PARTICIPANTS

Corporate Participants

Stephen K. Gardner – President & Chief Executive Officer, NGP Capital Resources Co.
L. Scott Biar – Chief Financial Officer, Secretary, Treasurer and Chief Compliance Officer, NGP Capital Resources Co.

Other Participants

Troy L. Ward – Analyst, Keefe, Bruyette & Woods, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to your NGP Capital Resources Company's First Quarter 2014 Earnings Call. At this time, all lines are on a listen-only mode, with the Q&A session to follow. [Operator Instructions] As a reminder, this conversation is being recorded.

Now, I would like to turn the call over to your host, NGPC President and CEO, Steve Gardner.

Stephen K. Gardner, President & Chief Executive Officer

Thank you, Shannon, and thank all of you for joining us for today's call. With me today is Scott Biar, our Chief Financial Officer. I'll make some opening remarks, after which Scott will provide some details regarding the financial results for the quarter. Then we'll discuss our investment activity and open it up for questions.

First, I want to remind everyone that our remarks today may include comments which could be considered forward-looking statements and such statements are subject to many factors that can cause actual results to differ materially from our expectations as expressed in those forward-looking statements. Those factors are described in more detail in our SEC filings and I refer you to our Web site or to the SEC's Web site to review such filings. We undertake no obligation to publicly update or revise any forward-looking statements, which speak only as of today's date.

As you know, we announced in September that we engaged Keefe, Bruyette & Woods, or KBW, to lead a process of evaluating strategic alternatives for our company. The process is taking longer than many of us expected and it is still ongoing. Over the last several months, we've analyzed a number of proposals and alternatives with several parties in a variety of different structures.

At this point, we've not chosen a specific proposal that we and our Board of Directors believe is in the best interest of the stockholders and we are continuing to analyze and considering additional proposals. No decision has been made to enter into a transaction at this time and there could be no assurance that we will enter into a transaction in the future. Until we have something more definitive to announce, we really won't have further comment regarding the matter. We appreciate your patience.

Now, for the quarterly results. For the first quarter of 2014, we reported total investment income of $5.9 million and net investment income of $1.9 million or $0.09 per share, which included $0.02 per share of legal fees and other costs incurred during the quarter in connection with the strategic evaluation process.

There was limited activity in our investment portfolio during the quarter and it was valued at $203 million at the end of the quarter, which is 96% of costs. In April, we sold our $13 million face amount of Midstates Petroleum 10.75% Senior Subordinated Notes at an average price of $108.1, which resulted in a capital gain of $700,000 or $0.03 per share and an internal rate of return of 15.2%.

I'll now turn the call over to Scott Biar, our CFO, to discuss the details of the quarter. Scott?

L. Scott Biar, Chief Financial Officer, Secretary, Treasurer and Chief Compliance Officer

Thank you, Steve, and good morning, everyone. As Steve mentioned, for the first quarter of 2014, total investment income was $5.9 million or $0.29 per share compared to $5.8 million or $0.28 per share in the first quarter of 2013 and $6.5 million or $0.32 per share in the fourth quarter of 2013.

The sequential decrease in investment income was primarily attributable to a lower average portfolio balance in the first quarter of 2014 as a result of net repayments that occurred during the fourth quarter of last year.

The weighted average yield on portfolio was slightly higher in the first quarter of 2014, improving to 10.4% as of March 31, 2014 compared to 10.2% at December 31, 2013 and 9.9% at March 31, 2013.

Operating expenses for the first quarter of 2014 were $3.9 million, increasing approximately $450,000 compared to the first quarter of 2013 and decreasing $450,000 compared to the fourth quarter of 2013. The differences were primarily attributable to legal and professional fees incurred related to our process to evaluate strategic alternatives to enhance stockholder value, which totaled $650,000 in the fourth quarter of 2013 and $460,000 in the first quarter of 2014.

Interest expense was also roughly $100,000 to $200,000 lower in the first quarter of 2014 than in the first quarter of 2013 and the fourth quarter of 2013 due to lower average debt balances outstanding.

Our net investment income for the first quarter totaled $1.9 million or $0.09 per share compared to $2.3 million or $0.11 per share in the first quarter of 2013 and $2.2 million or $0.11 per share in the fourth quarter of 2013. The year-over-year decrease was largely attributable to the costs incurred in 2014 in connection with the strategic review process, while the sequential decrease is primarily attributable to the lower investment income on the smaller investment portfolio balance.

We recorded net realized capital losses of $9.6 million during the first quarter of 2014, $9.4 million of which was the loss on the disposition of our GMX Resources 2018 notes which we sold in the first quarter for $70,000. This realized loss was entirely offset by the reversal of unrealized losses recorded in prior periods.

