Oiltanking Partners, L.P.
Form 10-K
March 15, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2011
or

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

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

Delaware	45-0684578
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
15631 Jacintoport Blvd. Houston, TX	77015
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (281) 457-7900
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common units representing limited partnership interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

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

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

As of June 30, 2011, the last business day of the registrant’s most recently completed second fiscal quarter, the registrant’s equity was not listed on any domestic exchange or over-the-counter market. The registrant’s common units began trading on the New York Stock Exchange on July 15, 2011.

As of March 9, 2012, there were 19,449,901 common units and 19,449,901 subordinated units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information contained in this Annual Report on Form 10-K (this "Report") includes "forward-looking statements." All statements that express belief, expectation, estimates or intentions, as well as those that are not statements of historical facts, are forward-looking statements. Such statements use forward-looking words such as "proposed," "anticipate," "project," "potential," "could," "should," "continue," "estimate," "expect," "may," "believe," "will," "plan," "seek," "outlook" expressions that are intended to identify forward-looking statements, although some forward-looking statements are expressed differently. These statements discuss future expectations and contain projections. Specific factors that could cause actual results to differ from those in the forward-looking statements include, but are not limited to: (i) adverse regional, national or international economic conditions, adverse capital market conditions or adverse political development; (ii) changes in the marketplace for our products or services, such as increased competition, better energy efficiency, or general reductions in demand; (iii) changes in the long-term supply and demand of crude oil, refined petroleum products and liquefied petroleum gas in the markets in which we operate; (iv) actions taken by our customers, competitors and third party operators; (v) nonpayment or nonperformance by our customers; (vi) changes in the availability and cost of capital; (vii) unanticipated capital expenditures in connection with the construction, repair, or replacement of our assets; (viii) operating hazards, natural disasters, terrorism, weather-related delays, adverse weather conditions, including hurricanes, natural disasters, environmental releases, casualty losses and other matters beyond our control; (ix) the effects of existing and future laws and governmental regulations to which we are subject, including those that permit the treatment of us as a partnership for federal income tax purposes; and (x) the effects of future litigation. These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other factors that could also have material adverse effects on future results include the known material risks and uncertainties under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Report. Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements, and we cannot assure you that actual results or developments that we anticipate will be realized or, even if substantially realized, will have the expected consequences to or effect on us or our business or operations.

The forward-looking statements contained in this Report speak only as of the date hereof. Although the expectations in the forward-looking statements are based on our current beliefs and expectations, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date hereof. Except as required by federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason. All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Report and in our future periodic reports filed with the U.S. Securities and Exchange Commission ("SEC"). In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Report may not occur.

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PART I

Item 1. Business

Introduction

Oiltanking Partners, L.P. (“OILT”) is a Delaware limited partnership formed by Oiltanking Holding Americas, Inc. (“OTA”) on March 14, 2011 to engage in the storage, terminaling and transportation of crude oil, refined petroleum products and liquefied petroleum gas. Through our wholly owned subsidiaries, Oiltanking Houston, L.P. (“OTH”) and Oiltanking Beaumont Partners, L.P. (“OTB” and together with OTH, our “Predecessor”), we own and operate storage and terminaling assets located along the Gulf Coast of the United States on the Houston, Texas Ship Channel and in Beaumont, Texas. We operate and report in one business segment.

Our Houston and Beaumont terminals provide deep-water access and significant interconnectivity to refineries, chemical and petrochemical companies, common carrier and dedicated pipelines and production facilities and have international distribution capabilities. Our facilities are directly connected to 18 refineries, storage facilities and production facilities along the Gulf Coast area through dedicated pipelines and common carrier pipelines, to end markets along the Gulf Coast and to the Cushing, Oklahoma storage interchange.

The diagram below illustrates the position and function of the independent terminaling and storage industry within the crude oil and refined products market chain.

Terminaling Industry’s Role in Crude Oil and Petroleum Products Supply Chain

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

We completed our initial public offering (“IPO”) of 11,500,000 common units at a price of $21.50 per unit on July 19, 2011. In exchange for OTA and its affiliates contributing all of their equity interests in OTH and OTB to us, we issued limited partner interests to OTA and its affiliates. We also issued incentive distribution rights (“IDRs”) to our general partner. Through July 18, 2011, OTH and OTB were wholly owned subsidiaries of OTA. At December 31, 2011, OTA owned our general partner, 7,949,901 common units and 19,449,901 subordinated units.

