SIRIUS XM HOLDINGS INC.
Form 10-K
January 31, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017
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 001-34295

SIRIUS XM HOLDINGS INC.
(Exact name of registrant as specified in its charter)

Delaware	38-3916511
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1290 Avenue of the Americas, 11th Floor	
New York, New York	10104
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (212) 584-5100

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Stock, par value $0.001 per share	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 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 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 is not contained herein, and will not be contained, to the best of the 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,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

Smaller reporting company o Emerging growth company o

If an emerging growth company, 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 13(a) of the Exchange Act. 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

The aggregate market value of the registrant’s common stock held by non-affiliates as of June 30, 2017 was $7,957,495,699. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be “affiliates” of the registrant.

The number of shares of the registrant’s common stock outstanding as of January 29, 2018 was 4,491,863,747.

DOCUMENTS INCORPORATED BY REFERENCE

Information included in our definitive proxy statement for our 2018 annual meeting of stockholders scheduled to be held on Tuesday, June 5, 2018 is incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

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PART I

ITEM 1. BUSINESS

This Annual Report on Form 10-K presents information for Sirius XM Holdings Inc. ("Holdings"). The terms "Holdings," "we," "us," "our," and "our company" as used herein and unless otherwise stated or indicated by context, refer to Sirius XM Holdings Inc. and its subsidiaries, and "Sirius XM" refers to our wholly-owned subsidiary Sirius XM Radio Inc. Holdings has no operations independent of its wholly-owned subsidiary, Sirius XM.

Sirius XM Holdings Inc.

Sirius XM is a wholly-owned subsidiary of Holdings. Holdings was incorporated in the State of Delaware on May 21, 2013. Holdings has no operations independent of its subsidiary Sirius XM.

Relationship with Liberty Media

As of December 31, 2017, Liberty Media Corporation ("Liberty Media") beneficially owned, directly and indirectly, approximately 70% of the outstanding shares of Holdings' common stock. Liberty Media owns interests in a range of media, communications and entertainment businesses.

Sirius XM Radio Inc.

We transmit music, sports, entertainment, comedy, talk, news, traffic and weather channels, as well as infotainment services, in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive music and other channels, plus certain other features such as SiriusXM On Demand, over our Internet radio service, including through applications for mobile devices, home devices and other consumer electronic equipment. We also provide connected vehicle services. Our connected vehicle services are designed to enhance the safety, security and driving experience for vehicle operators while providing marketing and operational benefits to automakers and their dealers.

As of December 31, 2017, we had approximately 32.7 million subscribers. Our subscribers include:

- subscribers under our regular and discounted pricing plans;
- subscribers that have prepaid, including payments made or due from automakers for subscriptions included in the sale or lease price of a vehicle;
- subscribers to our Internet services who do not also have satellite radio subscriptions; and
- certain subscribers to our weather, traffic and data services who do not also have satellite radio subscriptions.

Our primary source of revenue is subscription fees, with most of our customers subscribing to annual, semi-annual, quarterly or monthly plans. We offer discounts for prepaid longer term subscription plans, as well as a multiple subscription discount. We also derive revenue from activation and other fees, the sale of advertising on select non-music channels, the direct sale of satellite radios and accessories, and other ancillary services, such as our weather, traffic and data services. We provide traffic services to approximately 7.5 million vehicles.

Our satellite radios are primarily distributed through automakers; retailers; and our website. We have agreements with every major automaker to offer satellite radios in their vehicles, through which we acquire the majority of our subscribers. We also acquire subscribers through marketing to owners and lessees of previously-owned vehicles that include factory-installed satellite radios that are not currently subscribing to our services. Satellite radio services are also offered to customers of certain rental car companies.

Acquisition and Investment Transactions in 2017

During the year ended December 31, 2017, we entered into several strategic transactions.

Acquisition of Automatic Labs. On April 18, 2017, Sirius XM acquired Automatic Labs Inc. ("Automatic"), a connected vehicle device and mobile application company, for an aggregate purchase price of $107.7 million, net of cash and restricted cash acquired.

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Recapitalization of Sirius XM Canada. On May 25, 2017, Sirius XM completed a recapitalization of Sirius XM Canada Holdings Inc. ("Sirius XM Canada"), which is now a privately held corporation. Sirius XM now holds a 70% equity interest and 33% voting interest in Sirius XM Canada, with the remainder of the voting power and equity interests held by two of Sirius XM Canada's previous shareholders. See "-About Sirius XM Canada" for more information about this recapitalization.

Investment in Pandora Media, Inc. On September 22, 2017, Sirius XM completed a $480 million investment in Pandora Media, Inc. ("Pandora"). Pandora operates an internet-based music discovery platform, offering a personalized experience for listeners. See "-About our Pandora Investment" for more information about this investment.

Programming

We offer a dynamic programming lineup of commercial-free music plus sports, entertainment, comedy, talk, and news, including:

- an extensive selection of music genres, ranging from rock, pop and hip-hop to country, dance, jazz, Latin and classical;
- live play-by-play sports from major leagues and colleges;
- a multitude of talk and entertainment channels for a variety of audiences;
- a wide range of national, international and financial news; and
- exclusive limited run channels.

