

KNOT Offshore Partners LP  
Form F-3  
October 23, 2018  
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As filed with the Securities and Exchange Commission on October 23, 2018

Registration No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM F-3**  
**REGISTRATION STATEMENT**  
***UNDER***  
***THE SECURITIES ACT OF 1933***

**KNOT Offshore Partners LP**  
**(Exact name of registrant as specified in its charter)**

**Republic of the Marshall Islands**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**98-1098373**  
**(I.R.S. Employer**  
**Identification No.)**

**2 Queen's Cross, Aberdeen, Aberdeenshire AB15 4YB, United Kingdom, +44 1224 618420**

**(Address and telephone number of Registrant's principal executive offices)**

**Puglisi & Associates**

**850 Library Avenue, Suite 204**

**Newark, Delaware 19711**

**(302) 738-6680**

**(Name, address, and telephone number of agent for service)**

*Copies to:*

**Catherine S. Gallagher**

**Baker Botts L.L.P.**

**The Warner**

**1299 Pennsylvania Avenue NW**

**Suite 1300**

**Washington, DC 20004**

**Tel (202) 639-7725**

**Fax (202) 585-1088**

**Approximate date of commencement of proposed sale to the public:** From time to time after this Registration Statement becomes effective.

If only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

## Edgar Filing: KNOT Offshore Partners LP - Form F-3

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933. Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

### CALCULATION OF REGISTRATION FEE

| Title of Each Class of                              | Amount<br>to be  | Proposed<br>Maximum<br>Offering Price | Proposed<br>Maximum<br>Aggregate<br>Offering Price(3) | Amount of           |
|-----------------------------------------------------|------------------|---------------------------------------|-------------------------------------------------------|---------------------|
| Securities to be Registered                         | Registered(1)(2) | Per Unit(3)                           | Offering Price(3)                                     | Registration Fee(3) |
| Common units representing limited partner interests | 3,750,000        | (4)                                   | \$80,362,500                                          | \$9,740             |

(1) Pursuant to Rule 416(a) of the Securities Act of 1933, as amended, the number of common units being registered on behalf of the selling unitholders shall be adjusted automatically to include any common units that may become

issuable as a result of any unit distribution, split, combination or similar transaction.

- (2) Represents 3,750,000 common units issuable upon conversion of the Series A Convertible Preferred Units held by the selling unitholders listed herein. The initial conversion ratio is one Series A Convertible Preferred Unit in exchange for one common unit; however, the conversion ratio is subject to adjustment.
- (3) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, with respect to the common units to be sold by the selling unitholders listed herein based on the average of the high and low prices of our common units as reported on the New York Stock Exchange on October 19, 2018.
- (4) The proposed maximum offering price per common unit will be determined from time to time in connection with, and at the time of, the sale by the applicable selling unitholder.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to said section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED OCTOBER 23, 2018**

**PROSPECTUS**

**KNOT Offshore Partners LP**

**3,750,000 Common Units Representing Limited Partnership Interests**

This prospectus relates to up to 3,750,000 common units representing limited partner interests in KNOT Offshore Partners LP ( common units ) issuable upon conversion of 3,750,000 Series A Convertible Preferred Units representing limited partner interests in KNOT Offshore Partners LP ( Series A Preferred Units ) held by the selling unitholders listed herein that may be offered and sold from time to time in one or more offerings. For more information relating to the selling unitholders, please read Selling Unitholders.

The selling unitholders may from time to time, in one or more offerings, offer and sell the common units through one or more underwriters, dealers or agents or directly to investors, in amounts, at prices and on terms to be determined by market conditions or other factors at the time of the offering. This prospectus describes the general terms of the common units and the general manner in which the selling unitholders may offer them. The specific terms of any offering may be included in a supplement to this prospectus. The prospectus supplement 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 a supplement to this prospectus if required. Selling unitholders that are affiliates of us may be deemed to be underwriters within the meaning of the Securities Act of 1933, as amended (the Securities Act ), and, as a result, may be deemed to be offering securities, indirectly, on our behalf. We will not receive any of the proceeds from the sale by the selling unitholders of common units offered by this prospectus.

You should carefully read this prospectus and any applicable prospectus supplement and the documents incorporated by reference herein and therein before you invest in any of our securities. You should also read the documents we have referred you to in the Where You Can Find More Information section of this prospectus for information about us, including our financial statements.

Our common units are traded on the New York Stock Exchange (the NYSE ), under the symbol KNOP.

Investing in our securities involves risks. You should carefully consider the risk factors described under **Risk Factors** on page 6 of this prospectus and contained in the applicable prospectus supplement, our most recent Annual Report on Form 20-F and in our other reports we file with the Securities and Exchange Commission before you make an investment in our common units.

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 \_\_\_\_\_, 2018.

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**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. Neither we nor the selling unitholders have authorized anyone else to give you different information. Neither we nor the selling unitholders are 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.**

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**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, the selling unitholders may over time, in one or more offerings, offer and sell up to 3,750,000 of our common units.

This prospectus provides you with a general description of KNOT Offshore Partners LP and the common units that are registered hereunder that may be offered by the selling unitholders. Each time the selling unitholders sell any common units offered by this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of that offering. 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 limited 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. References in this prospectus to the selling unitholders refer to the selling unitholders listed under the heading Selling Unitholders.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form F-3 regarding the common units 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 common units offered in this prospectus, you may wish to review the full registration statement, including its exhibits. Electronic copies of the registration statement, including the exhibits, may be obtained from the SEC's website at [www.sec.gov](http://www.sec.gov) free of charge. 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](http://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. Electronic copies of these reports and other information may be 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, 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.



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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, 2017 filed on April 25, 2018 ( our 2017 Annual Report );

our report on Form 6-K filed on September 4, 2018 for the quarterly period ended June 30, 2018;

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/A filed on June 30, 2017, 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 electronic copies of any of the documents incorporated by reference in this prospectus from the SEC through its website at the address 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](http://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

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**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 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;

KNOT's and KNOT Offshore Partners' ability to build shuttle tankers and the timing of the delivery and acceptance of any such vessels by their respective charterers;

forecasts of KNOT Offshore Partners' ability to make or increase distributions on the common units and make distributions on the Series A Preferred Units or the amount of any such 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;

fluctuations in the price of oil;

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;

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;

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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;

the financial condition of KNOT Offshore Partners' existing or future customers and their ability to fulfill their charter obligations;

timely purchases and deliveries of newbuilds;

future purchase prices of newbuilds and secondhand vessels;

any impairment in the value of KNOT Offshore Partners' 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.

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.

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**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. On April 15, 2013, we completed our initial public offering (our IPO). Our fleet currently consists of sixteen shuttle tankers. Knutsen NYK Offshore Tankers AS directly owns 8,567,500 of our common units, and all of our incentive distribution rights and, through its ownership of our general partner, a 1.85% general partner interest in us and 90,368 additional common 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 1224 618420.

