Oiltanking Partners, L.P.
Form 10-Q
November 07, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013
or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number: 001-35230
Oiltanking Partners, L.P.
(Exact name of registrant as specified in its charter)

Delaware	45-0684578
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
333 Clay Street, Suite 2400 Houston, TX	77002
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (281) 457-7900
15631 Jacintoport Blvd., Houston, TX 77015
(Former address if changed since previous filing)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	þ
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of November 5, 2013, there were 19,449,901 common units and 19,449,901 subordinated units outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

OILTANKING PARTNERS, L.P.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except unit amounts)
(Unaudited)

	September 30, 2013	December 31, 2012
Assets:		
Current assets:		
Cash and cash equivalents	$16,530	$7,071
Receivables:		
Trade	24,553	12,160
Affiliates	113	615
Other	147	313
Note receivable, affiliate	2,000	28,000
Prepaid expenses and other	2,406	1,290
Total current assets	45,749	49,449
Property, plant and equipment, net	550,133	418,289
Intangible assets, net	3,739	—
Other assets, net	1,553	1,482
Total assets	$601,174	$469,220
Liabilities and partners’ capital:		
Current liabilities:		
Accounts payable and accrued expenses	$43,489	$29,399
Current maturities of long-term debt, affiliate	2,500	2,500
Accounts payable, affiliates	2,483	2,049
Total current liabilities	48,472	33,948
Long-term debt, affiliate, less current maturities	230,750	146,800
Deferred revenue	2,255	2,544
Total liabilities	281,477	183,292
Commitments and contingencies (Note 11)		
Partners’ capital:		
Common units (19,449,901 units issued and outstanding at September 30, 2013 and December 31, 2012)	258,486	248,176
Subordinated units (19,449,901 units issued and outstanding at September 30, 2013 and December 31, 2012)	46,664	36,354
General partner’s interest	14,547	1,398
Total partners’ capital	319,697	285,928
Total liabilities and partners’ capital	$601,174	$469,220

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

OILTANKING PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per unit data)
(Unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Revenues	$58,531	$33,327	$150,796	$101,436
Costs and expenses:				
Operating	11,339	8,993	31,783	26,639
Selling, general and administrative	6,235	4,824	15,973	14,015
Depreciation and amortization	5,336	4,039	14,807	12,073
(Gain) loss on disposal of fixed assets	(153)	—	(153)	13
Total costs and expenses	22,757	17,856	62,410	52,740
Operating income	35,774	15,471	88,386	48,696
Other income (expense):				
Interest expense	(2,496)	(487)	(5,147)	(1,094)
Interest income	1	2	4	31
Other income (expense)	(7)	1	12	74
Total other expense, net	(2,502)	(484)	(5,131)	(989)
Income before income tax expense	33,272	14,987	83,255	47,707
Income tax expense	(389)	(80)	(704)	(240)
Net income	$32,883	$14,907	$82,551	$47,467
Allocation of net income to partners:				
Net income allocated to general partner	$7,413	$297	$14,473	$1,173
Net income allocated to common unitholders	$12,735	$7,305	$34,039	$23,147
Net income allocated to subordinated unitholders	$12,735	$7,305	$34,039	$23,147
Earnings per limited partner unit:				
Common unit (basic and diluted)	$0.65	$0.38	$1.75	$1.19
Subordinated unit (basic and diluted)	$0.65	$0.38	$1.75	$1.19
Weighted average number of limited partner units outstanding:				
Common units (basic and diluted)	19,450	19,450	19,450	19,450
Subordinated units (basic and diluted)	19,450	19,450	19,450	19,450

The accompanying notes are an integral part of these condensed consolidated financial statements.