At December 31, 2011, we had outstanding (i) 19,449,901 common units and 19,449,901 subordinated units representing limited partner interests, (ii) a 2.0% general partner interest and (iii) IDRs. Common units held by public security holders represent 29.6% of all of our outstanding limited partner interests, and OTA and its affiliates hold 70.4% of all of our outstanding limited partner interests. The limited partners collectively hold a 98.0% limited partner interest in OILT, and the general partner holds a 2.0% general partner interest in OILT.

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The following chart depicts our ownership structure as of December 31, 2011 and approximate ownership percentages.

Our common units are listed on the New York Stock Exchange ("NYSE") under the symbol "OILT."

Business Strategy

Our primary business objective is to generate stable cash flows to enable us to pay quarterly distributions to our unitholders and to increase our quarterly cash distributions over time. We intend to accomplish this objective by executing the following business strategies:

- Capitalize on organic growth opportunities by expanding and developing the assets and properties that we already own.
- Pursue accretive strategic acquisitions of terminaling, storage, pipeline and other midstream assets that will expand or complement our existing asset portfolio and that are expected to increase our revenues and cash flows.
- Maintain and develop strong customer relationships based upon a high quality of service, reliability, the efficiency of our existing assets and operations and our global marketing and relationship network.
- Maintain sound financial practices to ensure our long-term viability.

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Competitive Strengths

We believe that we are well positioned to successfully execute our business strategies because of the following competitive strengths:

- Well-positioned and highly integrated terminal assets creating high barriers of entry for potential competitors.
- Established relationships with customers generating multi-year contracts and stable cash flows.
- Expansive waterfront and dock capacity, allowing for efficient unloading and loading of cargoes.
- Flexible, efficient and well-maintained assets that can be expanded at competitive costs.
- Financial flexibility to fund growth.
- Our relationship with the Oiltanking Group.
- Experienced management team and operational expertise.

2011 Developments

Initial Public Offering
On July 19, 2011, we completed our IPO of 11,500,000 common units, including 1,500,000 common units issued in connection with the underwriters' exercise of their over-allotment option, at a price of $21.50 per unit. The net proceeds from the IPO of approximately $231.2 million, after deducting the underwriting discount and the structuring fee, were used to: (i) repay intercompany indebtedness owed to Oiltanking Finance B.V., a wholly owned finance company of the Oiltanking Group, in the amount of approximately $119.5 million, (ii) pay Oiltanking Finance B.V. for approximately $1.0 million of interest due on intercompany indebtedness and reimburse Oiltanking Finance B.V. for approximately $6.4 million of fees incurred in connection with the repayment of such indebtedness, (iii) make distributions to OTA and its affiliates in the aggregate amount of $77.2 million, (iv) pay other offering expenses of approximately $3.4 million and (v) provide us with working capital of approximately $23.7 million. Of the $23.7 million, we invested $20.0 million with Oiltanking Finance B.V. under a short-term note receivable.

In exchange for OTA and its affiliates contributing all of their equity interests in OTH and OTB to us on July 19, 2011, we issued an aggregate of 7,949,901 common units and 19,449,901 subordinated units, both of which represent limited partner interests, to OTA and its affiliates. We also issued IDRs to our general partner.

In anticipation of our IPO, certain assets and liabilities of OTH and OTB were distributed to OTA. We historically sponsored a non-pension postretirement benefit plan for the employees of all entities owned by OTA and a deferred compensation plan for certain employees. On June 1, 2011, the postretirement benefit and deferred compensation plans and obligations were distributed to and assumed by OTA, and certain assets used to fund the deferred compensation plan obligations were distributed to OTA. In addition, effective June 1, 2011, our former employees were transferred to OTA, and OTA became the sponsor of our self-insurance program and 401(k) retirement plan. OTH and OTB also made non-cash distributions to OTA, consisting of certain land parcels, an office building, other property and equipment, certain accounts receivable and notes receivable, affiliate. OTH and OTB also made cash distributions to OTA. Net deferred tax assets related to these assets and liabilities were also distributed to OTA. See Note 18 in the Notes to Consolidated Financial Statements for further information regarding the amounts distributed to OTA.

Expansion Projects and Assets Placed Into Service
On November 8, 2011, we announced that the board of directors of our general partner approved expansion projects to construct two crude oil pipelines on the Houston Ship Channel and approximately one million barrels of new crude oil storage capacity at our Houston terminal. The approximately $85.0 million project is the first phase of anticipated infrastructure and storage capital expenditures to address additional customer demand at our Houston terminal. We have obtained the required environmental and internal approvals to commence construction and expect to complete

construction of the pipelines and approximately one million barrels of new crude oil storage capacity during the first quarter of 2013.