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**RISK FACTORS**

An investment in our common units 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 2017 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 common units. 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 common units pursuant to a prospectus supplement, we may include additional risk factors relevant to such common units in the prospectus supplement.

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**USE OF PROCEEDS**

The common units to be offered and sold using this prospectus will be offered and sold by the selling unitholders named in this prospectus or in any supplement to this prospectus. We will not receive any of the proceeds from the sale of common units by the selling unitholders.

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The following table shows our historical cash and capitalization as of June 30, 2018. This table is derived from our unaudited consolidated financial statements, including accompanying notes, incorporated by reference in this prospectus. You should read this table in conjunction with the historical financial statements and accompanying notes incorporated by reference into this prospectus and the sections entitled Operating and Financial Review and Prospects in our 2017 Annual Report and Management's Discussion and Analysis of Financial Condition and Results of Operations in our report on Form 6-K for the six months ended June 30, 2018, each of which is incorporated by reference herein.

|                                           | <b>As of<br/>June 30, 2018<br/>(In thousands)</b> |
|-------------------------------------------|---------------------------------------------------|
| Cash and cash equivalents                 | \$ 45,085                                         |
| Debt:(1)                                  |                                                   |
| Current portion of long-term debt         | \$ 80,206                                         |
| Long-term debt, excluding current portion | 1,029,053                                         |
| Total debt                                | \$ 1,109,259                                      |
| Series A Preferred Units                  | 89,264                                            |
| Total partners' capital                   | 652,683                                           |
| Total capitalization                      | \$ 1,851,206                                      |

(1) All of our outstanding debt is secured by our vessels. Debt amounts exclude unamortized deferred loan issuance costs of \$7.8 million.

Each prospectus supplement will include updated information on our capitalization.

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**DESCRIPTION OF THE COMMON UNITS**

Our common units represent limited partner interests in us. The holders of common 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 in and to partnership distributions, please read this section and Our Cash Distribution Policy and Restrictions on Distributions.

**Number of Units**

As of October 22, 2018, we had 32,694,094 common units outstanding, of which 24,036,226 are held by the public and 8,657,868 are held by KNOT and its wholly owned subsidiary, KNOT Offshore GP LLC, our general partner. We also have 3,750,000 Series A Preferred Units outstanding.

**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

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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 66  $\frac{2}{3}$ % of the outstanding common units, including any common 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. No holder of Series A Preferred Units that is a Norwegian Resident Holder is eligible to vote on any matter. 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 Series A Preferred Units have voting rights that are identical to the voting rights of the common units, except they do not have any right to nominate, appoint or elect any of our directors, except whenever distributions payable on the Series A Preferred Units have not been declared and paid for four consecutive quarters (a Trigger Event ). Upon a Trigger Event, holders of Series A Preferred Units, together with the holders of any other series of preferred units upon which like rights have been conferred and are exercisable, 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 Series A Preferred Units shall be entitled to vote with the common units as a single class so that the Series A Preferred Units shall be entitled to one vote for each common unit into which the Series A Preferred Units are then convertible. The 4.9% limitation described above applies to the holders of the Series A Preferred Units with respect to the voting of the Series A Preferred Units on an as-converted basis together with the common units.

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 the approval of a majority of the common units (which include the Series A Preferred Units voting on an as converted basis) voting as a single class. All references in this prospectus to voting of the common units, other than references to voting for the election of the elected directors, shall include voting of the Series A Preferred Units together with the common units as a single class on an as converted basis.



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In voting their common units or any Series A Preferred Units they may hold, our general partner and its affiliates have no fiduciary duty or obligation whatsoever to us or our unitholders, including any duty to act in good faith or in the best interests of us and our unitholders.

### **Action**

Issuance of additional common units or other limited partner interests

### **Unitholder Approval Required and Voting Rights**

No common unitholder approval required; 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. We will have the right to issue securities that with respect to distributions on such securities or distributions upon liquidation of the partnership rank pari passu with the Series A Preferred Units ( parity securities ), provided that the aggregate amount of the Series A 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 at least 67% of the holders of Series A Preferred Units will be necessary for us to issue (i) any securities that with respect to distributions on such securities or distributions upon liquidation of the partnership rank senior to the Series A Preferred Units ( senior securities ) and (ii) any parity securities in excess of such pro-forma book value. In addition, the consent of at least 67% of the holders of Series A Preferred Units will be necessary for us to incur or assume additional indebtedness that would result in our total consolidated indebtedness exceeding 70% of our total capitalization.

Amendment of our partnership agreement

Certain amendments may be made by our board of directors without the approval of our unitholders. Other amendments generally require the approval of a unit majority. Any amendment that (i) adversely affects the rights, preferences and privileges of the Series A Preferred Units or (ii) amends or modifies the terms of the Series A Preferred Units requires the approval of at least of 67% of the Series A Preferred Units, voting separately as a class.

Merger of our partnership or the sale of all or substantially all Unit majority and approval of our general partner and our of our assets

Unit majority and approval of our general partner and our board of directors.

|                                                                 |                                                                               |
|-----------------------------------------------------------------|-------------------------------------------------------------------------------|
| Dissolution of our partnership                                  | Unit majority and approval of our general partner and our board of directors. |
| Reconstitution of our 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.                  |

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### **Action**

Withdrawal of our general partner

### **Unitholder Approval Required and Voting Rights**

Under most circumstances, the approval of a majority of our 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 which would cause a dissolution of our partnership.

Removal of our general partner

Not less than 66  $\frac{2}{3}$ % of our outstanding common units, voting as a single class, including common units held by our general partner and its affiliates.

Transfer of the 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 common unitholders or other limited partners 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 person. The approval of a majority of our 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

No approval required.

Transfer of ownership interests in our general partner

No approval required.

### **Issuance of Additional Interests**

Our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and rights to buy partnership securities for the consideration and on the terms and conditions determined by our board of directors, without the approval of our unitholders, other than the limited approval rights of the holders of the Series A Preferred Units with regard to the issuance of parity securities and senior securities described above under **Voting Rights**. 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 the general partner or its interest in us.

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

Upon issuance of certain additional partnership securities (other than 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 general partner interest in us at the same percentage level as before the issuance. Our general partner's interest in us will thus be reduced if we issue certain additional partnership securities and our general partner does not elect to maintain its general partner interest. Our general partner's interest does not entitle it to receive any portion of distributions made in respect of the Series A Preferred Units and our general partner's interest will not be affected by the issuance of any additional preferred units. Our general partner and its affiliates also 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 or other equity securities

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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 in us, including its interest represented by common units, that existed immediately prior to each issuance. Other holders of common units will not have similar preemptive rights to acquire additional common units or other partnership securities.

## **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, except for the Series A Preferred Units, 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 (other than the Series A Preferred Units) may have the holder's partnership interests purchased at an undesirable time or price. The tax consequences to a common 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/A, filed with the SEC on June 30, 2017, including any subsequent amendments or reports filed for the purpose of updating such description. Please read "Where You Can Find More Information."