3

Table of Contents

OILTANKING PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2013	2012
Cash flows from operating activities:		
Net income	$82,551	$47,467
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,807	12,073
(Gain) loss on disposal of fixed assets	(153)	13
Amortization of deferred financing costs	144	118
Changes in assets and liabilities:		
Trade and other receivables	(12,227)	(1,981)
Prepaid expenses and other assets	(1,106)	(457)
Accounts receivable/payable, affiliates	936	(1,847)
Accounts payable and accrued expenses	1,800	2,380
Deferred revenue	1,093	(341)
Total adjustments from operating activities	5,294	9,958
Net cash provided by operating activities	87,845	57,425
Cash flows from investing activities:		
Issuance of notes receivable, affiliate	(7,000)	(20,000)
Collections of notes receivable, affiliate	33,000	35,300
Payments for purchase of property, plant and equipment	(135,854)	(80,756)
Proceeds from sale of property, plant and equipment	264	—
Purchase of intangible assets	(3,739)	—
Net cash used in investing activities	(113,329)	(65,456)
Cash flows from financing activities:		
Borrowings under loan agreement, affiliate	50,000	35,000
Borrowings under credit agreement, affiliate	86,000	—
Payments under credit agreement, affiliate	(50,000)	—
Payments under notes payable, affiliate	(2,050)	(2,050)
Debt issuance costs	(225)	(750)
Distributions paid to partners	(48,782)	(41,856)
Net cash provided by (used in) financing activities	34,943	(9,656)
Net increase (decrease) in cash and cash equivalents	9,459	(17,687)
Cash and cash equivalents — Beginning of period	7,071	23,836
Cash and cash equivalents — End of period	$16,530	$6,149

The accompanying notes are an integral part of these condensed consolidated financial statements.

4

Table of Contents

OILTANKING PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
(In thousands)
(Unaudited)

	General Partner's Interest	Limited Partners' Interests		
		Common Units	Subordinated Units	Total
Balance — January 1, 2013	$1,398	$248,176	$36,354	$285,928
Net income	14,473	34,039	34,039	82,551
Cash distributions to partners	(1,324)	(23,729)	(23,729)	(48,782)
Balance — September 30, 2013	$14,547	$258,486	$46,664	$319,697

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

OILTANKING PARTNERS, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Oiltanking Partners, L.P. (“OILT”) is a Delaware limited partnership formed by Oiltanking Holding Americas, Inc. (“OTA”) on March 14, 2011 to engage in the storage, terminaling and transportation of crude oil, refined petroleum products and liquefied petroleum gas. OTA owns and controls OILT’s general partner, OTLP GP, LLC (“general partner”). Through its wholly owned subsidiaries, Oiltanking Houston, L.P. (“OTH”) and Oiltanking Beaumont Partners, L.P. (“OTB”), OILT owns and operates storage and terminaling assets located along the Gulf Coast of the United States on the Houston Ship Channel and in Beaumont, Texas.

OTA is a wholly owned subsidiary of Oiltanking GmbH. Oiltanking GmbH and its subsidiaries, other than OILT and its subsidiaries, are collectively referred to herein as the “Oiltanking Group.” As used in this document, the terms “we,” “us,” and “our” and similar terms refer to OILT and its subsidiaries, where applicable, unless the context indicates otherwise.

On July 19, 2011, we completed our initial public offering (“IPO”) of 11,500,000 common units, including 1,500,000 common units issued in connection with the underwriters’ exercise of their over-allotment option, at a price of $21.50 per unit. Our common units are listed on the New York Stock Exchange under the symbol “OILT.” Through July 18, 2011, OTH and OTB were wholly owned subsidiaries of OTA. OTA and its affiliates contributed all of their equity interests in OTH and OTB to us on July 19, 2011, and in exchange, we issued an aggregate of 7,949,901 common units and 19,449,901 subordinated units to OTA and its affiliates and incentive distribution rights to our general partner. At September 30, 2013, OTA owned our general partner, 7,949,901 common units and 19,449,901 subordinated units.

At September 30, 2013, we had outstanding (i) 19,449,901 common units and 19,449,901 subordinated units representing limited partner interests, (ii) a 2.0% general partner interest and (iii) incentive distribution rights. OTA and its affiliates hold 70.4% of all of our outstanding common and subordinated units (or a 69.0% limited partner interest), and other security holders hold the remaining 29.6% (or a 29.0% limited partner interest). The limited partners collectively hold a 98.0% limited partner interest in OILT, and the general partner holds a 2.0% general partner interest in OILT.

Basis of Presentation

Our results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of results expected for the full year of 2013. In the opinion of management, the accompanying condensed consolidated interim financial statements reflect all adjustments, which consist only of normal recurring adjustments, necessary to state fairly the results for the interim periods. The condensed consolidated financial statements and the accompanying notes are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and the rules of the U.S. Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012. All significant intercompany transactions and balances have been eliminated in consolidation.