Our diverse spectrum of programming, including our lineup of exclusive material, is a significant differentiator from terrestrial radio and other audio entertainment providers. We make changes to our programming lineup from time to time as we strive to attract new subscribers and offer content which appeals to a broad range of audiences and to our existing subscribers. The channel lineups for our services are available at siriusxm.com.

Internet Radio Service

We stream select music and non-music channels over the Internet. Our Internet radio service includes certain channels that are not available on our satellite radio service. Access to our Internet radio service is offered to subscribers for a fee. We also offer applications to allow consumers to access our Internet radio service on smartphones, tablets, computers, home devices and other consumer electronic equipment.

SiriusXM Internet Radio offers listeners enhanced programming discovery and the ability to connect with content currently playing across our commercial-free music, sports, comedy, news, talk and entertainment channels or available through SiriusXM On Demand. SiriusXM On Demand offers our Internet radio subscribers the ability to choose their favorite episodes from a catalog of content whenever they want.

We are developing significant enhancements to our Internet radio service. These enhancements will include a substantial redesign of our mobile app and are expected to be introduced in 2018. The redesign of our Internet radio service will include, among other things, additional functionality, video streaming, content discovery and other features designed to increase consumer engagement with our Internet radio product.

360L

In 2018, we are introducing a user interface, which we call "360L," that combines our satellite and Internet services into a single, cohesive in-vehicle entertainment experience. 360L will allow us to take advantage of advanced in-dash infotainment systems. 360L is intended to leverage the ubiquitous signal coverage of our satellite infrastructure and low delivery costs with the two-way communication capability of a wireless Internet service to provide consumers seamless access to our content, including our live channels, on demand service and even more personalized music services. The wireless Internet connection included in 360L will enable enhanced search and recommendations functions, making discovery of our content in the vehicle easier than ever. 360L will also allow consumers to manage aspects of their subscriptions directly through their vehicles' equipment and is expected to eventually provide us important data to better enable us to understand how our subscribers use our service and how we can more effectively market our service to consumers.

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Distribution of Radios

Automakers

We distribute satellite radios through the sale and lease of new vehicles. We have agreements with every major automaker to offer satellite radios in their vehicles. Satellite radios are available as a factory or dealer-installed option in substantially all vehicle makes sold in the United States.

Most automakers include a subscription to our radio service in the sale or lease of their new vehicles. In certain cases, we receive subscription payments from automakers in advance of the activation of our service. We share with certain automakers a portion of the revenues we derive from subscribers using vehicles equipped to receive our service. We also reimburse various automakers for certain costs associated with the satellite radios installed in new vehicles, including in certain cases hardware costs, engineering expenses and promotional and advertising expenses.

Previously Owned Vehicles

We acquire subscribers through the sale and lease of previously owned vehicles with factory-installed satellite radios. We have entered into agreements with many automakers to market subscriptions to purchasers and lessees of vehicles which include satellite radios sold through their certified pre-owned programs. We also work directly with franchise and independent dealers on programs for non-certified vehicles.

We have developed systems and methods to identify purchasers and lessees of previously owned vehicles which include satellite radios and have established marketing plans to promote our services to these potential subscribers.

Retail

We sell satellite radios directly to consumers through our website. Satellite radios are also marketed and distributed through national, regional and internet retailers, such as amazon.com.

Our Satellite Radio Systems

Our satellite radio systems are designed to provide clear reception in most areas of the continental United States despite variations in terrain, buildings and other obstructions. We continually monitor our infrastructure and regularly evaluate improvements in technology.

Our satellite radio systems have three principal components:

- satellites, terrestrial repeaters and other satellite facilities;
- studios; and
- radios.

Satellites, Terrestrial Repeaters and Other Satellite Facilities

Satellites. We provide our service through a fleet of five orbiting geostationary satellites, two in the Sirius system, FM-5 and FM-6, and three in the XM system, XM-3, XM-4 and XM-5. Our XM-5 satellite serves as a spare for both the XM and Sirius systems.

We have entered into agreements for the design, construction and launch of two new satellites, SXM-7 and SXM-8, which we plan to launch into geostationary orbits in 2019 and 2020, respectively, as replacements for XM-3 and XM-4.

Satellite Insurance. We have procured insurance for SXM-7 and SXM-8 to cover the risks associated with each satellite's launch and first year in orbit. We do not have insurance policies covering our in-orbit satellites, as we consider the premium costs to be uneconomical relative to the risk of satellite failure.

Terrestrial Repeaters. In some areas with high concentrations of tall buildings, such as urban centers, signals from our satellites may be blocked and reception of satellite signals can be adversely affected. In other areas with a high density of next generation wireless systems our service may experience interference. In many of these areas, we have deployed terrestrial repeaters to supplement and enhance our signal coverage and, in many other areas, we are planning to deploy additional repeaters to reduce interference. We operate over 1,000 terrestrial repeaters across the United States as part of our systems.

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Other Satellite Facilities. We control and communicate with our satellites from facilities in North America. Our satellites are monitored, tracked and controlled by a third party satellite operator.

Studios

Our programming originates from studios in New York City and Washington D.C. and, to a lesser extent, from smaller studios in Los Angeles, Nashville and a variety of venues across the country. Our corporate headquarters is based in New York City. Both our New York City and Washington D.C. offices house facilities for programming origination, transmission and personnel.