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**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. 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

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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 approximately 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;

provide funds to pay quarterly distributions on, and to make any redemption payments relating to, the Series A Preferred Units; 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.

***Series A Preferred Units***

Our Series A Preferred Units rank senior to our common units as to the payment of distributions and amounts payable upon liquidation, dissolution or winding up. Our Series A Preferred Units have a liquidation preference of \$24.00 per unit, plus any Series A unpaid cash distributions, plus all accrued but unpaid distributions on such Series A Preferred Unit with respect to the quarter in which the liquidation occurs to the date fixed for the payment of any amount upon liquidation. Our Series A Preferred Units are entitled to

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cumulative distributions from the date such units were actually issued, with distributions being calculated at an annual rate of 8.0% on the stated liquidation preference and payable quarterly in arrears within 45 days after the end of each quarter (commencing with the quarter ending March 31, 2017), when, as and if declared by our board of directors.

The Series A Preferred Units will be generally convertible, at the option of the holders of the Series A Preferred Units, into common units commencing on February 2, 2019 at the then applicable conversion rate. The conversion rate will be subject to adjustment under certain circumstances. In addition, the conversion rate will be redetermined on a quarterly basis, such that the conversion rate will be equal to \$24.00 (the 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 Issue Price divided by (ii) the book value per common unit on February 2, 2017. In addition, we may redeem the Series A Preferred Units at any time between February 2, 2019 and February 2, 2027 at the redemption price specified in our partnership agreement, provided, however, that upon notice from us to the holders of Series A Preferred Units of our intent to redeem, such holders may elect, instead, to convert their Series A Preferred Units into common units at the then applicable conversion rate.

Upon a change of control of the Partnership, the holders of Series A Preferred Units will have the right to require cash redemption at 100% of the Issue Price. In addition, the holders of Series A Preferred Units will have the right to cause the Partnership to redeem the Series A Preferred Units on February 2, 2027 in, at the option of the Partnership, (i) cash at a price equal to 70% of the Issue Price or (ii) common units such that each Series A Preferred Unit receives common units worth 80% of the 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) plus any accrued and unpaid distributions. In addition, at any time following February 2, 2019 and subject to certain conditions, we will have the right to convert the Series A Preferred Units into common units at the then applicable conversion rate if the aggregate market value (calculated as set forth in the partnership agreement) of the common units into which the then outstanding Series A Preferred Units are convertible, based on the then applicable conversion rate, is greater than 130% of the aggregate Issue Price of the then outstanding Series A Preferred Units.

For additional information about our Series A Preferred Units, please read our Form 8-A/A filed on June 30, 2017.

### ***Minimum Quarterly Distribution***

Common unitholders are entitled under our partnership agreement to receive a quarterly distribution of \$0.375 per unit, 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 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 our common unitholders if it would cause an event of default, or an event of default is then existing, under our financing arrangements, or if full cumulative distributions have not been paid or are not contemporaneously being paid or provided for on all outstanding Series A Preferred Units through the most recent distribution payment date for the Series A Preferred Units.

### **Operating Surplus and Capital Surplus**

#### ***General***

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

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***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*

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

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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, distributions on the Series A Preferred Units 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;

payments made to Series A Preferred Unitholders to redeem, repurchase or otherwise acquire Series A Preferred Units; or

distributions to partners other than distributions on the Series A Preferred Units.

***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.

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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 board's 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 common units for that quarter and subsequent quarters;

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

it may be difficult for us to raise our distribution on our common units above the minimum quarterly distribution and pay incentive distributions to KNOT.

***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 Common Unit Cash Distributions***



We will treat all available cash distributed on our common units 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 on our common units 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 have received or will receive from non-operating sources since the time of our initial public offering, 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 on our common units from capital surplus.

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### ***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 to the extent such reserves are required (A) by any debt instrument for the repayment of principal, interest or premium or (B) for any payments on the Series A Preferred Units; *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.

### **Distributions of Available Cash From Operating Surplus**

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

*first*, 98.15% to all common unitholders, pro rata, and 1.85% to our general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter; and

*thereafter*, in the manner described in Incentive Distribution Rights below.

The preceding paragraph is based on the assumption that our general partner maintains its current 1.85% general partner interest and that we do not issue additional classes of equity securities.

### **General Partner Interest**

Our partnership agreement initially provided that our general partner was 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 general partner interest if we issue additional units. Our general partner's general partner interest, and the percentage of our cash distributions to which it is entitled, is proportionately reduced if we issue additional units and our general partner does not contribute a proportionate amount of capital to us in order to maintain its general partner interest. As of the date of this prospectus, our general partner's general partner interest had been reduced to 1.85%.

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### **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 for our common units 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 the provisions in our partnership agreement. 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 unitholders in an amount equal to the minimum quarterly distribution, then, we will distribute any additional available cash from operating surplus for that quarter among the common unitholders, our general partner and the holders of the incentive distribution rights in the following manner:

*first*, 98.15% to all common unitholders, pro rata, and 1.85% to our general partner, until each common unitholder receives a total of \$0.43125 per unit for that quarter (the first target distribution );

*second*, 85.15% to all common unitholders, pro rata, 1.85% to our general partner and 13.0% to the holders of our incentive distribution rights, pro rata, until each common unitholder receives a total of \$0.46875 per unit for that quarter (the second target distribution );

*third*, 75.15% to all common unitholders, pro rata, 1.85% to our general partner and 23.0% to the holders of our incentive distribution rights pro rata, until each common unitholder receives a total of \$0.5625 per unit for that quarter (the third target distribution ); and

*thereafter*, 50.15% to all common unitholders, pro rata, 1.85% to our general partner and 48.0% to the holders of our incentive distribution rights, pro rata.

The percentage interests set forth above assume that our general partner maintains its current 1.85% general partner interest and that we do not issue additional classes of equity securities.

### **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 common 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 common 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 common 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 current 1.85% general partner interest only and assume that our general partner has contributed any capital necessary to maintain its 1.85% general partner interest.

|                                |                                            | <b>Marginal Percentage Interests</b> |                | <b>Holders of</b>   |
|--------------------------------|--------------------------------------------|--------------------------------------|----------------|---------------------|
|                                |                                            | <b>in Distributions</b>              |                | <b>Incentive</b>    |
|                                |                                            | <b>Common</b>                        | <b>General</b> | <b>Distribution</b> |
|                                | <b>Total Quarterly Distribution Target</b> | <b>Unitholders</b>                   | <b>Partner</b> | <b>Rights</b>       |
| Minimum Quarterly Distribution | \$0.375                                    | 98.15%                               | 1.85%          | 0%                  |
| First Target Distribution      | up to \$0.43125                            | 98.15%                               | 1.85%          | 0%                  |
| Second Target Distribution     | above \$0.43125 up to \$0.46875            | 85.15%                               | 1.85%          | 13.0%               |
| Third Target Distribution      | above \$0.46875 up to \$0.5625             | 75.15%                               | 1.85%          | 23.0%               |
| Thereafter                     | above \$0.5625                             | 50.15%                               | 1.85%          | 48.0%               |

**Table of Contents****Right to Reset Incentive Distribution Levels**

KNOT, as the holder of all of our incentive distribution rights, has the right under our partnership agreement to elect to relinquish the right 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 would be set. KNOT's right to reset the minimum quarterly distribution amount and the target distribution levels upon which our incentive distributions are based may be exercised, without approval of our unitholders or the conflicts committee of our board of directors, at any time 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.

