KNOT Offshore Partners LP
Form 424B5
January 04, 2017
Table of Contents

Filed Pursuant to 424(b)(5)
Registration No. 333-195976

Subject to Completion, dated January 4, 2017

PROSPECTUS SUPPLEMENT

(To Prospectus dated May 28, 2014)

2,500,000 Common Units

Representing Limited Partner Interests

We are selling 2,500,000 common units representing limited partner interests.

Our common units trade on the NYSE under the symbol KNOP. The last reported sale price of our common units on the NYSE on January 3, 2017 was $24.50 per common unit.

Investing in our common units involves risks. See Risk Factors beginning on page S-13 of this prospectus supplement and page 7 of the accompanying prospectus and the other risk factors incorporated by reference into this prospectus supplement and the accompanying prospectus.

	Per Unit	Total
Price to the public	$	$

Underwriting discounts and commissions	$	$
Proceeds to KNOT Offshore Partners LP (before expenses)	$	$

We have granted Barclays the option to purchase up to 375,000 additional common units on the same terms and conditions set forth above if Barclays sells more than 2,500,000 common units in this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

Barclays expects to deliver the common units to purchasers on or about January , 2017.

Barclays

Prospectus Supplement dated January , 2017

Table of Contents

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of common units. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering of common units. Generally, when we refer to the prospectus, we refer to both parts combined. If information varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

Any statement made in this prospectus or in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document that is also incorporated by reference into this prospectus modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus or any free writing prospectus we may authorize to be delivered to you. Neither we nor the underwriter have authorized anyone to provide you with additional, different or inconsistent information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. You should not assume that the information contained in this prospectus or any free writing prospectus we may authorize to be delivered to you, as well as the information we previously filed with the Securities and Exchange Commission (the SEC) that is incorporated by reference herein, is accurate as of any date other than its respective date. Our business, financial condition, results of operations and prospects may have changed since such dates.

We are offering to sell the common units, and are seeking offers to buy the common units, only in jurisdictions where offers and sales are permitted. The distribution of this prospectus and the offering of the common units in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus must inform themselves about and observe any restrictions relating to the offering of the common units and the distribution of this prospectus outside the United States. This prospectus does not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form F-3 regarding the securities covered by this prospectus. This prospectus does not contain all of the information found in such registration statement. For further information regarding us and the securities offered in this prospectus, you may wish to review the full registration statement, including its exhibits. In addition, we file annual and other reports with, and furnish information to, the SEC. You may inspect and copy any document we file with, or furnish to, the SEC at the public reference facilities maintained by the SEC at 100 F Street, NE, Washington, D.C. 20549. Copies of this material can also be obtained upon written request from the Public Reference Section of the SEC at 100 F Street, NE, Washington, D.C. 20549, at prescribed rates or from the SEC s website at www.sec.gov free of charge. Please call the SEC at 1-800-SEC-0330 for further information on public reference facilities. You can also obtain information about us at the offices of the NYSE at 20 Broad Street, New York, New York 10005.

As a foreign private issuer, we are exempt under the Securities Exchange Act of 1934, as amended (the Exchange Act), from, among other things, certain rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal unitholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act, including the filing of quarterly reports on Form 10-Q or current reports on Form 8-K. However, we intend to make available quarterly reports containing our unaudited interim financial information for the first three fiscal quarters of each fiscal year.

Table of Contents

INCORPORATION OF DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference information that we file with the SEC. This means that we can disclose important information to you without actually including the specific information in this prospectus by referring you to other documents filed separately with the SEC. The information incorporated by reference is an important part of this prospectus. Information that we later provide to the SEC, and which is deemed to be filed with the SEC and incorporated into this prospectus, automatically will update information previously filed with the SEC, and may replace information in this prospectus.

We incorporate by reference into this prospectus the documents listed below:

- our annual report on Form 20-F for the fiscal year ended December 31, 2015 filed on March 18, 2016 (our 2015 Annual Report);
- our reports on Form 6-K filed on September 7, 2016, December 5, 2016, December 6, 2016 and January 4, 2017;
- all subsequent reports on Form 6-K furnished prior to the termination of this offering that we identify in such reports as being incorporated by reference into the registration statement of which this prospectus is a part; and
- the description of our common units contained in our registration statement on Form 8-A filed on April 5, 2013, including any subsequent amendments or reports filed for the purpose of updating such description.

These reports contain important information about us, our financial condition and our results of operations.

You may obtain any of the documents incorporated by reference in this prospectus from the SEC through its public reference facilities or its website at the addresses provided above. You also may request a copy of any document incorporated by reference in this prospectus (excluding any exhibits to those documents, unless the exhibit is specifically incorporated by reference in this document), at no cost by visiting our website at www.knotoffshorepartners.com. You may also make requests for such documents at no cost by writing or calling us at the following address:

KNOT Offshore Partners LP

2 Queen s Cross

Aberdeen, Aberdeenshire AB15 4YB

United Kingdom

+44 1224 618420

You should rely only on the information contained in or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized anyone else to provide you with any information. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information incorporated by reference or provided in this prospectus is accurate as of any date other than its respective date. The information contained in our website, or any other website, is not incorporated by reference in this prospectus and does not constitute a part of this prospectus.

Table of Contents

FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical fact, included in or incorporated by reference into this prospectus and any free writing prospectus are forward-looking statements. In addition, we and our representatives may from time to time make other oral or written statements that are also forward-looking statements. Such statements include, in particular, statements about our plans, strategies, business prospects, changes and trends in our business, expectations regarding our distribution levels and the markets in which we operate. In some cases, you can identify the forward-looking statements by the use of words such as may, will, could, should, would, expect, plan, anticipate, inter believe, estimate, predict, propose, potential, continue or the negative of these terms or other comparable terminology.

Forward-looking statements appear in a number of places in this prospectus and the documents we incorporate by reference and include statements with respect to, among other things:

- market trends in the shuttle tanker or general tanker industries, including hire rates, factors affecting supply and demand and opportunities for the profitable operations of shuttle tankers;
- the ability of KNOT Offshore Partners LP and Knutsen NYK Offshore Tankers AS (KNOT) to build shuttle tankers and the timing of the delivery and acceptance of any such vessels by their respective charterers;
- forecasts of our ability to make or increase distributions on our units;
- our ability to integrate and realize the expected benefits from acquisitions, including our acquisition of the entity that owns the *Raquel Knutsen*;
- our ability to consummate the Private Placement (as defined herein) and the impact of such offering;
- our anticipated growth strategies;
- the effects of a worldwide or regional economic slowdown;
- turmoil in the global financial markets;
- fluctuations in currencies and interest rates;
- fluctuations in the price of oil;
- general market conditions, including fluctuations in hire rates and vessel values;
- changes in our operating expenses, including drydocking and insurance costs and bunker prices;

our future financial condition or results of operations and future revenues and expenses;

the repayment of debt and settling of any interest rate swaps;

our ability to make additional borrowings and to access debt and equity markets;

planned capital expenditures and availability of capital resources to fund capital expenditures;

our ability to maintain long-term relationships with major users of shuttle tonnage;

our ability to leverage KNOT s relationships and reputation in the shipping industry;

our ability to purchase vessels from KNOT in the future;

our continued ability to enter into long-term charters, which we define as charters of five years or more;

our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term charter;

the financial condition of our existing or future customers and their ability to fulfill their charter obligations;

Table of Contents

- timely purchases and deliveries of newbuilds;
- future purchase prices of newbuilds and secondhand vessels;
- any impairment of the value of our vessels;
- our ability to compete successfully for future chartering and newbuild opportunities;
- acceptance of a vessel by its charterer;
- termination dates and extensions of charters;
- the expected cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards, as well as standard regulations imposed by our charterers applicable to our business;
- availability of skilled labor, vessel crews and management;
- our general and administrative expenses and the fees and expenses payable under the technical management agreements, management and administration agreements and the administrative services agreement;
- the anticipated taxation of our partnership and distributions to our unitholders;
- estimated future maintenance and replacement capital expenditures;
- our ability to retain key employees;
- customers increasing emphasis on environmental and safety concerns;
- potential liability from any pending or future litigation;
- potential disruption of shipping routes due to accidents, political events, piracy or acts by terrorists;
- future sales of our securities in the public market;
- our business strategy and other plans and objectives for future operations; and

other factors listed from time to time in the reports and other documents that we file with the SEC.

Forward-looking statements are made based upon management s current plans, expectations, estimates, assumptions and beliefs concerning future events affecting us. Forward-looking statements are subject to risks, uncertainties and assumptions, including those risks discussed in Risk Factors set forth in this prospectus and those risks discussed in other reports we file with the SEC and that are incorporated into this prospectus by reference, including, without limitation, our 2015 Annual Report. The risks, uncertainties and assumptions involve known and unknown risks and are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement. We make no prediction or statement about the performance of our common units or other securities.

Table of Contents

SUMMARY

The following summary highlights selected information contained elsewhere in this prospectus and the documents incorporated by reference herein and does not contain all the information you will need in making your investment decision. You should carefully read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein. Unless otherwise specifically stated, the information presented in this prospectus supplement assumes that the underwriter has not exercised its option to purchase additional common units.

References in this prospectus to KNOT Offshore Partners, we, our, us and the Partnership or similar terms refer to KNOT Offshore Partners LP or any one or more of its subsidiaries, or to all such entities, unless the context otherwise indicates. References in this prospectus to our general partner refer to KNOT Offshore Partners GP LLC, the general partner of KNOT Offshore Partners. References in this prospectus to KNOT UK refer to KNOT Offshore Partners UK LLC, a wholly owned subsidiary of the Partnership. References in this prospectus to KNOT refer, depending on the context, to Knutsen NYK Offshore Tankers AS and to any one or more of its direct and indirect subsidiaries. References in this prospectus to TSSI refer to TS Shipping Invest AS, and references to NYK refer to Nippon Yusen Kaisha, each of which holds a 50% interest in KNOT. References in this prospectus to KNOT Management are to KNOT Management AS, a wholly owned subsidiary of KNOT. References in this prospectus to Shell, Statoil, Transpetro, Repsol, Eni and ExxonMobil refer to Royal Dutch Shell plc (formerly BG Group plc), Statoil ASA, Petrobras Transporte S.A., Repsol Sinopec Brasil, B.V., Eni Trading & Shipping S.p.A. and ExxonMobil, respectively, and certain of their subsidiaries that are our customers.

Overview

We are a limited partnership formed to own, operate and acquire shuttle tankers under long-term charters, which we define as charters of five years or more. We intend to leverage the relationships, expertise and reputation of KNOT, a leading independent owner and operator of shuttle tankers, to pursue potential growth opportunities and to attract and retain high-quality, creditworthy customers. KNOT owns our 2.01% general partner interest and all of our incentive distribution rights and 8,657,868 common units representing a 31.2% limited partner interest in us. KNOT intends to utilize us as its primary growth vehicle to pursue the acquisition of long-term, stable cash-flow-generating shuttle tankers.

We have a modern fleet of shuttle tankers that operates under long-term charters with major oil and gas companies engaged in offshore production, such as Shell, Statoil, Transpetro, Repsol, Eni and Exxon Mobil. We operate our vessels under long-term charters with stable cash flows and intend to grow our position in the shuttle tanker market through acquisitions from KNOT and third parties. We also believe we can grow organically by continuing to provide reliable customer service to our charterers and leveraging KNOT s relationships, expertise and reputation.

A shuttle tanker is a specialized vessel designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from oil field installations, even in harsh weather conditions. Shuttle tankers were developed in the North Sea in 1977 as an alternative to pipelines.

Table of Contents

The following table provides information about the eleven shuttle tankers in our current fleet:

Shuttle Tanker	Capacity (dwt)	Built	Current Operating Region	Charter Type	Charterer	Term
Fortaleza Knutsen	106,316	2011	Brazil	Bareboat charter	Transpetro	2023
Recife Knutsen	105,928	2011	Brazil	Bareboat charter	Transpetro	2023
Bodil Knutsen	157,644	2011	North Sea	Time Charter	Statoil	2019(1)(2)
Windsor Knutsen	162,362	2007	Brazil	Time Charter	Shell	2017(1)(3)
Carmen Knutsen	157,000	2013	Brazil	Time Charter	Repsol	2023(4)
Hilda Knutsen	123,000	2013	North Sea	Time Charter	Eni	2018(2)
Torill Knutsen	123,000	2013	North Sea	Time Charter	Eni	2018(2)
Dan Cisne	59,000	2011	Brazil	Bareboat charter	Transpetro	2023
Dan Sabia	59,000	2012	Brazil	Bareboat charter	Transpetro	2024
Ingrid Knutsen	112,000	2013	North Sea	Time Charter	ExxonMobil	2024(2)
Raquel Knutsen	152,000	2015	Brazil	Time Charter	Repsol	2025(5)

(1) Pursuant to the omnibus agreement (the omnibus agreement) we entered into with KNOT in connection with our initial public offering (IPO), KNOT agreed in certain circumstances to guarantee the payments of the hire rate under the existing charters for a period of five years from the closing date of the IPO (until April 2018).

(2) Customer has the option to extend for up to five one-year periods.

(3) Customer has the option to extend the charter for up to six one-year periods.

(4) Customer has the option to extend the charter for up to three one-year periods.

(5) Customer has the option to extend the charter for up to one three-year period and one two-year period.

Recent Developments

Acquisition of Raquel Knutsen

On December 1, 2016, we acquired all of the ownership interests in Knutsen Shuttle Tankers 19 AS (KNOT 19), a Norwegian company that owns the shuttle tanker, *Raquel Knutsen* (the Acquisition) from KNOT. The purchase price of the Acquisition was $116.5 million, less approximately $103.5 million of outstanding indebtedness related to the *Raquel Knutsen*, plus approximately $7.3 million of post-closing adjustments for working capital, interest rate swaps, certain intercompany balances and approximately $1.1 million of capitalized fees related to the financing of the *Raquel Knutsen*. On the closing of the Acquisition, KNOT 19 repaid approximately $29.0 million of this indebtedness, leaving an aggregate of approximately $74.5 million of debt outstanding under the Raquel Facility (as defined below). The purchase price was settled by way of a seller s credit (the Seller s Credit) in the amount of approximately $13.0 million. In connection with the Acquisition, KNOT provided us a loan in the amount of approximately $12.0 million (the Seller s Loan). The Seller s Credit and the Seller s Loan are non-amortizing, mature in five years and have an annual interest rate equal to LIBOR plus a margin of 4.5%.

KNOT 19 is the borrower under a senior secured loan facility (the Raquel Facility). The Raquel Facility is secured by a vessel mortgage on the *Raquel Knutsen* and, following the Acquisition, will be guaranteed by the Partnership. The Raquel Facility is repayable in quarterly installments with a final balloon payment of $30.5 million due at maturity in March 2025. The Raquel Facility bears interest at an annual rate equal to LIBOR plus a margin of 2.0%. The Raquel Facility contains the following financial covenants: (1) the market value of the *Raquel Knutsen* shall not be less than 100% of the outstanding balance under the Raquel Facility for the first three years, and 125% thereafter; (2) the Partnership must maintain minimum liquidity of $18.0 million plus increments of $1.0 million for each additional vessel acquired and $1.5 million for each owned vessel with less than 12 months remaining tenor on its charter; and (3) the Partnership must maintain a minimum ratio of book equity to total assets of 30%. The Raquel Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default.

The Acquisition and its purchase price were approved by our board of directors and the conflicts committee of our board of directors (the conflicts committee). The conflicts committee retained an outside financial advisor to assist it in evaluating the Acquisition and the purchase price offered by KNOT. In determining that the Acquisition was fair and reasonable to us, the conflicts committee obtained the views of its financial advisor as to the fairness of the purchase price.

The *Raquel Knutsen* is operating under a time charter dated January 9, 2013 with Repsol. The *Raquel Knutsen* charter commenced in June 2015 and will terminate in the second quarter of 2025.

Hire under the *Raquel Knutsen* charter is payable monthly in advance in U.S. Dollars. The hire rate is fixed for the entire term of the charter. However, the hire payable under the charter will be reduced in the event the vessel does not meet certain performance metrics.

Under the *Raquel Knutsen* charter, we are responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores and lube oils expenses, as well as periodic drydocking costs. Repsol will provide and pay for fuel, towage and pilotage and for agency fees and port and canal expenses. We will be responsible for all costs when the vessel is off-hire.

There are certain conditions under which the *Raquel Knutsen* charter could terminate prior to its expiration date. The charter will terminate automatically upon the loss of the vessel. Additionally, either party may elect to terminate the charter upon the outbreak of war between specified countries. Repsol also has the right to terminate the charter in the event of a prolonged off-hire period due to our failure to maintain or repair the vessel.

Cash Distribution

On November 14, 2016, we paid a cash distribution of $0.52 per unit with respect to the quarter ended September 30, 2016 to all common unitholders of record as of the close of business on November 1, 2016.

Private Placement

On December 6, 2016, we entered into a Series A Preferred Unit Purchase Agreement (the Preferred Unit Purchase Agreement) to issue and sell in a private placement (the Private Placement) $50 million of our Series A Convertible Preferred Units (the Preferred Units) at a price of $24 per unit (the Preferred Unit Issue Price). The Preferred Units will be perpetual and will pay cumulative, quarterly distributions in arrears at an annual rate of 8.0% of the Preferred Unit Issue Price, on or prior to the date of payment of distributions on our common units. We have the option to issue and sell up to an additional $49 million of Preferred Units to other purchasers at the Preferred Unit Issue Price on the closing date of the Private Placement (the Private Placement Closing Date), which is expected to occur in January 2017. The closing of the Private Placement is subject to customary closing conditions. Assuming we issue $50 million of Preferred Units, we will issue 2,083,333 Preferred Units and receive approximately $48.5 million of net proceeds from the Private Placement, after deducting estimated fees and expenses. We expect to use such net proceeds for general partnership purposes, which may include acquisitions, capital expenditures or the repayment of indebtedness.

In connection with the closing of the Private Placement, our partnership agreement will be amended and restated effective on the Private Placement Closing Date to, among other things, authorize and establish the rights and preferences of the Preferred Units. The Preferred Units will be a new class of security that will rank senior to all of our common units with respect to distribution rights and liquidation preference.

Table of Contents

The Preferred Units will be convertible, under certain circumstances, at the then applicable conversion rate, which will be subject to adjustment under certain circumstances. On the Private Placement Closing Date, the conversion rate will be one-to-one. The conversion rate will be redetermined on a quarterly basis and will be equal to the Preferred Unit Issue Price divided by the product of (x) the book value per common unit at the end of the immediately preceding quarter (pro forma for per unit cash distributions payable with respect to such quarter) multiplied by (y) the quotient of (i) the Preferred Unit Issue Price divided by (ii) the book value per common unit on the Private Placement Closing Date. The Preferred Units will be generally convertible, at the option of the holders of the Preferred Units, into common units after the second anniversary of the Private Placement Closing Date at the then applicable conversion rate. In addition, we will have the right to redeem the Preferred Units at any time between the second anniversary and the tenth anniversary of the Private Placement Closing Date at the redemption price applicable on any such redemption date, provided, however, that upon notice from us to the holders of Preferred Units of our intent to redeem, such holders may elect, instead, to convert their Preferred Units into common units at the then applicable conversion rate.

Upon a change of control of the Partnership, the holders of Preferred Units will have the right to require us to redeem the Preferred Units, in cash, at 100% of the Preferred Unit Issue Price. In addition, the holders of Preferred Units will have the right to cause us to redeem the Preferred Units on the tenth anniversary of the Private Placement Closing Date, at our option, in (i) cash at a price equal to 70% of the Preferred Unit Issue Price or (ii) common units such that each Preferred Unit receives common units worth 80% of the Preferred Unit Issue Price (based on the volume-weighted average trading price, as adjusted for splits, combinations and other similar transactions, of our common units as reported on the NYSE for the 30 trading day period ending on the fifth trading day immediately prior to the redemption date). In addition, at any time following the second anniversary of the Private Placement Closing Date and subject to certain conditions, we will have the right to convert the Preferred Units into common units at the then applicable conversion rate if the aggregate market value (for 20 trading days out of the 30 day trading period immediately preceding the notice of conversion) of the common units into which the then outstanding Preferred Units are convertible, based on the then applicable conversion rate, is greater than 130% of the aggregate Preferred Unit Issue Price of the then outstanding Preferred Units.

The Preferred Units will have voting rights that are identical to the voting rights of our common units, except they will not have any right to nominate, appoint or elect any of our directors, except whenever distributions payable on the Preferred Units have not been declared and paid for four consecutive quarters (a Trigger Event). Upon a Trigger Event, holders of Preferred Units will have the right to replace one of the members of our Board appointed by our general partner with a person nominated by such holders, such nominee to serve until all accrued and unpaid distributions on the Preferred Units have been paid. The Preferred Units will be entitled to vote with the common units as a single class so that the Preferred Units will be entitled to one vote for each common unit into which the Preferred Units are then convertible.

We will have the right to issue junior securities in an unlimited amount and parity securities, provided that the aggregate amount of the Preferred Units and the parity securities pro forma for such issuance, does not exceed 33.33% of the book value of the sum of our then outstanding aggregate amount of parity securities and junior securities (including common units). The consent of the holders of Preferred Units will be necessary for us to issue any parity securities or senior securities in excess of such pro forma book value. In addition, the consent of the holders of Preferred Units will be necessary for us to, among other things, incur additional indebtedness that would result in us exceeding 70% debt to total capitalization.

Pursuant to the Preferred Unit Purchase Agreement, we have agreed to enter into a registration rights agreement (the Registration Rights Agreement) on the Private Placement Closing Date with the holders of the Preferred Units. Pursuant to the Registration Rights Agreement, we will agree to use commercially reasonable efforts to file a traditional shelf registration statement registering resales of the common units underlying the Preferred Units and to have such registration statement declared effective by the SEC by the second anniversary of the Private Placement Closing Date. The holders of the Preferred Units will also have certain demand and piggyback rights with respect to the underlying common units.

This offering is not contingent on the consummation of the Private Placement, and the consummation of the Private Placement is not contingent on this offering. This prospectus supplement shall not be deemed an offer to sell or a solicitation to buy any Preferred Units.