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The new one million barrels of storage capacity is in addition to the one million barrels of crude storage we began constructing at the Houston terminal in the first quarter of 2011. Two of the three tanks related to that project have been placed into service in December 2011, and we expect the last tank to be placed into service in the second quarter of 2012. We also completed the construction on and placed into service a barge dock at our Beaumont terminal. Once these expansion projects are complete, our total active storage capacity across all products will be approximately 18.8 million barrels. We anticipate funding the expansion projects with borrowings under our revolving line of credit (see "Credit Agreement" below). To the extent the project funding exceeds the $50.0 million capacity of the revolving line of credit, we expect to fund it with long-term borrowings from Oiltanking Finance B.V.

Agreements with Affiliates

Credit Agreement

On June 15, 2011, we entered into a two-year $50.0 million unsecured revolving line of credit agreement with Oiltanking Finance B.V., which was amended by Addendum No. 1, dated June 22, 2011 (the "Credit Agreement"). From time to time upon our written request and in the sole determination of Oiltanking Finance B.V., the revolving credit commitment can be increased up to an additional $75.0 million, for a maximum revolving credit commitment of $125.0 million. Borrowings bear interest at LIBOR plus a margin of 2.00% and any unused portion of the revolving line of credit is subject to a commitment fee of 0.50% per annum. The maturity date of the Credit Agreement is June 30, 2013. At December 31, 2011, we had no outstanding borrowings under the Credit Agreement. We paid an arrangement fee of $0.3 million in connection with entering into the Credit Agreement.

The Credit Agreement requires us to maintain, on a calendar year basis, certain Financial Parameters (as such term is defined in the Credit Agreement), including: (i) a ratio of Stockholders' Equity to non-current assets of 30% or greater, (ii) a ratio of EBITDA to Total Debt Service of 1.2 or greater and (iii) a ratio of Net Financial Indebtedness to EBITDA of 3.75 or less (as such terms are defined in the Credit Agreement). See Note 9 in the Notes to Consolidated Financial Statements for further information.

Services Agreement

On July 19, 2011, in connection with the closing of the IPO, we entered into a services agreement (the "Services Agreement") with our general partner and Oiltanking North America, LLC ("OTNA"), a subsidiary of OTA, pursuant to which OTNA agreed to provide us certain specified operating and selling, general and administrative services necessary to operate and manage our business. We agreed to reimburse OTNA for all reasonable costs and expenses incurred in connection with such services, subject to a maximum annual reimbursement obligation of $17.0 million for specified selling, general and administrative expenses. We also agreed to reimburse OTNA for all operating expenses, all expenses it incurs as a result of our becoming a publicly traded partnership, and all operating expenses that it incurs with respect to insurance coverage for our business, with such reimbursement obligations not subject to any cap.

We subsequently amended the Services Agreement on December 31, 2011, but effective as of July 19, 2011, to provide for an annual fixed fee of $14.9 million, payable in equal monthly installments, for the specified selling, general and administrative services that were previously reimbursable.

The initial term of the Services Agreement is 10 years, and it will automatically renew for additional 12-month periods following the expiration of the initial term unless and until either we or OTNA provides 180 days written notice of our intention to terminate the agreement. During this time, the $14.9 million fee related to selling, general and administrative expenses will be adjusted as necessary each year to account for inflation as measured by the consumer price index. In addition, with the approval of the Conflicts Committee of the board of directors of our general partner, the fee may be adjusted to account for growth in our business or asset base.

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Omnibus Agreement

On July 19, 2011, in connection with the closing of the IPO, we entered into an omnibus agreement (the "Omnibus Agreement") with our general partner and OTA, pursuant to which OTA agreed to provide us with a license to use the name "Oiltanking" and related marks in connection with our business at no cost to us.