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*, 98.15% to all common unitholders, pro rata, and 1.85% to our general partner, until each common unitholder receives an amount equal to 115.0% of the reset minimum quarterly distribution for that quarter;

*second*, 85.15% to all common unitholders, pro rata, 1.85% to our general partner and 13.0% to the holders of our incentive distribution rights, pro rata, until each common unitholder receives an amount per unit equal to 125.0% of the reset minimum quarterly distribution for that quarter;

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*third*, 75.15% to all common unitholders, pro rata, 1.85% to our general partner, and 23.0% to the holders of our incentive distribution rights, pro rata, until each common unitholder receives an amount per unit equal to 150.0% of the reset minimum quarterly distribution for that quarter; and

*thereafter*, 50.15% to all common unitholders, pro rata, 1.85% 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*, 98.15% to all common unitholders, pro rata, and 1.85% to our general partner, until the minimum quarterly distribution is reduced to zero, as described below; and

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

The preceding paragraph is based on the assumption that our general partner maintains its 1.85% 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 on our common units 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. 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.

Once we reduce the minimum quarterly distribution and the target distribution levels to zero, we will then make all future distributions 50.15% to the holders of common units, 1.85% to our general partner and 48.0% to the holders of our incentive distribution rights (currently, KNOT). The 1.85% interest shown for our general partner assumes that our general partner maintains its current 1.85% 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 common units into fewer units or subdivide our common units into a greater number of units, we will proportionately adjust:

the minimum quarterly distribution;

the target distribution levels; and

the initial unit price.

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For example, if a two-for-one split of the common 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. We will not make any adjustment by reason of the issuance of additional common units for cash or property.

### **Distributions of Cash Upon Liquidation**

If we dissolve in accordance with our partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. Neither the sale of all or substantially all of our property or business, nor the consolidation or merger of us with or into any other entity, individually or in a series of transactions, will be deemed a liquidation. We will apply any proceeds of liquidation available for distribution to our general and limited partners in the manner set forth below.

First, holders of our Series A Preferred Units will have the right to receive the liquidation preference of \$24.00 per unit, plus any Series A unpaid cash distributions, plus all accrued but unpaid distributions on such Series A Preferred Units with respect to the quarter in which the liquidation occurs to the date fixed for the payment of any amount upon liquidation.

After such Series A Preferred Unit distributions, if, as of the date three trading days prior to the announcement of the proposed liquidation, the average closing price of our common units for the preceding 20 trading days (the current market price ) is greater than the initial public offering common unit price (less any prior capital surplus distributions and any prior cash distributions made on our common units in connection with a partial liquidation), then the proceeds of the liquidation will be applied as follows:

*first*, 98.15% to the common unitholders, pro rata, and 1.85% to our general partner, until we distribute for each outstanding common unit an amount equal to the current market price of our common units; and

*thereafter*, 50.15% to all common unitholders, pro rata, 48.0% to holders of incentive distribution rights and 1.85% 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 initial public offering common unit price (less any prior capital surplus distributions and any prior cash distributions made on our common units in connection with a partial liquidation), then the proceeds of the liquidation will be applied as follows:

*first*, 98.15% to the common unitholders, pro rata, and 1.85% to our general partner, until we distribute for each outstanding common unit an amount equal to the initial public offering unit price (less any prior capital surplus distributions and any prior cash distributions made on our common units in connection with a partial liquidation); and

*thereafter*, 50.15% to all common unitholders, pro rata, 48.0% to holders of incentive distribution rights and 1.85% to our general partner.

The immediately preceding two paragraphs are based on the assumption that our general partner maintains its current 1.85% general partner interest and that we do not issue additional classes of equity securities.



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**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following is a discussion of the material U.S. federal income tax considerations that may be relevant to current and prospective common unitholders and, unless otherwise noted in the following discussion, is the opinion of Baker Botts L.L.P., our U.S. counsel, insofar as it contains legal conclusions with respect to matters of U.S. federal income tax law. The opinion of our counsel is dependent on the accuracy of factual representations made by us to them, including descriptions of our operations contained herein. Statements contained herein that we believe, we expect or similar phrases are not legal conclusions or opinions of counsel.

This discussion is based upon provisions of the Internal Revenue Code of 1986, as amended (the Code), U.S. Treasury Regulations (Treasury Regulations), and current administrative rulings and court decisions, all as in effect or existence on the date of this prospectus and all of which are subject to change, possibly with retroactive effect. Changes in these authorities may cause the tax consequences of unit ownership to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to we, our or us are references to KNOT Offshore Partners LP.

The following discussion applies only to beneficial owners of common units that own the common units as capital assets within the meaning of Section 1221 of the Code (*i.e.*, generally, for investment purposes) and is not intended to be applicable to all categories of investors, such as unitholders subject to special tax rules (*e.g.*, financial institutions, insurance companies, broker-dealers, tax-exempt organizations, retirement plans or individual retirement accounts or former citizens or long-term residents of the United States), persons who hold the units as part of a straddle, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes, persons that own, actually and/or constructively, 10.0% or more of our equity (by value) or 10.0% or more of the total combined voting power of all classes of our equity entitled to vote, or persons that have a functional currency other than the U.S. dollar, each of whom may be subject to tax rules that differ significantly from those summarized below. If a partnership or other entity or arrangement classified as a partnership for U.S. federal income tax purposes holds our common units, the tax treatment of its partners generally will depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership holding our common units, you should consult your own tax advisor regarding the tax consequences to you of the partnership's ownership of our common units.

No ruling has been or will be requested from the Internal Revenue Service (the IRS) regarding any matter affecting us or our current and prospective common unitholders. The opinions and statements made herein may be challenged by the IRS and, if so challenged, may not be sustained upon review in a court.

This discussion does not contain information regarding any U.S. state, local, estate, gift or alternative minimum tax considerations concerning the ownership or disposition of common units. This discussion does not comment on all aspects of U.S. federal income taxation that may be important to particular unitholders in light of their individual circumstances, and each current and prospective unitholder is urged to consult its own tax advisor regarding the U.S. federal, state, local, foreign and other tax consequences of the ownership or disposition of common units.

**Election to be Treated as a Corporation**

We have elected to be treated as a corporation for U.S. federal income tax purposes. As a result, U.S. Holders (as defined below) will not be directly subject to U.S. federal income tax on our income, but rather will be subject to U.S. federal income tax on distributions received from us and dispositions of units as described below.