Radios

We do not manufacture radios. We have authorized manufacturers and distributors to produce and distribute radios, and have licensed our technology to various electronics manufacturers to develop, manufacture and distribute radios under certain brands. We do manage various aspects of the production of satellite radios. To facilitate the sale of radios, we may subsidize a portion of the radio manufacturing costs to reduce the hardware price to consumers.

Connected Vehicle Services

We provide connected vehicle services. Our connected vehicle services are designed to enhance the safety, security and driving experience for vehicle operators while providing marketing and operational benefits to automakers and their dealers. We offer a portfolio of location-based services through two-way wireless connectivity, including safety, security, convenience, maintenance and data services, remote vehicles diagnostics, and stolen or parked vehicle locator services. Our connected vehicle business provides services to several automakers and directly to consumers through aftermarket devices.

Subscribers to our connected vehicle services are not included in our subscriber count or subscriber-based operating metrics.

Other Services

Commercial Accounts. Our programming is available for commercial establishments. Commercial subscription accounts are available through providers of in-store entertainment solutions and directly from us. Commercial subscribers are included in our subscriber count.

Satellite Television Service. Certain of our music channels are offered as part of select programming packages on the DISH Network satellite television service. Subscribers to the DISH Network satellite television service are not included in our subscriber count.

Subscribers to the following services are not included in our subscriber count, unless the applicable service is purchased by the subscriber separately and not as part of a radio subscription to our services:

Travel Link. We offer Travel Link, a suite of data services that includes graphical weather, fuel prices, sports schedules and scores and movie listings.

Real-Time Traffic Services. We offer services that provide graphic information as to road closings, traffic flow and incident data to consumers with compatible in-vehicle navigation systems.

Real-Time Weather Services. We offer several real-time weather services designed for improving situational awareness in vehicles, boats and planes.

About Sirius XM Canada

In 2017, Sirius XM completed a recapitalization of Sirius XM Canada (the “Sirius Canada Transaction”) which is now a privately held corporation. Sirius XM holds a 70% equity interest and 33% voting interest in Sirius XM Canada, with the remainder of the voting and equity interests held by two of Sirius XM Canada’s previous shareholders.

The total consideration from Sirius XM to Sirius XM Canada, excluding transaction costs, was $308.5 million, which included $129.7 million in cash and we issued 35 million shares of our common stock with an aggregate value of $178.9

million to the holders of the shares of Sirius XM Canada acquired in the Sirius Canada Transaction. Sirius XM received common stock, non-voting common stock and preferred stock of Sirius XM Canada.

In connection with the Sirius Canada Transaction, Sirius XM also made a contribution in the form of a loan to Sirius XM Canada in the aggregate amount of $130.8 million. The loan is denominated in Canadian dollars, has a term of fifteen years, bears interest at a rate of 7.62% per annum and includes customary covenants and events of default, including an event of default relating to Sirius XM Canada’s failure to maintain specified leverage ratios. The terms of the loan require Sirius XM Canada to prepay a portion of the outstanding principal amount of the loan within sixty days of the end of each fiscal year in an amount equal to any cash on hand in excess of C$10,000 at the last day of the financial year if all target dividends have been paid in full.

In connection with the Sirius Canada Transaction, Sirius XM also entered into a Services Agreement and an Advisory Services Agreement with Sirius XM Canada. Each agreement has a thirty year term. Pursuant to the Services Agreement, Sirius XM Canada will pay Sirius XM 25% of its gross revenues on a monthly basis through December 31, 2021 and 30% of its gross revenues on a monthly basis thereafter. Pursuant to the Advisory Services Agreement, Sirius XM Canada will pay Sirius XM 5% of its gross revenues on a monthly basis. These agreements superseded and replaced the former agreements between Sirius XM Canada and its predecessors and Sirius XM.

As of December 31, 2017, Sirius XM Canada had approximately 2.8 million subscribers. Sirius XM Canada's subscribers are not included in our subscriber count or subscriber-based operating metrics.

About our Pandora Investment

Pursuant to an Investment Agreement with Pandora, in 2017, Sirius XM purchased 480,000 shares of Pandora’s Series A Convertible Preferred Stock, par value $0.0001 per share (the “Series A Preferred Stock”), for an aggregate purchase price of $480 million. The Series A Preferred Stock, including accrued but unpaid dividends, represents a stake of approximately 19% of Pandora's currently outstanding common stock, and approximately a 16% interest on an as-converted basis.

The Series A Preferred Stock is convertible at the option of the holders at any time into shares of common stock of Pandora (“Pandora Common Stock”) at an initial conversion price of $10.50 per share of Pandora Common Stock and an initial conversion rate of 95.2381 shares of Pandora Common Stock per share of Series A Preferred Stock, subject to certain customary anti-dilution adjustments. Holders of the Series A Preferred Stock are entitled to a cumulative dividend at the rate of 6.0% per annum, payable quarterly in arrears, if and when declared. Any conversion of Series A Preferred Stock may be settled by Pandora, at its option, in shares of Pandora Common Stock, cash or any combination thereof. However, unless and until Pandora’s stockholders have approved the issuance of greater than 19.99% of the outstanding Pandora Common Stock, the Series A Preferred Stock may not be converted into more than 19.99% of Pandora’s outstanding Pandora Common Stock as of June 9, 2017.