The preparation of our financial statements in conformity with GAAP requires management to use estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on historical experience and on various other assumptions and information we believe to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be perceived with certainty and, accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. While we believe the estimates and assumptions used in the preparation of the condensed consolidated financial statements are appropriate, actual results could differ from those estimates.

OILTANKING PARTNERS, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a specified measurement date. Fair value measurements are derived using inputs and assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. GAAP establishes a valuation hierarchy for disclosure of the inputs used to measure fair value. This three-tier hierarchy classifies fair value amounts recognized or disclosed in the financial statements based on the observability of inputs used to estimate such fair values. The classification within the hierarchy of a financial asset or liability is determined based on the lowest level input that is significant to the fair value measurement. The hierarchy considers fair value amounts based on observable inputs (Levels 1 and 2) to be more reliable and predictable than those based primarily on unobservable inputs (Level 3).

Notes receivable, affiliate are reported in the condensed consolidated balance sheets at amounts which approximate fair value due to the relatively short period to maturity of these financial instruments (Level 2). The carrying values of our fixed-rate debt obligations approximate fair value based upon borrowing rates currently available to us for loans with similar terms (Level 2). The carrying values of our variable-rate debt obligations approximate their fair values because the associated interest rates are market-based. See Note 6 for further details of our fixed-rate and variable-rate debt obligations.

We believe our valuation methods are appropriate and consistent with the values that would be determined by other market participants. However, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Intangible Assets

In June 2013, we acquired emission allowances for $3.7 million from a third party, primarily for use in connection with the expansion of storage capacity at our Houston area facilities. These emission allowances are being accounted for as intangible assets with a finite life and will be amortized to operating expenses based on units of production once the assets that will utilize the emission allowances are placed into service, which is expected to begin in 2015.

2. RELATED PARTY TRANSACTIONS

We have engaged in certain transactions with other OTA subsidiaries, as well as other companies related to us by common ownership. Ongoing transactions include our provision of storage and ancillary services to these affiliates. Total revenue for related party services were as follows for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Storage and ancillary service fees	$905	$745	$2,440	$2,340
Other revenue	—	—	—	13
Total related party revenue	$905	$745	$2,440	$2,353

During the nine months ended September 30, 2013 and 2012, we capitalized $4.1 million and $2.5 million, respectively, of related party engineering services into construction in progress.

At September 30, 2013 and December 31, 2012, total related party accounts receivable were $0.1 million and $0.6 million, respectively. Total related party accounts payable were $2.5 million and $2.0 million at September 30, 2013 and December 31, 2012, respectively. Additionally, we had $1.4 million and $0.1 million within accounts payable and accrued expenses at September 30, 2013 and December 31, 2012, respectively, associated with related party administrative fees (see Note 4).

Table of Contents

OILTANKING PARTNERS, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Long-term debt payable to Oiltanking Finance B.V. (“OT Finance”), including both current and long-term portions, at September 30, 2013 and December 31, 2012, was $233.3 million and $149.3 million, respectively. OT Finance is a wholly owned finance company of Oiltanking GmbH that serves as the global financing division for the Oiltanking Group’s terminal holdings, including us, and arranges loans and notes at market rates and terms for approved terminal construction projects.

At September 30, 2013 and December 31, 2012, total interest and commitment fees payable to OT Finance under term loans and credit financing arrangements of $2.6 million and $0.6 million, respectively, were included in accounts payable and accrued expenses (see Note 4).

From time to time, we invest cash with OT Finance in short-term notes receivable at then prevailing market rates. At September 30, 2013 and December 31, 2012, we had short-term notes receivable of $2.0 million and $28.0 million, respectively, from OT Finance, bearing interest rates of 0.19% and 0.51%, respectively.

The following table summarizes related party operating expenses, selling, general and administrative expenses, interest expense and interest income reflected in the condensed consolidated statements of income for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating	$3,805	$3,469	$10,785	$9,495
Selling, general and administrative (1)	4,951	3,948	12,958	11,874
Interest expense (net of amounts capitalized)	2,489	480	5,127	1,075
Interest income	1	2	4	31

(1) Amounts represent selling, general and administrative expenses incurred under the Services Agreement (as defined below). For the three months ended September 30, 2013 and 2012, these amounts include $0.2 million and $0.3 million, respectively, of costs from OTA related to ongoing maintenance for an invoicing and inventory computer system that are reimbursable under the Services Agreement but not included in the annual fixed fee set forth in the agreement. The nine month periods ended September 30, 2013 and 2012 include $0.7 million and $0.8 million, respectively, of costs from OTA related to such system.