Our Relationship with Knutsen NYK Offshore Tankers AS

We believe that one of our principal strengths is our relationship with KNOT. We believe our relationship with KNOT gives us access to KNOT s relationships with major international oil and gas companies, shipbuilders, financing sources and suppliers and its technical, commercial and managerial expertise, which we believe allows us to compete more effectively when seeking additional customers. KNOT, through its wholly owned subsidiaries, KNOT Management and KNOT Management Denmark AS, owns the ship management services relating to the shuttle tankers in our fleet, which allows for a fully integrated shipping operation, providing newbuild supervision, project development, crewing, technical management and various other maritime services.

KNOT currently owns our general partner, all of our incentive distribution rights and 8,657,868 common units representing a 31.2% limited partner interest in us. KNOT, whose predecessor was formed in 1987, is jointly owned by TSSI and NYK.

Competitive Strengths

We believe that our future prospects for success are enhanced by the following aspects of our business:

Relationship with leading shuttle tanker operator. We believe we will benefit from our relationship with KNOT in the future. We believe charterers award new business to established participants in the shuttle tanker market because of their technical, commercial and managerial expertise. We believe that KNOT s 25-year history of providing offshore loading and transportation services to major integrated oil companies will enable it to attract additional long-term charters for shuttle tankers that are required to be offered to us pursuant to the omnibus agreement in the event their terms equal or exceed five years.

Built-in growth opportunities. We will have the opportunity to purchase additional shuttle tankers in KNOT s fleet pursuant to the omnibus agreement if they are placed under charters of five years or more. We believe these and any future acquisition opportunities will provide us with a way to grow our distributions per unit.

Enhanced growth opportunities through our relationship with KNOT. We believe our relationship with KNOT provides us with many benefits that we believe will drive growth in distributions per unit, including opportunities to acquire other vessels, strong customer relationships, leading operational expertise, enhanced shipyard relationships, access to KNOT s relationships with leading financing providers and a large pool of experienced and qualified global seafarers.

Sustainable cash flow supported by charters with leading energy companies. Our services are integrated with the offshore oil fields we serve and are a critical part of our customers logistics solutions. Each shuttle tanker in our current fleet operates under a long-term, fixed-rate charter with a leading oil and gas company, such as Shell, Statoil, Transpetro, ExxonMobil, Eni and Repsol, with an average remaining duration of 5.0 years as of December 31, 2016 (including KNOT s guarantee of the hire rates under the charters for the *Bodil Knutsen* and the *Windsor Knutsen*). In addition, the hire rate payable under our charters is either a fixed amount for the firm period of the charter or increases annually based on a fixed percentage increase or fixed schedule, in order to enable us to offset expected increases in operating costs.

Modern fleet equipped with the latest technology. Our current fleet is one of the youngest shuttle tanker fleets in operation worldwide, with an average age of 4.7 years as of December 31, 2016, compared to

Table of Contents

approximately 11.5 years for the global shuttle tanker fleet. Our current fleet is equipped with the latest advanced shuttle tanker technology, including advanced dynamic positioning technology (DP2), and are able to operate in harsh weather environments. We believe the significant investment needed to build shuttle tankers with the highly customized specifications required by our customers and train personnel to create operational efficiencies creates a significant barrier to entry for new competitors.

Financial flexibility to support our growth. We expect that our status as a publicly traded company will allow us to have access to the debt and equity markets, will benefit our cost of capital and make us more competitive as we pursue growth opportunities.

Business Strategies

Our primary business objective is to increase quarterly distributions per unit over time by executing the following strategies:

Pursue strategic and accretive acquisitions of shuttle tankers on long-term, fixed-rate charters. We seek to leverage our relationship with KNOT to make strategic and accretive acquisitions. Under the omnibus agreement, we will have the opportunity to purchase from KNOT any newbuild under a long-term charter or existing shuttle tanker in the KNOT fleet that enters into a long-term charter.

Expand global operations in high-growth regions. We seek to expand in proven areas of offshore production, such as the North Sea and Brazil, and in new production areas as they are developed. We believe that KNOT s leading market position, operational expertise and strong customer relationships will enable us to have early access to new production projects worldwide.

Manage our fleet and deepen our customer relationships to provide a stable base of cash flows. We intend to maintain and grow our cash flows by focusing on strong customer relationships and actively seeking the extension and renewal of existing charters in addition to new opportunities to serve our customers. KNOT charters its current fleet to a number of the world s leading energy companies. We believe the close relationships that KNOT has with these companies will provide attractive opportunities for us. We continue to incorporate safety, health, security and environmental stewardship into all aspects of vessel design and operation in order to satisfy our customers and comply with national and international rules and regulations.

Principal Executive Offices

Our registered and principal executive offices are located at 2 Queen s Cross, Aberdeen, Aberdeenshire AB15 4YB, United Kingdom, and our phone number is +44 1224 618420. We make our periodic reports and other information filed with or furnished to the SEC available, free of charge, through our website at www.knotoffshorepartners.com, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. Please read Where You Can Find More Information for an explanation of our reporting requirements as a foreign private issuer.

Table of Contents

Simplified Organizational and Ownership Structure after this Offering

The diagram below depicts our simplified organizational and ownership structure after giving effect to this offering and before the consummation of the Private Placement.

	Number of Units	Percentage Ownership
Public Common Units(1)	21,036,226	69.53%
KNOT and affiliates Common Units	8,657,868	28.62%
General Partner Units	558,674	1.85%
	30,252,768	100.0%

(1) Assumes no exercise of the underwriter s option to purchase up to 375,000 additional common units.
(2) Each of our vessels is owned by certain vessel owning subsidiaries.

Table of Contents

The Offering

Issuer	KNOT Offshore Partners LP
Common units offered by us	2,500,000 common units.
	2,875,000 common units if the underwriter exercises in full its option to purchase up to 375,000 additional common units.
Common units outstanding after this offering	29,694,094 common units (30,069,094 common units, if the underwriter exercises in full its option to purchase up to 375,000 additional common units).
Use of proceeds	We intend to use the net proceeds from this offering for general partnership purposes, which may include, among other things, repaying indebtedness and funding working capital, capital expenditures or acquisitions.
Exchange listing	Our common units are listed on the NYSE under the symbol KNOP.
U.S. federal income tax considerations	We have elected to be taxed as a corporation for U.S. federal income tax purposes. We expect that all of the distributions you receive from us will constitute dividends. If you are an individual citizen or resident of the United States or a U.S. estate or trust and meet certain holding period and other requirements, such dividends would be expected to be treated as qualified dividend income that is taxable at preferential capital gain tax rates. In addition, there are other tax matters you should consider before investing, including our tax status as a non-U.S. issuer. Please read Material U.S. Federal Income Tax Considerations, Non-United States Tax Considerations and Risk Factors.

RISK FACTORS

Before investing in our common units, you should carefully consider all of the information included in or incorporated by reference into this prospectus. Although many of our business risks are comparable to those of a corporation engaged in a similar business, limited partnership interests are inherently different from the capital stock of a corporation. When evaluating an investment in our common units, you should carefully consider the discussion of risk factors set forth below as well as the risk factors beginning on page 6 in our 2015 Annual Report incorporated by reference into this prospectus. If any of these risks were to occur, our business, financial condition or operating results could be materially adversely affected. In that case, our ability to pay distributions on our common units may be reduced, the trading price of our common units could decline and you could lose all or part of your investment.

If the Private Placement is consummated, a substantial number of our common units may be issued upon conversion of the Preferred Units or as redemption payments in respect of the Preferred Units, which issuances could reduce the value of our common units.

Pursuant to the Preferred Unit Purchase Agreement, we have agreed to sell $50 million of our Preferred Units. We also have the option to sell up to an additional $49 million of our Preferred Units on the Private Placement Closing Date. Such Preferred Units will be convertible, under certain circumstances, at the then applicable conversion rate, which will be subject to adjustment under certain circumstances. On the Private Placement Closing Date, the conversion rate will be one-to-one. In addition, the conversion rate will be redetermined on a quarterly basis, such that the conversion rate will be equal to the Preferred Unit Issue Price divided by the product of (x) the book value per common unit at the end of the immediately preceding quarter (pro-forma for per unit cash distributions payable with respect to such quarter) multiplied by (y) the quotient of (i) the Preferred Unit Issue Price divided by (ii) the book value per common unit on the Private Placement Closing Date.

The Preferred Units will be generally convertible, at the option of the holders of the Preferred Units, into common units after the second anniversary of the Private Placement Closing Date at the then applicable conversion rate. In addition, we will have the right to redeem the Preferred Units at any time between the second anniversary and the tenth anniversary of the Private Placement Closing Date at the redemption price applicable on any such redemption date, provided, however, that upon notice from us to the holders of Preferred Units or our intention to redeem, such holders may elect, instead, to convert their Preferred Units into common units at the then applicable conversion rate. In addition, at any time following the second anniversary of the Private Placement Closing Date and subject to certain conditions, we will have the right to convert the Preferred Units into common units at the then applicable conversion rate. Further, the holders of Preferred Units will have the right to cause us to redeem the Preferred Units on the tenth anniversary of the Private Placement Closing Date in, at our option, (i) cash at a price equal to 70% of the Preferred Unit Issue Price or (ii) common units such that each Preferred Unit receives common units worth 80% of the Preferred Unit Issue Price. The value (and, therefore, the number) of the common units to be delivered pursuant thereto will be determined based on the volume-weighted average trading price, as adjusted for splits, combinations and other similar transactions, of our common units as reported on the NYSE for the 30 trading day period ending on the fifth trading day immediately prior to the redemption date.

Therefore, if the Private Placement is consummated, if a substantial portion of the Preferred Units are converted into common units or redeemed under certain circumstances, common unitholders could experience significant dilution. Furthermore, if holders of such Preferred Units were to dispose of a substantial portion of these common units in the public market following such a conversion, whether in a single transaction or series of transactions, it could adversely affect the market price for our common units. These sales, or the possibility that these sales may occur, could make it more difficult for us to sell our common units in the future.

The number of our common units issuable upon conversion or redemption under certain circumstances of the Preferred Units will be impacted by, among other things, the level of our quarterly cash distribution

Table of Contents

distributions, as the conversion rate is redetermined each quarter, based on the pro forma per unit cash distributions we make on our common units (as described above) and the market price of our common units. Accordingly, the number of common unit issuable upon conversion or redemption under certain circumstances could be substantial, especially during periods of significant declines in market prices of our common units or if we experience certain events, such as, among other things, a decline in the value of our vessels that results in an impairment or write-down of the value of our vessels or a write-off of any goodwill, decline in the fair value of our derivative instruments, change in accounting principal that results in a decline in our book value, or other event that results in a decline in our book value.

If the Private Placement is consummated, the issuance of common units upon conversion or redemption under certain circumstances of our Preferred Units may have the following effects:

- an existing unitholder s proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each common unit may decrease;
- the relative voting strength of each previously outstanding common unit may be diminished; and
- the market price of our common units may decline.

If the Private Placement is consummated, the market price of our common units is likely to be influenced by the Preferred Units. For example, the market price of our common units could become more volatile and could be depressed by:

- investors anticipation of the potential resale in the market of a substantial number of additional common units received upon conversion of the Preferred Units;
- possible sales of our common units by investors who view the Preferred Units as a more attractive means of equity participation in us than owning our common units; and
- hedging or arbitrage trading activity that may develop involving the Preferred Units and our common units.

Our Preferred Units will have rights, preferences and privileges that are not held by, and will be preferential to the rights of, holders of our common units.

Our Preferred Units will be a new class of security that will rank senior to all our common units and any other class or series of our equity securities outstanding as of the Private Placement Closing Date with respect to distribution rights and liquidation preference. These preferences could adversely affect the market price for our common units, or could make it more difficult for us to sell our common units in the future.

In addition, distributions on the Preferred Units will accrue and will be cumulative. Our obligation to pay distributions on our Preferred Units, or on the common units issued following conversion of such Preferred Units, could impact our liquidity and reduce the amount of cash flow available for working capital, capital expenditures, growth opportunities, acquisitions, and other general partnership purposes. Our obligations to the holders of Preferred Units could also limit our ability to obtain additional financing or increase our borrowing costs, which could have an adverse effect on our financial condition.

We may be unable to realize expected benefits from the Acquisition.

Similar to the acquisition of any vessel, the Acquisition may not result in anticipated profitability or generate cash flow sufficient to justify our investment. In addition, the Acquisition exposes us to risks that may harm our business, financial condition and operating results. In particular, the Acquisition includes risks that we may:

fail to realize anticipated benefits, such as increased cash flows;

fail to obtain the benefits of the related charter if Repsol terminates the charter or fails to make hire payments because of its financial inability, disagreements with us or otherwise;

decrease our borrowing capacity to finance further acquisitions;

incur or assume unanticipated liabilities, losses or costs; or

incur other significant charges, such as asset devaluation or restructuring charges.

U.S. tax authorities could treat us as a passive foreign investment company, which would have adverse U.S. federal income tax consequences to U.S. unitholders.

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be treated as a passive foreign investment company (a PFIC) for U.S. federal income tax purposes if at least 75.0% of its gross income for any taxable year consists of passive income or at least 50.0% of the average value of its assets produce, or are held for the production of, passive income. For purposes of these tests, passive income includes dividends, interest, gains from the sale or exchange of investment property, and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute passive income. U.S. unitholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their interests in the PFIC.

Based on our current and projected method of operation, and an opinion of our U.S. counsel, Vinson & Elkins L.L.P., we believe that we were not a PFIC for any of our previous taxable years, and we expect that we will not be treated as a PFIC for the current or any future taxable year. We have received an opinion of our U.S. counsel in support of this position that concludes that the income our subsidiaries earn from certain of our present time-chartering activities should not constitute passive income for purposes of determining whether we are a PFIC. In addition, we have represented to our U.S. counsel that we expect that more than 25.0% of our gross income for each of our previous taxable years arose and for the current and each future year will arise from such or similar time-chartering activities or other income which our U.S. counsel has opined does not constitute passive income, and more than 50.0% of the average value of our assets for each such year was or will be held for the production of non-passive income. Assuming the composition of our income and assets is consistent with these expectations, and assuming the accuracy of other representations we have made to our U.S. counsel for purposes of its opinion, our U.S. counsel is of the opinion that we should not be a PFIC for any of our previous taxable years, the current year or any future year. This opinion is based and its accuracy is conditioned on representations, valuations and projections provided by us regarding our assets, income and charters to our U.S. counsel. While we believe these representations, valuations and projections to be accurate, the shipping market is volatile and no assurance can be given that they will continue to be accurate at any time in the future.

Moreover, there are legal uncertainties involved in determining whether the income derived from time-chartering activities constitutes rental income or income derived from the performance of services. In *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), the United States Court of Appeals for the Fifth Circuit (the Fifth Circuit) held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a provision of the Internal Revenue Code of 1986, as amended (the Code), relating to foreign sales corporations. In that case, the Fifth Circuit did not address the definition of passive income or the PFIC rules; however, the reasoning of the case could have implications as to how the income from a time charter would be classified under such rules. If the reasoning of this case were extended to the PFIC context, the gross income we derive or are deemed to derive from our time-chartering activities may be treated as rental income, and we would likely be treated as a PFIC. In published guidance, the Internal Revenue Service (the IRS) stated that it disagreed with the holding in *Tidewater* and specified that time charters similar to those at issue in the case should be treated as service contracts. We have not sought, and we do not expect to seek, an IRS ruling on the treatment of income generated from our time-chartering activities. As a result, the IRS or a court could disagree with our position. No assurance can be given that this result will not occur. In addition, although we intend to conduct our affairs in a manner to avoid, to the extent possible, being classified as a PFIC with respect to any taxable year, we cannot assure you that the nature of our operations will

Table of Contents

not change in the future, or that we will not be a PFIC in the future. If the IRS were to find that we are or have been a PFIC for any taxable year (and regardless of whether we remain a PFIC for any subsequent taxable year), our U.S. unitholders would face adverse U.S. federal income tax consequences. Please read Material U.S. Federal Income Tax Considerations U.S. Federal Income Taxation of U.S. Holders PFIC Status and Significant Tax Consequences for a more detailed discussion of the U.S. federal income tax consequences to U.S. unitholders if we are treated as a PFIC.

Table of Contents

USE OF PROCEEDS

We expect to receive net proceeds of approximately $ million from the sale of common units we are offering (or $ million if the underwriter exercises in full its option to purchase 375,000 additional common units), after deducting estimated offering expenses payable by us.

We intend to use the net proceeds from this offering for general partnership purposes, which may include, among other things, repaying indebtedness and funding working capital, capital expenditures or acquisitions.

The proceeds from any exercise of the underwriter s option to purchase additional common units will be used for general partnership purposes.

Table of Contents

CAPITALIZATION

The following table sets forth our cash and capitalization as of September 30, 2016 on an historical basis and on an as adjusted basis to give effect to this offering and the application of the estimated net proceeds therefrom as set forth in Use of Proceeds.

This table is derived from and should be read together with the historical financial statements and the accompanying notes incorporated by reference into this prospectus and the section Operating and Financial Review and Prospects in our 2015 Annual Report and the section Management s Discussion and Analysis of Financial Condition and Results of Operations in our report on Form 6-K for the nine months ended September 30, 2016, each of which is incorporated by reference herein.

	As of September 30, 2016	
	Historical	As Adjusted(1)(2)
	(in thousands)	
Cash and cash equivalents	$ 27,382	$
Debt:(3)		
Current portion of long-term debt	$ 48,877	$ 48,877
Long-term debt, excluding current portion	586,332	586,332
Total debt	635,209	635,209
Total partners capital	517,234	
Total capitalization	$ 1,152,443	$

(1) Assumes the underwriter s option to purchase additional common units is not exercised.

(2) The table does not give effect to (a) the payment of a quarterly distribution on our common units on November 14, 2016, (b) the Acquisition or (c) the Private Placement.

(3) All of our outstanding debt is secured by our vessels.

Table of Contents

PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

As of January 3, 2017, there were 27,194,094 common units outstanding, of which 18,536,226 common units were held by the public and 8,657,868 common units were held by KNOT and its subsidiaries. As of January 3, 2017, there were two holders of record of our common units. Our common units were first offered on the NYSE on April 9, 2013 at an initial price of $21.00 per unit. Our common units are traded on the NYSE under the symbol KNOP.

The following table sets forth, for the periods indicated, the high and low sales prices for our common units, as reported on the NYSE, and quarterly cash distributions declared per common unit. The last reported sale price of our common units on the NYSE on January 3, 2017 was $24.50 per unit.

	High	Low	Cash Distributions Per Unit(1)
Year Ended:			
December 31, 2016	$ 23.95	$ 9.68	
December 31, 2015	26.49	10.38	
December 31, 2014	29.89	18.78	
December 31, 2013(2)	29.39	20.68	
Quarter Ended:			
March 31, 2017(3)	24.50	23.60	
December 31, 2016	23.95	18.90	
September 30, 2016	21.00	18.00	0.5200
June 30, 2016	20.00	16.07	0.5200
March 31, 2016	17.70	9.68	0.5200
December 31, 2015	18.54	10.38	0.5200
September 30, 2015	19.85	12.58	0.5200
June 30, 2015	26.49	19.07	0.5100
March 31, 2015	25.45	18.21	0.5100
December 31, 2014	27.42	18.78	0.4900
September 30, 2014	28.80	24.69	0.4900
June 30, 2014	29.89	26.41	0.4350
March 31, 2014	29.58	23.50	0.4350
Month Ended:			
January 31, 2017(3)	24.50	23.60	
December 31, 2016	23.95	21.25	
November 30, 2016	22.35	18.90	
October 31, 2016	21.25	19.55	
September 30, 2016	21.00	18.41	
August 31, 2016	19.84	18.16	
July 31, 2016	19.95	18.00	

(1) Represents cash distributions attributable to the quarter.
(2) For the period from April 9, 2013 through December 31, 2013.
(3) For the period from January 1, 2017 through January 3, 2017.

Table of Contents

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The tax consequences to you of an investment in our common units will depend in part on your own tax circumstances. This section updates information related to certain tax considerations and should be read in conjunction with the Material U.S. Federal Income Tax Considerations discussion in the accompanying prospectus, which reviews the principal U.S. federal income tax considerations associated with the purchase, ownership and disposition of our common units. This section is subject to the same limitations set forth in the discussion of Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

Distributions

Subject to the discussion below of the rules applicable to PFICs, any distributions to a U.S. Holder made by us with respect to our common units generally will constitute dividends to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. We expect that the distributions we pay to U.S. Holders will not exceed our current and accumulated earnings and profits and, accordingly, all such distributions will constitute dividends. If, notwithstanding this expectation, we make distributions to U.S. Holders in excess of our earnings and profits, the excess portion of those distributions will be treated first as a nontaxable return of capital to the extent of the U.S. Holder s tax basis in its common units and thereafter as capital gain. U.S. Holders that are corporations generally will not be entitled to claim a dividends-received deduction with respect to distributions they receive from us because we are not a U.S. corporation. Dividends received with respect to our common units generally will be treated as passive category income for purposes of computing allowable foreign tax credits for U.S. federal income tax purposes.

Dividends received with respect to our common units by a U.S. Holder that is an individual, trust or estate (a U.S. Individual Holder) generally will be treated as qualified dividend income, which is taxable to such U.S. Individual Holder at preferential tax rates *provided* that: (1) our common units are readily tradable on an established securities market in the United States (such as the NYSE, on which our common units are traded); (2) we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (which we do not believe we are, have been or will be, as discussed below under PFIC Status and Significant Tax Consequences); (3) the U.S. Individual Holder has owned the common units for more than 60 days during the 121-day period beginning 60 days before the date on which the common units become ex-dividend (and has not entered into certain risk limiting transactions with respect to such common units); and (4) the U.S. Individual Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property. Because of the uncertainty of these matters, including whether we are or will be a PFIC, there is no assurance that any dividends paid on our common units will be eligible for these preferential rates in the hands of a U.S. Individual Holder, and any dividends paid on our common units that are not eligible for these preferential rates will be taxed as ordinary income to a U.S. Individual Holder.

