP Shares were rated Aa2 and AA by Moody's Investors Services, Inc. and Fitch Ratings, respectively. After the closing of this last offering of Preferred Stock, total assets were approximately \$745 million.

In Conclusion

With the strength of the energy infrastructure sector and the innovative investment structure pioneered by Tortoise Capital Advisors, we believe Tortoise Energy is well positioned to deliver Yield, Growth and Quality to its stockholders. We will communicate with you regularly through quarterly reports, conference calls and press releases. In addition, we invite you to visit our website at www.tortoiseenergy.com for the latest updates.

Sincerely,

The Managers of

Tortoise Capital Advisors, L.L.C.

H. Kevin Birzer

Zachary A. Hamel

Kenneth P. Malvey

Terry Matlack

David J. Schulte

Steady Wins

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Summary Financial Information

	Period Ended May 31, 2005
Market value per share	\$ 28.33
Net asset value per share	27.75
Total net assets	410,284,465
Unrealized appreciation before deferred taxes	53,229,854
After taxes	31,282,124
Net investment loss	(1,655,204)
Total realized gain	2,433,470
Total return (based on market value)	8.02%
Ratio of expenses to average net assets ⁽¹⁾	2.40%
Ratio of expenses to average net assets, excluding interest and auction agent fees ⁽²⁾	1.43%

(1) *Annualized.
Represents
expenses, after
fee
reimbursement.*

(2) *Annualized.
Represents
expenses, after
fee
reimbursement,
excluding
interest and
auction agent
fees.*

Table of ContentsSchedule of Investments(*Unaudited*)

	May 31, 2005	
	Shares	Value
Common Stock 0.63%		
Natural Gas Gathering/Processing 0.63%		
Crosstex Energy, Inc. (Cost \$2,263,977)	56,536	\$ 2,587,087
Master Limited Partnerships 153.45%		
Coal 1.88%		
Natural Resource Partners, L.P.	132,800	7,724,976
Shipping 1.02%		
K-Sea Transportation Partners, L.P.	71,300	2,374,290
U.S. Shipping Partners, L.P.	2,000	51,200
Teekay LNG Partners, L.P.	67,200	1,772,064
		4,197,554
Crude/Refined Products Pipelines 99.35%		
Buckeye Partners, L.P.	641,282	28,537,049
Enbridge Energy Partners, L.P.	419,200	21,626,528
Enbridge Energy Partners, L.P. ^	501,300	24,247,881
Holly Energy Partners, L.P.	427,070	17,381,749
Kaneb Pipe Line Partners, L.P.	414,500	25,421,285
Kinder Morgan Management, LLC #	1,390,743	61,985,416
Magellan Midstream Partners, L.P.	1,683,274	52,888,469
Magellan Midstream Partners, L.P. ^	521,739	15,213,909
Pacific Energy Partners, L.P.	656,500	20,417,150
Plains All American Pipeline, L.P.	794,100	33,534,843
Plains All American Pipeline, L.P. ^	486,855	20,253,168
Sunoco Logistics Partners, L.P.	934,625	34,721,319
TEPPCO Partners, L.P.	812,245	33,586,331
Valero, L.P.	294,700	17,817,562
		407,632,659
Natural Gas/Natural Gas Liquid Pipelines 13.41%		
Enterprise Products Partners, L.P.	1,852,300	47,604,110
Northern Border Partners, L.P.	155,200	7,387,520
		54,991,630
Natural Gas Gathering/Processing 23.76%		
Copano Energy, LLC	91,950	2,744,708
Energy Transfer Partners, L.P.	1,804,600	57,007,314
Hiland Partners, L.P.	36,548	1,279,180

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Markwest Energy Partners, L.P.	226,100	10,898,020
Markwest Energy Partners, L.P. ^	579,710	25,565,211
		97,494,433

Table of ContentsSchedule of Investments(*Unaudited*)
(*Continued*)

	May 31, 2005	
	Shares	Value
Propane Distribution 14.03%*		
Inergy, L.P.	1,732,220	\$ 54,253,130
Inergy, L.P.^	118,414	3,285,988
		57,539,118
Total Master Limited Partnerships (Cost \$498,088,636)		629,580,370
	Principal Amount	
Promissory Notes 1.71%*		
Shipping 1.71%*		
K-Sea Transportation Partners L.P. Unregistered, 8.320%, Due 03/31/2009 (Cost \$7,018,741)^ @	\$ 7,106,259	7,018,741
	Shares	
Short Term Investments 5.69%†		
First American Prime Obligations Money Market Fund Class Z	11,665,034	11,665,034
First American Treasury Obligations Money Market Fund Class Z	11,665,034	11,665,034
Total Short-Term Investments (Cost \$23,330,068)		23,330,068
Total Investments 161.48% (Cost \$530,701,422)		662,516,266
Auction Rate Senior Notes (40.22%‡)		(165,000,000)
Interest Rate Swap Contracts (0.50%‡)		
\$165,000,000 notional Unrealized Depreciation		(2,045,510)
Liabilities in Excess of Other Assets (12.23%‡)		(50,186,291)
Preferred Shares at Redemption Value (8.53%‡)		(35,000,000)
Total Net Assets Applicable to Common Stockholders 100.00%†		\$ 410,284,465

Footnotes and Abbreviations

+ *Calculated as a percentage of net assets.*

^ *Fair valued securities represent a total market value of \$95,584,898 which represents 23.30% of net assets.*

Security distributions are paid in kind.

