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.
Fin O'Shea – Analyst, Raymond James & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the NGP Capital Resources Company's Fourth Quarter 2013 Earnings Call. At this time, all lines are in 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 your call over to your host to NGPC President and CEO, Steve Gardner.

Stephen K. Gardner, President & Chief Executive Officer

Thank you, Bridget, and thank all of you for joining us for today's call. With me today is Scott Biar, our Chief Financial Officer. I'll begin with some opening remarks, after which Scott will provide details regarding the financial results for the quarter. And then, we'll talk about 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 website or to the SEC's 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.

As most of you know, we announced in September that we had engaged Keefe, Bruyette & Woods or KBW, to lead a process of evaluating strategic alternatives for the Company. While it might be taking longer than many expected, I want to confirm that this process is ongoing. 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. So until we have something more definitive to announce, we are not going to comment further, and we will not entertain questions regarding the process on this call.

On to the quarterly results. For the fourth quarter of 2013, we reported total investment income of $6.5 million and net investment income of $2.2 million, or $0.11 per share, including $0.03 per share of legal fees and other costs incurred during the quarter in connection with the strategic evaluation process. Our investment portfolio remained fairly stable, valued at $211 million. Our net asset value per share declined by $0.02 during the quarter to $9.20.

During the full year of 2013, our total investment income of $27.9 million was the highest figure we've recorded since 2008, primarily because our average portfolio balance over the course of the year was higher than it has been in recent years. During the year, we earned net investment income of $0.61 per share and declared dividends totaling $0.64 per share. There were two investments on non-accrual as of December 31. We sold one of those, the GMX Resources' Second-Priority Notes, shortly after year end, leaving one investment on non-accrual representing $4.3 million of cost and no fair value. The current portfolio is valued at 99% of cost.

I will now turn the call over to Scott Biar to discuss the details of our quarterly performance.

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

Thank you, Steve, and good morning, everyone. For the fourth quarter of 2013, total investment income was $6.5 million, or $0.32 per share, compared to $6.1 million, or $0.29 per share, in the fourth quarter of 2012 and $6.0 million, or $0.29 per share, in the third quarter 2013. Compared to both the third quarter of this year and last year's fourth quarter, our average portfolio balance was slightly higher in the fourth quarter of 2013 and the weighted average yield on our portfolio was relatively unchanged. The weighted average yield on our portfolio as of year end was 10.2%.

Operating expenses for the fourth quarter of 2013 totaled $4.3 million, increasing $1 million compared to both the fourth quarter of 2012 and the third quarter of 2013. These increases were primarily attributable to higher legal and professional fees, including $645,000, or $0.03 per share, of costs related to our process to evaluate strategic alternatives to enhance stockholder value. Management fees paid to our advisor were slightly higher year-over-year due to higher average asset balances.

Our net investment income for the fourth quarter totaled $2.2 million, or $0.11 per share, compared to $2.8 million, or $0.13 per share, in the fourth quarter of 2012, and $2.6 million, or $0.13 per share, in the third quarter of 2013. These decreases can be attributed primarily to the costs incurred in connection with the strategic review process.

We recorded a realized loss of $3.0 million during the fourth quarter of 2013 on the liquidation of our Resaca common stock, which was entirely offset by the reversal of unrealized losses recorded in prior periods. Net of that reversal, we had net unrealized depreciation on investments, totaling approximately $700,000, or $0.04 per share, across the remainder of the portfolio during the fourth quarter of 2013.

Our net increase in net assets resulting from operations during the fourth quarter of 2013 was $2.9 million, or $0.14 per share, and we declared dividends of $0.16 per share, bringing our net asset value as of December 31 to $9.20 per share, a $0.02 decrease for the quarter and a 3.9% decrease from our beginning-of-year net asset value of $9.57 per share.

For the full year of 2013, we generated total investment income of $27.9 million, or $1.35 per share, increasing 19% compared to 2012. Net investment income in 2013 was $12.6 million or $0.61 per share, compared to $11.8 million, or $0.55 per share, in 2012, representing an 11% increase in net investment income per share for the year.

At the end of the year, we had cash and cash equivalents of $29.3 million. We had borrowed $53 million under our investment credit facility. Our long-term debt-to-capitalization ratio at the end of December was 22%, and our net debt-to-capitalization ratio was 10%. In the first quarter of 2014, we repaid $27 million of the debt outstanding under the investment facility. We currently have $26 million of debt outstanding under that facility, with $46 million currently available for borrowing.