Special rules may apply to any amounts received in respect of our common units that are treated as extraordinary dividends. In general, an extraordinary dividend is a dividend with respect to a common unit that is equal to or in excess of 10.0% of a unitholder s adjusted tax basis (or fair market value upon the unitholder s election) in such common unit. In addition, extraordinary dividends include dividends received within a one-year period that, in the aggregate, equal or exceed 20.0% of a unitholder s adjusted tax basis (or fair market value). If we pay an extraordinary dividend on our common units that is treated as qualified dividend income, then any loss recognized by a U.S. Individual Holder from the sale or exchange of such common units will be treated as long-term capital loss to the extent of the amount of such dividend.

Table of Contents

PFIC Status and Significant Tax Consequences

Adverse U.S. federal income tax rules apply to a U.S. Holder that owns an equity interest in a non-U.S. corporation that is classified as a PFIC for U.S. federal income tax purposes. In general, we are treated as a PFIC with respect to a U.S. Holder if either:

- at least 75.0% of our gross income (including the gross income of our vessel-owning subsidiaries) in any taxable year in which the holder held our units consists of passive income (e.g., dividends, interest, capital gains from the sale or exchange of investment property and rents derived other than in the active conduct of a rental business); or

- at least 50.0% of the average value of the assets held by us (including the assets of our vessel-owning subsidiaries) during any taxable year in which the holder held our units produce, or are held for the production of, passive income.

Income earned, or treated as earned (for U.S. federal income tax purposes), by us in connection with the performance of services would not constitute passive income. By contrast, rental income generally would constitute passive income unless we were treated as deriving that rental income in the active conduct of a trade or business under the applicable rules.

Based on our current and projected method of operation and an opinion of counsel, we do not believe that we are or will be a PFIC for any of our previous taxable years or for our current or any future taxable year. We have received an opinion of our U.S. counsel, Vinson & Elkins L.L.P., in support of this position that concludes that the income our subsidiaries earn from certain of our present time-chartering activities should not constitute passive income for purposes of determining whether we are a PFIC. In addition, we have represented to our U.S. counsel that we expect that more than 25.0% of our gross income for our current taxable year and each future year will arise from such or similar time-chartering activities or other income which our U.S. counsel has opined does not constitute passive income, and more than 50.0% of the average value of our assets for each such year was or will be held for the production of such non-passive income. Assuming the composition of our income and assets is consistent with these expectations, and assuming the accuracy of other representations we have made to our U.S. counsel for purposes of its opinion, our U.S. counsel is of the opinion that we should not be a PFIC for any of our previous taxable years or for our current or any future taxable year.

Our counsel has indicated to us that the conclusions described above are not free from doubt. While there is legal authority supporting our conclusions, including IRS pronouncements concerning the characterization of income derived from time charters as services income, the Fifth Circuit held in *Tidewater* that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a provision of the Code relating to foreign sales corporations. In that case, the Fifth Circuit did not address the definition of passive income or the PFIC rules; however, the reasoning of the case could have implications as to how the income from a time charter would be classified under such rules. If the reasoning of this case were extended to the PFIC context, the gross income we derive or are deemed to derive from our time-chartering activities may be treated as rental income, and we would likely be treated as a PFIC. In published guidance, the IRS stated that it disagreed with the holding in *Tidewater* and specified that time charters similar to those at issue in the case should be treated as service contracts.

Distinguishing between arrangements treated as generating rental income and those treated as generating services income involves weighing and balancing competing factual considerations, and there is no legal authority under the PFIC rules addressing our specific method of operation. Conclusions in this area therefore remain matters of interpretation. We are not seeking a ruling from the IRS on the treatment of income generated from our time-chartering operations, and the opinion of our counsel is not binding on the IRS or any court. Thus, while we have received an opinion of counsel in support of our position, it is possible that the IRS or a court could disagree with this position and the opinion of our counsel. In addition, although we intend to conduct our affairs in a manner to avoid being classified as a PFIC with respect to our current or any future taxable year, we cannot assure unitholders that the nature of our operations will not change and that we will not become a PFIC in our current or any future taxable year.

Table of Contents

As discussed more fully in the accompanying prospectus, if we were to be treated as a PFIC for any taxable year (and regardless of whether we remain a PFIC over the subsequent taxable years), a U.S. Holder would be subject to different taxation rules depending on whether the U.S. Holder makes an election to treat us as a Qualified Electing Fund, which we refer to as a QEF election. As an alternative to making a QEF election, a U.S. Holder would be able to make a mark-to-market election with respect to our common units. In addition, if a U.S. Holder owns our common units during any taxable year that we are a PFIC, such holder must file an annual report with the IRS.

Backup Withholding and Information Reporting

In general, payments to a non-corporate U.S. Holder of distributions or the proceeds of a disposition of common units will be subject to information reporting. These payments to a non-corporate U.S. Holder also may be subject to backup withholding if the non-corporate U.S. Holder:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that it has failed to report all interest or corporate distributions required to be reported on its U.S. federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on IRS Form W-8BEN, W-8BEN-E, W-8ECI or W-8IMY (or successor form), as applicable.

Backup withholding is not an additional tax. Rather, a unitholder generally may obtain a credit for any amount withheld against its liability for U.S. federal income tax (and obtain a refund of any amounts withheld in excess of such liability) by timely filing a U.S. federal income tax return with the IRS.

In addition, individual citizens or residents of the United States holding certain foreign financial assets (which generally include stock and other securities issued by a foreign person unless held in an account maintained by a financial institution) that exceed certain thresholds (the lowest being holding foreign financial assets with an aggregate value in excess of: (1) $50,000 on the last day of the tax year or (2) $75,000 at any time during the tax year) are required to report information relating to such assets. Significant penalties may apply for failure to satisfy the reporting obligations described above. Unitholders should consult their tax advisors regarding the reporting obligations, if any, that would result from the purchase, ownership or disposition of our units.

Table of Contents

NON-UNITED STATES TAX CONSIDERATIONS

Unless the context otherwise requires, references in this section to we, our or us are references to KNOT Offshore Partners LP.

Marshall Islands Tax Consequences

The following discussion is based upon the opinion of Watson Farley & Williams LLP, our counsel as to matters of the laws of the Republic of the Marshall Islands, and the current laws of the Republic of the Marshall Islands applicable to persons who are not citizens of and do not reside in, maintain offices in or engage in business or transactions in the Republic of the Marshall Islands.

Because we and our subsidiaries do not and do not expect to conduct business or operations in the Republic of the Marshall Islands, and because all documentation related to this offering will be executed outside of the Republic of the Marshall Islands, under current Marshall Islands law you will not be subject to Marshall Islands taxation or withholding on distributions, including upon distribution treated as a return of capital, we make to you as a unitholder. In addition, you will not be subject to Marshall Islands stamp, capital gains or other taxes on the purchase, ownership or disposition of common units, and you will not be required by the Republic of the Marshall Islands to file a tax return relating to your ownership of common units.

Norwegian Tax Consequences

The following discussion is based upon the opinion of Advokatfirmaet Thommessen AS, our counsel as to taxation matters under the laws of the Kingdom of Norway that may be relevant to current and prospective unitholders who are persons not resident in Norway for taxation purposes (Non-Norwegian Holders).

The discussion that follows is based upon existing Norwegian legislation and current Norwegian Tax Administration practice as of the date of this prospectus. Changes in these authorities may cause the tax consequences to vary substantially from the consequences of unit ownership described below.

Current and prospective unitholders who are resident in Norway for taxation purposes are urged to consult their own tax advisors regarding the potential Norwegian tax consequences to them of an investment in our common units. For this purpose, a company incorporated outside of Norway will be treated as resident in Norway in the event its central management and control is carried out in Norway.

Taxation of Non-Norwegian Holders

Under the Norwegian Tax Act on Income and Wealth, Non-Norwegian Holders will not be subject to any taxes in Norway on income or profits in respect of the acquisition, holding, disposition or redemption of the common units, *provided* that:

- we are not treated as carrying on business in Norway; and
- either of the following conditions is met:
  - if such holders are resident in a country that does not have an income tax treaty with Norway, such holders are not engaged in a Norwegian trade or business to which the common units are effectively connected; or
  - if such holders are resident in a country that has an income tax treaty with Norway, such holders do not have a permanent establishment in Norway to which the common units are effectively connected.

A Non-Norwegian Holder that carries on a business in Norway through a partnership is subject to Norwegian tax on income derived from the business if managed from Norway or carried on by the Partnership in Norway.

S-23

Table of Contents

While we expect to conduct our affairs in such a manner that our business will not be treated as managed from or carried on in Norway at any time in the future, this determination is dependent upon the facts existing at such time, including (but not limited to) the place where our board of directors meets and the place where our management makes decisions or takes certain actions affecting our business. We intend to conduct our affairs in a manner consistent with Norwegian tax practice so that our business should not be treated as managed from or carried on in Norway for taxation purposes, and consequently, Non-Norwegian Holders should not be subject to tax in Norway solely by reason of the acquisition, holding, disposition or redemption of their common units. Nonetheless, there is no legal authority addressing our specific circumstances, and conclusions in this area remain matters of interpretation. Thus, it is possible that the Norwegian taxation authority could challenge, or a court could disagree with, our position.

While we do not expect it to be the case, if the arrangements we propose to enter into result in our being considered to carry on business in Norway for the purposes of the Norwegian Tax Act on Income and Wealth, unitholders would be considered to be carrying on business in Norway and would be required to file tax returns with the Norwegian Tax Administration and, subject to any relief provided in any relevant double taxation treaty (including, in the case of holders resident in the United States, the U.S.-Norway Tax Treaty), would be subject to taxation in Norway on any income considered to be attributable to the business carried on in Norway.

United Kingdom Tax Consequences

The following is a discussion of the material United Kingdom tax consequences that may be relevant to current and prospective unitholders who are persons not resident and not domiciled in the United Kingdom for taxation purposes (and who are persons who have not been resident or domiciled for tax purposes in the United Kingdom) and who do not acquire their units as part of a trade, profession or vocation carried on in the United Kingdom (Non-UK Holders).

Current and prospective unitholders who are, or have been, resident or domiciled in the United Kingdom for taxation purposes, or who hold their units through a trade, profession or vocation in the United Kingdom are urged to consult their own tax advisors regarding the potential United Kingdom tax consequences to them of an investment in our common units and are responsible for filing their own UK tax returns and paying any applicable UK taxes (which may be due on amounts received by us but not distributed). The discussion that follows is based upon current United Kingdom tax law and what is understood to be the current practice of Her Majesty s Revenue & Customs as at the date of this document, both of which are subject to change, possibly with retrospective effect.

Taxation of income and disposals. We expect to conduct our affairs so that Non-UK Holders should not be subject to United Kingdom income tax, capital gains tax or corporation tax on income or gains arising from the Partnership. Distributions may be made to Non-UK Holders without withholding or deduction for or on account of United Kingdom income tax.

Stamp taxes. No liability to United Kingdom stamp duty or stamp duty reserve tax should arise in connection with the issue of units to unitholders or the transfer of units in the Partnership.

EACH PROSPECTIVE UNITHOLDER IS URGED TO CONSULT HIS OWN TAX COUNSEL OR OTHER ADVISOR WITH REGARD TO THE LEGAL AND TAX CONSEQUENCES OF UNIT OWNERSHIP UNDER ITS PARTICULAR CIRCUMSTANCES.

Table of Contents

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated January , 2017, we have agreed to sell to Barclays Capital Inc., the underwriter in this offering, and the underwriter has agreed to purchase from us, an aggregate of 2,500,000 of our common units.

The underwriting agreement provides that the underwriter s obligation to purchase the common units depends on the satisfaction of the conditions contained in the underwriting agreement including:

- the obligation to purchase all of the common units offered hereby (other than those common units covered by its option to purchase additional common units as described below), if any of the common units are purchased;
- the representations and warranties made by us to the underwriter are true;
- there is no material change in our business or the financial markets; and
- we deliver customary closing documents to the underwriter.

Commissions and Expenses

The following table summarizes the underwriting discounts and commissions we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase additional common units. The underwriting fee is the difference between the initial price to the public and the amount the underwriters pay to us for the common units.

	No Exercise	Full Exercise
Per Common Unit	$	$
Total	$	$

The underwriter proposes to offer the common units directly to the public at the public offering price on the cover of this prospectus supplement to selected dealers at such offering price less a selling concession not in excess of $ per common unit. After the offering, the underwriter may change the offering price and other selling terms. Sales of common units made outside of the United States may be made by affiliates of the underwriter.

The expenses of the offering that are payable by us are estimated to be approximately $550,000 (excluding underwriting discounts and commissions).

Option to Purchase Additional Common Units

We have granted the underwriter an option exercisable for 30 days after the date of this prospectus supplement to purchase, from time to time, in whole or in part, up to an aggregate of 375,000 common units from us at the public offering price less underwriting discounts and commissions. This option may be exercised to the extent the underwriter sells more than 2,500,000 common units in connection with this offering.

Lock-Up Agreements

We, our general partner and certain of its affiliates, including KNOT, and all of our directors and executive officers have agreed that, for a period of 60 days after the date of this prospectus supplement, subject to certain limited exceptions as described below, we and they will not directly or indirectly, without the prior written consent of Barclays Capital Inc. offer, sell, contract to sell, pledge or otherwise dispose of, including the filing with the SEC of a registration statement under the Securities Act of 1933, as amended, in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act, any common units or securities convertible into or exchangeable or exercisable for any common units or publicly disclose the intention to take any such action; provided, however, that we may

(i) consummate the Private Placement; (ii) issue and sell common units pursuant to, and file a registration statement on Form S-8 relating to, any employee benefit plan we have in effect on the date hereof; and (iii) issue common units upon the conversion of securities or the exercise of warrants outstanding on the date hereof.

Barclays Capital Inc. in its sole discretion, may release the common units and other securities subject to the lock-up agreements described above in whole or in part at any time. When determining whether or not to release common units and other securities from lock-up agreements, Barclays Capital Inc. will consider, among other factors, the holder s reasons for requesting the release, the number of common units and other securities for which the release is being requested and market conditions at the time.

Indemnification

We, and certain of our affiliates, have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriter may be required to make for these liabilities.

Stabilization, Short Positions and Penalty Bids

The underwriter may engage in stabilizing transactions, short sales and purchases to cover positions created by short sales, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common units, in accordance with Regulation M under the Exchange Act:

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

A short position involves a sale by the underwriter of common units in excess of the number of common units it is obligated to purchase in the offering, which creates the short position. This short position may be either a covered short position or a naked short position. In a covered short position, the number of common units involved in the sales made by the underwriter in excess of the number of common units it is obligated to purchase is not greater than the number of common units that it may purchase by exercising its option to purchase additional common units. In a naked short position, the number of common units involved is greater than the number of common units in its option to purchase additional common units. The underwriter may close out any short position by either exercising its option to purchase additional common units and/or purchasing common units in the open market. In determining the source of common units to close out the short position, the underwriter will consider, among other things, the price of common units available for purchase in the open market as compared to the price at which it may purchase common units through its option to purchase additional common units. A naked short position is more likely to be created if the underwriter is concerned that there could be downward pressure on the price of the common units in the open market after pricing that could adversely affect investors who purchase in the offering.

Covering transactions involve purchases of the common units in the open market after the distribution has been completed in order to cover short positions.

Penalty bids permit the underwriter to reclaim a selling concession from a broker/dealer when the common units originally sold by such broker/dealer is purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common units or preventing or retarding a decline in the market price of the common units. As a result, the price of the common units may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Table of Contents

Neither we nor the underwriter make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common units. In addition, neither we nor the underwriter make any representation that the underwriter will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Stamp Taxes

If you purchase common units offered in this prospectus supplement and the accompanying prospectus, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price of the common units.

Listing on the NYSE

Our common units are listed on the NYSE under the symbol KNOP .

Other Relationships

The underwriter and certain of its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriter and certain of its affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for us and our affiliates, for which they received or may in the future receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriter and certain of its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of us or our affiliates. The underwriter and certain of its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling Restrictions

Notice to Prospective Investors in Hong Kong

The common units have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to professional investors as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the common units has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to common units which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Table of Contents

Notice to Prospective Investors in Australia

No placement document, prospectus, product disclosure statement or other disclosure document has been lodged with the Australian Securities and Investments Commission (ASIC), in relation to the offering. This prospectus does not constitute a prospectus, product disclosure statement or other disclosure document under the Corporations Act 2001 (the Corporations Act), and does not purport to include the information required for a prospectus, product disclosure statement or other disclosure document under the Corporations Act.

Any offer in Australia of the common units may only be made to persons (the Exempt Investors), who are:

(a) sophisticated investors (within the meaning of section 708(8) of the Corporations Act), professional investors (within the meaning of section 708(11) of the Corporations Act) or otherwise pursuant to one or more exemptions contained in section 708 of the Corporations Act; and

(b) wholesale clients (within the meaning of section 761G of the Corporations Act),

so that it is lawful to offer the common units without disclosure to investors under Chapters 6D and 7 of the Corporations Act.

The common units applied for by Exempt Investors in Australia must not be offered for sale in Australia in the period of 12 months after the date of allotment under the offering, except in circumstances where disclosure to investors under Chapters 6D and 7 of the Corporations Act would not be required pursuant to an exemption under both section 708 and Subdivision B of Division 2 of Part 7.9 of the Corporations Act or otherwise or where the offer is pursuant to a disclosure document which complies with Chapters 6D and 7 of the Corporations Act. Any person acquiring common units must observe such Australian on-sale restrictions.

This prospectus contains general information only and does not take account of the investment objectives, financial situation or particular needs of any particular person. It does not contain any securities recommendations or financial product advice. Before making an investment decision, investors need to consider whether the information in this prospectus is appropriate to their needs, objectives and circumstances, and, if necessary, seek expert advice on those matters.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), other than Germany, with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of securities described in this prospectus may not be made to the public in that relevant member state other than:

to any legal entity which is a qualified investor as defined in the Prospectus Directive;

to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of securities shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an offer of securities to the public in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer

Table of Contents

and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and includes any relevant implementing measure in each relevant member state. The expression 2010 PD Amending Directive means Directive 2010/73/EU.

We have not authorized and do not authorize the making of any offer of securities through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the securities as contemplated in this prospectus. Accordingly, no purchaser of the securities, other than the underwriters, is authorized to make any further offer of the securities on behalf of us or the underwriters.

Table of Contents

LEGAL MATTERS

Certain legal matters with respect to the offering will be passed upon for us by Vinson & Elkins L.L.P., Washington, D.C. The validity of the common units and certain other legal matters with respect to the laws of the Republic of the Marshall Islands will be passed upon for us by our counsel as to Marshall Islands law, Watson Farley & Williams LLP, New York, New York. Certain matters with respect to this offering will be passed upon for the underwriter by Latham & Watkins LLP, Houston, Texas.

EXPERTS

The consolidated and combined carve-out financial statements of KNOT Offshore Partners LP as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 appearing in our annual report on Form 20-F for the year ended December 31, 2015 have been incorporated by reference in this prospectus in reliance on the report of Ernst & Young AS, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Ernst & Young AS is located at Dronning Eufemias gate 6, P.O. Box 1156 Sentrum, 0107 Oslo, Norway.

Table of Contents

EXPENSES

The following table sets forth costs and expenses, other than the underwriting discounts and commissions, in connection with the issuance and distribution of the common units covered by this prospectus supplement. All amounts are estimated, except the SEC registration fee, the Financial Industry Regulatory Authority filing fee and the NYSE listing fee.

SEC registration fee attributable to this offering	$ 7,830
Financial Industry Regulatory Authority filing fee attributable to this offering	10,630
NYSE listing fee	13,800
Legal fees and expenses	250,000
Accounting fees and expenses	150,000
Printing costs	50,000
Transfer agent fees	3,500
Miscellaneous	64,240
Total	$ 550,000

S-31

Table of Contents

PROSPECTUS

KNOT Offshore Partners LP

Common Units Representing Limited Partnership Interests

Other Classes of Units Representing Limited Partnership Interests

Debt Securities

We may from time to time, in one or more offerings, offer and sell common units and other units representing limited partner interests in KNOT Offshore Partners LP and the debt securities described in this prospectus. We refer to the common units and other units representing limited partner interests in KNOT Offshore Partners LP and the debt securities collectively as the securities. The aggregate initial offering price of all securities sold by us under this prospectus will not exceed $750 million.

We may offer and sell these securities in amounts, at prices and on terms to be determined by market conditions and other factors at the time of the offering. This prospectus describes only the general terms of these securities and the general manner in which we will offer the securities. The specific terms of any securities we offer will be included in a supplement to this prospectus. The prospectus supplement will describe the specific manner in which we will offer the securities and also may add, update or change information contained in this prospectus. The names of any underwriters and the specific terms of a plan of distribution will be stated in the prospectus supplement.

Our common units are traded on the New York Stock Exchange (the NYSE), under the symbol KNOP. We will provide information in the related prospectus supplement for the trading market, if any, for any securities that may be offered.

Investing in our securities involves risks. You should carefully consider the risk factors described under Risk Factors on page 7 of this prospectus before you make an investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is May 28, 2014.

Table of Contents

TABLE OF CONTENTS

In making your investment decision, you should rely only on the information contained in this prospectus, any prospectus supplement and the documents we have incorporated by reference in this prospectus. We have not authorized anyone else to give you different information. We are not offering these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents. We will disclose any material changes in our affairs in an amendment to this prospectus, a prospectus supplement or a future filing with the Securities and Exchange Commission (the SEC), incorporated by reference in this prospectus.

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC using a shelf registration process. Under this shelf registration process, we may over time, in one or more offerings, offer and sell up to $750 million in total aggregate offering price of any combination of the securities described in this prospectus.

This prospectus provides you with a general description of KNOT Offshore Partners LP and the securities that are registered hereunder that may be offered by us. Each time we sell any securities offered by this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of that offering and the securities being offered. Any prospectus supplement may also add, update or change information contained in this prospectus. To the extent information in this prospectus is inconsistent with the information contained in a prospectus supplement, you should rely on the information in the prospectus supplement.