Transactions with a Certain Director

One of the directors of our general partner, David L. Griffis, is employed by and a shareholder of the law firm of Crain, Caton & James, P.C., a firm that provides legal counsel to us, as well as to OTA and certain of its other affiliates. Fees for legal services paid to Crain, Caton & James, P.C. for services to us totaled $0.9 million and $0.9 million for the nine months ended September 30, 2013 and 2012, respectively.

Agreements with Affiliates

On July 19, 2011, in connection with our IPO, we entered into a services agreement (the “Services Agreement”) with our general partner and Oiltanking North America, LLC (“OTNA”), a subsidiary of OTA, and subsequently amended the Services Agreement in December 2011, pursuant to which OTNA agreed to provide us certain specified selling, general and administrative services necessary to manage our business for an annual fixed fee, payable in equal monthly installments. We also agreed to reimburse OTNA for all operating expenses and all expenses it incurs as a result of our status as a publicly traded partnership, including all operating expenses it incurs with respect to insurance coverage for our business, with such reimbursement obligations not subject to any cap.

The initial term of the Services Agreement is ten years, and it will automatically renew for additional twelve-month periods following the expiration of the initial term unless and until either we or OTNA provide 180 days written notice of intent to terminate the agreement. During the initial term or any renewal term, the annual fixed fee related to selling,

Table of Contents

OILTANKING PARTNERS, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

general and administrative expenses will be adjusted as necessary each year to account for inflation as measured by the consumer price index. In addition, with the approval of the Conflicts Committee of the board of directors of our general partner, the fee may be adjusted to account for growth of our business or asset base. In January 2013, the annual fixed fee was increased to $15.1 million as a result of an increase in the consumer price index.
In August 2013, the Conflicts Committee of the board of directors of our general partner approved a requested increase to the fixed fee charged to us under the Services Agreement to $18.8 million on an annualized basis to reflect higher selling, general and administrative expenses associated with expansion projects placed in service in 2013. These expansion projects include the Houston crude oil storage and pipeline expansion, the first phase of our Appelt storage facility and related pipeline connections, and incremental refined petroleum products storage at our Beaumont terminal. The fee increase was effective as of July 1, 2013.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at the dates indicated (in thousands):

	September 30, 2013	December 31, 2012
Land	$23,415	$23,340
Production and terminal facilities	613,690	460,209
Rights-of-way	30	30
Construction in progress	129,102	136,876
Total property, plant and equipment	766,237	620,455
Less: accumulated depreciation	(216,104)	(202,166)
Total property, plant and equipment, net	$550,133	$418,289

Depreciation and amortization expense was $5.3 million and $4.0 million for the three months ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2013 and 2012, depreciation and amortization expense was $14.8 million and $12.1 million, respectively.

Interest costs capitalized as part of the costs of construction in progress were $0.2 million and $0.5 million during the three months ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2013 and 2012, interest costs capitalized were $1.6 million and $1.0 million, respectively.

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at the dates indicated (in thousands):

	September 30, 2013	December 31, 2012
Accounts payable, trade	$4,816	$7,891
Accrued capital expenditures	23,640	12,732
Accrued property taxes	5,456	4,987
Accrued sales and other taxes	499	207
Related party interest and commitment fees payable	2,554	611
Related party administrative fees payable	1,412	60
Deferred revenue	2,421	1,039

Other	2,691	1,872
Total accounts payable and accrued expenses	$43,489	$29,399

9

Table of Contents

OILTANKING PARTNERS, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. DEFERRED REVENUE
During 2007, we entered into a modification of a lease in which we, as a lessor, received a one-time upfront rental payment of $2.5 million, which is being amortized on a straight-line basis over the term of the lease of approximately sixteen years. At September 30, 2013 and December 31, 2012, deferred revenue related to this upfront rental payment was $1.4 million and $1.6 million, respectively, of which $0.2 million at each date was current and included in accounts payable and accrued expenses.
During 2010, we entered into a modification of a revenue agreement with a customer and received a one-time payment of $2.0 million, which is being amortized on a straight-line basis over the remaining term of the agreement of approximately nine years. At September 30, 2013 and December 31, 2012, deferred revenue related to this one-time payment was $1.2 million and $1.4 million, respectively, of which $0.2 million at each date was current and included in accounts payable and accrued expenses.
At September 30, 2013 and December 31, 2012, we had $2.0 million and $0.6 million, respectively, of current deferred revenue related to a customer throughput and deficiency agreement.