The investment includes a mandatory redemption feature on any date from and after September 22, 2022 whereby Sirius XM, at its option, may require Pandora to purchase the Series A Preferred Stock at a price equal to 100% of the liquidation preference plus accrued but unpaid dividends for, at the election of Pandora, cash, shares of Pandora Common Stock or a combination thereof.

We have appointed James E. Meyer, our Chief Executive Officer, David J. Frear, our Senior Executive Vice President and Chief Financial Officer, and Gregory B. Maffei, the Chairman of our Board of Directors, to Pandora's Board of Directors pursuant to our designation rights under the Investment Agreement. Mr. Maffei also serves as the Chairman of Pandora's Board of Directors.

Our right to designate directors will fall away once we and our affiliates fail to beneficially own shares of Series A Preferred Stock and/or Pandora Common Stock issued upon conversion thereof equal to (on an as-converted basis) at least 50% of the number of shares of Pandora Common Stock issuable upon conversion of the Series A Preferred Stock purchased under the Investment Agreement. Following the earlier to occur of (i) September 22, 2019 and (ii) the date on which we and our affiliates fail to beneficially own shares of Series A Preferred Stock and/or Pandora Common Stock that were issued upon conversion thereof equal to (on an as-converted basis) at least 75% of the number of shares of Pandora Common Stock issuable upon conversion of the Series A Preferred Stock purchased under the Investment Agreement, we have the right to designate only two directors.

We are subject to certain standstill restrictions, including, among other things, that we are restricted from acquiring additional securities of Pandora until December 9, 2018.

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Except as to matters that may be voted upon separately by holders of the Series A Preferred Stock, we are entitled to vote as a single class with the holders of Pandora Common Stock on an as-converted basis (up to a maximum of 19.99% of the Pandora Common Stock outstanding on June 9, 2017, unless stockholder approval has been received). We are also entitled to a separate class vote with respect to certain amendments to Pandora's organizational documents, issuances by Pandora of securities that are senior to, or equal in priority with, the Series A Preferred Stock and the incurrence of certain indebtedness by Pandora.

Upon certain change of control events involving Pandora, Pandora is required to repurchase all of the Series A Preferred Stock at a price equal to the greater of (1) an amount in cash equal to 100% of the liquidation preference thereof plus all accrued but unpaid dividends through June 9, 2022 (assuming such shares of Series A Preferred Stock remain outstanding through such date) and (2) the consideration the holders would have received if they had converted their shares of Series A Preferred Stock into Pandora Common Stock immediately prior to the change of control event (disregarding the 19.99% cap).

Beginning on September 22, 2020, if the volume weighted average price per share of Pandora Common Stock exceeds $18.375, as may be adjusted, for at least 20 trading days in any period of 30 consecutive trading days, Pandora may redeem all of the outstanding Series A Preferred Stock at a price equal to 100% of the liquidation preference thereof plus all accrued but unpaid dividends for, at the election of Pandora, cash, shares of Pandora Common Stock or a combination thereof, provided that, unless stockholder approval has been received, Pandora may not settle the redemption for shares of Pandora Common Stock to the extent the 19.99% cap would be exceeded.

Pursuant to a registration rights agreement entered into with Pandora, we have certain customary registration rights with respect to the Series A Preferred Stock and Pandora Common Stock issued upon conversion thereof.

Competition

Satellite Radio

We face significant competition for both listeners and advertisers in our satellite radio business, including from providers of radio and other audio services.

Traditional AM/FM Radio. Our services compete with traditional AM/FM radio. Traditional AM/FM radio has a well-established demand for its services and offers free broadcasts paid for by commercial advertising rather than by subscription fees. Many radio stations offer information programming of a local nature, such as local news and sports. The availability of traditional free AM/FM radio may reduce the likelihood that customers would be willing to pay for our subscription services and, by offering free broadcasts, it may impose limits on what we can charge for our services. Several traditional radio companies own large numbers of radio stations or other media properties.

Internet-Based Competitors. Internet radio services often have no geographic limitations and provide listeners with radio programming from across the country and around the world. Major online providers make high fidelity digital streams available through the Internet for free or, in some cases, for less than the cost of a satellite radio subscription. Certain of these services include advanced functionality, such as personalization, and allow the user to access large libraries of content. For some consumers, these services may compete with our services, at home, in vehicles, and wherever audio entertainment is consumed.

Advanced In-Dash Infotainment Systems. Nearly all automakers have deployed integrated multimedia systems in dashboards, including in many cases Apple CarPlay and Android Auto. These systems combine control of audio entertainment from a variety of sources, including AM/FM/HD radio broadcasts, satellite radio, Internet radio, smartphone applications and stored audio, with navigation and other advanced applications. Internet radio and other data are typically connected to the system through an Internet-enabled smartphone or wireless modem installed in the vehicle, and the entire system may be controlled by touchscreen or voice recognition. These systems may enhance the attractiveness of Internet-based competitors by making such applications more prominent, easier to access, and safer to use in vehicles.

Direct Broadcast Satellite and Cable Audio. A number of providers offer specialized audio services through either direct broadcast satellite or cable audio systems. These services are targeted to fixed locations, mostly in-home. The radio service offered by direct broadcast satellite and cable audio is often included as part of a package of digital services with video service, and video customers generally do not pay an additional monthly charge for the audio service.