The information in this prospectus is accurate as of its date. Additional information, including our financial statements and the notes thereto, is incorporated in this prospectus by reference to our reports filed with the SEC. Before you invest in our securities, you should carefully read this prospectus, including the Risk Factors, any prospectus supplement, the information incorporated by reference in this prospectus and any prospectus supplement (including the documents described under the heading Where You Can Find More Information in both this prospectus and any prospectus supplement) and any additional information you may need to make your investment decision.

Unless the context otherwise requires, references in this prospectus to KNOT Offshore Partners LP, KNOT Offshore Partners, the Partnership, we, our, us or similar terms refer to KNOT Offshore Partners LP, a Marshall Islands lim partnership, or any one or more of its subsidiaries. References in this prospectus to our general partner refer to KNOT Offshore Partners GP LLC, the general partner of the Partnership. References in this prospectus to KNOT refer, depending on the context, to Knutsen NYK Offshore Tankers AS and to any one or more of its direct and indirect subsidiaries.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form F-3 regarding the securities covered by this prospectus. This prospectus does not contain all of the information found in the registration statement. For further information regarding us and the securities offered in this prospectus, you may wish to review the full registration statement, including its exhibits. The registration statement, including the exhibits, may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of this material can also be obtained upon written request from the Public Reference Section of the SEC at that address, at prescribed rates, or from the SEC s website at www.sec.gov free of charge. Please call the SEC at 1-800-SEC-0330 for further information on public reference rooms. You may also obtain information about us at the offices of the NYSE at 20 Broad Street, New York, NY, 10005, or on our website at www.knotoffshorepartners.com. Information on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus unless specifically so designated and filed with the SEC.

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and, in accordance therewith, we are required to file with the SEC annual reports on Form 20-F within four months of our fiscal year-end, and provide to the SEC other material information on Form 6-K. These reports and other information may be inspected and copied at the public reference facilities maintained by the SEC or obtained from the SEC s website as provided above. Our website, also provided above, will make our annual reports on Form 20-F and our periodic reports filed with the SEC available, free of charge, through our website as soon as reasonably practicable after those reports are electronically filed with the SEC. Information on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus.

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, certain rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal unitholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act, including the filing of quarterly reports or current reports on Form 8-K. However, we intend to make available quarterly reports containing our unaudited interim financial information for the first three fiscal quarters of each fiscal year.

The SEC allows us to incorporate by reference into this prospectus information that we file with the SEC. This means that we can disclose important information to you without actually including the specific information in this prospectus by referring you to other documents filed separately with the SEC. The information incorporated by reference is an important part of this prospectus. Information that we later provide to the SEC, and which is deemed to be filed with the SEC, automatically will update information previously filed with the SEC, and may replace information in this prospectus.

We incorporate by reference into this prospectus the documents listed below:

- our annual report on Form 20-F for the fiscal year ended December 31, 2013 filed on April 15, 2014, as amended by Form 20-F/A, filed on May 5, 2014 (our 2013 Annual Report);
- our report on Form 6-K filed on May 15, 2014;
- all subsequent annual reports on Form 20-F filed prior to the termination of this offering;
- all subsequent current reports on Form 6-K furnished prior to the termination of this offering that we identify in such current reports as being incorporated by reference into the registration statement of which this prospectus is a part; and
- the description of our common units contained in our Registration Statement on Form 8-A filed on April 5, 2013, including any subsequent amendments or reports filed for the purpose of updating such description.

These reports contain important information about us, our financial condition and our results of operations.

You may obtain any of the documents incorporated by reference in this prospectus from the SEC through its public reference facilities or its website at the addresses provided above. You also may request a copy of any document incorporated by reference in this prospectus (excluding any exhibits to those documents, unless the exhibit is specifically incorporated by reference in this document), at no cost, by visiting our website at www.knotoffshorepartners.com, or by writing or calling us at the following address:

KNOT Offshore Partners LP

2 Queen s Cross

Aberdeen, Aberdeenshire AB15 4YB

United Kingdom

+44 1224 618420

You should rely only on the information contained in or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized anyone else to provide you with any information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information incorporated by reference or provided in this prospectus or any prospectus supplement is accurate as of any date other than its respective date.

FORWARD-LOOKING STATEMENTS

This prospectus and the documents we incorporate by reference contain certain forward-looking statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto. In addition, we and our representatives may from time to time make other oral or written statements that are also forward-looking statements. Such statements include, in particular, statements about our plans, strategies, business prospects, changes and trends in our business, and the markets in which we operate. In some cases, you can identify the forward-looking statements by the use of words such as may, could, should, would, expect, plan, anticipate, intend, forecast, believe, estimate, predict, propose, potential, continue or the negative of other comparable terminology. These forward-looking statements reflect management s current views only as of the date of this prospectus and are not intended to give any assurance as to future results. As a result, unitholders are cautioned not to rely on any forward-looking statements.

Forward-looking statements appear in a number of places in this prospectus and include statements with respect to, among other things:

- statements about market trends in the shuttle tanker or general tanker industries, including hire rates, factors affecting supply and demand, and opportunities for the profitable operations of shuttle tankers;
- statements about KNOT s and KNOT Offshore Partners ability to build and retrofit shuttle tankers and the timing of the delivery and acceptance of any such vessels by their respective charterers;
- KNOT Offshore Partners ability to make cash distributions on its units or any increases in cash distributions;
- KNOT Offshore Partners ability to integrate and realize the expected benefits from acquisitions;
- KNOT Offshore Partners anticipated growth strategies;
- the effects of a worldwide or regional economic slowdown;
- turmoil in the global financial markets;
- fluctuations in currencies and interest rates;
- general market conditions, including fluctuations in hire rates and vessel values;

changes in KNOT Offshore Partners operating expenses, including drydocking and insurance costs and bunker prices;

KNOT Offshore Partners future financial condition or results of operations and future revenues and expenses;

the repayment of debt and settling of any interest rate swaps;

KNOT Offshore Partners ability to make additional borrowings and to access debt and equity markets;

planned capital expenditures and availability of capital resources to fund capital expenditures;

KNOT Offshore Partners ability to maintain long-term relationships with major users of shuttle tonnage;

Table of Contents

KNOT Offshore Partners ability to leverage KNOT s relationships and reputation in the shipping industry;

KNOT Offshore Partners ability to purchase vessels from KNOT in the future;

KNOT Offshore Partners continued ability to enter into long-term charters, which we define as charters of five years or more;

KNOT Offshore Partners ability to maximize the use of its vessels, including the re-deployment or disposition of vessels no longer under long-term charter;

timely purchases and deliveries of newbuilds;

future purchase prices of newbuilds and secondhand vessels;

KNOT Offshore Partners ability to compete successfully for future chartering and newbuild opportunities;

acceptance of a vessel by its charterer;

termination dates and extensions of charters;

the expected cost of, and KNOT Offshore Partners ability to comply with, governmental regulations, maritime self-regulatory organization standards, as well as standard regulations imposed by its charterers applicable to KNOT Offshore Partners business;

availability of skilled labor, vessel crews and management;

KNOT Offshore Partners general and administrative expenses and its fees and expenses payable under the fleet management agreements and the management and administrative services agreement;

the anticipated taxation of KNOT Offshore Partners and distributions to KNOT Offshore Partners unitholders;

estimated future maintenance and replacement capital expenditures;

KNOT Offshore Partners ability to retain key employees;

customers increasing emphasis on environmental and safety concerns;

potential liability from any pending or future litigation;

potential disruption of shipping routes due to accidents, political events, piracy or acts by terrorists;

future sales of KNOT Offshore Partners securities in the public market;

KNOT Offshore Partners business strategy and other plans and objectives for future operations; and

other factors listed from time to time in the reports and other documents that KNOT Offshore Partners files with the SEC.

Table of Contents

Forward-looking statements in this prospectus are made based upon management s current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties, including those risks discussed in Risk Factors and those risks discussed in reports we file with the SEC. The risks, uncertainties and assumptions involve known and unknown risks and are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement.

Table of Contents

ABOUT KNOT OFFSHORE PARTNERS LP

We are a publicly traded limited partnership formed on February 21, 2013 to own and operate shuttle tankers under long-term charters. Our fleet currently consists of five shuttle tankers.

On April 15, 2013, we completed our initial public offering (our IPO). In connection with our IPO, we sold 8,567,500 common units to the public and issued to Knutsen NYK Offshore Tankers AS (KNOT) 8,567,500 subordinated units and all of our incentive distribution rights. In addition, KNOT owns, through its ownership of our general partner, a 2.0% general partner interest in us, represented by 349,694 general partner units.

We were formed under the laws of the Marshall Islands and maintain our principal place of business at 2 Queen s Cross, Aberdeen, Aberdeenshire, AB15 4YB, United Kingdom. Our telephone number at that address is +44 (0) 1224 618420.

Table of Contents

RISK FACTORS

An investment in our securities involves a significant degree of risk. You should carefully consider the risk factors and all of the other information included in this prospectus, any prospectus supplement and the documents we have incorporated by reference into this prospectus and any prospectus supplement, including those in Item 3. Key Information Risk Factors in our 2013 Annual Report, as updated by annual, quarterly and other reports and documents we file with the SEC after the date of this prospectus and that are incorporated by reference herein, in evaluating an investment in the securities. If any of these risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. When we offer and sell any securities pursuant to a prospectus supplement, we may include additional risk factors relevant to such securities in the prospectus supplement.

Table of Contents

USE OF PROCEEDS

Except as otherwise provided in an applicable prospectus supplement, we will use the net proceeds we receive from the sale of the securities covered by this prospectus for customary partnership purposes, including repayment of debt (including debt owed to KNOT), acquisitions, capital expenditures and additions to working capital.

The actual application of proceeds we receive from any particular offering of securities using this prospectus will be described in the applicable prospectus supplement relating to such offering.

Table of Contents

CAPITALIZATION

The following table shows our historical cash and capitalization as of December 31, 2013. This table is derived from our consolidated and combined carve-out financial statements, including accompanying notes, incorporated by reference in this prospectus. You should read this table in conjunction with the section entitled Operating and Financial Review and Prospects and our consolidated and combined carve-out financial statements and the related notes thereto, which are incorporated by reference herein from our 2013 Annual Report.

	As of December 31, 2013 (In thousands)
Cash and cash equivalents	$ 28,836
Restricted cash	458
Total cash and cash equivalents and restricted cash	$ 29,294
Debt:	
Seller s credit	$ 10,349
Current portion of long-term debt	29,269
Long-term debt, excluding seller s credit and current portion	310,359
Total debt	$ 349,977
Equity:	
Total partners capital	$ 281,977
Total equity	$ 281,977
Total capitalization	$ 631,954

Each prospectus supplement will include updated information on our capitalization.

9

Table of Contents

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of consolidated earnings to fixed charges for the periods presented:

	Year Ended December 31,		
	2013	**2012**	**2011**
Ratio of earnings to fixed charges(1)	2.74x	1.21x	(0.56)x

(1) For periods prior to our IPO, represents data for our predecessor in respect of the four vessels, the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Bodil Knutsen* and the *Windsor Knutsen* in our initial fleet for periods prior to our IPO in April 2013.

For purposes of calculating the ratio of earnings to fixed charges:

fixed charges means the sum of the following: (a) interest expensed and capitalized and (b) amortized capitalized expenses related to indebtedness; and

earnings is the amount resulting (a) from adding (i) pre-tax income from continuing operation before adjustment for non-controlling interest, (ii) fixed charges and (iii) amortization of capitalized interest and (b) from subtracting interest capitalized.

Table of Contents

PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

As of May 14, 2014, there were 8,567,500 common units outstanding, all of which are held by the public. Our common units were first offered on the NYSE on April 9, 2013 at an initial price of $21.00 per unit. Our common units are traded on the NYSE under the symbol KNOP.

The following table sets forth, for the periods indicated, the high and low sales prices for our common units, as reported on the NYSE, and quarterly cash distributions declared per common unit. The last reported sale price of our common units on the NYSE on May 14, 2014 was $27.00 per unit.

	High	Low	Cash Distributions per Unit(1)
Year ended December 31, 2013(2)	$ 29.39	$ 20.68	
Second quarter 2014(3)	29.15	26.44	
First quarter 2014	29.58	23.50	$ 0.4350
Fourth quarter 2013	29.39	23.77	0.4350
Third quarter 2013	26.17	21.51	0.4350
Second quarter 2013(4)	24.71	20.68	0.3173(5)
Month ended May 1, 2014(6)	27.85	26.44	
Month ended April 30, 2014	29.15	26.54	
Month ended March 31, 2014	29.58	26.53	
Month ended February 28, 2014	29.52	25.77	
Month ended January 31, 2014	28.50	23.50	
Month ended December 31, 2013	29.39	25.01	
Month ended November 30, 2013	28.42	25.18	
Month ended October 31, 2013	26.09	23.77	

(1) Represents cash distributions attributable to the quarter.

(2) For the period from April 9, 2013 through December 31, 2013.

(3) For the period from April 1, 2014 through May 14, 2014.

(4) For the period from April 9, 2013 through June 30, 2013.

(5) For the period from April 9, 2013 through June 30, 2013, we paid unitholders a distribution of $0.3173 per unit. This distribution was the prorated portion of the minimum quarterly distribution of $0.375 per unit.

(6) For the period from May 1, 2014 through May 14, 2014.

Table of Contents

DESCRIPTION OF THE COMMON UNITS

Our common units and subordinated units represent limited partner interests in us. The holders of units are entitled to participate in partnership distributions and exercise the rights and privileges available to limited partners under our partnership agreement. For a description of the relative rights and privileges of holders of common units and subordinated units in and to partnership distributions, together with a description of the circumstances under which subordinated units convert into common units, please read this section and Our Cash Distribution Policy and Restrictions on Distributions.

Number of Units

We currently have 8,567,500 common units outstanding, all of which are held by the public. We also have 8,567,500 subordinated units outstanding, for which there is no established public trading market, all of which are held by KNOT. The common units and the subordinated units represent an aggregate 98.0% limited partner interest, and the general partner interest represents a 2.0% general partner interest in us.

Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC serves as registrar and transfer agent for the common units.

Transfer of Common Units

By transfer of common units in accordance with our partnership agreement, each transferee of common units will be admitted as a limited partner with respect to the common units transferred when such transfer and admission is reflected in our books and records. Each transferee:

- represents that the transferee has the capacity, power and authority to become bound by our partnership agreement;
- automatically agrees to be bound by the terms and conditions of, and is deemed to have executed, our partnership agreement; and
- gives the consents and approvals contained in our partnership agreement, such as the approval of all transactions and agreements we entered into in connection with our formation and our IPO.

A transferee will become a substituted limited partner of the Partnership for the transferred common units automatically upon the recording of the transfer on our books and records. Our general partner will cause any transfers to be recorded on our books and records no less frequently than quarterly.

We may, at our discretion, treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder s rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and are transferable according to the laws governing transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to become a limited partner in the

Partnership for the transferred common units.

Until a common unit has been transferred on our books, we and the transfer agent may treat the record holder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

Voting Rights

Unlike the holders of common stock in a corporation, holders of common units have only limited voting rights on matters affecting our business. We hold a meeting of the limited partners every year to elect one or more members of our board of directors and to vote on any other matters that are properly brought before the meeting. Common unitholders are entitled to elect only four of the seven members of our board of directors. The elected directors are elected on a staggered basis and serve for four-year terms. Our general partner in its sole discretion appoints the remaining three directors and sets the terms for which those directors serve. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting our unitholders ability to influence the manner or direction of management. Unitholders have no right to elect our general partner, and our general partner may not be removed except by a vote of the holders of at least 66⅔% of the outstanding common and subordinated units, including any common and subordinated units owned by our general partner and its affiliates, voting together as a single class.

Our partnership agreement further restricts unitholders voting rights by providing that all persons (including individuals, entities, partnerships, trusts and estates) that are residents of Norway for purposes of the Norwegian Tax Act (Norwegian Resident Holders) are not eligible to vote in the election of elected directors. Further, if any person or group owns beneficially more than 4.9% of any class of units then outstanding (excluding Norwegian Resident Holders in the election of elected directors), any such units owned by that person or group in excess of 4.9% may not be voted on any matter and are not considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes (except for purposes of nominating a person for election to our board of directors), determining the presence of a quorum or for other similar purposes, unless required by law. The voting rights of any unitholders not entitled to vote on a specific matter are effectively redistributed pro rata among the other common unitholders. Our general partner, its affiliates and persons who acquire common units with the prior approval of our board of directors are not subject to the 4.9% limitation except with respect to voting their common units in the election of the elected directors.

The following is a summary of the unitholder vote required for the approval of the matters specified below. Matters that require the approval of a unit majority require:

- during the subordination period, the approval of a majority of the common units, excluding those common units held by our general partner and its affiliates, voting as a single class and a majority of the subordinated units voting as a single class; and

- after the subordination period, the approval of a majority of the common units voting as a single class.

In voting their common units and subordinated units our general partner and its affiliates will have no fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners.

Action	**Unitholder Approval Required and Voting Rights**
Issuance of additional units	No approval rights; general partner approval required for all issuances not reasonably expected to be accretive within 12 months of issuance or which would otherwise have a material adverse impact on our general

	partner or its interest in the Partnership.
Amendment of our partnership agreement	Certain amendments may be made by our board of directors without the approval of the unitholders. Other amendments generally require the approval of a unit majority.
Merger of the Partnership or the sale of all or substantially all of our assets	Unit majority and approval of our general partner and our board of directors.

Table of Contents

Action	Unitholder Approval Required and Voting Rights
Dissolution of the Partnership	Unit majority and approval of our general partner and our board of directors.
Reconstitution of the Partnership upon dissolution	Unit majority.
Election of four of the seven members of our board of directors	A plurality of the votes of the holders of the common units.
Withdrawal of our general partner	Under most circumstances, the approval of a majority of the common units, excluding common units held by our general partner and its affiliates, is required for the withdrawal of our general partner prior to March 31, 2023 in a manner that would cause a dissolution of the Partnership.
Removal of our general partner	Not less than $66\frac{2}{3}\%$ of the outstanding units, including units held by our general partner and its affiliates, voting together as a single class.
Transfer of our general partner interest in us	Our general partner may transfer all, but not less than all, of its general partner interest in us without a vote of our unitholders to an affiliate or another person in connection with its merger or consolidation with or into, or sale of all or substantially all of its assets to, such affiliate or person. The approval of a majority of the common units, excluding common units held by our general partner and its affiliates, is required in other circumstances for a transfer of the general partner interest to a third party prior to March 31, 2023.
Transfer of incentive distribution rights	Except for transfers to an affiliate or another person as part of a merger or consolidation with or into, or sale of all or substantially all of its assets to, such affiliate or person, the approval of a majority of the common units, excluding common units held by our general partner and its affiliates, voting separately as a class, is required in most circumstances for a transfer of our incentive distribution rights to a third party prior to March 31, 2018.
Transfer of ownership interests in our general partner	No approval required at any time.

Issuance of Additional Interests

Our partnership agreement authorizes us to issue an unlimited amount of additional partnership interests and rights to buy partnership interests for the consideration and on the terms and conditions determined by our board of directors without the approval of the unitholders. However, our general partner will be required to approve all issuances of additional partnership interests that are not reasonably expected to be accretive within 12 months of issuance or which would otherwise have a material adverse impact on our general partner or its interest in us.

We intend to fund acquisitions through borrowings and the issuance of additional common units or other equity securities and the issuance of debt securities. Holders of any additional common units we issue will be

Table of Contents

entitled to share equally with the then-existing holders of common units in our distributions of available cash. In addition, the issuance of additional common units or other equity securities may dilute the value of the interests of the then-existing holders of common units in our net assets.

In accordance with Marshall Islands law and the provisions of our partnership agreement, we may also issue additional partnership interests that, as determined by our board of directors, have special voting rights to which the common units are not entitled.

Upon issuance of additional partnership interests (other than the issuance of common units upon exercise of the underwriters option to purchase additional common units, the issuance of common units in connection with a reset of our incentive distribution target levels or the issuance of partnership interests upon conversion of outstanding partnership interests), our general partner will have the right, but not the obligation, to make additional capital contributions to the extent necessary to maintain its 2.0% general partner interest in us. Our general partner s interest in us will thus be reduced if we issue additional partnership interests in the future and our general partner does not elect to maintain its 2.0% general partner interest in us. Our general partner and its affiliates will have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase common units, subordinated units or other equity securities whenever, and on the same terms that, we issue those securities to persons other than our general partner and its affiliates, to the extent necessary to maintain its and its affiliates percentage interest, including its interest represented by common units and subordinated units, that existed immediately prior to each issuance. Other holders of common units will not have similar pre-emptive rights to acquire additional common units or other partnership interests.

Limited Call Right

If at any time our general partner and its affiliates hold more than 80% of the then-issued and outstanding partnership interests of any class, our general partner will have the right, which it may assign in whole or in part to any of its affiliates or to us, to acquire all, but not less than all, of the remaining partnership interests of the class held by unaffiliated persons as of a record date to be selected by our general partner, on at least ten but not more than 60 days written notice at a price equal to the greater of (x) the average of the daily closing prices of the partnership interests of such class over the 20 trading days preceding the date three days before the notice of exercise of the call right is first mailed and (y) the highest price paid by our general partner or any of its affiliates for partnership interests of such class during the 90-day period preceding the date such notice is first mailed. Our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon the exercise of this limited call right and has no fiduciary duty in determining whether to exercise this limited call right.

As a result of our general partner s right to purchase outstanding partnership interests, a holder of partnership interests may have the holder s partnership interests purchased at an undesirable time or price. The tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of common units in the market. Please read Material U.S. Federal Income Tax Considerations U.S. Federal Income Taxation of U.S. Holders Sale, Exchange or Other Disposition of Common Units and Material U.S. Federal Income Tax Considerations U.S. Federal Income Taxation of Non-U.S. Holders Disposition of Units.

Summary of our Partnership Agreement

A copy of our partnership agreement is filed as an exhibit to the registration statement of which this prospectus is a part. A summary of the important provisions of our partnership agreement and the rights and privileges of our unitholders is included in our registration statement on Form 8-A, filed with the SEC on April 5, 2013, including any subsequent amendments or reports filed for the purpose of updating such description. Please read Where You Can

Find More Information.