**U.S. Federal Income Taxation of U.S. Holders**

As used herein, the term "U.S. Holder" means a beneficial owner of our common units that is:

an individual U.S. citizen or resident (as determined for U.S. federal income tax purposes),

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a corporation (or other entity that is classified as a corporation for U.S. federal income tax purposes) organized under the laws of the United States or any of its political subdivisions,

an estate the income of which is subject to U.S. federal income taxation regardless of its source, or

a trust if (1) a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) the trust has a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes.

## ***Distributions***

Subject to the discussion below of the rules applicable to Passive Foreign Investment Companies ( 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. Distributions in excess of our earnings and profits 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.

## ***Sale, Exchange or Other Disposition of Common Units***

Subject to the discussion of PFIC status below, a U.S. Holder generally will recognize capital gain or loss upon a sale, exchange or other disposition of our units in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's adjusted tax basis in such units. The U.S. Holder's initial tax basis in its units generally will be the U.S. Holder's purchase price for the units and that tax basis will be reduced (but not below zero) by the amount of any distributions on

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the units that are treated as non-taxable returns of capital (as discussed above under **Distributions** ). Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period is greater than one year at the time of the sale, exchange or other disposition. Certain U.S. Holders (including individuals) may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. A U.S. Holder's ability to deduct capital losses is subject to limitations. Such capital gain or loss generally will be treated as U.S. source income or loss, as applicable, for U.S. foreign tax credit purposes.

***Medicare Tax on Net Investment Income***

Certain U.S. Holders, including individuals, estates and trusts, will be subject to an additional 3.8% Medicare tax on, among other things, dividends and capital gains from the sale or other disposition of equity interests. For individuals, the additional Medicare tax applies to the lesser of (1) net investment income or (2) the excess of modified adjusted gross income over \$200,000 (\$250,000 if married and filing jointly or \$125,000 if married and filing separately). Net investment income generally equals the taxpayer's gross investment income reduced by deductions that are allocable to such income. Unitholders should consult their tax advisors regarding the implications of the additional Medicare tax resulting from their ownership and disposition of our common units.

***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 such U.S. 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 such U.S. 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 methods of operation and an opinion of counsel, we do not believe that we are or will be a PFIC for our 2017 taxable year or for our current or any future taxable year. We have received an opinion of our U.S. counsel, Baker Botts 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 more than 25.0% of our gross income for our 2017 taxable year arose, and we expect that more than 25.0% of our gross income for our current taxable year and each future taxable year will arise, from such or similar time-chartering activities, 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 nonpassive 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 our 2017 taxable year or for our current or any future taxable year.

Our U.S. 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

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characterization of income derived from time charters as services income, the United States Court of Appeals for the Fifth Circuit (the Fifth Circuit) held in *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009) that income derived from certain marine time charter agreements should be treated as rental income rather than services income for purposes of a foreign sales corporation provision of the Code. 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. The IRS has announced its nonacquiescence with the Fifth Circuit's holding in *Tidewater* and its position that the marine time charter agreements at issue in *Tidewater* 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 U.S. counsel is not binding on the IRS or any court. Thus, while we have received an opinion of our U.S. 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 U.S. 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.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year in which a U.S. Holder holds our common units (and regardless of whether we remain a PFIC over the subsequent taxable years), such U.S. Holder should be subject to different taxation rules depending on whether such 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, as discussed below. 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.

***Taxation of U.S. Holders Making a Timely QEF Election***

If a U.S. Holder makes a timely QEF election (an Electing Holder), then, for U.S. federal income tax purposes, that Electing Holder must report as income for its taxable year its pro rata share of our ordinary earnings and net capital gain, if any, for our taxable years that end with or within the taxable year for which such Electing Holder is reporting, regardless of whether or not the Electing Holder received distributions from us in that year. The Electing Holder's adjusted tax basis in the common units will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that were previously taxed will result in a corresponding reduction in the Electing Holder's adjusted tax basis in common units and will not be taxed again once distributed. An Electing Holder generally will recognize capital gain or loss on the sale, exchange or other disposition of our common units. A U.S. Holder makes a QEF election with respect to any year that we are a PFIC by filing IRS Form 8621 with its U.S. federal income tax return. If, contrary to our expectations, we determine that we are treated as a PFIC for any taxable year, we will provide each U.S. Holder with the information necessary to make the QEF election described above. Although the QEF election is available with respect to subsidiaries, in the event we acquire or own a subsidiary in the future that is treated as a PFIC, no assurances can be made that we will be able to provide U.S. Holders with the necessary information to make the QEF election with respect to such subsidiary.

***Taxation of U.S. Holders Making a Mark-to-Market Election***

If we were to be treated as a PFIC for any taxable year in which a U.S. Holder holds our common units and, as we anticipate, our common units were treated as marketable stock, then, as an alternative to making a QEF

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election, such U.S. Holder would be allowed to make a mark-to-market election with respect to our common units, provided the U.S. Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the U.S. Holder's common units at the end of the taxable year over the holder's adjusted tax basis in the common units. The U.S. Holder also would be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in the common units over the fair market value thereof at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder's tax basis in its common units would be adjusted to reflect any such income or loss recognized. Gain recognized on the sale, exchange or other disposition of our common units would be treated as ordinary income, and any loss recognized on the sale, exchange or other disposition of the common units would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included in income by the U.S. Holder. The mark-to-market election generally will not be available with respect to subsidiaries. Accordingly, in the event we acquire or own a subsidiary in the future that is treated as a PFIC, the mark-to-market election generally will not be available with respect to such subsidiary.

### ***Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election***

If we were to be treated as a PFIC for any taxable year in which a U.S. Holder holds our common units and such U.S. Holder does not make either a QEF election or a mark-to-market election for that year (a Non-Electing Holder), then such Non-Electing Holder would be subject to special rules resulting in increased tax liability with respect to (1) any excess distribution (*i.e.*, the portion of any distributions received by the Non-Electing Holder on our common units in a taxable year in excess of 125.0% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the common units) and (2) any gain realized on the sale, exchange or other disposition of the units. Under these special rules:

the excess distribution or gain would be allocated ratably over the Non-Electing Holder's aggregate holding period for the common units;

the amount allocated to the current taxable year and any taxable year prior to the taxable year we were first treated as a PFIC with respect to the Non-Electing Holder would be taxed as ordinary income; and

the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayers for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

These penalties would not apply to a qualified pension, profit sharing or other retirement trust or other tax-exempt organization that did not borrow money or otherwise utilize leverage in connection with its acquisition of our common units. If we were treated as a PFIC for any taxable year and a Non-Electing Holder who is an individual dies while owning our common units, such holder's successor generally would not receive a step-up in tax basis with respect to such units.

### ***Information Reporting Regarding Foreign Financial Assets***

Individual citizens or residents of the United States holding certain foreign financial assets (which generally includes 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. U.S. Holders should consult their tax advisors regarding the effect, if any, of these reporting obligations on their investment in our common units.

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**U.S. Federal Income Taxation of Non-U.S. Holders**

A beneficial owner of our common units (other than a partnership or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder is referred to as a Non-U.S. Holder.