6. DEBT

Long-term debt, affiliate, consisted of the following at the dates indicated (in thousands):

	September 30, 2013	December 31, 2012
6.78% Note due 2019 – OTH	$5,850	$6,300
7.45% Note due 2019 – OTB	4,800	5,600
7.02% Note due 2020 – OTB	5,600	6,400
4.55% OTH $125.0 million Loan Agreement, due 2022	125,000	125,000
5.435% OTH $50.0 million Loan Agreement, due 2023	50,000	—
OILT Credit Agreement, due 2017	42,000	6,000
Total debt	233,250	149,300
Less current portion	(2,500)	(2,500)
Total long-term debt, affiliate	$230,750	$146,800

At September 30, 2013, our covenants restrict us from paying distributions in excess of approximately $153.1 million on an annual basis.

OTH and OTB Notes
At September 30, 2013, we have three outstanding notes with OT Finance. Two of the outstanding notes contain loan covenants requiring OTB to maintain certain debt, leverage and equity ratios and prohibit OTB from pledging its assets to third parties or incurring any indebtedness other than from OT Finance without its consent. At September 30, 2013, no assets had been pledged to third parties. The loan covenants in these agreements require OTB to maintain certain Financial Parameters (as such term is defined in the note agreements), including: (i) a ratio of Stockholders' Equity to non-current assets of 30% or greater, (ii) a ratio of EBITDA to Total Debt Service of 1.2 or greater and (iii) a ratio of Net Financial Indebtedness to EBITDA of 3.75 or less (as such terms are defined in the note agreements). At September 30, 2013, OTB's ratio of Stockholders' Equity to non-current assets, the ratio of EBITDA to Total Debt Service and the ratio of Net Financial Indebtedness to EBITDA (as such terms are defined in the note agreements) were 84.4%, 8.5 and 1.03, respectively. At September 30, 2013, OTB was in compliance with all covenants under the respective note agreements.

OILTANKING PARTNERS, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

OTH Loan Agreements

On May 16, 2012, OTH entered into a ten-year $125.0 million unsecured loan agreement with OT Finance (the “$125.0 million Loan Agreement”) for the purpose of financing the purchase of property, plant and equipment, through which borrowings were available through December 15, 2012, with a maturity date of December 15, 2022. At September 30, 2013, OTH had $125.0 million of outstanding borrowings under this loan agreement at a fixed interest rate of 4.55% per annum.

On June 26, 2013, OTH entered into a ten-year $50.0 million unsecured loan agreement with OT Finance (the “$50.0 million Loan Agreement”) for the purpose of financing the purchase of property, plant and equipment, through which borrowings were available from May 31, 2013 through August 31, 2013 (the “Availability Period”), with a maturity date of June 30, 2023 (the “Maturity Date”). During the Availability Period, interest on borrowings outstanding under this loan agreement was calculated on the basis of an annual interest rate determined by OT Finance, which represented OT Finance’s cost of funds during the Availability Period, plus a margin of 2.60% per annum. After the end of the Availability Period and through the Maturity Date, interest is calculated on the basis of the USD swap rate for ten years, plus a margin of 2.60% per annum. Interest that accrued during the Availability Period was payable at the end of the Availability Period. After the Availability Period, interest payments are payable semi-annually, beginning on December 30, 2013. OTH paid an arrangement fee in July 2013 of $0.2 million to OT Finance, the expense of which was deferred and is being amortized over the life of the loan agreement. In July 2013, OTH borrowed $50.0 million under this loan agreement, and the proceeds were used to repay outstanding balances under the Credit Agreement. At September 30, 2013, OTH had $50.0 million of outstanding borrowings under this loan agreement at a fixed interest rate of 5.435% per annum.