Net of the reversal of unrealized depreciation on the GMX Notes, we recorded unrealized depreciation of $8.1 million in the first quarter of 2014, including decreases in the estimated fair value of our investments in Spirit Resources Preferred Units of $3.4 million, ATP Oil & Gas Corporation Limited Term Overriding Royalty Interest of $2.4 million, OCI Holdings Subordinated Notes and Preferred Units of $1.9 million, and net decreases in the value of remaining investments of $400,000.

Our net decrease in net assets resulted from operations during the first quarter of 2014 was $6.4 million or $0.31 per share and we declared dividends of $0.16 per share, decreasing our net asset value from $9.20 at December 31, 2013 to $8.73 per share at March, 31 2014, a decrease of $.047 per share or 5%.

At the end of the quarter, we had cash and cash equivalents of $33 million and we had borrowed $57 million under our investment facility. Our long-term debt to capitalization ratio at the end of March was 24% and our net debt to capitalization ratio was 10%. In the second quarter of 2014, we repaid $44 million of the debt outstanding under the investment facility. So we currently have $13 million of debt outstanding under the investment facility and $59 million currently available for borrowing.

With that, I'll turn the call back over to Steve.

Stephen K. Gardner, President & Chief Executive Officer

Thanks, Scott. I'd like to comment on the investments of which we had some reductions in value in this first quarter. With respect to Spirit Resources, we restructured this loan in January of last year, converting some debt to equity, leaving $5.5 million of first lien debt on the balance sheet and providing an additional $4.5 million of borrowing capacity in the Tranche B loan, in exchange for which we revised terms and took a 3% overriding royalty interest.

Since that time, borrowings under the Tranche B loan have been used to fund a series of relatively low risk, expected high return development projects. The initial projects which commenced early last year reduced costs, improved cash flow, and brought some shut-in wells back on line. But the recent projects completed during the first quarter of 2014 did not meaningfully and sustainably increase production of these properties.

Rather than fund additional capital, we've elected to pursue a sale of the properties. With the current production rates and reserves, we believe our debt instruments are pretty well covered, but we have reduced the amount of our equity position to zero during the first quarter and we placed the Tranche B term loan on non-accrual.

In any event, we believe these properties are in much better shape and in better position to be marketed now than they would have been a year-and-a-half ago prior to the restructuring.

With respect to OCI, which operates Care Options For Kids, the largest Medicare provider of juvenile speech, occupational and physical therapy in the State of Texas, we provided a $15 million Subordinated Note and $2.5 million equity co-investment as part of an acquisition financing in the first quarter of last year.

OCI has experienced some delays in some of its growth plans and other transition issues with the acquisition that have caused the company to miss its revenue and earnings targets and to violate certain financial covenants under our debt instrument. On positive note, remedial actions taken by OCI management have been effective and key operational and financial statistics are now trending upward.

The company is not in financial distress and we believe it is well on its way to improving its financial performance. But in accordance with accounting rules and our evaluation process, lower historical cash flows have led us to reduce the value of our investments by $1.9 million or roughly 11% for this quarter.

Finally, with respect to ATP, we recorded unrealized depreciation of $2.4 million or roughly 8.5% of our unrecovered investment balance during the quarter. Nothing has changed with respect to our position that what we own is a real property interest as we've stated all along.

However, given the length of time this issue has dragged on in bankruptcy court, the cost of defending our position and the continued growth with the receipt of each month's production payment of the amount potentially subject to disgorgement, under the disgorgement agreement we entered to back in September 2012, our application of accounting rules and valuation methodologies with respect to fair value have resulted in a reduction of the fair value as of March 31.

With respect to portfolio credit quality, as you are aware, we rate all of our investments from one to seven, with one being the highest credit quality.

At the end of quarter, our average portfolio rating on a dollar-weighted fair market value basis was 3.4 compared to 3.7 at the end of 2013. Of the 25 rated investments in 15 portfolio of companies as of March 31, 2014 compared to year-end 2013, one investment improved in rating, three investments declined in rating and 21 investments retain the same rating through the first three months of the year.

Also, I'd like to point out one more thing. You've seen in our report that we earned net investment income of $0.09 per share and we distributed a first quarter dividend of $0.16 per share. We had a similar circumstance last year when we distributed more than the net investment income earned in the first quarter. You may recall that, in the second quarter of 2013, we had a repayment that included a make-whole interest payment of $0.11 per share.

I just want to remind you that we have other investments in our portfolio with prepayment fees and make-whole provisions that could result in similar lumpy income component if they repay during the year.

Each quarter, our board of directors, in determining the quarterly dividend, considers projected estimates of earnings for the full year based on forecasted developments in the portfolio and other factors. Our board is scheduled to meet again in June to consider the second quarter dividend.