***Distributions***

Distributions we pay to a Non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax if the Non-U.S. Holder is not engaged in a U.S. trade or business. If the Non-U.S. Holder is engaged in a U.S. trade or business, our distributions will be subject to U.S. federal income tax to the extent they constitute income effectively connected with the Non-U.S. Holder's U.S. trade or business. However, distributions paid to a Non-U.S. Holder that is engaged in a U.S. trade or business may be exempt from taxation under an income tax treaty if the income arising from the distribution is not attributable to a U.S. permanent establishment maintained by the Non-U.S. Holder.

***Disposition of Units***

In general, a Non-U.S. Holder is not subject to U.S. federal income tax or withholding tax on any gain resulting from the disposition of our common units provided the Non-U.S. Holder is not engaged in a U.S. trade or business. A Non-U.S. Holder that is engaged in a U.S. trade or business will be subject to U.S. federal income tax in the event the gain from the disposition of units is effectively connected with the conduct of such U.S. trade or business (provided, in the case of a Non-U.S. Holder entitled to the benefits of an income tax treaty with the United States, such gain also is attributable to a U.S. permanent establishment). However, even if not engaged in a U.S. trade or business, individual Non-U.S. Holders may be subject to tax on gain resulting from the disposition of our common units if they are present in the United States for 183 days or more during the taxable year in which those units are disposed or they meet certain other requirements.

**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 a properly completed 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.

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**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 conduct transactions or operations in the Republic of the Marshall Islands.

Because we and our subsidiaries do not and do not expect to carry on business or conduct transactions 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. The Norwegian Government has proposed changes to the rules determining when a company incorporated outside Norway is deemed to be tax resident in Norway in Norway's National Budget for 2019, which has not yet been approved. Pursuant to the proposal, a company incorporated outside Norway may be deemed resident in Norway if it has genuine management in Norway. In such assessment the management on board level and day-to-day management are relevant factors, in addition to other circumstances relating to a company's organization and business.

***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

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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.

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 (including if the proposed changes to the rules determining when a company incorporated outside Norway is deemed to be tax resident is approved), 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. Our Norwegian tax counsel has advised us regarding certain measures we can take to limit the risk that our business may be treated as managed from or carried on in Norway and has concluded that, provided we adopt these measures and otherwise conduct our affairs in a manner consistent with our Norwegian tax counsel's advice, which we intend to do, 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 business 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 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 for the purposes of a trade, profession or vocation or through a branch or agency 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 and Customs as at the date of this prospectus, 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.



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

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**PLAN OF DISTRIBUTION**

As of the date of this prospectus, we have not been advised by the selling unitholders as to any plan of distribution. The selling unitholders may choose to sell some, all or none of the common units offered by this prospectus. To the extent required, this prospectus may be amended or supplemented from time to time to describe a particular plan of distribution.

The common units held by the selling unitholders, or by their partners, pledges, donees (including charitable organizations), transferees or other successors in interest, may from time to time be offered for sale either directly by the selling unitholders or other persons, or through underwriters, dealers or agents or on any exchange on which the units may from time to time be traded, in the over-the-counter markets or in independently negotiated transactions or otherwise. The methods by which the common units may be sold include:

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

a block trade (which may involve crosses in which the same broker-dealer acts as agent on both sides) in which the broker or dealer so engaged will attempt to sell the common units as agent or as riskless principal but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker or dealer as principal and resales by such broker or dealer for its own account pursuant to this prospectus;

exchange distributions and/or secondary distributions in accordance with the rules of the NYSE or any other applicable national securities exchange on which the common units are listed;

sales on any national securities exchange or quotation service on which the common units may be listed or quoted at the time of the sale, including the NYSE, in the over-the-counter markets or through a market maker or into an existing trading market (on an exchange or otherwise) for the common units;

underwritten transactions;

short sales, whether through a broker-dealer or otherwise;

in transactions in which broker-dealers may agree with the selling unitholders to sell a specified number of such common units at a stipulated price per unit;

privately negotiated transactions;

pledges of the common units as security for any loan or obligation, including pledges to brokers or dealers who may from time to time effect sales or other distributions of the securities;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

The selling unitholders may effect such transactions by selling the common units to underwriters or to or through broker-dealers, and such underwriters or broker-dealers may receive compensation in the form of discounts or commissions from the selling unitholders and may receive commissions from the purchasers of the common units for whom they may act as agents. Such transactions may be effected by the selling unitholders at fixed prices, which may be changed, prevailing market prices prevailing at the time of sale, varying prices determined at the time of sale or at negotiated prices. These prices will be determined by the selling unitholders or by agreement between the selling unitholders and any underwriters or broker-dealers who may receive fees or commissions in connection with the sale. The aggregate proceeds to the selling unitholders from the sale of the common units offered hereby will be the purchase price of the common units less discounts and commissions, if any. The selling unitholders may agree to indemnify any underwriter, broker-dealer or agent who participates in transactions involving sales of the units against certain liabilities, including liabilities arising under the Securities Act. We have agreed to register the units for sale under the Securities Act and to indemnify the selling unitholders and each person who participates as an underwriter in an offering of the units against certain liabilities, including certain liabilities under the Securities Act. We have agreed to pay all expenses of the

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registration of the common units offered by this prospectus. The selling unitholders will be responsible for any fees, discounts or selling commissions due to underwriters or dealers and any transfer taxes and fees and disbursements of their own counsel. We will not receive any of the proceeds from any sale of any of the common units sold pursuant to this prospectus.

If the selling unitholders utilize a dealer in the sale of the common units, the selling unitholders will sell those common units to the dealer, as principal. The dealer may then resell those common units to the public at varying prices to be determined by the dealer at the time of resale. The dealers may also be the selling unitholders' customers or may engage in transactions with, or perform services for, the selling unitholders in the ordinary course of business.

The selling unitholders and other persons participating in the sale or distribution of the common units will be subject to applicable provisions of the Exchange Act, and the rules and regulations thereunder, including Regulation M. This regulation may limit the timing of purchases and sales of any of the common units by the selling unitholders and any other person. The anti-manipulation rules under the Exchange Act may apply to sales of securities in the market and to the activities of the selling unitholders and their affiliates. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of the common units to engage in market-making activities with respect to the particular securities being distributed for a period of up to five business days before the distribution. These restrictions may affect the marketability of the common units and the ability of any person or entity to engage in market-making activities with respect to the common units.

Underwriters and dealers that participate in the distribution of the securities offered by this prospectus may be underwriters as defined in the Securities Act, and any discounts or commissions received by them from the selling unitholders and any profit on the resale of the securities offered hereby by them may be treated as underwriting discounts and commissions under the Securities Act. Any underwriters will be identified and their compensation will be described in a prospectus supplement.

Our outstanding common units are listed on the NYSE under the symbol **KNOP** and any additional common units we issue will also be listed on the NYSE.