The loan agreements contain covenants restricting the ability of OTH to take certain actions without the consent of OT Finance, including incurring additional indebtedness, pledging its assets or amending its organizational documents. The loan agreements contain borrowing conditions and events of default, including events of default triggered by (i) OTH failing to satisfy the Financial Parameters and other covenants described in this paragraph after more than 30 days’ notice, (ii) OTH failing to repay borrowings under the loan agreements when they become due, and (iii) OTH ceasing to be controlled by Oiltanking GmbH. The loan agreements require OTH to maintain certain Financial Parameters (as such term is defined in the respective agreements), including: (i) a ratio of Stockholders’ Equity to non-current assets of 30% or greater, (ii) a ratio of EBITDA to Total Debt Service of 1.2 or greater, and (iii) a ratio of Net Financial Indebtedness to EBITDA of 3.75 or less (as such terms are described in the respective loan agreements). At September 30, 2013, OTH’s ratio of Stockholders’ Equity to non-current assets, the ratio of EBITDA to Total Debt Service and the ratio of Net Financial Indebtedness to EBITDA (as such terms are defined in the respective loan agreements) were 51.8%, 21.8 and 1.84, respectively. At September 30, 2013, OTH was in compliance with all covenants contained in the loan agreements.

OILT Credit Agreement
On November 7, 2012, OILT entered into Addendum No. 2 to its unsecured revolving line of credit agreement with OT Finance to increase the amount of the revolving credit commitment from $50.0 million to $150.0 million and to extend the maturity date from June 30, 2013 to November 30, 2017 (as amended, the “Credit Agreement”). From time to time upon OILT’s written request and in the sole determination of OT Finance, the revolving credit commitment can be increased up to an additional $75.0 million, for a maximum revolving credit commitment of $225.0 million. Borrowings bear interest at LIBOR plus a margin ranging from 1.65% to 2.50% depending upon a leverage-based grid. Any unused portion of the revolving line of credit is subject to a commitment fee of 0.35% per annum. In July 2013, OILT repaid $50.0 million of the outstanding borrowings under the Credit Agreement with proceeds borrowed

under the \$50.0 million Loan Agreement. At September 30, 2013, OILT had \$42.0 million of outstanding borrowings under the Credit Agreement at a weighted average interest rate of 2.18% per annum.

The Credit Agreement requires OILT to maintain, on an calendar year basis, certain Financial Parameters (as such term is defined in the Credit Agreement), including: (i) a ratio of Stockholders' Equity to non-current assets of 30% or greater, (ii) a ratio of EBITDA to Total Debt Service of 1.2 or greater and (iii) a ratio of Net Financial Indebtedness to EBITDA of 3.75 or less (as such terms are defined in the Credit Agreement). At September 30, 2013, OILT's ratio of

Table of Contents

OILTANKING PARTNERS, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Stockholders' Equity to non-current assets, the ratio of EBITDA to Total Debt Service and the ratio of Net Financial Indebtedness to EBITDA (as such terms are defined in the Credit Agreement) were 57.6%, 16.0 and 1.76, respectively. At September 30, 2013, OILT was in compliance with all covenants contained in the Credit Agreement.

7. PARTNERS' CAPITAL AND DISTRIBUTIONS

Outstanding Units

At September 30, 2013 and December 31, 2012, we had outstanding 19,449,901 common units and 19,449,901 subordinated units representing limited partner interests.

Distributions

Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our available cash (as defined in our partnership agreement) to unitholders of record on the applicable record date.

The following table details the distributions paid during or pertaining to the nine months ended September 30, 2013 (in thousands, except per unit amounts):

Date Declared	Date Paid or To Be Paid	Common and Subordinated Units	General Partner's 2% Interest	Incentive Distribution Rights	Total	Distributions per Limited Partner Unit
January 22, 2013	February 14, 2013	$15,171	$310	$11	$15,492	$0.39
April 22, 2013	May 14, 2013	$15,754	$324	$100	$16,178	$0.405
July 22, 2013	August 14, 2013	$16,532	$342	$238	$17,112	$0.425
October 21, 2013	November 14, 2013	$17,310	$363	$477	$18,150	$0.445

Our partnership agreement requires that we distribute all of our available cash each quarter in the following manner:

- first, 98.0% to the holders of our common units and 2.0% to our general partner, until each common unit has received the minimum quarterly distribution of $0.3375 plus any arrearages from prior quarters; and
- second, 98.0% to the holders of our subordinated units and 2.0% to our general partner, until each subordinated unit has received the minimum quarterly distribution of $0.3375.

