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.
Robert J. Dodd – Analyst, Raymond James & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to your NGP Capital Resources Company Third Quarter 2013 Earnings Call. At this time, all lines are in listen-only mode with the Q&A session to follow. [Operator Instructions] As a reminder, this conversation is being recorded.

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

Stephen K. Gardner, President & Chief Executive Officer

Thank you, Nicole, and thank all of you for joining us on today's call. We apologize for the delay, some unknown technical difficulty. With me on today's call is Scott Biar, our Chief Financial Officer. I will make some opening remarks, after which Scott will provide details regarding our financial results for this past quarter. Then I'll discuss our portfolio activity and prospects for new investments, and then we'll talk – we'll answer 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'll refer you to our website or to the SEC website to review those filings. We undertake no obligation to publicly update or revise any forward-looking statements, which speak only as of today's date.

We announced in early September that we engaged Keefe, Bruyette & Woods, or KBW, to lead a process of evaluating strategic alternatives for the company. The process is ongoing and proceeding in accordance with our expected timeline for the most part. It's been a robust process and we're encouraged by the level of interest we've drawn. No decision has been made at this point to enter into a transaction and there could be no assurance that we will enter into a transaction in the future. Until we have something more definitive to announce, that is all I intend to say regarding this matter and we don't intend to entertain questions regarding the strategic evaluation process later on this call. I appreciate your respect for the confidential nature of this process.

Now, for our last quarter's results. Third quarter 2013, we reported total income of $6 million and net investment income of $2.6 million, or $0.13 per share, in line with analysts' expectations. In contrast to recent quarters, we had relatively little activity within the portfolio, with new investments totaling just over $2 million and principal repayments totaling less than $1 million.

Just after quarter end, on October 2, we funded a $14 million investment, so our investment portfolio right now stands at roughly $227 million. Our net asset value per share improved by $0.09 during the quarter to $9.22 per share, marking our second consecutive quarter of NAV improvement.

During the first nine months of 2013, we've earned $0.50 per share in net investment income and have declared dividends totaling $0.48 per share. The total fair market value of the portfolio at September 30 was 94% of cost and there were two investments on non-accrual representing $14 million of cost and no fair value.

I'll now turn over the call to Scott, our CFO, to discuss further details.

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

Thank you, Steve, and good morning everyone. As Steve pointed out, for the third quarter of 2013, total investment income was $6.0 million, or $0.29 per share, compared to $6.3 million, or $0.30 per share, in the third quarter of 2012, and $9.6 million, or $0.46 per share, in the second quarter of 2013.

The second quarter of 2013 included $4.1 million, or $0.20 per share, of interest income from Resaca and Castex Energy Development Fund, which included $2.5 million of "make whole" interest income from the repayment of their term loans in June, which totaled $41 million. Year-over-year, the average portfolio balance was slightly lower in the third quarter of 2013, but the weighted average yield on the portfolio, which was 10.5% at the end of the quarter, was slightly higher in the third quarter of 2013 than it was in the third quarter of 2012.

Operating expenses for the third quarter of 2013 totaled $3.3 million, increasing $400,000 compared to the third quarter of 2012 and decreasing $800,000 compared to the second quarter of 2013. The sequential decrease was primarily attributable to a $400,000 investment income incentive fee to our investment advisor in the second quarter, which did not recur in the third quarter and as a result of lower interest costs during the third quarter on lower average debt balances.

The year-over-year increase in operating expenses was a result of higher interest costs and higher base management fees to our investment advisor as a result of higher total asset balances. Other general and administrative costs were fairly stable across all periods at $1.2 million to $1.3 million per quarter.

Our net investment income for the third quarter totaled $2.6 million, or $0.13 per share, compared to $3.4 million, or $0.16 per share, in the third quarter of 2012, and $5.5 million, or $0.26 per share, in the second quarter of 2013. We had no realized gains or losses during the third quarter of 2013.

We had net unrealized appreciation totaling $2.5 million, or $0.12 per share, in the third quarter of 2013, primarily reflecting mark-to-market adjustments totaling $1.9 million on our investments in the publicly traded senior unsecured notes of Midstates Petroleum and Talos Production, which substantially erased the mark-to-market unrealized losses recorded on those notes in the second quarter of 2013.