Table of Contents

OUR CASH DISTRIBUTION POLICY AND RESTRICTIONS ON DISTRIBUTIONS

You should read the following discussion of our cash distribution policy and restrictions on distributions in conjunction with specific assumptions included in this section. In addition, you should read Forward-Looking Statements and Risk Factors for information regarding statements that do not relate strictly to historical or current facts and certain risks inherent in our business.

General

Rationale for Our Cash Distribution Policy

Our cash distribution policy reflects a judgment that our unitholders will be better served by our distributing our available cash (after deducting expenses, including estimated maintenance and replacement capital expenditures and reserves) rather than retaining it. Because we believe we will generally finance any expansion capital expenditures from external financing sources, we believe that our investors are best served by our distributing all of our available cash. Our cash distribution policy is consistent with the terms of our partnership agreement, which requires that we distribute all of our available cash quarterly (after deducting expenses, including estimated maintenance and replacement capital expenditures and reserves).

Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy

There is no guarantee that unitholders will receive quarterly distributions from us. Our distribution policy is subject to certain restrictions and may be changed at any time, including:

- Our unitholders have no contractual or other legal right to receive distributions other than the obligation under our partnership agreement to distribute available cash on a quarterly basis, which is subject to the broad discretion of our board of directors to establish reserves and other limitations.

- We are subject to restrictions on distributions under our financing agreements. Our financing agreements contain material financial tests and covenants that must be satisfied in order to pay distributions. If we are unable to satisfy the restrictions included in any of our financing agreements or are otherwise in default under any of those agreements, as a result of our debt levels or otherwise, we will not be able to make cash distributions to our unitholders, notwithstanding our stated cash distribution policy.

- We are required to make substantial capital expenditures to maintain and replace our fleet. These expenditures may fluctuate significantly over time, particularly as our vessels near the end of their useful lives. In order to minimize these fluctuations, our partnership agreement requires us to deduct estimated, as opposed to actual, maintenance and replacement capital expenditures from the amount of cash that we would otherwise have available for distribution to our unitholders. In years when estimated maintenance and replacement capital expenditures are higher than actual maintenance and replacement capital expenditures, the amount of cash available for distribution to unitholders will be lower than if actual maintenance and replacement capital expenditures were deducted.

Although our partnership agreement requires us to distribute all of our available cash, our partnership agreement, including provisions contained therein requiring us to make cash distributions, may be amended. During the subordination period, with certain exceptions, our partnership agreement may not be amended without the approval of non-affiliated common unitholders. After the subordination period has ended, our partnership agreement can be amended with the approval of a majority of the outstanding common units.

Even if our cash distribution policy is not modified or revoked, the amount of distributions we pay under our cash distribution policy and the decision to make any distribution is determined by our board of directors, taking into consideration the terms of our partnership agreement.

Under Section 51 of the Marshall Islands Act, we may not make a distribution to our unitholders if the distribution would cause our liabilities, other than liabilities to partners on account of their partnership interest and liabilities for which the recourse of creditors is limited to specified property of ours, to exceed the fair value of our assets, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited shall be included in our assets only to the extent that the fair value of that property exceeds that liability.

We may lack sufficient cash to pay distributions to our unitholders due to decreases in total operating revenues, decreases in hire rates, the loss of a vessel, increases in operating or general and administrative expenses, principal and interest payments on outstanding debt, taxes, working capital requirements, maintenance and replacement capital expenditures or anticipated cash needs.

Our ability to make cash distributions to our unitholders depends on the performance of our subsidiaries and their ability to distribute cash to us. The ability of our subsidiaries to make distributions to us may be restricted by, among other things, the provisions of existing and future indebtedness, applicable limited partnership and limited liability company laws in the Marshall Islands and Norway and other laws and regulations.

Distributions of Available Cash

General

Within 45 days after the end of each quarter, we distribute all of our available cash (defined below) to unitholders of record on the applicable record date.

Definition of Available Cash

Available cash generally means, for each fiscal quarter, all cash on hand at the end of the quarter (including our proportionate share of cash on hand of certain subsidiaries we do not wholly own):

less, the amount of cash reserves (including our proportionate share of cash reserves of certain subsidiaries we do not wholly own) established by our board of directors and our subsidiaries to:

provide for the proper conduct of our business (including reserves for future capital expenditures and for our anticipated credit needs);

comply with applicable law, any of our debt instruments or other agreements; and/or provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters;

plus, all cash on hand (including our proportionate share of cash on hand of certain subsidiaries we do not wholly own) on the date of determination of available cash for the quarter resulting from (1) working capital borrowings made after the end of the quarter and (2) cash distributions received after the end of the quarter from any equity interest in any person (other than a subsidiary of us), which distributions are paid by such person in respect of operations conducted by such person during such quarter. Working capital borrowings are generally borrowings that are made under a revolving credit facility and in all cases are used solely for working capital purposes or to pay distributions to partners.

Table of Contents

Minimum Quarterly Distribution

Common unitholders are entitled under our partnership agreement to receive a quarterly distribution of $0.375 per unit, or $1.50 per unit per year, prior to any distribution on the subordinated units to the extent we have sufficient cash on hand to pay the distribution, after establishment of cash reserves and payment of fees and expenses. There is no guarantee that we will pay the minimum quarterly distribution on the common units and subordinated units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our board of directors, taking into consideration the terms of our partnership agreement. We are prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default is then existing, under our financing arrangements.

Operating Surplus and Capital Surplus

General

All cash distributed to unitholders is characterized as either Operating Surplus and Capital Surplus or Operating Surplus and Capital Surplus. We treat distributions of available cash from operating surplus differently than distributions of available cash from capital surplus.

Definition of Operating Surplus

Operating surplus for any period generally means:

- $17.0 million; *plus*

- all of our cash receipts (including our proportionate share of cash receipts of certain subsidiaries we do not wholly own, provided, that cash receipts from the termination of an interest rate, currency or commodity hedge contract prior to its specified termination date will be included in operating surplus in equal quarterly installments over the remaining scheduled life of such hedge contract), excluding cash from (1) borrowings, other than working capital borrowings, (2) sales of equity and debt securities, (3) sales or other dispositions of assets outside the ordinary course of business, (4) capital contributions and (5) corporate reorganizations or restructurings; *plus*

- working capital borrowings (including our proportionate share of working capital borrowings for certain subsidiaries we do not wholly own) made after the end of a quarter but before the date of determination of operating surplus for the quarter; *plus*

- interest paid on debt incurred (including periodic net payments under related hedge contracts) and cash distributions paid on equity securities issued (including the amount of any incremental distributions made to the holders of our incentive distribution rights and our proportionate share of such interest and cash distributions paid by certain subsidiaries we do not wholly own), in each case, to finance all or any portion of the construction, replacement or improvement of a capital asset (such as a vessel) in respect of the period from such financing until the earlier to occur of the date the capital asset is put into service or the date that it is abandoned or disposed of; *plus*

interest paid on debt incurred (including periodic net payments under related hedge contracts) and cash distributions paid on equity securities issued (including the amount of any incremental distributions made to the holders of our incentive distribution rights and our proportionate share of such interest and cash distributions paid by certain subsidiaries we do not wholly own), in each case, to pay the construction period interest on debt incurred (including periodic net payments under related interest rate swap agreements), or to pay construction period distributions on equity issued, to finance the construction projects described in the immediately preceding bullet; *less*

Table of Contents

- all of our operating expenditures (which includes estimated maintenance and replacement capital expenditures and is further described below) of us and our subsidiaries (including our proportionate share of operating expenditures by certain subsidiaries we do not wholly own); *less*

- the amount of cash reserves (including our proportionate share of cash reserves for certain subsidiaries we do not wholly own) established by our board of directors to provide funds for future operating expenditures; *less*

- any cash loss realized on dispositions of assets acquired using investment capital expenditures; *less*

- all working capital borrowings (including our proportionate share of working capital borrowings by certain subsidiaries we do not wholly own) not repaid within 12 months after having been incurred.

If a working capital borrowing, which increases operating surplus, is not repaid during the 12-month period following the borrowing, it will be deemed repaid at the end of such period, thus decreasing operating surplus at such time. When such working capital borrowing is in fact repaid, it will not be treated as a reduction in operating surplus because operating surplus will have been previously reduced by the deemed repayment.

As described above, operating surplus includes a provision that will enable us, if we choose, to distribute as operating surplus up to $17.0 million of cash we receive in the future from non-operating sources, such as asset sales, issuances of securities and long-term borrowings, that would otherwise be distributed as capital surplus. In addition, the effect of including, as described above, certain cash distributions on equity securities or interest payments on debt in operating surplus would be to increase operating surplus by the amount of any such cash distributions or payments. As a result, we may also distribute as operating surplus up to the amount of any such cash distributions or interest payments we receive from non-operating sources.

Operating expenditures generally means all of our cash expenditures, including but not limited to taxes, employee and director compensation, reimbursement of expenses to our general partner, repayment of working capital borrowings, debt service payments and payments made under any interest rate, currency or commodity hedge contracts (provided that payments made in connection with the termination of any hedge contract prior to the expiration of its specified termination date be included in operating expenditures in equal quarterly installments over the remaining scheduled life of such hedge contract), provided that operating expenditures will not include:

- deemed repayments of working capital borrowings deducted from operating surplus pursuant to the last bullet point of the definition of operating surplus above when such repayment actually occurs;

- payments (including prepayments and payment penalties) of principal of and premium on indebtedness, other than working capital borrowings;

- expansion capital expenditures, investment capital expenditures or actual maintenance and replacement capital expenditures (which are discussed in further detail under Capital Expenditures below);

- payment of transaction expenses (including taxes) relating to interim capital transactions; or

- distributions to partners.

Capital Expenditures

For purposes of determining operating surplus, maintenance and replacement capital expenditures are those capital expenditures required to maintain over the long term the operating capacity of or the revenue generated by our capital assets, and expansion capital expenditures are those capital expenditures that increase the operating capacity of or the revenue generated by our capital assets. In our partnership agreement, we refer to these maintenance and replacement capital expenditures as maintenance capital expenditures. To the extent, however, that capital expenditures associated with acquiring a new vessel or improving an existing vessel increase the revenues or the operating capacity of our fleet, such capital expenditures would be classified as expansion capital expenditures.

Investment capital expenditures are those capital expenditures that are neither maintenance and replacement capital expenditures nor expansion capital expenditures. Investment capital expenditures largely consist of capital expenditures made for investment purposes. Examples of investment capital expenditures include traditional capital expenditures for investment purposes, such as purchases of equity securities, as well as other capital expenditures that might be made in lieu of such traditional investment capital expenditures, such as the acquisition of a capital asset for investment purposes.

Examples of maintenance and replacement capital expenditures include capital expenditures associated with drydocking, modifying an existing vessel or acquiring a new vessel to the extent such expenditures are incurred to maintain the operating capacity of or the revenue generated by our fleet. Maintenance and replacement capital expenditures will also include interest (and related fees) on debt incurred and distributions on equity issued (including the amount of any incremental distributions made to the holders of our incentive distribution rights) to finance the construction of a replacement vessel and paid in respect of the construction period, which we define as the period beginning on the date that we enter into a binding construction contract and ending on the earlier of the date that the replacement vessel commences commercial service or the date that the replacement vessel is abandoned or disposed of. Debt incurred to pay or equity issued to fund construction period interest payments, and distributions on such equity (including the amount of any incremental distributions made to the holders of our incentive distribution rights), will also be considered maintenance and replacement capital expenditures.

Because our maintenance and replacement capital expenditures can be very large and vary significantly in timing, the amount of our actual maintenance and replacement capital expenditures may differ substantially from period to period, which could cause similar fluctuations in the amounts of operating surplus, adjusted operating surplus and available cash for distribution to our unitholders, than if we subtracted actual maintenance and replacement capital expenditures from operating surplus each quarter. Accordingly, to eliminate the effect on operating surplus of these fluctuations, our partnership agreement will require that an amount equal to an estimate of the average quarterly maintenance and replacement capital expenditures necessary to maintain the operating capacity of or the revenue generated by our capital assets over the long term be subtracted from operating surplus each quarter, as opposed to the actual amounts spent. In our partnership agreement, we refer to these estimated maintenance and replacement capital expenditures to be subtracted from operating surplus as estimated maintenance capital expenditures. The amount of estimated maintenance and replacement capital expenditures deducted from operating surplus is subject to review and change by our board of directors at least once a year, provided that any change must be approved by our conflicts committee. The estimate will be made at least annually and whenever an event occurs that is likely to result in a material adjustment to the amount of our maintenance and replacement capital expenditures, such as a major acquisition or the introduction of new governmental regulations that will affect our fleet. For purposes of calculating operating surplus, any adjustment to this estimate will be prospective only.

The use of estimated maintenance and replacement capital expenditures in calculating operating surplus will have the following effects:

- it will reduce the risk that actual maintenance and replacement capital expenditures in any one quarter will be large enough to make operating surplus less than the minimum quarterly distribution to be paid on all the units for that quarter and subsequent quarters;

it may reduce the need for us to borrow to pay distributions;

Table of Contents

- it may be difficult for us to raise our distribution above the minimum quarterly distribution and pay incentive distributions to KNOT; and

- it will reduce the likelihood that a large maintenance and replacement capital expenditure in a period will prevent KNOT from being able to convert some or all of its subordinated units into common units since the effect of an estimate is to spread the expected expense over several periods, mitigating the effect of the actual payment of the expenditure on any single period.

Definition of Capital Surplus

Capital surplus generally will be generated only by:

- borrowings other than working capital borrowings;

- sales of debt and equity securities; and

- sales or other dispositions of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or non-current assets sold as part of normal retirements or replacements of assets.

Characterization of Cash Distributions

We will treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. As described above, operating surplus does not reflect actual cash on hand that is available for distribution to our unitholders. For example, it includes a provision that enables us, if we choose, to distribute as operating surplus up to $17.0 million of cash we receive in the future from non-operating sources, such as asset sales, issuances of securities and long-term borrowings, that would otherwise be distributed as capital surplus. We do not anticipate that we will make any distributions from capital surplus.

Subordination Period

General

During the subordination period (as defined below), the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $0.375 per unit, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. Distribution arrearages do not accrue on the subordinated units. The purpose of the subordinated units is to increase the likelihood that during the subordination period there will be available cash from operating surplus to be distributed on the common units.

Definition of Subordination Period

The subordination period will extend until the second business day following the distribution of available cash from operating surplus in respect of any quarter, ending on or after March 31, 2016, that each of the following tests are met:

- distributions of available cash from operating surplus on each of the outstanding common units and subordinated units equaled or exceeded the sum of the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

Table of Contents

- the adjusted operating surplus (as defined below) generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted weighted average basis and the related distribution on the 2.0% general partner interest during those periods; and

- there are no outstanding arrearages in payment of the minimum quarterly distribution on the common units.

If the unitholders remove our general partner without cause, the subordination period may end before March 31, 2016.

For purposes of determining whether the tests in the bullets above have been met, the three consecutive, non-overlapping four-quarter periods for which the determination is being made may include one or more quarters with respect to which arrearages in the payment of the minimum quarterly distribution on the common units have accrued, provided that all such arrearages have been repaid prior to the end of each such four-quarter period.

If the expiration of the subordination period occurs as a result of us having met the tests described above, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash.

Definition of Adjusted Operating Surplus

Adjusted operating surplus for any period generally means:

- operating surplus generated with respect to that period (excluding any amounts attributable to the item described in the first bullet point under Operating Surplus and Capital Surplus Definition of Operating Surplus above); *less*

- the amount of any net increase in working capital borrowings (including our proportionate share of any changes in working capital borrowings of certain subsidiaries we do not wholly own) with respect to that period; *less*

- the amount of any net reduction in cash reserves for operating expenditures (including our proportionate share of cash reserves of certain subsidiaries we do not wholly own) over that period not relating to an operating expenditure made during that period; *plus*

- the amount of any net decrease in working capital borrowings (including our proportionate share of any changes in working capital borrowings of certain subsidiaries we do not wholly own) with respect to that period; *plus*

- the amount of any net increase in cash reserves for operating expenditures (including our proportionate share of cash reserves of certain subsidiaries we do not wholly own) over that period required by any debt instrument for the repayment of principal, interest or premium; *plus*

the amount of any net decrease made in subsequent periods to cash reserves for operating expenditures initially established with respect to such period to the extent such decrease results in a reduction in adjusted operating surplus in subsequent periods.

Adjusted operating surplus is intended to reflect the cash generated from operations during a particular period and therefore excludes net increases in working capital borrowings and net drawdowns of reserves of cash generated in prior periods.

Table of Contents

Effect of Removal of Our General Partner on the Subordination Period

If the unitholders remove our general partner other than for cause and units held by our general partner and its affiliates are not voted in favor of such removal:

- the subordination period will end and each subordinated unit will immediately convert into one common unit and will then participate pro rata with the other common units in distributions of available cash;
- any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and
- our general partner will have the right to convert its general partner interest and the holder of incentive distribution rights will have the right to convert such incentive distribution rights into common units or to receive cash in exchange for such interest or rights.

Distributions of Available Cash From Operating Surplus During the Subordination Period

We will make distributions of available cash from operating surplus for any quarter during the subordination period in the following manner:

- *first*, 98.0% to the common unitholders, pro rata, and 2.0% to our general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter;
- *second*, 98.0% to the common unitholders, pro rata, and 2.0% to our general partner, until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period;
- *third*, 98.0% to the subordinated unitholders, pro rata, and 2.0% to our general partner, until we distribute for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and
- *thereafter*, in the manner described in General Partner Interest and Incentive Distribution Rights below.

The preceding paragraph is based on the assumption that our general partner maintains its 2.0% general partner interest and that we do not issue additional classes of equity securities.

Distributions of Available Cash From Operating Surplus After the Subordination Period

We will make distributions of available cash from operating surplus for any quarter after the subordination period in the following manner:

first, 98.0% to all unitholders, pro rata, and 2.0% to our general partner, until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and

thereafter, in the manner described in General Partner Interest and Incentive Distribution Rights below.

The preceding paragraph is based on the assumption that our general partner maintains its 2.0% general partner interest and that we do not issue additional classes of equity securities.

Table of Contents

General Partner Interest

Our partnership agreement provides that our general partner is currently entitled to 2.0% of all distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its 2.0% general partner interest if we issue additional units. Our general partner s 2.0% interest, and the percentage of our cash distributions to which it is entitled, will be proportionately reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us in order to maintain its 2.0% general partner interest. Our general partner will be entitled to make a capital contribution in order to maintain its 2.0% general partner interest in the form of the contribution to us of common units based on the current market value of the contributed common units.

Incentive Distribution Rights

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. KNOT currently holds our incentive distribution rights. Our incentive distribution rights may be transferred separately from any other interest, subject to restrictions in our partnership agreement. Except for transfers of our incentive distribution rights to an affiliate or another entity as part of a merger or consolidation with or into, or sale of substantially all of the assets to, such affiliate or entity, the approval of a majority of our common units (excluding common units held by our general partner and its affiliates), voting separately as a class, generally is required for a transfer of our incentive distribution rights to a third party prior to March 31, 2018. Any transfer by KNOT of our incentive distribution rights would not change the percentage allocations of quarterly distributions with respect to such rights.

If for any quarter:

- we have distributed available cash from operating surplus to the common and subordinated unitholders in an amount equal to the minimum quarterly distribution; and

- we have distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;

then, we will distribute any additional available cash from operating surplus for that quarter among the unitholders and our general partner in the following manner:

- *first*, 98.0% to all unitholders, pro rata, and 2.0% to our general partner, until each unitholder receives a total of $0.43125 per unit for that quarter (the first target distribution);

- *second*, 85.0% to all unitholders, pro rata, 2.0% to our general partner and 13.0% to the holders of our incentive distribution rights, pro rata, until each unitholder receives a total of $0.46875 per unit for that quarter (the second target distribution);

third, 75.0% to all unitholders, pro rata, 2.0% to our general partner and 23.0% to the holders of our incentive distribution rights pro rata, until each unitholder receives a total of $0.5625 per unit for that quarter (the third target distribution); and

thereafter, 50.0% to all unitholders, pro rata, 2.0% to our general partner and 48.0% to the holders of our incentive distribution rights, pro rata.

In each case, the amount of the target distribution set forth above is exclusive of any distributions to common unitholders to eliminate any cumulative arrearages in payment of the minimum quarterly distribution. The percentage interests set forth above assume that our general partner maintains its 2.0% general partner interest and that we do not issue additional classes of equity securities.

Table of Contents

Percentage Allocations of Available Cash From Operating Surplus

The following table illustrates the percentage allocations of the additional available cash from operating surplus among our unitholders, our general partner and the holders of our incentive distribution rights up to the various target distribution levels. The amounts set forth under Marginal Percentage Interest in Distributions are the percentage interests of our unitholders, our general partner and the holders of our incentive distribution rights in any available cash from operating surplus we distribute up to and including the corresponding amount in the column Total Quarterly Distribution Target, until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for our unitholders, our general partner and the holders of our incentive distribution rights for the minimum quarterly distribution are also applicable to quarterly distributions that are less than the minimum quarterly distribution. The percentage interests shown for our general partner include its 2.0% general partner interest only and assume that our general partner has contributed any capital necessary to maintain its 2.0% general partner interest.