Other Digital Media Services. The audio entertainment marketplace continues to evolve rapidly, with a steady emergence of new media platforms that compete with our services now or that could compete with those services in the future.

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Traffic Services

A number of providers compete with our traffic services. In-dash navigation is threatened by smartphones that provide data services through a direct vehicle interface. Most of these smartphones offer GPS mapping with sophisticated data-based turn-by-turn navigation.

Connected Vehicle Services

Our connected vehicle services business operates in a highly competitive environment and competes with several providers, including Verizon Telematics, as well as products being developed by automakers for their vehicles. OnStar, a division of General Motors, also offers connected vehicle services in GM vehicles. We also compete with wireless devices such as mobile phones. We compete against other connected vehicle service providers for automaker arrangements on the basis of innovation, service quality and reliability, technical capabilities and systems customization, scope of service, industry experience, past performance and price.

Government Regulation

As operators of a privately-owned satellite system, we are regulated by the FCC under the Communications Act of 1934, principally with respect to:

- the licensing of our satellite systems;
- preventing interference with or to other users of radio frequencies; and
- compliance with FCC rules established specifically for U.S. satellites and satellite radio services.

Any assignment or transfer of control of our FCC licenses must be approved by the FCC. The FCC's order approving the merger of our wholly-owned subsidiary, Vernon Merger Corporation, with and into XM Satellite Radio Holdings Inc. in July 2008 (the “Merger”) requires us to comply with certain voluntary commitments we made as part of the FCC Merger proceeding. We believe we comply with those commitments.

In 1997, we were the winning bidders for FCC licenses to operate a satellite digital audio radio service and provide other ancillary services. Our FCC licenses for our Sirius satellites expire in 2022 and 2025. Our FCC licenses for our XM satellites expire in 2018, 2021 and 2022. We anticipate that, absent significant misconduct on our part, the FCC will renew our licenses to permit operation of our satellites for their useful lives, and grant licenses for any replacement satellites.

In some areas, we have installed terrestrial repeaters to supplement our satellite signal coverage. The FCC has established rules governing terrestrial repeaters and has granted us a license through 2027 to operate our repeater network.

In certain cases, we obtain FCC certifications for satellite radios, including satellite radios that include FM modulators. We believe our radios that are in production comply with all applicable FCC rules.

We are required to obtain export licenses or other approvals from the United States government to export certain equipment, services and technical data related to our satellites and their operations. The transfer of such equipment, services and technical data outside the United States or to foreign persons is subject to strict export control and prior approval requirements from the United States government (including prohibitions on the sharing of certain satellite-related goods and services with China).

Changes in law or regulations relating to communications policy or to matters affecting our services could adversely affect our ability to retain our FCC licenses or the manner in which we operate.

Copyrights to Programming

In connection with our satellite radio music programming, we must negotiate and enter into royalty arrangements with two sets of rights holders: Holders of copyrights in musical works (that is, the music and lyrics) and holders of copyrights in sound recordings (that is, the actual recording of a work).

Musical Works

Musical works rights holders, generally songwriters and music publishers, have been traditionally represented by performing rights organizations such as the American Society of Composers, Authors and Publishers (“ASCAP”), Broadcast

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Music, Inc. (“BMI”) and SESAC, Inc. (“SESAC”). The market for rights relating to musical works is changing rapidly. Songwriters and music publishers have withdrawn from the traditional performing rights organizations, particularly ASCAP and BMI, and new entities, such as Global Music Rights LLC (“GMR”), have been formed to represent rights holders. These organizations negotiate fees with copyright users, collect royalties and distribute them to the rights holders. We have arrangements with ASCAP, SESAC and GMR, and are in negotiations with BMI for a new agreement. If we are unable to reach an agreement with BMI, a court will determine the royalty we will be required to pay BMI. The changing market for musical works may have an adverse effect on us, including increasing our costs or limiting the musical works available to us. To secure the rights to stream music content over the Internet, including to mobile devices, we also must obtain licenses from, and pay royalties to, copyright owners of musical compositions and sound recordings. We have arrangements with ASCAP, SESAC and GMR to license the musical compositions we stream over the Internet and are in negotiations with BMI for a new agreement.

Sound Recordings

Sound recording rights holders, typically large record companies, are primarily represented by SoundExchange, an organization which negotiates licenses, and collects and distributes royalties on behalf of record companies and performing artists. Under the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act of 1998, we may negotiate royalty arrangements with the owners of sound recordings fixed after February 15, 1972, or if negotiation is unsuccessful, the royalty rate is established by the Copyright Royalty Board (the “CRB”) of the Library of Congress.

On December 14, 2017, the CRB issued its determination regarding the royalty rate payable by us under the statutory license covering the performance of sound recordings fixed after February 15, 1972 over our satellite radio service, and the making of ephemeral (server) copies in support of such performances, for the five-year period starting January 1, 2018 and ending on December 31, 2022. Under the terms of the CRB’s decision, we are required to pay a royalty of 15.5% of gross revenues, subject to exclusions and adjustments, for the five-year period. The rate for 2017 was 11.0%.