Net increases in fair value on the remainder of the portfolio totaled $600,000 during the third quarter of 2013. Our net increase in net assets resulting from operations during the third quarter of 2013 was $5.1 million, or $0.25 per share, and we declared dividends of $0.16 per share, bringing our net asset value as of September 30 to $9.22 per share, a $0.09 or 1% increase for the quarter and a 3.7% decrease from our beginning of year net asset value of $9.57 per share.

As of September 30, 2013, we had cash and cash equivalents totaling $42.3 million. We had borrowed $66 million under our investment facility, and our long-term debt to capitalization ratio at the end of September was 26% and our net debt to capitalization ratio was 11%. In October, we repaid $23 million of the debt outstanding under the investment facility. We currently have $43 million of debt outstanding under that facility and $29 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 provide a brief update on the status of our limited term overriding royalty interest in the producing offshore oil and gas properties that are operated by ATP Oil & Gas Corp. As you know, they filed for bankruptcy last year in August. As we stated before, the major issues here are really threefold. The first issue has to do with the legal substance of our investment. Do we own a real property interest in the production from these wells, as we have asserted all along, or are we merely a creditor of ATP as a result of making a loan or entering into an executory contract with a subject to rejection by ATP under the U.S. Bankruptcy Code?

The court has heard arguments regarding our motion for summary judgment in this case, but has not yet ruled on that motion. The trial date and other deadlines in the lawsuit have been abated pending the outcome of our motion for summary judgment and various other motions involving other parties.

The second issue has to do with whether certain trade creditors, who were allegedly providing goods and services to ATP at the time we purchased our limited term overriding royalty interests, are entitled to assert liens against our override and be paid from the production payments attributable to our override. This issue is scheduled to be determined after the court determines the legal substance of our investment.

The third issue concerns who will ultimately be operating and developing these properties in the future. As we have discussed previously, production from the Gomez property ceased as of April 30 of this year and ATP has since elected to abandon these leases. So we have received no production payments from the Gomez properties in the third quarter and we will receive none in the future.

The sole source of income and repayment is from our 5% overriding royalty interest from the Telemark properties. In October, the Bankruptcy Court entered its final order approving the sale of Telemark and other properties to Bennu Oil & Gas Company, a newly formed company owned by ATP's debtor-in-possession lenders.

Bennu represents an experienced and reputable operating team and has a strong balance sheet with access to capital. It is our understanding that the sale actually closed on November 1 and that in connection with that process, Bennu raised up to $350 million in second lien debt. Through its purchase of the ATP properties, Bennu now owns the claims asserted by ATP in the pending lawsuit mentioned earlier regarding the legal substance of our investment.

We continue to receive payments every month, including production payments totaling $1.7 million during the third quarter, which was lower than the $3.1 million of production payments we received from Telemark properties during the second quarter, primarily because the Telemark production was shut-in temporarily for scheduled downstream pipeline maintenance. The maintenance has been completed and monthly production payments from Telemark in September and October were back to the approximate $1 million per month level that they were during the second quarter.

The other portfolio investment I would like to comment on specifically is our $14.4 million term loan with Huff Energy Holdings, a private oil and gas company operating offshore Texas and Louisiana and in the shallow waters of the Gulf of Mexico. This loan originated in 2008 as a term loan supporting a relatively small drilling program by Black Pool Energy Partners. We restructured this loan in July 2012 and extended the maturity until April 2013 when Huff Energy assumed the loan from Black Pool, and we also received additional collateral in the form of certain producing oil and gas properties owned by Huff.

We subsequently extended the term loan twice more up to September 20, 2013, as Huff attempted to raise additional financing and development capital. Huff is still in that capital raising process and we placed the loan into default in September. We're currently working on another extension with Huff, which would likely extend this loan into sometime in 2014 and involve additional collateral and a principal paydown of some magnitude. In short, this loan is currently sufficiently covered in today's market in terms of collateral and it is generating sufficient cash to pay current interest, but ultimately the company needs additional capital to fully develop its asset base and maximize its value. And that process is taking more time than the company originally anticipated.