		Marginal Percentage Interest in Distributions		
	Total Quarterly Distribution Target	**Unitholders**	**General Partner**	**Holders of Incentive Distribution Rights**
Minimum Quarterly Distribution	$0.375	98.0%	2.0%	0%
First Target Distribution	up to $0.43125	98.0%	2.0%	0%
Second Target Distribution	above $0.43125 up to $0.46875	85.0%	2.0%	13.0%
Third Target Distribution	above $0.46875 up to $0.5625	75.0%	2.0%	23.0%
Thereafter	above $0.5625	50.0%	2.0%	48.0%

Right to Reset Incentive Distribution Levels

KNOT, as the initial holder of all of our incentive distribution rights, has the right under our partnership agreement to elect to relinquish the right of the holders of our incentive distribution rights to receive incentive distributions based on the initial target distribution levels and to reset, at higher levels, the minimum quarterly distribution amount and target distribution levels upon which our incentive distributions to KNOT would be set. KNOT s right to reset the minimum quarterly distribution amount and the target distribution levels upon which our incentive distributions payable to KNOT are based may be exercised, without approval of our unitholders or the conflicts committee of our board of directors, at any time when there are no subordinated units outstanding and we have made cash distributions to the holders of our incentive distribution rights at the highest level of incentive distribution for each of the prior four consecutive fiscal quarters. If at the time of any election to reset the minimum quarterly distribution amount and the target distribution levels KNOT and its affiliates are not the holders of a majority of our incentive distribution rights, then any such election to reset shall be subject to the prior written concurrence of our board of directors that the conditions described in the immediately preceding sentence have been satisfied. The reset minimum quarterly distribution amount and target distribution levels will be higher than the minimum quarterly distribution amount and the target distribution levels prior to the reset such that there will be no incentive distributions paid under the reset target distribution levels until cash distributions per unit following this event increase as described below. We anticipate that KNOT would exercise this reset right in order to facilitate acquisitions or internal growth projects that would otherwise not be sufficiently accretive to cash distributions per common unit, taking into account the existing levels of incentive distributions being made to KNOT.

In connection with the resetting of the minimum quarterly distribution amount and the target distribution levels and the corresponding relinquishment by KNOT of incentive distributions based on the target distributions prior to the reset, KNOT will be entitled to receive a number of newly issued common units based on a predetermined formula described below that takes into account the cash parity value of the average cash distributions related to our incentive distribution rights received by KNOT for the two quarters prior to the reset event as compared to the average cash distributions per common unit during this period. We will also issue an additional amount of general partner units in order to maintain the general partner s ownership interest in us relative to the issuance of the additional common units.

Table of Contents

The number of common units that KNOT would be entitled to receive from us in connection with a resetting of the minimum quarterly distribution amount and the target distribution levels then in effect would be equal to (x) the average amount of cash distributions received by KNOT in respect of its incentive distribution rights during the two consecutive fiscal quarters ended immediately prior to the date of such reset election divided by (y) the average of the amount of cash distributed per common unit during each of these two quarters. The issuance of the additional common units will be conditioned upon approval of the listing or admission for trading of such common units by the national securities exchange on which the common units are then listed or admitted for trading.

Following a reset election, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the reset minimum quarterly distribution) and the target distribution levels will be reset to be correspondingly higher such that we would distribute all of our available cash from operating surplus for each quarter thereafter as follows:

first, 98.0% to all unitholders, pro rata, and 2.0% to our general partner, until each unitholder receives an amount equal to 115.0% of the reset minimum quarterly distribution for that quarter;

second, 85.0% to all unitholders, pro rata, 2.0% to our general partner and 13.0% to the holders of our incentive distribution rights, pro rata, until each unitholder receives an amount per unit equal to 125.0% of the reset minimum quarterly distribution for that quarter;

third, 75.0% to all unitholders, pro rata, 2.0% to our general partner, and 23.0% to the holders of our incentive distribution rights, pro rata, until each unitholder receives an amount per unit equal to 150.0% of the reset minimum quarterly distribution for that quarter; and

thereafter, 50.0% to all unitholders, pro rata, 2.0% to our general partner and 48.0% to the holders of our incentive distribution rights, pro rata.

Assuming that it continues to hold a majority of our incentive distribution rights, KNOT will be entitled to cause the minimum quarterly distribution amount and the target distribution levels to be reset on more than one occasion, provided that it may not make a reset election except at a time when the holders of our incentive distribution rights have received incentive distributions for the prior four consecutive fiscal quarters based on the highest level of incentive distributions that the holders of our incentive distribution rights are entitled to receive under our partnership agreement.

Distributions From Capital Surplus

How Distributions From Capital Surplus Will Be Made

We will make distributions of available cash from capital surplus, if any, in the following manner:

first, 98.0% to all unitholders, pro rata, and 2.0% to our general partner, until the minimum quarterly distribution is reduced to zero, as described below;

second, 98.0% to the common unitholders, pro rata, and 2.0% to our general partner, until we distribute for each common unit an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and

thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

Table of Contents

The preceding paragraph is based on the assumption that our general partner maintains its 2.0% general partner interest and that we do not issue additional classes of equity securities.

Effect of a Distribution from Capital Surplus

Our partnership agreement treats a distribution of capital surplus as the repayment of the consideration for the issuance of the units, which is a return of capital. Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the distribution had to the fair market value of the common units prior to the announcement of the distribution. Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for KNOT to receive incentive distributions and for the subordinated units to convert into common units. However, any distribution of capital surplus before the minimum quarterly distribution is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

Once we reduce the minimum quarterly distribution and the target distribution levels to zero, we will then make all future distributions 50.0% to the holders of units, 2.0% to our general partner and 48.0% to the holders of our incentive distribution rights (currently, KNOT). The 2.0% interests shown for our general partner assumes that our general partner maintains its 2.0% general partner interest.

Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust:

- the minimum quarterly distribution;
- the target distribution levels; and
- the initial unit price.

For example, if a two-for-one split of the common and subordinated units should occur, the minimum quarterly distribution, the target distribution levels and the initial unit price would each be reduced to 50.0% of its initial level. If we combine our common units into a lesser number of units or subdivide our common units into a greater number of units, we will combine our subordinated units or subdivide our subordinated units, using the same ratio applied to the common units. We will not make any adjustment by reason of the issuance of additional units for cash or property.

Distributions of Cash Upon Liquidation

If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will apply the proceeds of liquidation in the manner set forth below.

If, as of the date three trading days prior to the announcement of the proposed liquidation, the average closing price for our common units for the preceding 20 trading days (the current market price) is greater than the sum of:

any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period; plus

the initial unit price (less any prior capital surplus distributions and any prior cash distributions made in connection with a partial liquidation);

then the proceeds of the liquidation will be applied as follows:

- *first*, 98.0% to the common unitholders, pro rata, and 2.0% to our general partner, until we distribute for each outstanding common unit an amount equal to the current market price of our common units;

- *second*, 98.0% to the subordinated unitholders, pro rata, and 2.0% to our general partner, until we distribute for each subordinated unit an amount equal to the current market price of our common units; and

- *thereafter*, 50.0% to all unitholders, pro rata, 48.0% to holders of our incentive distribution rights and 2.0% to our general partner.

If, as of the date three trading days prior to the announcement of the proposed liquidation, the current market price of our common units is equal to or less than the sum of:

- any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period; plus

- the initial unit price (less any prior capital surplus distributions and any prior cash distributions made in connection with a partial liquidation);

then the proceeds of the liquidation will be applied as follows:

- *first*, 98.0% to the common unitholders, pro rata, and 2.0% to our general partner, until we distribute for each outstanding common unit an amount equal to the initial unit price (less any prior capital surplus distributions and any prior cash distributions made in connection with a partial liquidation);

- *second*, 98.0% to the common unitholders, pro rata, and 2.0% to our general partner, until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period;

- *third*, 98.0% to the subordinated unitholders, pro rata, and 2.0% to our general partner, until we distribute for each outstanding subordinated unit an amount equal to the initial unit price (less any prior capital surplus distributions and any prior cash distributions made in connection with a partial liquidation); and

- *thereafter*, 50.0% to all unitholders, pro rata, 48.0% to holders of our incentive distribution rights and 2.0% to our general partner.

The immediately preceding paragraph is based on the assumption that our general partner maintains its 2.0% general partner interest and that we do not issue additional classes of equity securities.

Table of Contents

DESCRIPTION OF THE OTHER CLASSES OF UNITS

Our partnership agreement authorizes us to issue an unlimited number of additional partnership interests and other equity securities for the consideration and with the rights, preferences, and privileges established by our board of directors without the approval of any of our unitholders. As of May 15, 2014, no classes of limited partner interests were outstanding other than the common units and the subordinated units.

Should we offer other classes of units under this prospectus, a prospectus supplement relating to the particular class or series of units offered will include the specific terms of those units, including, among other things, the following:

- the designation, stated value, and liquidation preference of the units and the maximum number of units to constitute the class or series;
- the number of units to be offered;
- the public offering price at which the units will be issued;
- any sinking fund provisions of the units;
- the voting rights, if any, of the units;
- the distribution rights of the units, if any;
- whether the units will be redeemable and, if so, the price and the terms and conditions on which the units may be redeemed, including the time during which the units may be redeemed and any accumulated distributions thereof, if any, that the holders of the units will be entitled to receive upon the redemption thereof;
- the terms and conditions, if any, on which the units will be convertible into, or exchangeable for, the units of any other class or series of units representing limited partner interests, including the price or prices or the rate or rates of conversion or exchange and the method, if any, of adjusting the same;
- a discussion of any additional material federal income tax considerations (other than as discussed in this prospectus), if any, regarding the units; and
- any additional rights, preferences, privileges, limitations, and restrictions of the units.

The particular terms of any class or series of units will also be described in the amendment to the operating agreement relating to that class or series of units, which will be filed as an exhibit to or incorporated by reference in this prospectus at or before the time of issuance of any such class or series of units.

Such units will be fully paid and non-assessable when issued upon full payment of the purchase price therefor. The transfer agent, registrar, and distributions disbursement agent for the units will be designated in the applicable prospectus supplement.

DESCRIPTION OF THE DEBT SECURITIES

When used in this section, the terms we, us, our and issuer refer to KNOT Offshore Partners LP.

The following is a description of the terms of the debt securities, which may be either senior debt securities or subordinated debt securities, and which we collectively refer to as the debt securities. The descriptions below relating to the debt securities and the indentures are summaries of the anticipated provisions thereof, do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the applicable indenture and any applicable U.S. federal income tax considerations, as well as any applicable modifications of or additions to the general terms described below in the applicable prospectus supplement. The applicable prospectus supplement may also state that any of the terms set forth herein are inapplicable to such series of debt securities.

If we offer senior debt securities, we will issue them under a senior indenture. If we offer subordinated debt securities, we will issue them under a subordinated indenture. A form of each indenture is filed as an exhibit to the registration statement of which this prospectus is a part. We have not restated either indenture in its entirety in this description. You should read the relevant indenture because it, and not this description, controls your rights as holders of the debt securities. Capitalized terms used in the summary have the meanings specified in the indentures.

General

The debt securities will be:

- our direct general obligations;
- either senior debt securities or subordinated debt securities; and
- issuedont>. As a lessor,

Table of Contents

the Company has $13.3 million in future obligations under leases to fund tenant improvements as of June 30, 2012. As a lessee, the Company has future obligations under ground and office leases of approximately $16.2 million at June 30, 2012.

Litigation

The Company is subject to various legal proceedings, claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters using the latest information available. The Company records a liability for litigation if an unfavorable outcome is probable and the amount of loss or range of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, the Company accrues the best estimate within the range. If no amount within the range is a better estimate than any other amount, the Company accrues the minimum amount within the range. If an unfavorable outcome is probable but the amount of the loss cannot be reasonably estimated, the Company discloses the nature of the litigation and indicates that an estimate of the loss or range of loss cannot be made. If an unfavorable outcome is reasonably possible and the estimated loss is material, the Company discloses the nature and estimate of the possible loss of the litigation. The Company does not disclose information with respect to litigation where an unfavorable outcome is considered to be remote. Based on current expectations, such matters, both individually and in the aggregate, are not expected to have a material adverse effect on the liquidity, results of operations, business or financial condition of the Company.

3. EARNINGS PER SHARE

Net income (loss) per share-basic is calculated as net income (loss) available to common stockholders divided by the weighted average number of common shares outstanding during the period, including nonvested restricted stock which has nonforfeitable dividend rights. Net income (loss) per share-diluted is calculated as net income (loss) available to common stockholders divided by the diluted weighted average number of common shares outstanding during the period. Diluted weighted average number of common shares uses the same weighted average share number as in the basic calculation and adds the potential dilution, if any, that would occur if stock options (or any other contracts to issue common stock) were exercised and resulted in additional common shares outstanding, calculated using the treasury stock method. The numerator is reduced for the effect of preferred dividends in both the basic and diluted net income (loss) per share calculations. Weighted average shares-basic and diluted for the three and six months ending June 30, 2012 and 2011 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Weighted average shares — basic	104,165	103,659	104,082	103,588
Dilutive potential common shares — stock options	—	—	—	—
Weighted average shares — diluted	104,165	103,659	104,082	103,588

Stock options are dilutive when the average market price of the Company's stock during the period exceeds the option exercise price. However, in periods where the Company is in a net loss position, the dilutive effect of stock options is not included in the diluted weighted average shares total.

Anti-dilutive stock options represent stock options which are outstanding but which are not exercisable during the period because the exercise price exceeded the average market value of the Company's stock. These anti-dilutive stock options are not included in the current calculation of dilutive weighted average shares, but could be dilutive in the future. Total weighted average anti-dilutive stock options for each of the periods are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011

Anti-dilutive options	4,953	6,024	4,953	6,152

4. STOCK-BASED COMPENSATION

The Company has several types of stock-based compensation - stock options, restricted stock, long-term incentive awards and restricted stock units (“RSUs”) - which are described in Note 6 of “Notes to Consolidated Financial Statements” in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The expense related to certain stock-based compensation awards is fixed. The expense related to other awards fluctuates from period to period dependent, in part, on the Company's stock price. The Company recorded net stock-based compensation expense of $619,000 and $664,000 for the three months ended June 30, 2012 and 2011, respectively, and $2.0 million and $1.7 million for the six months ended June 30, 2012 and 2011, respectively.

The Company has made restricted stock grants in 2012 of 261,973 shares to key employees, which vest ratably over a three-

9

Table of Contents

year period. In addition, the Company awarded two types of performance-based RSUs to key employees based on the following performance metrics: (1) Total Stockholder Return of the Company, as defined, as compared to the companies in the SNL US REIT Office index ("TSR SNL RSUs"), and (2) the ratio of cumulative funds from operations per share to targeted cumulative funds from operations per share ("FFO RSUs"). The performance period for both awards is January 1, 2012 to December 31, 2014, and the targeted units awarded of TSR SNL RSUs and FFO RSUs is 162,783 and 101,918, respectively. The ultimate payout of these awards can range from 0% to 200% of the targeted number of units depending on the achievement of the performance metrics described above. Both of these types of RSUs cliff vest on February 15, 2015 and are dependent upon the attainment of required service and performance criteria. The number of RSUs vesting will be determined at that date, and the payout per unit will be equal to the average closing price on each trading day during the 30-day period ending on December 31, 2014. The TSR SNL RSUs are expensed using a quarterly Monte Carlo valuation over the vesting period. The FFO RSUs are expensed over the vesting period using the fair market value of the Company's stock at the reporting date multiplied by the anticipated number of units to be paid based on the current estimate of what the ratio is expected to be upon vesting.

Also in 2012, the Company made a special grant of restricted stock of 208,333 shares to its chief executive officer, which vests ratably over a three-year period. Additionally, the Company issued performance-based RSUs to the chief executive officer. The targeted number of units awarded is 281,532. The payout of these awards can range from 0% to 150% depending on the Total Stockholder Return of the Company, as defined on an absolute basis, and compared to the total stockholder return for the companies in the SNL US REIT Office Index. The performance period of the awards is from January 1, 2012 to December 31, 2016 with interim performance measurement dates at each of the third, fourth and fifth anniversaries. To the extent that the Company has attained the defined performance goals at the end each of these periods, one-third of the units may be credited after each of the third and fourth anniversaries, with the balance credited at the end of the fifth anniversary, and to be awarded subject to continuous employment on the fifth anniversary. The RSU award is expensed using a quarterly Monte Carlo valuation over the vesting period. The number of RSUs vesting will be determined at the fifth anniversary date of the grant, and the cash payout per unit will be equal to the average closing price on each trading day during the 30-day period ending with such date.

5. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

The Company describes its investments in unconsolidated joint ventures in Note 4 of "Notes to Consolidated Financial Statements" in its Annual Report on Form 10-K for the year ended December 31, 2011. The following table summarizes balance sheet data of the Company's unconsolidated joint ventures as of June 30, 2012 and December 31, 2011 (in thousands):

	Total Assets		Total Debt		Total Equity		Company's Investment	
SUMMARY OF FINANCIAL POSITION:	2012	2011	2012	2011	2012	2011	2012	2011
CP Venture IV Holdings LLC	$294,311	$301,352	$35,727	$36,031	$249,204	$255,881	$14,232	$14,694
Charlotte Gateway Village, LLC	144,700	146,854	75,788	83,097	66,551	62,423	10,316	10,333
Palisades West LLC	121,701	124,588	—	—	79,956	81,635	41,743	42,616
	123,544	125,668	96,559	98,922	24,947	24,810	14,451	14,421

CF Murfreesboro Associates								
CP Venture LLC entities	101,751	102,178	—	—	99,608	99,942	3,306	3,343
MSREF/ Cousins Terminus 200 LLC	96,483	92,421	73,944	68,562	19,892	17,967	3,977	3,593
Cousins Watkins LLC	54,873	56,096	28,412	28,571	25,752	26,893	16,363	16,321
EP I LLC	59,379	33,343	17,880	1	33,051	29,137	27,975	24,827
Crawford Long - CPI, LLC	32,492	32,739	47,072	47,631	(16,390)	(16,137)	(7,017) *	(6,873) *
Ten Peachtree Place Associates	786	22,523	—	26,192	717	(4,145)	95	(3,679) *
Wildwood Associates	21,216	21,224	—	—	21,141	21,221	(1,680) *	(1,639) *
Temco Associates, LLC	8,346	23,653	—	2,787	8,075	20,646	4,016	7,363
CL Realty, L.L.C.	7,065	44,481	—	1,056	6,823	42,932	3,412	22,413
TRG Columbus Development Venture, Ltd.	2,407	2,450	—	—	1,854	1,857	28	31
Terminus 200 LLC	789	789	—	—	789	789	—	—
Pine Mountain Builders, LLC	221	429	—	—	37	153	389	632
	$1,070,064	$1,130,788	$375,382	$392,850	$622,007	$666,004	$131,606	$148,396

*Negative balances are included in Deferred Income on the Balance Sheets.

The following table summarizes statement of operations information of the Company's unconsolidated joint ventures for the six months ended June 30, 2012 and 2011 (in thousands):

10

Table of Contents

	Total Revenues		Net Income (Loss)		Company's Share of Income (Loss)	
SUMMARY OF OPERATIONS:	2012	2011	2012	2011	2012	2011
CP Venture IV Holdings LLC	$15,097	$15,430	$1,758	$1,890	$508	$539
Charlotte Gateway Village, LLC	16,477	16,308	4,733	4,282	588	588
Palisades West LLC	8,192	8,114	2,885	2,911	1,381	1,422
CF Murfreesboro Associates	6,612	6,622	138	178	(66)	(41)
CP Venture LLC entities	9,695	9,506	4,898	3,830	507	396
MSREF/ Cousins Terminus 200 LLC	6,105	2,197	(704)	(2,173)	(141)	(434)
Cousins Watkins LLC	3,120	2,422	(18)	17	1,219	1,188
EP I LLC	110	—	(1)	—	(1)	—
Crawford Long - CPI, LLC	5,850	5,955	1,247	1,217	620	608
Ten Peachtree Place Associates	2,487	3,611	20,897	407	7,831	212
Wildwood Associates	—	—	(81)	(85)	(40)	(43)
Temco Associates, LLC	500	318	(123)	(416)	(265)	(202)
CL Realty, L.L.C.	1,997	3,144	736	1,390	53	545
TRG Columbus Development Venture, Ltd.	9	19	(3)	7	(3)	50
Pine Mountain Builders, LLC	15	2,632	(116)	(44)	(243)	(20)
	$76,266	$76,278	$36,246	$13,411	$11,948	$4,808

In March 2012, CL Realty, L.L.C. and Temco Associates, LLC sold its interests in 18 residential development projects and related residential land to Forestar Realty Inc., its partner in both ventures. The Company's share of the proceeds from the sale was approximately $23.5 million.

In the second quarter of 2012, the Ten Peachtree Place Associates joint venture sold Ten Peachtree Place, a 260,000 square foot office building in Atlanta, Georgia, for $45.3 million. A gain was recognized on the transaction, the Company's share of which was approximately $7.5 million.