The rates and terms permit us to reduce the payment due each month by the percentage of our transmissions of recordings that are directly licensed from copyright owners and the percentage of transmissions that comprise recordings fixed before February 15, 1972, which recordings are not subject to the Copyright Act. The revenue subject to royalty includes subscription revenue from our U.S. satellite digital audio radio subscribers, and advertising revenue from channels other than those channels that make only incidental performances of sound recordings. Exclusions from revenue subject to the statutory license fee include, among other things:

- monies or other consideration attributable to the sale and/or license of equipment and/or other technology, including but not limited to bandwidth, sales of devices that receive our satellite radio services and any shipping and handling fees therefor;
- royalties paid to us for intellectual property rights;
- sales and use taxes;
- credit card, invoice, activation, swap and early termination fees charged to subscribers and reasonably related to the expenses to which they pertain;
- bad debt expense; and
- revenues attributable to our current and future data services offered for a separate charge (such as weather, traffic, destination information, messaging, sports scores, stock ticker information, extended program associated data, video and photographic images, and such other telematics and/or data services as may exist from time to time); channels, programming, products and/or other services offered for a separate charge where such channels use only incidental performances of sound recordings; channels, programming, products and/or other services provided outside of the United States; and channels, programming, products and/or other services for which the performance of the recordings is exempt from any license requirement or is separately licensed, including by a statutory license.

Once the CRB has considered any rehearing motions and responses to such motions, and provided the Register of Copyrights with sixty days to review the determination for any legal error, the Librarian of Congress will publish the final determination in the Federal Register. The parties will have thirty days from that publication to appeal the decision to the U.S. Court of Appeals for the District of Columbia Circuit.

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The licensing of certain sound recordings fixed after February 15, 1972 for use on the Internet is also subject to the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act of 1998 on terms established by the CRB. In 2017, we paid a per performance rate for the streaming of certain sound recordings on the Internet of $0.0022. In accordance with the CRB's 2016 decision, this royalty rate increased in 2018 to $0.0023 per subscription performance and may increase further through 2020 based on changes in the consumer price index. Our rights to perform certain copyrighted sound recordings that were fixed after February 15, 1972 are governed by United States federal law, the Copyright Act. In contrast, our rights to perform certain sound recordings that were fixed before February 15, 1972 are governed by state law. During 2015 and 2016, we settled suits with copyright owners for almost all of the pre-1972 sound recordings we use.

Trademarks

We have registered, and intend to maintain, the trademarks "Sirius", "XM", "SiriusXM" and "SXM" with the United States Patent and Trademark Office in connection with the services we offer. We are not aware of any material claims of infringement or other challenges to our right to use the "Sirius", "XM", "SiriusXM" or "SXM" trademarks in the United States. We also have registered, and intend to maintain, trademarks for the names of certain of our channels. We have also registered the trademarks "Sirius", "XM" and "SiriusXM" in Canada. We have granted a license to use certain of our trademarks in Canada to Sirius XM Canada.

Personnel

As of December 31, 2017, we had 2,575 full-time employees. In addition, we rely upon a number of part-time employees, consultants, other advisors and outsourced relationships. None of our employees are represented by a labor union, and we believe that our employee relations are good.

Corporate Information and Available Information

Our executive offices are located at 1290 Avenue of the Americas, 11th floor, New York, New York 10104 and our telephone number is (212) 584-5100. Our internet address is www.siriusxm.com. Our annual, quarterly and current reports, and any amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), may be accessed free of charge through our website after we have electronically filed or furnished such material with the SEC. Siriusxm.com (including any other reference to such address in this Annual Report) is an inactive textual reference only, meaning that the information contained on or accessible from the website is not part of this Annual Report on Form 10-K and is not incorporated in this report by reference.

Executive Officers of the Registrant

Certain information regarding our executive officers as of January 29, 2018 is provided below:

Name	Age	Position
James E. Meyer	63	Chief Executive Officer
Scott A. Greenstein	58	President and Chief Content Officer
David J. Frear	61	Senior Executive Vice President and Chief Financial Officer
Dara F. Altman	59	Executive Vice President and Chief Administrative Officer
James A. Cady	57	Executive Vice President, Operations, Products and Connected Vehicle
Stephen Cook	62	Executive Vice President, Sales and Automotive
Patrick L. Donnelly	56	Executive Vice President, General Counsel and Secretary
Joseph A. Verbrugge	48	Executive Vice President, Emerging Business
Jennifer C. Witz	49	Executive Vice President, Chief Marketing Officer

James E. Meyer has served as our Chief Executive Officer since December 2012. From May 2004 to December 2012, Mr. Meyer was our President, Operations and Sales. Prior to May 2004, Mr. Meyer was President of Aegis Ventures Incorporated, a consulting firm that provided general management services. From December 2001 until 2002, Mr. Meyer served as special advisor to the Chairman of Thomson S.A., a leading consumer electronics company. From January 1997 until December 2001, Mr. Meyer served as the Senior Executive Vice President for Thomson as well as a member of the executive

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committee. From 1992 until 1996, Mr. Meyer served as Thomson's Senior Vice President of Product Management. Mr. Meyer is a director of Pandora Media, Inc. and Chairman of the Board of Directors and a director of TiVo Corporation.