@ *Security is a variable rate instrument. Interest rate is as of May 31, 2005.*

See Accompanying Notes to the Financial Statements.

Table of ContentsStatement of Assets & Liabilities (*Unaudited*)

	May 31, 2005
Assets	
Investments at value (cost \$530,701,422)	\$662,516,266
Cash	5,642,583
Receivable for Adviser reimbursement	252,337
Receivable for investments sold	59,092
Interest and dividend receivable	106,528
Prepaid expenses and other assets	2,821,896
 Total assets	 671,398,702
Liabilities	
Payable to Adviser	1,042,262
Dividend payable on common shares	6,580,360
Dividend payable on preferred shares	16,280
Accrued expenses and other liabilities	491,478
Unrealized depreciation on interest rate swap contracts	2,045,510
Deferred tax liability	50,938,347
Auction rate senior notes payable:	
Series A, due July 15, 2044	60,000,000
Series B, due July 15, 2044	50,000,000
Series C, due April 10, 2045	55,000,000
 Total liabilities	 226,114,237
Preferred Shares	
\$25,000 liquidation value per share applicable to 1,400 outstanding shares (7,500 shares authorized)	35,000,000
 Net assets applicable to common stockholders	 \$410,284,465
Net Assets Applicable to Common Stockholders Consist of	
Capital stock, \$0.001 par value; 14,787,324 shares issued and outstanding (100,000,000 shares authorized)	\$ 14,787
Additional paid-in capital	330,617,461
Accumulated net investment loss, net of deferred tax benefit	(1,898,492)
Undistributed realized gain, net of deferred tax expense	2,399,443
Net unrealized gain on investments and interest rate swap contracts, net of deferred tax expense	79,151,266
 Net assets applicable to common stockholders	 \$410,284,465
 Net Asset Value per common share outstanding (net assets applicable to common shares, divided by common shares outstanding)	 \$ 27.75

See Accompanying Notes to the Financial Statements.

Table of ContentsStatement of Operations (*Unaudited*)

	Six Months Ended May 31, 2005
Investment Income	
Distributions received from master limited partnerships	\$ 16,188,878
Less: return of capital on distributions	(14,734,460)
Distribution income from master limited partnerships	1,454,418
Dividends from money market mutual funds	314,919
Interest	329,866
Total Investment Income	2,099,203
Expenses	
Advisory fees	2,917,155
Professional fees	168,773
Administrator fees	201,013
Directors fees	30,400
Custodian fees and expenses	34,678
Reports to stockholders	94,035
Registration fees	26,283
Fund accounting fees	30,749
Stock transfer agent fees	5,860
Other expenses	63,449
Total Expenses before Interest Expense and Auction Agent Fees	3,572,395
Interest expense on auction rate senior notes	1,779,549
Auction agent fees	166,968
	1,946,517
Total Expenses	5,518,912
Less expense reimbursement by Adviser	(706,259)
Net Expenses	4,812,653
Net Investment Loss, before Deferred Tax Benefit	(2,713,450)
Deferred tax benefit	1,058,246
Net Investment Loss	(1,655,204)

Table of ContentsStatement of Operations (*Unaudited*)
(*Continued*)

	Six Months Ended May 31, 2005
Realized and Unrealized Gain (Loss) on Investments	
Net realized gain on investments	\$ 4,512,108
Net realized loss on interest rate swap contracts	(522,813)
Net realized gain, before deferred tax expense	3,989,295
Deferred tax expense	(1,555,825)
Net realized gain on investments and interest rate swap settlements	2,433,470
Net unrealized appreciation of investments	53,229,854
Net unrealized depreciation of interest rate swap contracts	(1,836,980)
Net unrealized gain, before deferred tax expense	51,392,874
Deferred tax expense	(20,110,750)
Net unrealized appreciation of investments and interest rate swap contracts	31,282,124
Net Realized and Unrealized Gain on Investments	33,715,594
Dividends to Preferred Stockholders	(506,214)
Net Increase in Net Assets Applicable to Common Stockholders Resulting from Operations	\$ 31,554,176

See *Accompanying Notes to the Financial Statements*.