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**SELLING UNITHOLDERS**

This prospectus covers the offering for resale by the selling unitholders identified below of up to 3,750,000 common units issuable upon conversion of 3,750,000 Series A Preferred Units held by the selling unitholders. The selling unitholders listed in this prospectus purchased an aggregate of 3,750,000 Series A Preferred Units in private placements which closed on February 2, 2017 and June 30, 2017. Subject to certain limitations, the Series A Preferred Units are convertible into common units at the option of the holders at any time after February 2, 2019 or, under certain circumstances, at our option after February 2, 2019. The offer and sale of such Series A Preferred Units was exempt from the registration requirements of the Securities Act and any issuance of the common units to the selling unitholders pursuant to the conversion of the Series A Preferred Units will be exempt from the registration requirements of the Securities Act. We entered into a registration rights agreement with the selling unitholders in connection with the private placements. We are registering the offering by the selling unitholders of the common units described below pursuant to the registration rights agreement. We have no other relationship with the selling unitholders other than the registration rights agreement and private placements.

No offer or sale may occur unless this prospectus is effective at the time the selling unitholders offer or sell such common units. Information concerning the selling unitholders may change over time.

All expenses incurred with the registration and offering of the common units owned by the selling unitholders will be borne by us. The selling unitholders will be responsible for any fees, discounts or selling commissions due to underwriters or dealers and any transfer taxes and fees and disbursements of their own counsel. We will not receive any of the proceeds from any sale of any of the common units sold pursuant to this prospectus.

The following table sets forth information relating to the selling unitholders as of October 22, 2018 based on information supplied to us by the selling unitholders on or prior to that date. We have not sought to verify such information. Information concerning the selling unitholders may change over time and selling unitholders may be added; if necessary, we will supplement this prospectus accordingly. Except as set forth below, none of the selling unitholders is a broker-dealer registered under Section 15 of the Exchange Act or an affiliate of a broker-dealer registered under Section 15 of the Exchange Act. The selling unitholders may hold or acquire at any time common units in addition to those offered by this prospectus and may have acquired additional common units since the date on which the information reflected herein was provided to us. In addition, the selling unitholders may have sold, transferred or otherwise disposed of some or all of their common units since the date on which the information reflected herein was provided to us and may in the future sell, transfer or otherwise dispose of some or all of their common units in private placement transactions exempt from or not subject to the registration requirements of the Securities Act.



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We do not know when or in what amounts the selling unitholders may offer their common units for sale, if at all. Because the selling unitholders may offer all, some or none of their common units pursuant to this prospectus and because we are unaware of any agreements, arrangements or understanding with respect to the sale of any such common units, no definitive estimate can be provided as to the number of common units that will be held, or the percentage of common units beneficially owned, by each selling unitholder after completion of any offerings pursuant to this prospectus. For purposes of the table below, the information regarding common units owned after the offering assumes the sale of all common units offered by the selling unitholders and that the selling unitholders do not acquire any additional common units.

| <b>Selling Unitholder</b>                     | <b>Number of Common Units Beneficially Owned Before Completion of the Offering(1)</b> | <b>Number of Common Units Offered Hereby(1)</b> | <b>Number of Common Units Beneficially Owned After Completion of the Offering</b> | <b>Percentage of Common Units Owned After Completion of the Offering</b> |
|-----------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| OMP AY Preferred Limited(2)                   | 2,083,333                                                                             | 2,083,333                                       |                                                                                   |                                                                          |
| Pierfront Capital Mezzanine Fund Pte. Ltd.(3) | 1,250,000                                                                             | 1,250,000                                       |                                                                                   |                                                                          |
| Tortoise Direct Opportunities Fund, LP(4)(5)  | 416,667                                                                               | 416,667                                         |                                                                                   |                                                                          |

- (1) Includes up to an aggregate of 3,750,000 common units issuable upon conversion of the Series A Preferred Units held by the selling unitholders as follows:

| <b>Selling Unitholder</b>                  | <b>Number of Common Units Issuable Upon Conversion of Series A Preferred Units</b> |
|--------------------------------------------|------------------------------------------------------------------------------------|
| OMP AY Preferred Limited                   | 2,083,333                                                                          |
| Pierfront Capital Mezzanine Fund Pte. Ltd. | 1,250,000                                                                          |
| Tortoise Direct Opportunities Fund, LP     | 416,667                                                                            |

- (2) The address of OMP AY Preferred Limited is T6B 18 Faway Court, Tigne Point, Sliema, Malta.
- (3) The address of Pierfront Capital Mezzanine Fund Pte. Ltd. is One Raffles Quay, #23-01, North Tower, Singapore 048583.
- (4) The address of Tortoise Direct Opportunities Fund, LP is 11550 Ash Street, Suite 300, Leawood, KS 66211.
- (5) Representatives of the selling unitholder have advised us that the advisor to the selling unitholder is an affiliate of a U.S. registered broker-dealer; however, the selling unitholder acquired the Series A Preferred Units in the ordinary course of business and, at the time of acquisition, had no agreements or understandings, directly or indirectly, with any party to distribute the Series A Preferred Units or the common units issuable upon conversion thereof.

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**SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES**

We are organized under the laws of the Marshall Islands as a limited partnership. Our general partner is organized under the laws of the Marshall Islands as a limited liability company. The Marshall Islands has a less developed body of securities laws as compared to the United States and provides protections for investors to a significantly lesser extent.

Most of our directors and officers and those of our subsidiaries are residents of countries other than the United States. Substantially all of our and our subsidiaries' assets and a substantial portion of the assets of our directors and officers are located outside the United States. As a result, it may be difficult or impossible for U.S. investors to effect service of process within the United States upon us, our directors or officers, our general partner or our subsidiaries or to realize against us or them judgments obtained in U.S. courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States. However, we have expressly submitted to the jurisdiction of the U.S. federal and New York state courts sitting in the City of New York for the purpose of any suit, action or proceeding arising under the securities laws of the United States or any state in the United States, and we have appointed Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19711, to accept service of process on our behalf in any such action.

Watson Farley & Williams LLP, our counsel as to Marshall Islands law, has advised us that there is uncertainty as to whether the courts of the Marshall Islands would (1) recognize or enforce against us, our general partner, or the directors or officers of such entities judgments of courts of the United States based on civil liability provisions of applicable U.S. federal and state securities laws or (2) impose liabilities against us, our general partner or such directors and officers in original actions brought in the Marshall Islands, based on these laws.

**LEGAL MATTERS**

Unless otherwise stated in the applicable prospectus supplement, (a) Baker Botts L.L.P. will render an opinion on the material United States federal income tax considerations regarding the common units and (b) 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 Watson Farley & Williams LLP. Any underwriters will be advised about other issues relating to any offering by their own legal counsel.