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

Stephen K. Gardner, President & Chief Executive Officer

Thanks, Scott. In last quarter's call, I commented on the fact that we had placed our $14.4 million term loan with Huff Energy Holdings into default in late September. Today, I'm pleased to report that on December 31 we successfully restructured this loan. In the restructuring we received a $7.4 million principal repayment funded by new equity capital contributed by Huff's equity owners, reducing our outstanding balance to $7 million. We also received liens on additional producing properties of Huff, tighter financial covenants and some equity consideration that Huff can repurchase from us for a modest amount if they repay the loan at maturity. This restructured loan pays interest at 12.5% and matures in November 2015.

With respect to portfolio credit quality, as you are aware of, we rate all of our investments from one to seven, with one being the highest credit quality. At the end of the year, our average portfolio rating on a dollar weighted fair market value basis was 3.7, compared to 3.9 at the end of the third quarter and 4.1 at December 31, 2012. Of the 26 rated investments we held as of December 31, 2013 compared to year-end 2012, nine investments retained the same ratings, three investments improved in rating, one declined and we added 13 investments during the year.

We closed one new investment during the fourth quarter, funding a $14 million loan participation currently yielding approximately 10.7%, as part of a $180 million second lien acquisition financing with a private independent oil and gas company operating along the Gulf Coast.

The total fair value of our portfolio was $211 million at the end of 2013 with 85% of that value made up of investments that we placed within the last two years.

We've looked at a good number of investment opportunities in recent months, particularly on the energy side, where deal flow picked up in mid-January and has been strong through February. Some of these energy deals are in their early stages and others, upon further review did not meet our investment criteria. On the middle market side, it seems that some of the private equity sponsors with whom we have close relationships have had a slower start to the new year than in recent years. At the same time, it appears that there is a lot of private equity capital chasing deals and we may be seeing some over-equitizing in some transactions. This, combined with senior bank lenders stretching further down to capital structure, presents additional challenges to the deployment of junior and mezzanine capital in the middle market. We do think the slow start is a temporary issue and that the back half of 2014 will provide more opportunities in the middle market space than we're seeing right now. We funded roughly $100 million of new investments last year and that is about the rate at which we have been for new investments for the last three years.

In summary, while capital deployment during the fourth quarter was less than desired, it was a solid and stable quarter and the portfolio is performing pretty well overall. 2013 was a solid year for our fund and were it not for the loss on the GMX Notes it would have been a very good year, in my opinion. We continue to seek opportunities to grow the portfolio with quality investments, providing increased investment income for our stockholders, and we continue to pursue strategic alternatives that could accelerate or enhance that process to the benefit of our stockholders as well.

At this point, I'll turn the call back over to Bridget to funnel your questions to us. Bridget?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Troy Ward with KBW. Your line is open.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Great. Thanks, guys, and then morning.

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

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

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Just a couple of clarifications on the GMX non-accrual. You said you sold that in January. Can you just give us some color on how the December mark related to the September mark, and then of course, where it was sold related to the December mark in January?

<A – Scott Biar – NGP Capital Resources Co.>: Yeah, Troy. We had it marked to zero as of September. We sold it for nominal value, less than $100,000. I think it was about $70,000, and that's where we marked it at December, because, obviously the deal closed in January. So, nominal impact, I guess.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: All right. And then on Huff, Steve, you kind of went through those. It definitely sounded like a good outcome potentially on the restructuring. Can you go back through those numbers and give us what the cost was now? I think you said $7 million paid off, is that right?

<A – Steve Gardner – NGP Capital Resources Co.>: Yeah. It was $14.4 million. The prior normal interest rate was 11%. They had been in default and so we were receiving for much of the fourth quarter, 18% default rate. We received a $7.4 million pay-down, so the current outstanding is $7 million. It's a 12.5% cash pay, and we received some equity kickers that really are there to encourage the development of the properties before maturity in two years – well, now November 2015. And if they pay off – if they're successful in paying off the loan on time then they'll be able to buy those equity kickers back at a nominal sum.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Okay. And then, on the middle market side, obviously, as you know, we – most of the BDCs we cover are squarely in the middle market. So, we're definitely seeing the slow start across the board, I think, but also the definite higher competitiveness. Can you remind us how – what is your current exposure to middle market loans, and where do you kind of see that ramping up to if the market cooperates here in 2014?

<A – Steve Gardner – NGP Capital Resources Co.>: We have three investments in the middle market currently. I believe the total of those three is around $45 million with a small equity piece in one of our investments.

<A – Scott Biar – NGP Capital Resources Co.>: It makes up about 25% of the total portfolio value.