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Statement of Changes in Net Assets

	Six Months Ended May 31, 2005 (Unaudited)	Period from February 27, 2004⁽¹⁾ through November 30, 2004
Operations		
Net investment loss	\$ (1,655,204)	\$ (243,288)
Net realized gain (loss) on investments and interest rate swap settlements	2,433,470	(34,027)
Net unrealized appreciation of investments and interest rate swap contracts	31,282,124	47,869,142
Dividends to preferred stockholders	(506,214)	(152,568)
Net increase in net assets applicable to common stockholders resulting from operations	31,554,176	47,439,259
Dividends and Distributions to Common Stockholders		
Net investment income		
Return of capital	(13,067,813)	(12,278,078)
Total dividends to common stockholders	(13,067,813)	(12,278,078)
Capital Share Transactions		
Proceeds from initial public offering of 11,000,000 common shares		275,000,000
Proceeds from issuance of 1,600,000 common shares in connection with exercising an overallotment option granted to underwriters of the initial public offering		40,000,000
Proceeds from secondary offering of 1,755,027 common shares	47,999,988	
Proceeds from issuance of 263,254 common shares in connection with exercising an overallotment option granted to underwriters of the secondary offering	7,199,997	
Underwriting discounts and offering expenses associated with the issuance of common shares	(2,443,688)	(14,705,165)
Underwriting discounts and offering expenses associated with the issuance of preferred shares	157,715	(725,000)
Issuance of 84,889 and 61,107 common shares from reinvestment of dividend distributions to stockholders, respectively	2,331,547	1,453,105
Net increase in net assets, applicable to common stockholders, from capital share transactions	55,245,559	301,022,940
Total increase in net assets applicable to common stockholders	73,731,922	336,184,121
Net Assets		
Beginning of period	336,552,543	368,422
End of period	\$410,284,465	\$ 336,552,543

Accumulated net investment loss, net of deferred tax benefit, at the end of period	\$ (1,898,492)	\$ (243,288)
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*(1) Commencement
of Operations.*

See Accompanying Notes to the Financial Statements.

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Table of ContentsStatement of Cash Flows (*Unaudited*)

	Six Months Ended May 31, 2005
Cash Flows from Operating Activities	
Distributions received from master limited partnerships	\$ 16,188,878
Interest and dividend income received	552,344
Purchases of long-term investments	(107,023,840)
Proceeds from sale of long-term investments	20,157,193
Net purchases of short-term investments	(20,120,742)
Payments for interest rate swap contracts	(522,813)
Interest expense paid	(2,036,481)
Operating expenses paid	(2,963,222)
Net cash used in operating activities	(95,768,683)
Cash Flows from Financing Activities	
Issuance of common stock	55,199,985
Issuance of auction rate senior notes payable	55,000,000
Common and preferred stock issuance costs	(2,164,703)
Debt issuance costs	(760,344)
Dividends paid to preferred stockholders	(532,420)
Dividends paid to common stockholders	(9,610,092)
Net cash provided by financing activities	97,132,426
Net increase in cash	1,363,743
Cash beginning of period	4,278,840
Cash end of period	\$ 5,642,583

Table of ContentsStatement of Cash Flows (*Unaudited*)
(*Continued*)

	Six Months Ended May 31, 2005
Reconciliation of net increase in net assets applicable to common stockholders resulting from operations to net cash used in operating activities	
Net increase in net assets applicable to common stockholders resulting from operations	\$ 31,554,176
Adjustments to reconcile net increase in net assets applicable to common stockholders resulting from operations to net cash used in operating activities	
Purchases of long-term investments, net of return of capital adjustments	(92,289,380)
Proceeds from sales of long-term investments	20,157,193
Purchases of short-term investments, net	(20,120,742)
Deferred income taxes	20,608,329
Net unrealized appreciation on investments and interest rate swap contracts	(51,392,874)
Realized gains on investments and interest rate swap contracts	(3,989,295)
Accretion of discount on investments	(9,943)
Amortization of debt issuance costs	22,626
Dividends to preferred stockholders	506,214
Changes in operating assets and liabilities:	
Increase in receivable for investments sold	(59,092)
Increase in interest and dividend receivable	(82,497)
Increase in prepaid expenses and other assets	(954,837)
Increase in payable to Adviser, net of expense reimbursement	(216,627)
Decrease in accrued expenses and other liabilities	498,066
Total adjustments	(127,322,859)
Net cash used in operating activities	\$ (95,768,683)
Non-Cash Financing Activities	
Reinvestment of distributions by common stockholders in additional common shares	\$ 2,331,547

See *Accompanying Notes to the Financial Statements*.

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Financial Highlights

	Six Months Ended May 31, 2005 <i>(Unaudited)</i>	Period from February 27, 2004⁽¹⁾ through November 30, 2004
Per Common Share Data⁽²⁾		
Net Asset Value, beginning of period	\$ 26.53	\$
Publ		