**EXPERTS**

The consolidated financial statements of KNOT Offshore Partners LP appearing in KNOT Offshore Partners LP's Annual Report (Form 20-F) for the year ended December 31, 2017 have been audited by Ernst & Young AS, independent registered public accounting firm, as set forth in their report thereon included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

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The following table sets forth the 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. All amounts are estimated, except the SEC registration fee.

|                                                          |          |
|----------------------------------------------------------|----------|
| U.S. Securities and Exchange Commission registration fee | \$ 9,740 |
| Legal fees and expenses                                  | *        |
| Accounting fees and expenses                             | *        |
| Printing costs                                           | *        |
| Transfer agent fees and other                            | *        |
| Miscellaneous                                            | *        |
| Total                                                    | \$ *     |

\* To be provided in a prospectus supplement or in a Report on Form 6-K subsequently incorporated by reference into this prospectus.

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**PART II**

**INFORMATION NOT REQUIRED IN THE PROSPECTUS**

**Item 8. Indemnification of Directors and Officers.**

KNOT Offshore Partners LP is a Marshall Islands limited partnership. Under the Marshall Islands Limited Partnership Act, a partnership agreement may set forth that the partnership shall indemnify and hold harmless any partner or other person from and against any and all claims and demands whatsoever. Under our partnership agreement, in most circumstances, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages or similar events:

- (1) our general partner;
- (2) any departing general partner;
- (3) any person who is or was an affiliate of our general partner or any departing general partner;
- (4) any person who is or was a member, partner, director, officer, fiduciary or trustee of any entity described in (1), (2) or (3) above;
- (5) any person who is or was serving as an officer, director, member, partner, fiduciary or trustee of another person at the request of any entity described in (1), (2) or (3) above;
- (6) any person designated by our board of directors;
- (7) the members of our board of directors; and
- (8) any of our officers.

Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees, our general partner will not be personally liable for, or have any obligation to contribute or lend funds or assets to us to enable us to effectuate, indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement. We currently maintain directors and officers insurance for our directors and officers.

**Item 9. Exhibits.**

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                         |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.1*                      | Form of Underwriting Agreement                                                                                                                                                                                                                                             |
| 3.1                       | <u>Certificate of Limited Partnership of KNOT Offshore Partners LP (incorporated by reference to Exhibit 3.1 to the registrant's Form F-1 Registration Statement (333-186947), filed on February 28, 2013)</u>                                                             |
| 3.2                       | <u>Third Amended and Restated Agreement of Limited Partnership of KNOT Offshore Partners LP (incorporated by reference to Exhibit 3.2 to the registrant's Form 8-A/A filed on June 30, 2017)</u>                                                                           |
| 4.1                       | <u>Registration Rights Agreement, dated as of February 2, 2017, between KNOT Offshore Partners LP and OMP AY Preferred Limited (incorporated by reference to Exhibit 4.3 to the registrant's Form 6-K filed on February 2, 2017)</u>                                       |
| 4.2                       | <u>Joinder Agreement, dated as of June 30, 2017, among KNOT Offshore Partners LP, Pierfront Capital Mezzanine Fund Pte. Ltd. and Tortoise Direct Opportunities Fund, LP (incorporated by reference to Exhibit 4.1 to the registrant's Form 6-K filed on June 30, 2017)</u> |
| 5.1                       | <u>Opinion of Watson Farley &amp; Williams LLP as to the legality of the common units being registered</u>                                                                                                                                                                 |
| 8.1                       | <u>Opinion of Baker Botts L.L.P. relating to tax matters</u>                                                                                                                                                                                                               |

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| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                     |
|---------------------------|----------------------------------------------------------------------------------------|
| 8.2                       | <u>Opinion of Watson Farley &amp; Williams LLP relating to tax matters</u>             |
| 8.3                       | <u>Opinion of Advokatfirmaet Thommessen AS relating to tax matters</u>                 |
| 23.1                      | <u>Consent of Ernst &amp; Young AS</u>                                                 |
| 23.2                      | <u>Consent of Watson Farley &amp; Williams LLP (contained in Exhibits 5.1 and 8.2)</u> |
| 23.3                      | <u>Consent of Baker Botts L.L.P. (contained in Exhibit 8.1)</u>                        |
| 23.4                      | <u>Consent of Advokatfirmaet Thommessen AS (contained in Exhibit 8.3)</u>              |
| 24.1                      | <u>Power of Attorney (included in signature page)</u>                                  |

\* To be filed by amendment or as an exhibit to a Report on Form 6-K of the registrant that is incorporated by reference into this registration statement.

### **Item 10. Undertakings.**

The undersigned registrant hereby undertakes:

1. To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
  - a. To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;
  - b. To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement.
  - c. To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

*Provided however*, that paragraphs 1(a), 1(b) and 1(c) of this section do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or

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furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

2. That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.
3. To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
4. To file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A. of Form 20-F at the start of any delayed offering or throughout a continuous offering.
5. That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:
  - a. Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

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- b. Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1) (i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof. *Provided, however,* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or
  
- 6. That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:  
 The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:
  - a. Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;
  - b. Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
  - c. The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
  - d. Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.
  
- 7. That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.



8. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Aberdeen, Aberdeenshire, United Kingdom, on the 23rd of October, 2018.

**KNOT OFFSHORE PARTNERS LP**

By: /s/ John Costain  
 Name: John Costain  
 Title: Chief Executive Officer and Chief  
 Financial Officer

**POWER OF ATTORNEY**

Each person whose signature appears below appoints John Costain as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement and any registration statement (including any amendments thereto) for this offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended and to file the same with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or would do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

| <b>Signature</b>  | <b>Title</b>                                                                                | <b>Date</b>      |
|-------------------|---------------------------------------------------------------------------------------------|------------------|
| /s/ John Costain  | Chief Executive Officer and Chief Financial Officer                                         | October 23, 2018 |
| John Costain      | (Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer) |                  |
| /s/ Trygve Seglem | Chairman of the Board of Directors                                                          | October 23, 2018 |
| Trygve Seglem     |                                                                                             |                  |
| /s/ Simon Bird    | Director                                                                                    | October 23, 2018 |
| Simon Bird        |                                                                                             |                  |

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/s/ Takuji Banno

Director

October 23, 2018

Takuji Banno

/s/ Richard Beyer

Director

October 23, 2018

Richard Beyer

Director

Hans Petter Aas

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| <b>Signature</b>                                   | <b>Title</b> | <b>Date</b>      |
|----------------------------------------------------|--------------|------------------|
| /s/ Edward A. Waryas, Jr.<br>Edward A. Waryas, Jr. | Director     | October 23, 2018 |
| /s/ Andrew Beveridge<br>Andrew Beveridge           | Director     | October 23, 2018 |

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**SIGNATURE OF AUTHORIZED REPRESENTATIVE OF THE REGISTRANT**

Pursuant to the Securities Act of 1933, as amended, the undersigned, a duly authorized representative of KNOT Offshore Partners LP in the United States, has signed this registration statement in the City of Newark, State of Delaware, on the 23rd day of October, 2018.

PUGLISI & ASSOCIATES

By: /s/ Donald J. Puglisi

Name: Donald J. Puglisi

Title: Managing Director

Authorized Representative in the United States

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