Scott A. Greenstein has served as our President and Chief Content Officer since May 2004. Prior to May 2004, Mr. Greenstein was Chief Executive Officer of The Greenstein Group, a media and entertainment consulting firm. From 1999 until 2002, he was Chairman of USA Films, a motion picture production, marketing and distribution company. From 1997 until 1999, Mr. Greenstein was Co-President of October Films, a motion picture production, marketing and distribution company. Prior to joining October Films, Mr. Greenstein was Senior Vice President of Motion Pictures, Music, New Media and Publishing at Miramax Films, and held senior positions at Viacom Inc.

David J. Frear has served as our Senior Executive Vice President and Chief Financial Officer since June 2015. From June 2003 to June 2015, he served as our Executive Vice President and Chief Financial Officer. From 1999 to 2003, Mr. Frear was Executive Vice President and Chief Financial Officer of Savvis Communications Corporation, a global managed service provider, delivering internet protocol applications for business customers. Mr. Frear also served as a director of Savvis. From 1993 to 1998, Mr. Frear was Senior Vice President and Chief Financial Officer of Orion Network Systems Inc., an international satellite communications company that was acquired by Loral Space & Communications Ltd. in 1998. From 1990 to 1993, Mr. Frear was Chief Financial Officer of Millicom Incorporated, a cellular, paging and cable television company. Prior to joining Millicom, he was an investment banker at Bear, Stearns & Co., Inc. and Credit Suisse. Mr. Frear is a member of the board of directors of The NASDAQ Stock Market LLC, NASDAQ PHLX LLC, and NASDAQ BX, Inc., subsidiaries of Nasdaq, Inc., a leading provider of trading, clearing, exchange technology, listing, information and public company services, and Pandora Media, Inc.

Dara F. Altman has served as our Executive Vice President and Chief Administrative Officer since September 2008. From January 2006 until September 2008, Ms. Altman served as Executive Vice President, Business and Legal Affairs, of XM. Ms. Altman was Executive Vice President of Business Affairs for Discovery Communications from 1997 to 2005. From 1993 to 1997, Ms. Altman served as Senior Vice President and General Counsel of Reiss Media Enterprises, which owned Request TV, a national pay-per-view service. Before Request TV, Ms. Altman served as counsel for Home Box Office. Ms. Altman started her career as an attorney at the law firm of Willkie Farr & Gallagher LLP.

James A. Cady has served as our Executive Vice President, Operations, Products and Connected Vehicle, since July 2015 and, prior to July 2015, served as Senior Vice President and General Manager of our Connected Services Platform since February 2014. Mr. Cady was the Chief Executive Officer and President of Slacker, Inc., an internet music service provider, from August 2009 until February 2014. He was the President and Chief Operating Officer of Slacker, Inc. from May 2006 until August 2009. From September 2004 until May 2006, he served as the Chief Executive Officer and President of LightPointe Communications, Inc., a manufacturer of wireless data transmission equipment. Prior to that time, Mr. Cady served in a variety of roles at an assortment of technology companies, including WatchGuard Technologies Inc., a manufacturer of computer security solutions; Rio, a division of SONICblue, Incorporated; Diamond Multimedia Systems, a manufacturer of various multimedia components; Supra Corp., a producer of hardware for computers; Moore Company, a wholesale distributor of consumer electronics; and Atari Corp., a manufacturer of computer and video games.

Stephen Cook has served as our Executive Vice President, Sales and Automotive, since January 2013. Mr. Cook served as our Group Vice President and General Manager, Automotive Division, from July 2008 until January 2013. Mr. Cook served as Executive Vice President, Automotive, of XM from July 2006 to July 2008. He also served as XM's Executive Vice President, Sales and Marketing, from January 2002 until July 2006, and as XM's Senior Vice President, Sales and Marketing, from February 1999 until January 2002. Prior to joining XM, Mr. Cook was Chief Operating Officer for Conxus Communications. From 1990 to 1997, Mr. Cook held management positions with GTE's cellular operations. Prior to that time, Mr. Cook worked in brand management for Procter & Gamble.

Patrick L. Donnelly has served as our Executive Vice President, General Counsel and Secretary, since May 1998. From June 1997 to May 1998, he was Vice President and Deputy General Counsel of ITT Corporation, a hotel, gaming and entertainment company that was acquired by Starwood Hotels & Resorts Worldwide, Inc. in February 1998. From October 1995 to June 1997, he was assistant general counsel of ITT Corporation. Prior to October 1995, Mr. Donnelly was an attorney at the law firm of Simpson Thacher & Bartlett LLP.

Joseph A. Verbrugge has served as our Executive Vice President, Emerging Business, since April 2017. From December 2015 until April 2017, he was our Executive Vice President, Sales and Development. Mr. Verbrugge previously served as our Senior Vice President and General Manager, Automotive Remarketing and Retail Sales, from April 2012 until December 2015; as our Senior Vice President, Automotive Remarketing, from February 2010 until April 2012; and as our Senior Vice President, Automotive Partnerships, from September 2008 until February 2010. From January 2007 through September 2008, he was

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Senior Vice President, Automotive Accounts/Partnerships and International Operations, of XM; from May 2006 until January 2007, Mr. Verbrugge served as Senior Vice President, Administration and International Operations of XM; from January 2005 until May 2006, he was Vice President, International Operations, of XM; and from September 2004 until January 2005 he served as Vice President, Special Projects, of XM. Prior to joining XM, Mr. Verbrugge was a consultant with The Dealy Strategy Group LLC, a management consulting firm specializing in international satellite communications and information services companies, from 1999 until 2004. From 1992 until 1995, Mr. Verbrugge was a bond representative with Aetna Life and Casualty Company, an insurance company.