With respect to portfolio credit quality, as you are aware, we rate all of our investments from 1 to 7, with one being the highest quality. At the end of third quarter, our average portfolio rating on a dollar weighted fair market value basis was 3.9 compared to 4.2 at the end of the second quarter, and 4.1 as of December 31, 2012. Of the 26 rated investments we held as of September 30, 2013 compared to year-end last year, nine investments retained the same rating, two investments improved in rating, three declined and we've added 12 new investments during the first nine months of 2013.

Deal flow has recovered somewhat from the slow summer months. While we didn't close any new deals during the third quarter, we did fund a $14 million investment, currently yielding approximately 10.7%. As part of a $180 million acquisition financing with a private independent oil and gas company operating along the Gulf Coast. We have a number of opportunities for new deals on both the energy side and in the middle market space that are at various stages of diligence.

It is impossible to project the timing and likelihood of future transactions, but we would like to be able to close another deal or two before year end, or shortly thereafter. We have funded $100 million of new investments thus far in 2013, marking the third year in a row that we've exceeded $100 million in new investment activity. We have approximately $30 million of borrowing capacity currently available and we don't have any significant repayments scheduled to occur during fourth quarter.

In summary, I'm pleased with our quarterly results and the investment activity thus far in 2013, and the status of the portfolio right now. I'm confident in our team and in our prospects. We've had success over the past two years in growing the portfolio with solid credit quality. A transformative transaction in the near-term could accelerate that process to the benefit of our shareholders, but we look forward to continuing our growth strategy under any circumstances.

Now, I will turn the call back over to Nicole and we will answer any questions you might have.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Troy Ward of KBW. Your line is now open.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Thank you. And good morning, guys.

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

<A – Scott Biar – NGP Capital Resources Co.>: Good morning, Troy.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Hey. Can you just speak real quick – very good color on ATP, I really appreciate that. You knew the questions I was going to ask, I think. But the second – you gave a top three. The second one you talked about was whether trade creditors can basically get it on their production payments by filing a lien against your ORRI. That's not something I had in my notes from previous. Is that something new that's come up and can you give a little more color on that? And what you think kind of – is there any precedent for this and do you think it's a real risk here?

<A – Steve Gardner – NGP Capital Resources Co.>: It's not new. It's – generally speaking, the trade creditors filed liens as ATP – potentially as ATP was approaching bankruptcy and some after. And the question is how much of the work that they have been – because ATP was doing work continuously that period. These claims have been outstanding since the beginning of the bankruptcy. It's absolutely normal and typical, happens in every bankruptcy case. And it's generally resolved through the process of winding up a plan, which my expectation is going to have to happen here in the next 30, 60, 90 days, now that the properties have been sold.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Okay.

<A – Steve Gardner – NGP Capital Resources Co.>: So it's nothing unusual. At the end of the day, it often comes down to everybody in the room type negotiations saying, here's what's available for the trade, here's what's available for the other parties. Of all the parties, it's our opinion that we stand in the strongest stead because we believe we own actual assets as opposed to claims and a bankruptcy. So we'll see how that works out.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Okay. So let's take it a step further. So if you do own actual assets, so you have – you basically have the right to the product as it comes out of the ground. If a trade lien gets applied in some respect, let's say, you get $100 worth of product out of the ground and the trade gets applied at $10, does that lower your eventual return from your ORRI, or is it just a timing issue where you're still going to get the same amount, it just may take a longer for you to get your full dollars?

<A – Steve Gardner – NGP Capital Resources Co.>: Yeah. It's the latter Troy. It just extends. It doesn't change what we actually own.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Okay.

<A – Steve Gardner – NGP Capital Resources Co.>: If there are other expenses that need to be paid, which these would be in that category, it just would extend the maturity or the final resolution of the override.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Yeah, that's what I figured. That's great. Okay. Can you speak a little bit kind of what – give us an update on your middle market strategy and how you see that versus opportunities in the energy strategy right now?

<A – Steve Gardner – NGP Capital Resources Co.>: Sure. What we've done – the three deals that we've done earlier this year in the middle market space are pretty much right in the fairway of what we like to do. It's lower middle market. In one case – two cases, niche manufacturing, one of paper, one of urinalysis products, the other is a health care services company that provides counseling and occupational therapy, speech therapy and those sorts of things to Medicaid children. There – I would say through the summer, which is fairly typical of things where – the deal flow slow down quite a bit.