Market conditions for new investments remain challenging in both the energy and the middle market sectors. We've looked at a fair number of new investment opportunities on the energy side recently. However, competition from both mezzanine providers and senior lenders remains robust; and for the most part, we have not been comfortable with the risk return opportunities currently available in the energy space.

On the middle market side, deal activity has improved as more acquisition opportunities have been brought to market. However, purchase price multiples have increased significantly above prior-year levels and many of our private equity buyers have been outbid by strategic buyers for other private equity groups flush cash to invest. Senior lenders have been more aggressive in providing debt to these buyers and, in some cases, have eliminated the need for mezzanine or subordinated debt financing.

We've seen these trends before and understand that they will reverse at some point and that they do not apply across the board to all types of businesses or industries. We expect to see a steady flow of deal opportunities in the second half of 2014.

In summary, we continue to seek opportunities to expand the portfolio with quality investments to provide increased investment income to our stockholders and we continue also to pursue strategic alternatives that could accelerate or enhance this process to the benefit of our stockholders.

Now, I'll turn the call back over to Shannon for our questions and answers.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Troy Ward of KBW. You may begin.

<A – Steve Gardner – NGP Capital Resources Co.>: Good morning, Troy.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Sorry, I was on mute. Hey, can you guys give me an update – I know in the last quarter's conference call, you talked about the summary judgment was denied on ATP. Looking at that document that was put out by the judge, it looked to me to be a little more discussion than just a summary judgment denial. Can you speak to whether your ultimate outcome, you believe, has changed in ATP based on that summary judgment?

<A – Steve Gardner – NGP Capital Resources Co.>: Absolutely, Troy. First, with the conclusion, our position hasn't changed. We don't believe – we weren't surprised that the summary judgment was denied. There is discussion in reasoning that the opinion that the judge offers in his opinion and – the question of summary judgment is driven by whether there are material issues of fact that need to be determined at trial.

Our belief that it was simply a legal issue that needed to be determined and they're not disputes of fact and the judge disagreed with this. I will say that, in my opinion, some of the judge's reasonings and the way he's put together his opinion don't make any sense to me. And that's why we've appealed it. As per the overall question, even if we go to trial to determine the facts and circumstances surrounding the issues, we do absolutely think we'll prevail.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: So you've appealed the summary judgment. And then any thought on timing on either the appeal or the eventual – if we go to trial on the actual case itself?

<A – Steve Gardner – NGP Capital Resources Co.>: Absolutely. We have sought relief in the Federal District Court outside the Bankruptcy Court System to seek the ability to appeal in the Federal District Court. The Federal District Judge has not ruled on our motion. He does not have a specific timetable he needs to adhere to. So it could be in the next month, that he rules. If he allows us to – it could be beyond that. If he allows us to pursue our appeal in the District Court, we will do so. That will take some amount of time, but not a great deal, I don't think. If he denies our request for relief in the Federal District Court, then I think the next step would be to head toward a final hearing or an actual hearing on the primary issues.

And our counsel believes that with the amount of discovery that would need to take place in trial preparation and the judge's schedule overall, it's going to be, at the earliest, late this year, but very likely the first or second quarter of next year before the issue would be heard. Now, those are guesstimates. It's all based on the calendar of the judge and what he decides to do and when. But since the denial of the summary judgment, which was January 6, there has been very little activity in the court on this issue.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: And then, as we take that thought process and think about strategic alternatives, is it necessary for this to have some conclusion before there could realistically be a strategic alternative for NGPC as a whole or could there be a strategic – some type of strategic structural change where there can be insurance or a claw-back or things like that in some type of transaction? Or do you think this has to be resolved before anything major happens?

<A – Steve Gardner – NGP Capital Resources Co.>: That's a very good question. One of the reasons that the process is stretched out as long as it has is that we have been exploring various and sundry ways to try to mitigate the risk of ATP or to deal with it or to capture it somehow. And it's very complex, particularly with the context of a publicly-traded 40 Act Company like a BDC.

I think it would certainly – if we had resolution here with ATP, I think it would certainly facilitate the process. I don't know that it's absolutely necessary, but it's certainly been a factor in why this process has stretched out as long as it has.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Great. Thanks for that color, Steve.

<A – Steve Gardner – NGP Capital Resources Co.>: You bet, Troy.

Operator: Thank you. [Operator Instructions] I'm showing no further questions at this time. I would like to turn the conference back over to Steve Gardner for closing remarks.

Stephen K. Gardner, President & Chief Executive Officer

Thank you, Shannon. And, Troy, thank you for asking enough comprehensive questions to cover everything. As ever, if you want to ask any further questions, feel free to call Scott and myself. We appreciate your time and effort to be on the call and we'll talk to you soon. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day.