6. OTHER ASSETS

Other Assets on the Balance Sheets as of June 30, 2012 and December 31, 2011 included the following (in thousands):

	June 30, 2012	December 31, 2011
Lease inducements, net of amortization of of $4,231 and $3,696 in 2012 and 2011, respectively	$11,517	$12,219
Investment in Verde Realty	5,868	5,868
FF&E and leasehold improvements, net of accumulated depreciation of $18,568 and $17,814 in 2012 and 2011, respectively	4,953	4,736
Loan closing costs, net of accumulated amortization of $2,150 and $4,026 in 2012 and 2011, respectively	4,248	1,435
Prepaid expenses and other assets	3,372	2,168
Predevelopment costs and earnest money	1,477	581
Intangible Assets:		

In-place leases, net of accumulated amortization of $4,187 and $2,833 in 2012 and 2011, respectively	14,790	16,144
Goodwill	5,039	5,155
Above market leases, net of accumulated amortization of $9,165 and $8,845 in 2012 and 2011, respectively	4,094	4,414
	$55,358	$52,720

Investment in Verde Realty relates to a cost method investment in a privately-held real estate investment trust. Goodwill relates entirely to the Office reportable segment. As office assets are sold, either by the Company or by joint ventures in which the Company has an ownership interest, a portion of goodwill is written off to the cost of each sale. The following is a summary of goodwill activity for the six months ended June 30, 2012. There were no changes for the six month 2011 period (see Notes 5 and 9 for additional information regarding property sales):

Table of Contents

	Goodwill
Balance, December 31, 2011	$5,155
Allocated to property sales	(116)
Balance, June 30, 2012	$5,039

7. NONCONTROLLING INTERESTS

The Company consolidates various joint ventures that are involved in the ownership and/or development of real estate. The accounting for the partners' share of the entity, some of which contain required redemption clauses, is described in Note 12 of "Notes to Consolidated Financial Statements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The following table details the components of Redeemable Noncontrolling Interests in consolidated entities for the six months ended June 30, 2012 and 2011 (in thousands):

	Six Months Ended June 30,	
	2012	2011
Beginning Balance	$2,763	$14,289
Net loss attributable to redeemable noncontrolling interests	(2,024)	29
Distributions to redeemable noncontrolling interests	(858)	(5,400)
Other	119	—
Change in fair value of redeemable noncontrolling interests	—	526
Ending Balance	$—	$9,444

The following reconciles the net income or loss attributable to noncontrolling interests as shown in the Statements of Equity, which only includes nonredeemable interests, to the net income or loss attributable to noncontrolling interests as shown in the Statements of Operations, which includes both redeemable and nonredeemable interests, for the six months ended June 30, 2012 and 2011 (in thousands):

	Six Months Ended June 30,	
	2012	2011
Net income attributable to nonredeemable noncontrolling interests	$(1,157)	$(1,233)
Net loss attributable to redeemable noncontrolling interests	2,024	(29)
Net loss (income)	$867	$(1,262)

8. REPORTABLE SEGMENTS

The Company has five reportable segments: Office, Retail, Land, CPS Third Party Management and Leasing, and Other. These reportable segments represent an aggregation of operating segments reported to the Chief Operating Decision Maker based on similar economic characteristics that include the type of product and the nature of service. Each segment includes both consolidated operations and joint ventures. The Office and Retail segments show the results for that product type. For these two segments, net operating income is calculated as rental property revenues less rental property operating expenses. The Land segment includes results of operations for certain land holdings and single-family residential communities that are sold as developed lots to homebuilders. Fee income and related expenses for the third party-owned properties which are managed or leased by the Company's CPS subsidiary are included in the CPS Third Party Management and Leasing segment. In prior years, the Company had an additional segment, the For-Sale Multi-Family Residential Unit segment, which included results of operations for the development and sale of multi-family real estate projects. The Company has sold substantially all of its multi-family residential units, and this line of business is no longer considered to be a separate reporting segment. The 2011 results for this segment are included in Other. The Other segment also includes:

- fee income for third party owned and joint venture properties, other than those managed by CPS, for which the Company performs management, development and leasing services;
-

- compensation for corporate employees, other than those in the CPS Third Party Management and Leasing segment;
- general corporate overhead costs, interest expense for consolidated entities (as financing decisions are made at the corporate level, with the exception of joint venture interest expense, which is included in joint venture results in the respective segment);
- income attributable to noncontrolling interests;

Table of Contents

- income taxes;
- depreciation;
- preferred dividends; and
- operations of the Industrial properties, which were sold in 2011.

Company management evaluates the performance of its reportable segments in part based on funds from operations available to common stockholders ("FFO"). FFO is a supplemental operating performance measure used in the real estate industry. The Company calculated FFO using the National Association of Real Estate Investment Trusts' ("NAREIT") definition of FFO, which is net income (loss) available to common stockholders (computed in accordance with GAAP), excluding extraordinary items, cumulative effect of change in accounting principle and gains or losses on sale of or impairment losses on depreciable property, plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures to reflect FFO on the same basis.

FFO is used by industry analysts, investors and the Company as a supplemental measure of a REIT's operating performance. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of a REIT's operating performance that excludes historical cost depreciation, among other items, from GAAP net income. Management believes the use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Company management evaluates operating performance in part based on FFO. Additionally, the Company uses FFO, along with other measures, as a performance measure for incentive compensation to its officers and other key employees.

Segment net income, the balance of the Company's investment in joint ventures and the amount of capital expenditures are not presented in the following tables. Management does not utilize these measures when analyzing its segments or when making resource allocation decisions, and therefore this information is not provided. FFO is reconciled to net income (loss) on a total Company basis (in thousands):

Three Months Ended June 30, 2012	Office	Retail	Land	CPS Third Party Management and Leasing	Other	Total
Net operating property income, including discontinued operations	$16,741	$4,749	$—	$—	$—	$21,490
Fee income, net of reimbursed expenses	—	—	—	3,676	1,429	5,105
Residential lot and other sales, net of cost of sales	—	—	89	—	—	89
Other income	—	13	—	—	253	266
Third party management and leasing expenses	—	—	—	(2,254)	—	(2,254)
General and administrative expenses	—	—	—	—	(5,645)	(5,645)
Interest expense	—	—	—	—	(5,875)	(5,875)
Depreciation and amortization of non-real estate assets	—	—	—	—	(223)	(223)
Separation expenses	—	—	—	—	(79)	(79)
Other expenses	—	—	—	—	(579)	(579)

Funds from operations from unconsolidated joint ventures	2,709	2,176	(135)	—	(2)	4,748
Funds from operations attributable to noncontrolling interests	—	—	—	—	(631)	(631)
Provision for income taxes from operations	—	—	—	—	(33)	(33)
Preferred stock dividends	—	—	—	—	(3,227)	(3,227)
Funds from operations available to common stockholders	$19,450	$6,938	$(46)	$1,422	$(14,612)	$13,152
Real estate depreciation and amortization, including Company's share of joint ventures						(15,022)
Gain on sale of depreciable investment properties						8,271
Net income available to common stockholders						$6,401

Table of Contents

Three Months Ended June 30, 2011	Office	Retail	Land	CPS Third Party Management and Leasing	Other	Total
Net operating property income, including discontinued operations	$15,458	$4,847	$—	$—	$911	$21,216
Fee income, net of reimbursed expenses	—	—	56	2,396	2,008	4,460
Residential lot and other sales, net of cost of sales	—	—	4	—	—	4
Other income	447	10	—	—	194	651
Third party management and leasing expenses	—	—	—	(1,871)	—	(1,871)
General and administrative expenses	—	—	—	—	(6,133)	(6,133)
Interest expense	—	—	—	—	(7,358)	(7,358)
Depreciation and amortization of non-real estate assets	—	—	—	—	(372)	(372)
Separation expenses	—	—	—	—	(77)	(77)
Other expenses	—	—	—	—	(659)	(659)
Funds from operations from unconsolidated joint ventures	2,685	2,125	127	—	33	4,970
Funds from operations attributable to noncontrolling interests	—	—	—	—	(681)	(681)
Provision for income taxes from operations	—	—	—	—	(27)	(27)
Preferred stock dividends	—	—	—	—	(3,227)	(3,227)
Funds from operations available to common stockholders	$18,590	$6,982	$187	$525	$(15,388)	$10,896
Real estate depreciation and amortization, including Company's share of joint ventures						(15,661)
Gain on sale of depreciable investment properties						59
Net loss available to common stockholders						$(4,706)

Six Months Ended June 30, 2012	Office	Retail	Land	CPS Third Party Management and Leasing	Other	Total
Net operating income, including discontinued operations	$33,676	$10,797	$—	$—	$1	$44,474
Fee income, net of reimbursed expenses	—	—	—	6,086	2,909	8,995
Residential lot and other sales, net of cost of sales	—	—	474	—	—	474
Other income	—	205	—	—	1,526	1,731
Third party management and leasing expenses	—	—	—	(4,253)	—	(4,253)
General and administrative expenses	—	—	—	—	(12,268)	(12,268)
Interest expense	—	—	—	—	(12,143)	(12,143)
Loss on extinguishment of debt	—	—	—	—	(94)	(94)
Depreciation and amortization of non-real estate assets	—	—	—	—	(587)	(587)
Separation expenses	—	—	—	—	(292)	(292)
Other expenses	—	—	—	—	(1,273)	(1,273)
Funds from operations from unconsolidated joint ventures	5,709	4,286	(397)	—	(3)	9,595
Funds from operations attributable to noncontrolling interests	—	—	—	—	(1,205)	(1,205)
Provision for income taxes from operations	—	—	—	—	(60)	(60)
Preferred stock dividends	$—	$—	$—	$—	$(6,454)	$(6,454)
Funds from operations available to common stockholders	$39,385	$15,288	$77	$ 1,833	$(29,943)	$26,640
Real estate depreciation and amortization, including Company's share of joint ventures						(31,575)
Impairment loss on depreciable investment property						(12,233)
Noncontrolling interest related to gain on sale of depreciated investment properties						2,043
Gain on sale of depreciated investment properties						8,414
Net loss available to common stockholders						$(6,711)

Table of Contents

Six Months Ended June 30, 2011	Office	Retail	Land	CPS Third Party Management and Leasing	Other	Total
Net operating property income, including discontinued operations	$30,709	$10,582	$—	$—	$1,961	$43,252
Fee income, net of reimbursed expenses	—	—	91	4,236	3,846	8,173
Residential lot and other sales, net of cost of sales	—	50	50	—	—	100
Other income	818	34	—	—	4,969	5,821
Third party management and leasing expenses	—	—	—	(3,716)	—	(3,716)
General and administrative expenses	—	—	—	—	(13,533)	(13,533)
Interest expense	—	—	—	—	(14,902)	(14,902)
Impairment loss	—	—	—	—	(3,508)	(3,508)
Depreciation and amortization of non-real estate assets	—	—	—	—	(935)	(935)
Separation expenses	—	—	—	—	(178)	(178)
Other expenses	—	—	—	—	(4,021)	(4,021)
Funds from operations from unconsolidated joint ventures	5,449	4,366	279	—	50	10,144
Funds from operations attributable to noncontrolling interests	—	—	—	—	(1,262)	(1,262)
Benefit for income taxes from operations	—	—	—	—	37	37
Preferred stock dividends	—	—	—	—	(6,454)	(6,454)
Funds from operations available to common stockholders	$36,976	$15,032	$420	$520	$(33,930)	$19,018
Real estate depreciation and amortization, including Company's share of joint ventures						(31,315)
Loss on sale of depreciable investment properties, net of gains						(266)
Net loss available to common stockholders						$(12,563)

When reviewing the results of operations for the Company, management analyzes the following revenue and income items net of their related costs:
•Rental property operations, including discontinued;
•Reimbursements of third-party and joint venture personnel costs;
•Residential lots, tracts and outparcel sales;
•Multi-family unit sales; and
•Gains or losses on sales of investment properties.
These amounts are shown in the segment tables above in the same “net” manner as shown to management. Certain adjustments are required to reconcile the above segment information to the Company's consolidated revenues, including adjusting for gains on sales of investment properties, as these gains are

not presented within revenues in the Statements of Operations. The following table reconciles information presented in the tables above to the Company's consolidated revenues (in thousands):

Table of Contents

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Net operating property income, including discontinued operations	$21,490	$21,216	$44,474	$43,252
Plus rental property operating expenses	14,661	13,072	28,276	24,971
Fee income	5,105	4,460	8,995	8,173
Third party management and leasing expense reimbursements	2,353	2,209	4,654	4,457
Reimbursed expenses	1,357	1,371	2,733	2,883
Residential lot sales, net of cost of sales, including gain on sale of undepreciated investment properties	89	4	474	100
Plus residential lot cost of sales	416	76	980	145
Plus loss on sale of undepreciated investment properties	30	—	30	—
Net operating income from discontinued operations not included in revenues	(541)	(3,021)	(1,950)	(6,518)
Other income	266	651	1,731	5,821
Other income - discontinued operations	$(13)	$(89)	$(13)	$(114)
Total consolidated revenues	$45,213	$39,949	$90,384	$83,170

9. PROPERTY TRANSACTIONS AND INFORMATION

Discontinued Operations

Accounting rules require that the gains and losses from the disposition of certain real estate assets and related historical results of operations of certain disposed of or held-for-sale assets be included in a separate section, Discontinued Operations, in the Statements of Operations for all periods presented. In addition, assets and liabilities of held-for-sale properties, as defined, are required to be separately categorized on the Balance Sheet in the period that those properties are deemed held for sale.

In the second quarter of 2012, the Company sold The Avenue Collierville ("Collierville"), a 511,000 square foot retail center in suburban Memphis, Tennessee, for $55.0 million. In the second quarter 2012, the Company also sold Galleria 75, a 111,000 square foot office building in Atlanta, Georgia, for $9.2 million. In February 2011, the Company sold Jefferson Mill Business Park Building A, a 459,000 square foot industrial property in suburban Atlanta, Georgia, for $22.0 million. These transactions met the criteria for discontinued operations. Accordingly, the results of operations for each of the periods presented are included in Discontinued Operations on the accompanying Statements of Operations.

The components of Discontinued Operations and the gains and losses on property sales for the three and six months ended June 30, 2012 and 2011 are as follows (in thousands):

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Income from discontinued operations:				
Rental property revenues	$1,065	$5,421	$3,367	$11,276
Other income	13	89	13	114
Rental property expenses	(524)	(2,404)	(1,417)	(4,766)
Depreciation and amortization	—	(2,479)	(1,145)	(5,037)
Income from discontinued operations	$554	$627	$818	$1,587
Gain (loss) on sale of discontinued investment properties:				

The Avenue Collierville	$86	$—	$86	$—
Galleria 75	547	—	547	—
Jefferson Mill Business Park Building A	—	—	—	(394)
Other	41	—	127	10
Gain (loss) on sale of discontinued investment properties	$674	$—	$760	$(384)

Impairment Loss

In connection with the disposition of Collierville, the Company recorded an impairment loss of $12.2 million in the first

17

Table of Contents

quarter of 2012. This impairment is considered to be a Level 3 under the fair value rules, as unobservable market inputs were used. Collierville was owned by a consolidated joint venture, and the noncontrolling partner's share of the impairment loss was $2.0 million, which was recorded in Net Loss (Income) Attributable to Noncontrolling Interests in the 2012 Statement of Operations.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview:

Cousins Properties Incorporated ("Cousins"), a Georgia corporation, is a self-administered and self-managed real estate investment trust ("REIT"). Cousins Real Estate Corporation ("CREC") is a taxable entity wholly-owned by and consolidated with Cousins. CREC owns, develops, and manages its own real estate portfolio and performs certain real estate related services for other parties.

Cousins, CREC and their subsidiaries (collectively, the "Company") develop, acquire, manage and own primarily office and retail real estate projects in Georgia, Texas and North Carolina. As of June 30, 2012, the Company's portfolio of real estate assets consisted of interests in 7.4 million square feet of office space, 4.3 million square feet of retail space, and two projects under development. The Company also had interests in both commercial and residential land tracts, as well as single-family lots in residential projects. The Company also provides leasing and/or management services to approximately 11 million square feet of office and retail space owned by third parties.

During the second quarter of 2012, the Company leased or renewed 186,000 square feet of office space and 84,000 square feet of retail space and its leasing percentage remained generally consistent with that of the first quarter of 2012 and of the year-end 2011. Over this period, there was flat to modest employment growth in the Company's Atlanta and North Carolina markets resulting in no significant increase in demand for office space and no significant increases in rental rates or reductions in concessions. By contrast, the Company's Texas markets have experienced lower unemployment and positive job growth since the first six months of 2011. With respect to the Company's retail portfolio, tenant sales in its properties have increased. Management believes leasing economics may marginally improve as a result.

The Company made progress in the second quarter of 2012 in executing its strategy of simplification by selling the following assets:

- Sold Galleria 75 for $9.2 million;
- Sold The Avenue Collierville for $55.0 million, generating $54.6 million in net proceeds; and
- Sold Ten Peachtree Place for $45.3 million, generating $5.0 million in net proceeds to the Company.

During the second quarter, the Company made progress on the construction and pre-leasing of its two development projects and in re-positioning its recently acquired Promenade office building. Management continues to seek additional investment opportunities that capitalize on its leasing, asset management and development core competencies.

Results of Operations:

Rental Property Revenues. Rental property revenues increased approximately $4.3 million (14%) and $9.1 million (15%) in the three and six month 2012 periods compared to the 2011 periods, respectively, due to:

- Increase of $4.3 million and $8.3 million in the three and six month 2012 periods, respectively, due to the November 2011 acquisition of the Promenade office building;
- Increase of $570,000 and $1.2 million in the three and six month 2012 periods, respectively, at The Avenue Forsyth, primarily due to an increase in the weighted average economic occupancy from 68% to 89% between the six month 2011 and 2012 periods; and
- Decrease of $261,000 and $642,000 in the three and six month 2012 periods, respectively, at 555 North Point Center East, as a result of a decrease in average economic occupancy from 98% to 62% between the six month 2011 and 2012 periods.

Fee Income. The Company generates fee income generally through the leasing, management and development of properties owned by joint ventures in which the Company has an ownership interest and from certain other third party owners. Fee income decreased approximately $649,000 (19%) and $1.2 million (17%) between the three and six month 2012 and 2011 periods, respectively, mainly due to a decrease in leasing fees from the MSREF/Terminus 200 LLC ("MSREF/T200") venture. The Company

leased approximately 104,000 square feet in the 2011 period, compared to 3,000 in the 2012 period.
Third Party Management and Leasing Revenues. Third party management and leasing revenues represent fees and expense reimbursements from the Company's wholly-owned subsidiary, Cousins Properties Services, which performs management and leasing services for certain third party owned office and retail properties. These revenues increased \$1.4 million (31%) and \$2.0 million (24%) between the three and six month 2012 and 2011 periods, respectively, primarily due to an increase in leasing fee income. Leasing fees fluctuate based on the rollover activity at the underlying properties and to the overall supply and demand for leased office and retail space within individual markets.
Other Income. Other income decreased \$309,000 (55%) and \$4.0 million (70%) between the three and six month 2012 and 2011 periods, respectively, primarily from a decrease in multi-family residential sales between the periods. In the 2012 period, the Company closed one remaining commercial unit at the 60 North Market project. In the 2011 period, the Company closed five

19

condominium units at the 10 Terminus Place project. Revenue recognition has not occurred for two remaining units at this project, which are currently under contract with a late 2012 closing expected.
Rental Property Operating Expenses. Rental property operating expenses increased $1.6 million (12%) and $3.3 million (13%) between the three and six month 2012 and 2011 periods, respectively, primarily due to the following:

- Increase of $2.0 million and $4.0 million between the three and six month 2012 and 2011 periods, respectively, as a result of the acquisition of Promenade office building in November 2011; and
- Decrease of $180,000 and $493,000 between the three and six month 2012 and 2011 periods, respectively, at 191 Peachtree Tower, due to a decrease in bad debt expense, property taxes and utilities between the periods.

Third Party Management and Leasing Expenses. Third party management and leasing expenses increased approximately $527,000 (13%) and $734,000 (9%) between the three and six month 2012 and 2011 periods, respectively, as a result of an increase in employee leasing commission expense.
General and Administrative Expense ("G&A"). G&A expense decreased approximately $488,000 (8%) and $1.3 million (9%) between the three and six month 2012 and 2011 periods, respectively, primarily as a result of lower salaries and benefits expense during 2012 from a decrease in the number of employees between the periods, as well as an increase in capitalized salaries during the periods. In addition, director expenses decreased in the 2012 periods, as the size of the board of directors decreased by two members in May 2012.
Interest Expense. Interest expense decreased approximately $1.5 million (20%) and $2.8 million (19%) in the three and six month 2012 and 2011 periods, respectively, primarily due to a decrease in the average debt outstanding between the periods. The Company used proceeds from asset sales to repay certain mortgages and its Credit Facility as described below.

- Decrease of approximately $1.1 million and $2.1 million between the three and six month 2012 and 2011 periods, respectively, resulting from the repayment of the 100/200 North Point Center East mortgage note in the second quarter of 2012, and the repayment of the 333/555 North Point Center East, 600 University Park Place and Lakeshore Park Plaza mortgage notes in 2011; and
- Decrease of approximately $703,000 and $530,000 between the three and six month 2012 and 2011 periods, respectively, due to a decrease in average borrowings on the Company's Credit Facility.

Interest expense further decreased approximately $489,000 and $915,000 between the three and six month 2012 and 2011 periods, respectively, from increased capitalized interest, as the Company began capitalizing interest to two new development projects in the latter part of 2011. These decreases were offset by an increase in interest expense of $891,000 and $918,000 between the three and six month 2012 and 2011 periods, respectively, from the 191 Peachtree Tower mortgage note which was executed in 2012.
Impairment Losses. In the first quarter of 2012, the Company recorded an impairment loss of $12.2 million on The Avenue Collierville, as this property was sold in May 2012 at a sales price less than its cost basis. In the first quarter of 2011, the Company recorded an impairment loss of $3.5 million on its investment in Verde Realty, a cost method investment in a privately-held real estate investment trust.
Other Expense. Other expense decreased $76,000 (12%) and $2.7 million (68%) between the three and six month 2012 and 2011 periods, respectively, primarily from a decrease in the cost of sales of multi-family residential units, as less were sold in 2012 than 2011.
Depreciation and Amortization. Depreciation and amortization increased approximately $1.9 million (17%) and $4.0 million (18%) between the three and six month 2012 and 2011 periods, respectively, primarily due to the November 2011 acquisition of the Promenade office building.
Income from Unconsolidated Joint Ventures. Income from unconsolidated joint ventures increased approximately $7.5 million and $7.1 million in the three and six month 2012 periods compared to the same 2011 periods, respectively, mainly due to the following:

- Increase in income of $7.6 million from Ten Peachtree Place Associates from the gain on sale of the venture's underlying asset in the 2012 period; and
- Decrease in income from CL Realty L.L.C. and Temco Associates of approximately $555,000 between the six month 2012 and 2011 periods as the Company sold its interests in 18 residential development projects and related land to its partner in March 2012.

Discontinued Operations. Income from discontinued operations increased $601,000 and $375,000 between the three and six month 2012 and 2011 periods, respectively. In the second quarter of 2012, the Company sold The Avenue Collierville, a 511,000 square foot retail center in suburban Memphis, Tennessee, for a sales price of $55.0 million and a capitalization rate of 7.6%. Also in 2012, the Company sold Galleria 75, a 111,000 square foot office building in Atlanta, Georgia, for a sales price of

$9.2 million and a capitalization rate of 9.5%. In February 2011, the Company sold Jefferson Mill Business Park Building A, a 459,000 square foot industrial property in suburban Atlanta, Georgia, for a sales price of $22.0 million and a capitalization rate of approximately 7%. Capitalization rates are generally calculated by dividing projected annualized cash flows by the sales price. The number, size and timing of the asset sales which qualify as discontinued operations change from period to period, causing the fluctuation of the amounts in discontinued operations.