As of late, we've submitted term sheets and actually been selected provider in a couple of deals in which the sponsor came in second or third in a bidding process of late, so we've missed on those deals, but we're actively looking to continue to do the types of deals we've been doing. They've largely been – what we're looking at is largely sponsor driven. What's happening, I'm sure you're probably seeing this elsewhere in the space, is we're not really stretching what we're trying to do, but the sponsors are having to stretch. I mean, the multiples are going up from a total purchase standpoint. And so far, the sponsors we've hooked up with have been coming in second and third for the last two or three months.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Okay. And then real quick back to ATP for one second. How do you – you talked about the ATP timeline a little bit. Do you expect that the ATP timeline and the resolution there is going to – do you think that the strategic alternative timeline is being impacted by the ATP timeline, I guess, is my question.

<A – Steve Gardner – NGP Capital Resources Co.>: I don't think the timeline of the strategic alternatives process will be affected by the ATP timeline. But the potential results of the strategic alternative process may well be affected by the ATP timeline. Does that make sense?

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Yeah. Yes, it does.

<A – Steve Gardner – NGP Capital Resources Co.>: And basically, the timeline is uncertain on the ATP situation. We have heard anecdotally that Bennu and the DIP lenders intends to approach us and other override holders to work out a buyout of our asset and as well as others. They've not done that yet, they just closed on Friday, and I imagine that they've got their arms full, but we'll see what happens. If – as it stands, we've also heard anecdotally and through some testimony prior to the sale that the management intends – their top two development projects, which we now understand they have raised the capital for, are both on our Telemark properties as pretty much square up exactly with how we expected it to happen.

So we feel very confident in the value. I mean, accepting our arguments from the legal basis, we feel very confident in the open value of the override, given their development plans. So we'll see if they come to us. We would not be surprised. We just don't know yet.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: All right. Okay. Then one last one. Have you had any departures from the team recently as you've started to move down and talk more with – about strategic alternatives?

<A – Steve Gardner – NGP Capital Resources Co.>: Troy, what are you implying?

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: I'm just wondering.

<A – Steve Gardner – NGP Capital Resources Co.>: No, we have not. In fact, most of them are sitting around the table right now. No, we have not. I don't expect any – we've got a solid group here and I think they're fully engaged in the process.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Outstanding. Thanks, guys.

Operator: Thank you. Our next question comes from the line of Robert Dodd of Raymond James. Your line is now open.

<Q – Robert Dodd – Raymond James & Associates, Inc.>: Hi guys. Troy stole all of my questions, but a clarification on Huff, if I could. You said placed in default. Does that mean going forward is it going to be paying default interest or is that on non-accrual? And does that – I guess then tied into part of that is if it is on non-accrual, did it contribute two months of interest to the quarter and then not for September, or was it full quarter of income, et cetera, and any additional color on that'd be very helpful?

<A – Steve Gardner – NGP Capital Resources Co.>: Sure, Robert. As of September 23, they were formally placed on default. The default rate is 18%

<Q – Robert Dodd – Raymond James & Associates, Inc.>: Okay.

<A – Steve Gardner – NGP Capital Resources Co.>: They are paying – it's accruing at 18% and they are paying it in cash.

<A – Scott Biar – NGP Capital Resources Co.>: Monthly.

<A – Steve Gardner – NGP Capital Resources Co.>: It's due monthly. We received September payment. We received October payment in due course. This is not an adversarial situation. We're working with management and trying to get something resolved. They've – the two previous extensions that we did were 90 and – basically 90-day extensions and they were done that way because they were in the midst of heading down a path with an alternative financing that would – but neither of those worked out. So we extended twice, neither one of those worked out. So now we're talking to them about a longer-term process so they can raise some capital and drill some wells.

<Q – Robert Dodd – Raymond James & Associates, Inc.>: Okay. Perfect. I appreciate it. That's it. Thanks.

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

Operator: [Operator Instructions] I'm showing no further questions at this time. I'd like to hand the call back over to management for any closing remarks.

Stephen K. Gardner, President & Chief Executive Officer

Thank you, Nicole. We appreciate your time today. Apologize for the sirens in the background. Fortunately, they weren't coming for us and our building is not on fire. Other than that, enjoy your time together. We'll talk to you again soon. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Thank you and everyone, have a great day.