The general partner's incentive distribution rights provide that if cash distributions to our unitholders exceed $0.38813 per common unit and subordinated unit in any quarter, our unitholders and our general partner will receive, including its 2.0% general partner interest, distributions according to the following percentage allocations:

	Target Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
		Unitholders	General Partner
Minimum quarterly distribution	$0.3375	98.0%	2.0%
First target distribution	above $0.3375 up to $0.38813	98.0%	2.0%
Second target distribution	above $0.38813 up to $0.42188	85.0%	15.0%
Third target distribution	above $0.42188 up to $0.50625	75.0%	25.0%
Thereafter	above $0.50625	50.0%	50.0%

Our general partner, as the initial holder of all of our incentive distribution rights, has the right, at any time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48.0%, in addition to distributions paid on its 2.0% general partner interest) for each of the prior four consecutive whole fiscal quarters, to reset the initial target distribution levels at higher levels based on our cash distributions at the time of the exercise of the reset election. If our general partner elects to reset the target distribution levels, it will be entitled to receive a number of common units and a general partner interest necessary to maintain its general partner interest in us immediately prior to the reset election. The number of common units to be issued to our general partner will equal the number of common units that would have entitled the holder to an average aggregate quarterly cash distribution in the prior two quarters equal to the average of the distributions to our general partner on the incentive distribution rights in such prior two quarters.

If our general partner transfers all or a portion of the incentive distribution rights in the future, then the holder or holders of a majority of our incentive distribution rights will be entitled to exercise the reset election. Assuming our general partner holds all of the incentive distribution rights at the time a reset election is made, following a reset election, the minimum quarterly distribution will be adjusted to equal the reset minimum quarterly distribution, and the target distribution levels will be reset to correspondingly higher levels based on the same percentage increases above the reset minimum quarterly distribution as the current target distribution levels.

Subordinated Units

All of our subordinated units are owned directly or indirectly by OTA. The principal difference between our common units and subordinated units is that in any quarter during the subordination period, holders of the subordinated units are not entitled to receive any distribution until the common units have received the minimum quarterly distribution (defined below) plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Subordinated units will not accrue arrearages.

The subordination period will end on the first business day after we have earned and paid at least: (i) $1.35 (the minimum quarterly distribution on an annualized basis) on each outstanding common unit and subordinated unit and the corresponding distribution on our general partner’s 2.0% interest for each of three consecutive, non-overlapping four-quarter periods ending on or after September 30, 2014; or (ii) $2.025 (150.0% of the annualized minimum quarterly distribution) on each outstanding common unit and subordinated unit and the corresponding distribution on our general partner’s 2.0% interest and the related distribution on the incentive distribution rights for the four-quarter period immediately preceding that date, in each case provided there are no arrearages on our common units at that time. Since our IPO in July 2011, we have paid at least the minimum quarterly distribution on our common units in all quarters.

The subordination period also will end upon the removal of our general partner other than for cause if no subordinated units or common units held by the holder(s) of subordinated units or their affiliates are voted in favor of that removal.

When the subordination period ends, all subordinated units will convert into common units on a one-for-one basis, and thereafter no common units will be entitled to arrearages.

Table of Contents

OILTANKING PARTNERS, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. EARNINGS PER LIMITED PARTNER UNIT

The following table sets forth the computation of basic and diluted earnings per limited partner unit for the periods indicated (amounts in thousands, except per unit data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$32,883	$14,907	$82,551	$47,467
Less: General partner's incentive distribution earned (1)	6,755	—	12,822	226
Less: General partner's 2.0% ownership interest	658	297	1,651	947
Net income allocated to limited partners	$25,470	$14,610	$68,078	$46,294
Numerator for basic and diluted earnings per limited partner unit:				
Allocation of net income among limited partner interests:				
Net income allocable to common units	$12,735	$7,305	$34,039	$23,147
Net income allocable to subordinated units	12,735	7,305	34,039	23,147
Net income allocated to limited partners	$25,470	$14,610	$68,078	$46,294
Denominator:				
Basic and diluted weighted average number of limited partner units outstanding:				
Common units	19,450	19,450	19,450	19,450
Subordinated units	19,450	19,450	19,450	19,450