<A – Steve Gardner – NGP Capital Resources Co.>: Right. We'd like to see and expect to see that number move up over time. As we said before, we don't have a specific ratio of energy to non-energy, but we have seen – throughout last year we saw a fair amount of opportunity. We bid in a number of competitive processes. We just didn't – we didn't hit on as many as we would've liked. In some cases, the sponsors we were backing, or joining with, didn't win the ultimate bid, and in some cases, other debt providers muscled us out, I guess you could say.

So, it's competitive but we expect to continue in the space. We feel like we have – we are developing a pretty solid name in the space. Good relationships with a number of providers.

Michael Brown is very well connected and we're seeing a lot of transactions, it's just been a bit slower.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Okay. And then my final one is – I'm sure you can guess – is on ATP. Can you give us an update on the process and obviously, kind of what we keep coming back to is a ruling on whether or not the original transaction was deemed sale of assets or a financing, do we have any closure on that yet?

<A – Scott Biar – NGP Capital Resources Co.>: There's really no closure on that. It's still an open issue. We did – we filed a motion for summary judgment last summer that the court did deny, which wasn't really a surprise, but they haven't really scheduled the next step. We have appealed that denial of motion for summary judgment, so it's really sort of still pending, I guess.

<A – Steve Gardner – NGP Capital Resources Co.>: Yeah, at this point, Troy, since Bennu, the operating company that was formed by the DIP lenders to own the assets, they closed on the assets in November. Since that time, they've been paying us as agreed. There's really not – other than the denial of the motion for summary judgment, which I think was originally filed in February of last year.

<A – Scott Biar – NGP Capital Resources Co.>: I think that's right – a long time ago. Yeah.

<A – Steve Gardner – NGP Capital Resources Co.>: There's not much that's been happening. There's currently no scheduled hearing or set schedule for hearing an actual trial. I mean in the interim, as Scott said, we have requested interlocutory relief for appeal outside the bankruptcy court on the motion for summary judgment.

So, since the last time we talked, really not much has changed, except that, I guess we talked last time, they had just closed on the property, Bennu had, and they're paying as agreed. Their plans continue to be to develop the properties. Two of the – the first two wells they plan to drill, I think one late summer this year and one in 2015, are both on the Telemark properties. And ultimately, if successful, which we expect, will accelerate the payout.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: And remind me what the process is? They're paying as agreed but isn't there something where there is a clawback if the ruling would go against you?

<A – Steve Gardner – NGP Capital Resources Co.>: Yes. All of us – all of the owners overriding royalty interests at the beginning of the case – agreed to an order that they would pay as agreed. But there's this disgorgement agreement that we all entered into that says, if the court ultimately determines that we don't own an overriding royalty interest and own something else as yet to be determined, then we would have to disgorge those funds that we received since the order, and continue to fight with them having the money and us doing the appeal.

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

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

Operator: Thank you. [Operator Instructions] Our next question is from Fin O'Shea with Raymond James. Your line is open.

<Q – Fin O'Shea – Raymond James & Associates, Inc.>: Hi, guys. Thanks. Most of mine have been answered. I just wanted to clarify on the net $0.7 million gains in excess of Resaca. That was across the board just general market levels?

<A – Scott Biar – NGP Capital Resources Co.>: Correct. I mean, some went up a little, some went down a little. But net-net, they went up.

<Q – Fin O'Shea – Raymond James & Associates, Inc.>: And with Huff, would you say that the operating fundamentals have improved or was that like a vote of confidence from the equity investors?

<A – Steve Gardner – NGP Capital Resources Co.>: Well, yes. I think the operating fundamentals are solid. What they had needed was additional capital to drill some acreage that they have, that they feel is highly prospective. And so they now have raised the capital with their equity partners to do that, and they paid down the loan. I failed to mention earlier that we also have put the loan on amortization and the balance that was $7 million at year end is now approximately $6.6 million, so.

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

<A – Steve Gardner – NGP Capital Resources Co.>: It's certainly an improvement on the credit quality and we actually like the prospects they have. They just need to get out drilling, which they plan to do.

<Q – Fin O'Shea – Raymond James & Associates, Inc.>: Okay, great. Appreciate that. Thanks.

<A – Scott Biar – NGP Capital Resources Co.>: We increased our collateral coverage with half of the exposure, basically by reducing the balance by 50% or so.

<Q – Fin O'Shea – Raymond James & Associates, Inc.>: Right, right. Okay. Thanks a lot.

<A – Steve Gardner – NGP Capital Resources Co.>: Sure.

Operator: Thank you. I'm not showing any further questions at this time.

Stephen K. Gardner, President & Chief Executive Officer

Okay, well if we don't have any further questions, Bridget, we appreciate everyone taking the time this morning and we hope to talk to you again soon. Thanks very much.

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