Net Loss (Income) Attributable to Noncontrolling Interests. The Company consolidates certain entities and allocates the partner's share of those entities' results to Net Income Attributable to Noncontrolling Interests on the Statement of Operations. The noncontrolling interests' share of the Company's net loss for the six month periods increased $2.1 million between 2012 and 2011. This increase is attributable to the impairment loss taken at The Avenue Collierville, which was owned in a consolidated joint venture.

Funds From Operations. The table below shows Funds from Operations Available to Common Stockholders ("FFO") and the related reconciliation to net income (loss) available to common stockholders for the Company. The Company calculates FFO in accordance with the National Association of Real Estate Investment Trusts' ("NAREIT") definition, which is net income available to common stockholders (computed in accordance with GAAP), excluding extraordinary items, cumulative effect of change in accounting principle and gains or losses from sales of or impairment losses on depreciable property, plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures to reflect FFO on the same basis.

FFO is used by industry analysts and investors as a supplemental measure of a REIT's operating performance. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from GAAP net income. The use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Company management evaluates operating performance in part based on FFO. Additionally, the Company uses FFO, along with other measures, as a performance measure for incentive compensation to its officers and other key employees. The reconciliation of net income (loss) available to common stockholders to FFO is as follows for the three and six months ended June 30, 2012 and 2011 (in thousands, except per share information):

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net Income (Loss) Available to Common Stockholders	$6,401	$(4,706)	$(6,711)	$(12,563)
Depreciation and amortization:				
Consolidated properties	12,750	10,896	25,861	21,877
Discontinued properties	—	2,479	1,145	5,037
Share of unconsolidated joint ventures	2,500	2,663	5,166	5,346
Depreciation of furniture, fixtures and equipment:				
Consolidated properties	(223)	(372)	(587)	(935)
Discontinued properties	—	—	—	—
Share of unconsolidated joint ventures	(5)	(5)	(10)	(10)
Impairment loss on depreciable investment property, net of noncontrolling interest	—	—	10,190	—
(Gain) loss on sale of investment properties:				
Consolidated, including amounts attributable to noncontrolling interests	(29)	(59)	(86)	(118)
Discontinued properties	(674)	—	(760)	384
Share of unconsolidated joint ventures	(7,509)	—	(7,509)	—
Other	(59)	—	(59)	—
Funds From Operations Available to Common Stockholders	$13,152	$10,896	$26,640	$19,018
Per Common Share — Basic and Diluted:				
Net Income (Loss) Available	$0.06	$(0.05)	$(0.06)	$(0.12)
Funds From Operations	$0.13	$0.11	$0.26	$0.18
Weighted Average Shares — Basic	104,165	103,659	104,082	103,588
Weighted Average Shares — Diluted	104,165	103,684	104,086	103,606

Liquidity and Capital Resources:

The Company's primary liquidity sources are:

- Net cash from operations;
- Sales of assets;
- Borrowings under its Credit Facility;
- Proceeds from mortgage notes payable;
- Proceeds from equity offerings; and
- Joint venture formations.

The Company's primary liquidity uses are:

- Payments of tenant improvements and other leasing costs;
- Principal and interest payments on debt obligations;
- Dividends to common and preferred stockholders;
- Corporate expenses;
- Property acquisitions; and
- Expenditures on predevelopment and development projects.

Financial Condition

During the last two years, the Company improved its financial position by reducing leverage, extending debt maturities, replacing higher cost mortgage notes with lower cost financing and modifying its Credit Facility, all of which increased overall financial flexibility. The Company expects to fund its current commitments over the next 12 months with net cash flows from operations, borrowings under its Credit Facility, borrowings under new or renewed mortgage loans and proceeds from the sale of assets. The Company amended its $350 million Credit Facility in the first quarter of 2012, extending the maturity from August 2012 to February 2016, with a one-year extension under certain situations and adding an accordion feature up to $500 million. The Company had a $24 million fixed-rate mortgage loan maturing in June 2012, which was prepaid in April 2012. There are no

Table of Contents

other significant maturities over the next 12 months.
The Company sold operating properties in the first half of 2012, which generated a significant amount of proceeds. In addition, the Company anticipates selling a significant portion of residential projects and land holdings over the next several years, which is expected to provide cash proceeds, as well as reduce outlays previously anticipated to be needed in order to hold and/or develop these assets.
The Company may also seek additional capital to fund its activities that may include joint venture formation with third parties and/or the issuance of common or preferred equity. Relative to prior years, the Company's new investment commitments have decreased. The Company commenced two new development projects and acquired an operating office building in 2011. The Company could make additional acquisitions or commence new project developments during 2012, if opportunities arise. The Company also has commitments under current leases to fund tenant assets and anticipates incurring additional tenant costs in the remainder of 2012 based on lease-up expectations.
Contractual Obligations and Commitments
At June 30, 2012, the Company was subject to the following contractual obligations and commitments (in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
Contractual Obligations:					
Company debt:					
Unsecured Credit Facility and construction facility	$46,450	$—	$5,950	$40,500	$—
Mortgage notes payable	414,571	4,473	9,927	26,334	373,837
Interest commitments (1)	153,000	22,614	44,314	40,876	45,196
Ground leases	15,460	107	222	235	14,896
Other operating leases	765	463	183	80	39
Total contractual obligations	$630,246	$27,657	$60,596	$108,025	$433,968
Commitments:					
Estimated development commitments	$8,022	$7,220	$802	$—	$—
Unfunded tenant improvements and other	13,273	13,273	—	—	—
Letters of credit	2,105	2,105	—	—	—
Performance bonds	518	472	46	—	—
Total commitments	$23,918	$23,070	$848	$—	$—

(1) Interest on variable rate obligations is based on rates effective as of June 30, 2012.

In addition, the Company has several standing or renewable service contracts mainly related to the operation of buildings. These contracts are in the ordinary course of business and are generally one year or less. These contracts are not included in the above table and are usually reimbursed in whole or in part by tenants.
Credit Facility
On February 28, 2012, the Company amended its $350 million senior unsecured line of credit by entering into the Second Amended and Restated Credit Agreement (the “New Facility”), which replaced the Amended and Restated Credit Agreement dated August 29, 2007 (the “Old Facility"). The New Facility amends the Old Facility by, among other things, extending the maturity date from August 29, 2012 to February 28, 2016, with an additional one-year extension option upon certain conditions and with the payment of a fee. It also adds an accordion feature permitting the amount available to increase by up to $150 million, under certain conditions and in specified increments, for a total available of $500 million.

The New Facility contains financial covenants that require, among other things, the maintenance of an unencumbered interest coverage ratio of at least 2.00; a fixed charges coverage ratio of at least 1.40, increasing to 1.50 during any extension period; and maximum leverage of no more than 60%.

The New Facility also reduces the Company's interest rate spreads on borrowings as compared to the Old Facility. The Company may borrow funds at an interest rate, at its option, calculated as either (1) the current Eurodollar rate plus the applicable spread as detailed below or (2) the greater of Bank of America's prime rate, the Federal Funds Rate plus 0.50% or the one-month Eurodollar Rate plus 1.0% (the “Base Rate”), plus the applicable spread as detailed below. The Company also pays an annual facility fee on the total commitment under the New Facility. The pricing spreads and the Facility Fee under the New Facility are as follows:

23

Table of Contents

Leverage Ratio	Applicable % for Eurodollar Rate	Applicable % for Base Rate	Annual Facility Fee %
≤ 40%	1.50%	0.50%	0.20%
>40% but ≤ 50%	1.60%	0.60%	0.25%
>50% but ≤ 55%	1.90%	0.90%	0.35%
>55% but ≤ 60%	2.10%	1.10%	0.40%

The Company selected the Eurodollar rate for interest calculation purposes in June 2012, and the applicable spread at June 30, 2012 was 1.60%. There was $40.5 million outstanding under the New Facility as of June 30, 2012.

2012 Debt Activity

In the first quarter of 2012, the Company obtained a new $100 million mortgage note payable on its 191 Peachtree Tower office building. In addition, the Company prepaid a $24 million mortgage note due in June 2012 in April 2012. See Note 2 herein for detailed information.

Other Debt Information

The real estate and other assets of The American Cancer Society Center (the "ACS Center") are restricted under the ACS Center loan agreement in that they are not available to settle debts of the Company. However, provided that the ACS Center loan has not incurred any uncured event of default, as defined in the loan agreement, the cash flows from the ACS Center, after payments of debt service, operating expenses and reserves, are available for distribution to the Company.

The Company's existing mortgage debt is primarily non-recourse, fixed-rate mortgage notes secured by various real estate assets. Many of the Company's non-recourse mortgages contain covenants which, if not satisfied, could result in acceleration of the maturity of the debt. The Company expects that it will either refinance the non-recourse mortgages at maturity or repay the mortgages with proceeds from asset sales or other financings. As of June 30, 2012, the weighted average interest rate on the Company's consolidated debt was 4.90%, and the Company's consolidated debt to undepreciated assets ratio was 36%.

Future Capital Requirements

Over the long term, management intends to actively manage its portfolio of properties and strategically sell assets to exit its non-core holdings, reposition its portfolio of income-producing assets geographically and by product type, and generate capital for future investment activities. The Company expects to continue to utilize indebtedness (among other sources of liquidity) to fund future commitments and expects to place long-term mortgages on selected assets as well as to utilize construction facilities for development assets, if available and under appropriate terms.

The Company may also generate capital through the issuance of securities that include common or preferred stock, warrants, debt securities or depositary shares. In March 2010, the Company filed a shelf registration statement to allow for the issuance of up to $500 million of such securities, of which $482 million remains to be drawn as of June 30, 2012. Management will continue to evaluate all public equity sources and select the most appropriate options as capital is required.

The Company's business model is dependent upon raising or recycling capital to meet obligations. If one or more sources of capital are not available when required, the Company may be forced to reduce the number of projects it acquires or develops and/or raise capital on potentially unfavorable terms, or may be unable to raise capital, which could have an adverse effect on the Company's financial position or results of operations.

Cash Flows

The reasons for significant increases and decreases in cash flows between the periods are as follows:

Cash Flows from Operating Activities. Cash provided by operating activities increased approximately $8.1 million between the six month 2012 and 2011 periods due to the following:

- Cash flows increased $5.2 million from operating distributions from unconsolidated joint ventures, primarily due to cash distributions from the sale of the underlying asset at Ten Peachtree Place Associates in the second quarter of 2012;
- Cash flows increased $2.5 million from rental property operations, due to the acquisition of Promenade in November 2011 and net increases in occupancy, offset by decreases from 2011 operating property sales;
- Cash flows increased $1.7 million in cash interest paid between the periods from lower average borrowings outstanding and a reduction in the average interest rate paid on its debt;
- Cash flows increased $777,000 from salaries and benefits due to a decrease in the number of employees between the periods;
- Cash flows increased $1.1 million from employer retirement savings plan contributions due to a change between the periods in the manner of funding the plan;

24

Table of Contents

- Cash flows increased $1.0 million due to a reimbursement from the Company's partner in the Glenmore venture for an amount paid by the Company on the partner's behalf in 2010;
- Cash flows increased $1.2 million from residential lot sales due to an increase in 2012 in the number of lots sold;
- Cash flows decreased $4.5 million from multi-family unit sales. The Company sold substantially all of its multi-family units during 2011; and
- Cash flows decreased $2.5 million from bonus payments. During the 2012 period, the Company paid $5.4 million in bonuses compared to $2.9 million in the 2011 period.

Cash Flows from Investing Activities. Cash flows provided by investing activities increased approximately $62.5 million between the six month 2012 and 2011 periods due to the following:

- Cash flows increased $41.7 million from proceeds from the sales of investment properties. In the 2012 period, the Company sold The Avenue Collierville and Galleria 75, generating net proceeds of approximately $63.2 million. During the 2011 period, the Company sold Jefferson Mill for net proceeds of approximately $21.5 million;
- Cash flows decreased $3.6 million in property acquisition, development and tenant asset expenditures due to an increase of $7.8 million in construction expenditures at the Mahan Village Project, partially offset by a decrease in tenant asset expenditures between the periods;
- Cash flows increased $3.6 million due to lower contributions to joint ventures in 2012, due to a decrease in contributions of approximately $4.9 million to the EP I joint venture, which was formed in the second quarter of 2011. This increase was partially offset by an increase in contributions to the MSREF/T200 and Ten Peachtree Place joint ventures; and
- Cash flows increased $20.5 million from distributions from unconsolidated joint ventures due mainly to the sale of most of the underlying assets and the resultant distribution of proceeds at the CL Realty and Temco joint ventures.

Cash Flows from Financing Activities. Cash flows used in financing activities decreased approximately $69.3 million between the six month 2012 and 2011 periods due to the following:

- Cash flows from the Credit Facility decreased $177.8 million as repayments were made using proceeds from 2012 property sales and from the new $100.0 million 191 Peachtree Tower mortgage note;
- Cash flows from notes payable and construction facilities increased $106.0 million from the new 191 Peachtree Tower mortgage note payable and amounts drawn on the Mahan Village LLC facility to fund its construction;
- Cash flows decreased $3.4 million from the payment of loan issuance costs related to the 191 Peachtree Tower mortgage and the 2012 amendment of the Credit Facility; and
- Cash flows increased $4.5 million from distributions to noncontrolling interests, primarily as a result of the 2011 distribution of $5.1 million to the partner in Jefferson Mill for its share of sales proceeds.

Capital Expenditures. The Company incurs costs related to its real estate assets that include acquisition of undeveloped land, development and construction of new properties, redevelopment of existing properties, leasing costs for tenants, and ongoing property repairs and maintenance. In addition, the Company may purchase existing operating properties.

Capital expenditures for certain types of real estate are categorized as operating activities in the Statements of Cash Flows, such as those for the development of residential lots. The Company did not incur any significant expenditures for the development of residential lots during the six months ended June 30, 2012, and incurred $563,000 during the six months ended June 30, 2011. The Company does not anticipate entering into any new residential projects in the near term. Any upcoming expenditures will be used to complete current projects in inventory, and are not anticipated to be significant.

Capital expenditures for other types of real estate, mainly office and retail assets the Company develops, holds and operates, are included in property acquisition and development and tenant asset expenditures as investing activities in the Statements of Cash Flows. Amounts accrued are removed from the table below to show the components of these costs on a cash basis to match the presentation in the Statement of Cash Flows. Property acquisition and development expenditures for the six months ended June 30, 2012 and 2011 are as follows (in thousands):

	Six Months Ended June 30,	
	2012	2011
Development	$7,397	$—
Redevelopment — building improvements	—	3,870
Redevelopment — leasing costs	—	2,338
Operating - building improvements	992	112
Operating — leasing costs	7,238	10,273
Capitalized interest	230	—
Capitalized personnel costs	647	610
Accrued capital adjustment	2,054	(2,288)
Total property acquisition and development expenditures	$18,558	$14,915

Capital expenditures increased in 2012 mainly due to the commencement of construction in the third quarter of 2011 of the Mahan Village retail project, partially offset by a decrease in leasing costs between the periods. Tenant improvements and leasing costs, as well as related capitalized personnel costs, are a function of the number and size of newly executed leases or renewals of existing leases. The amount of tenant improvement and leasing costs on a per square foot basis varies by lease and by market. Tenant improvement and leasing costs per square foot have increased during recent periods, but amounts have stabilized overall and are decreasing in some of the Company's markets. Given the level of expected leasing and renewal activity, in future periods, management expects tenant improvements and leasing costs to remain consistent with or greater than that experienced in 2011. In addition, the Company's redevelopment project was transferred to operating properties at the beginning of 2012.

Dividends. The Company paid cash common and preferred dividends of $15.8 million in each of the six month 2012 and 2011 periods, which it funded with cash provided by operating activities. The Company currently intends to pay future dividends in cash, and expects to fund its quarterly distributions to common and preferred stockholders with cash provided by operating activities.

The Company reviews, on a quarterly basis, the amount of the common dividend in light of current and projected future cash flows from the sources noted above and also considers the requirements needed to maintain its REIT status. In addition, the Company has certain covenants under its Credit Facility which could limit the amount of dividends paid. In general, dividends of any amount can be paid as long as leverage, as defined in the facility, is less than 60%, and the Company is not in default under its facility. Certain conditions also apply in which the Company can still pay dividends if leverage is above that amount. The Company routinely monitors the status of its dividend payments in light of the Credit Facility covenants.

Off Balance Sheet Arrangements

General. The Company has a number of off balance sheet joint ventures with varying structures, as described in Note 4 of the Company's Annual Report on Form 10-K. Most of the joint ventures in which the Company has an interest are involved in the ownership, acquisition and/or development of real estate. A venture will fund capital requirements or operational needs with cash from operations or financing proceeds, if possible. If additional capital is deemed necessary, a venture may request a contribution from the partners, and the Company will evaluate such request.

Debt. At June 30, 2012, the Company's share of unconsolidated joint venture debt to third parties was approximately $156.4 million. These loans are generally mortgage or construction loans, most of which are non-recourse to the Company, except as described in the paragraphs below. In addition, in certain instances, the Company provides “non-recourse carve-out guarantees” on these non-recourse loans. Certain of these loans have variable interest rates, which creates exposure to the ventures in the form of market risk from interest rate changes. At June 30, 2012, approximately $32.5 million of the loans at unconsolidated joint ventures were recourse to the Company.

CF Murfreesboro Associates, of which the Company owns 50%, has a $113.2 million facility that matures on July 20, 2013, and $96.6 million was drawn at June 30, 2012. The Company has a $26.2 million repayment guarantee on the loan.

The Company guarantees 25% of two of the four outstanding loans at the Cousins Watkins LLC joint venture, which owns four retail shopping centers. The loans have a total capacity of $16.3 million, of which the Company guarantees $4.1 million. At June 30, 2012, the Company guaranteed $2.9 million, based on current amounts outstanding under these loans. These guarantees will be released if certain metrics at the centers are achieved.

The Company guarantees repayment of 18.75% of the outstanding balance of the EP I construction loan, which has a maximum available of $61.1 million, equaling a total guarantee of approximately $11.5 million. This guarantee may be eliminated after project completion, based on certain covenants. At June 30, 2012, the Company guaranteed approximately $3.4 million based on the amount outstanding under the loan.

Bonds. The unconsolidated joint ventures also had performance bonds of $115,256 at June 30, 2012, which the Company guarantees through an indemnity agreement with the bond issuer. These performance bonds relate to construction projects at the retail center owned by CF Murfreesboro.

Critical Accounting Policies

There have been no material changes in the Company's critical accounting policies from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In the first quarter of 2012, the Company entered into a fixed-rate, $100 million mortgage note payable secured by 191 Peachtree Tower. The proceeds from this mortgage were used to reduce the amount outstanding under the variable rate Credit Facility. In addition, the Credit Facility was amended to, among other things, extend the maturity to February 28, 2016 and reduce the interest spread over LIBOR. Therefore, the market risk associated with Company's notes payable has changed since that

Table of Contents

disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The following table outlines the market risk associated with the Company's consolidated notes payable as of June 30, 2012 ($ in thousands):

	Twelve months ended June 30,							
	2013	2014	2015	2016	2017	Thereafter	Total	Fair Value
Fixed Rate:								
Principal maturities	$4,473	$4,906	$5,020	$19,345	$6,990	$373,837	$414,571	$437,642
Average interest rate	5.75 %	'5.70%	5.76 %	5.65 %	5.09 %	5.21 %	5.25 %	—
Variable Rate:								
Principal maturities	$—	$—	$5,950	$40,500	$—	$—	$46,450	$46,101
Average interest rate (1)	—	—	'1.90%	1.85 %	—	—	1.86 %	—

(1) Interest rates on variable rate notes payable are equal to the variable rates in effect on June 30, 2012.

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management’s control objectives. We also have investments in certain unconsolidated entities. As we do not always control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily more limited than those we maintain with respect to our consolidated subsidiaries.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer along with the Chief Financial Officer, of the effectiveness, design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon the foregoing, the Chief Executive Officer along with the Chief Financial Officer concluded that our disclosure controls and procedures were effective. In addition, based on such evaluation we have identified no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Information regarding legal proceedings is described under the subheading "Litigation" in Note 2 to the unaudited condensed consolidated financial statements set forth in this Form 10-Q.

Item 1A. Risk Factors.

There has been no material change in the Company's risk factors from those outlined in Item 1A in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

For information on the Company's equity compensation plans, see Note 6 of the Company's Annual Report on Form 10-K, and Note 4 to the unaudited condensed consolidated financial statements set forth in this Form 10-Q.

No purchases of common or preferred stock occurred during the second quarter of 2012.

Item 6. Exhibits.

3.1		Restated and Amended Articles of Incorporation of the Registrant, as amended August 9, 1999, filed as Exhibit 3.1 to the Registrant's Form 10-Q for the quarter ended June 30, 2002, and incorporated herein by reference.
3.1.1		Articles of Amendment to Restated and Amended Articles of Incorporation of the Registrant, as amended July 22, 2003, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on July 23, 2003, and incorporated herein by reference.
3.1.2		Articles of Amendment to Restated and Amended Articles of Incorporation of the Registrant, as amended December 15, 2004, filed as Exhibit 3(a)(i) to the Registrant's Form 10-K for the year ended December 31, 2004, and incorporated herein by reference.
3.1.3		Articles of Amendment to Restated and Amended Articles of Incorporation of the Registrant, as amended May 4, 2010, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed May 6, 2010, and incorporated herein by reference.
3.2		Bylaws of the Registrant, as amended and restated May 8, 2012 and incorporated herein by reference.
11.0	*	Computation of Per Share Earnings
31.1	†	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	†	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	†	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	†	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	†	The following financial information for the Registrant, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements.

* Data required by ASC 260, "Earnings per Share," is provided in Note 3 to the Condensed Consolidated financial statements included in this report.

† Filed herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COUSINS PROPERTIES INCORPORATED

/s/ Gregg D. Adzema
Gregg D. Adzema
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

Date: July 31, 2012

30