The Omnibus Agreement also provides for certain indemnification obligations between us and OTA with respect to the assets which were contributed to us by OTA in connection with the closing of the IPO. OTA's indemnification obligations to us include the following: (i) for a period of three years after the closing of the IPO, OTA will indemnify us for environmental losses arising out of any event or circumstance associated with the operation of our assets prior to the closing of the IPO of up to $15.0 million in the aggregate, provided that OTA will only be liable to provide indemnification for losses to the extent that the aggregate dollar amount of losses suffered by us exceeds $0.5 million in any calendar year; (ii) until 60 days after the applicable statute of limitations, OTA will indemnify us for any additional federal, state and local income tax liabilities attributable to the ownership and operation of our assets and the assets of our subsidiaries prior to the closing of the IPO; (iii) for a period of three years after the closing of the IPO, OTA will indemnify us for any losses resulting from the failure to have all necessary consents and governmental permits necessary for us to operate our assets in substantially the same manner in which they were used and operated immediately prior to the closing of the IPO; and (iv) for a period of three years after the closing of the IPO, OTA will indemnify us for any losses resulting from our failure to have valid and indefeasible easement rights, rights-of-way, leasehold and/or fee ownership interest in the lands where our assets are located if such failure prevents us from using or operating our assets in substantially the same manner as they were operated immediately prior to the closing of the IPO. The Omnibus Agreement will generally remain in effect so long as OTA controls our general partner, or unless mutually terminated by the parties.

Assets and Areas of Operations

Our terminal assets are strategically located along the Gulf Coast of the United States on the Houston, Texas Ship Channel and in Beaumont, Texas. Our Houston and Beaumont terminals provide deep-water access and significant interconnectivity to refineries, chemical and petrochemical companies, common carrier and dedicated pipelines and production facilities and have international distribution capabilities. Our facilities are directly connected to 18 refineries, storage facilities and production facilities along the Gulf Coast area through dedicated pipelines and common carrier pipelines, to end markets along the Gulf Coast and to the Cushing, Oklahoma storage interchange. Certain of our facilities were designed and constructed specifically for our customers' needs. These assets, as well as our substantial connectivity, combine to make us an important part of many of our customers' supply chains, and we believe that their costs associated with arranging for alternative terminaling or storage would be substantial.

Refiners and chemical companies typically use our terminals because their facilities may not have adequate storage capacity or sufficient dock infrastructure or do not meet specialized handling requirements for a particular product. We also provide storage services to producers, marketers and traders that require access to large, strategically located storage capacity. Our combination of geographic location, efficient and well-maintained storage assets, deep-water access and extensive distribution interconnectivity give us the flexibility to meet the evolving demands of our existing customers as well as those of prospective customers seeking terminaling and storage services along the Gulf Coast.

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Our primary assets are our terminal facilities and related infrastructure at our Houston and Beaumont terminals, information with regard to which is set forth below as of December 31, 2011:

Location	Active Storage Capacity (shell mmbbls)	Expansion Capacity (shell mmbbls)	No. of Active Tanks	% of Active Storage Capacity under Contract	Weighted-Average Contract Life (years) (1)	Composition of Contracted Storage Capacity	Supply Modes	Delivery Modes
Houston	11.7 (2)	7.4 (3)	62	99.1 %	6.5	64% crude oil, 26% heavy petrochemical feedstocks, 7% refined petroleum products, 3% fuel oil	Vessel, Barge, Pipeline, Railcars, Tank Trucks	Vessel, Barge, Pipeline, Railcars, Tank Trucks
Beaumont	5.6 (4)	5.4 (5)	72	97.2 %	4.2	99% refined petroleum products, 1% fuel oil	Vessel, Barge, Pipeline	Vessel, Barge, Pipeline
Total	17.3 (2)	12.8	134	98.2 %	5.8			

(1) Weighted based upon revenues for the year ended December 31, 2011.

(2) In December 2011, two tanks with total storage capacity of 655,000 barrels were placed into service. These two storage tanks are part of an expansion project involving three storage tanks with an aggregate approximately one million barrels of storage capacity supported by multi-year contracts with two customers. We expect to place the third 390,000 barrel storage tank of this project into service during the second quarter of 2012. Active storage capacity set forth in the table only reflects completed construction that is operational and does not include the November 2011 announcement of expansion projects to construct one million barrels of new crude oil storage capacity expected to be placed into service during the first quarter of 2013 (see “2011 Recent Developments” above).

(3) Represents additional storage capacity that could be constructed on 63 acres we currently hold under a long-term lease expiring in 2035. We have an option to acquire this acreage prior to December 2020 for a price of $6.0 million to $6.7 million.

(4) During the third quarter of 2011, two tanks with total storage capacity of 130,000 barrels were taken out of service as they reached the end of their useful lives.

(5) Represents additional storage capacity that could be constructed at our Beaumont terminal. Amount does not include more than 20.0 million barrels of additional storage capacity which we have sufficient acreage to construct on the remote side of our terminal complex with pipeline connections to our waterfront.

Because of the strategic location of our assets, our deep-water access and our integrated distribution network, as well as significant barriers to entry for potential competitors, we believe that we are well-positioned to expand our existing operations in the Gulf Coast region.

Houston Terminal