Jennifer C. Witz has served as our Executive Vice President, Chief Marketing Officer, since August 2017. Ms. Witz joined us in March 2002 and, prior to her appointment as Executive Vice President, Chief Marketing Officer, served in a variety of senior financial and operating roles. From September 2005 to August 2017, she was our Senior Vice President, Finance, from May 2003 to September 2005, she was our Vice President, Finance, and from March 2002 to May 2003, she was our Senior Director, Finance. Before joining Sirius XM, Ms. Witz was Vice President, Planning and Development, at Viacom Inc., a global media company, and prior to that she was Vice President, Finance and Corporate Development, at Metro-Goldwyn-Mayer, Inc., an entertainment company focused on the production and global distribution of film and television content. Ms. Witz began her career in the Investment Banking Department at Kidder, Peabody & Co Inc.

ITEM 1A. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K, including the information under the caption Item 1. Business “Competition,” the following risk factors should be considered carefully in evaluating us and our business. This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Annual Report on Form 10-K. See “Special Note About Forward-Looking Statements” following this Item 1A. Risk Factors.

We face substantial competition and that competition is likely to increase over time.

We face substantial competition from other providers of radio and audio services. Our ability to attract and retain subscribers depends on our success in creating and providing popular or unique music, entertainment, news and sports programming. Our subscribers can obtain certain similar content for free through terrestrial radio stations, Internet radio services and Internet streaming services. Audio content delivered via the Internet, including through mobile devices that are easily integrated in vehicles, is increasingly competitive with our services. A summary of various services that compete with us is contained in the section entitled “Item 1. Business - Competition” of this Annual Report on Form 10-K.

Competition could result in lower subscription, advertising or other revenue and an increase in our marketing, promotion or other expenses and, consequently, lower our earnings and free cash flow. We cannot assure you we will be able to compete successfully with our existing or future competitors or that competition will not have a material adverse impact on our operations and financial condition.

Our ability to retain subscribers or increase the number of subscribers is uncertain.

Our ability to retain our subscribers, or increase the number of subscribers to our service, is uncertain and subject to many factors, including:

- the price of our service;
- the health of the economy;
- the sale or lease rate of new vehicles in the United States;
- the rate at which our existing self-pay subscribers buy and sell new and used vehicles in the United States;
- our ability to convince owners and lessees of new and previously owned vehicles that include satellite radios to purchase subscriptions to our service;
- the effectiveness of our marketing programs;
- the entertainment value of our programming and the products and packages we offer;
- our ability to respond to evolving consumer tastes; and
- actions by our competitors, such as other audio entertainment and information providers.

As part of our business, we experience, and expect to experience in the future, subscriber turnover (i.e., churn). If we are unable to retain current subscribers at expected rates, or the costs of retaining subscribers are higher than expected, our financial performance and operating results could be adversely affected. We cannot predict how successful we will be at retaining customers who purchase or lease vehicles that include a subscription to our satellite radio service. A substantial portion of our subscribers are on discounted pricing plans and our ability to retain these subscribers or migrate them to higher priced plans is uncertain. A substantial number of those subscribers periodically cancel their subscriptions when offered a subscription at a higher price.

Our profitability could be adversely affected if we are unable to consistently attract new subscribers and retain our current subscribers at prices and margins consistent with our past performance.

Our ability to profitably attract and retain subscribers as our marketing efforts reach more price-sensitive consumers is uncertain.

Our efforts to acquire subscribers purchasing or leasing used vehicles may attract subscribers of more limited economic means. For example, consumers purchasing or leasing used vehicles may be more price sensitive than consumers purchasing or leasing new vehicles, may convert from trial subscribers to self-paying subscribers at a lower rate, and may cancel their subscription more frequently than consumers purchasing or leasing new vehicles. Some of our marketing efforts may also attract more price sensitive subscribers; and our efforts to increase the penetration of satellite radios in new, lower-priced vehicle lines may result in the growth of more economy-minded subscribers. In addition, over time the changing demographics of our subscriber base, such as the expected increase in customers from the "millennial generation," may increase the number of subscribers accustomed to consuming entertainment through free products.

If we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions and private litigation and our reputation could suffer.

The nature of our business involves the receipt and storage of personal information about our subscribers including, in many cases, credit and debit card information. If we fail to protect the security of personal information about our customers or if we experience a significant data security breach, we could be exposed to costly government enforcement actions and private litigation and our reputation could suffer. In addition, our subscribers and potential customers could lose confidence in our ability to protect their personal information, which could cause them to discontinue usage of our services. Such events could lead to lost future sales and adversely affect our results of operations.

We have a program in place to detect and respond to data security incidents. However, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. In addition, hardware, software, or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud, trickery, or other forms of deceiving our employees, contractors or other agents.

If hackers were able to circumvent our security measures, a release of proprietary information or personal information could occur or we could experience significant disruptions. If our systems become unavailable or suffer a security breach, we may be required to expend significant resources to address these problems, including notification under various data privacy regulations, and our reputation and operating results could suffer.

Our service may experience harmful interference from new wireless operations.

The development of new applications and services in spectrum adjacent to the frequencies licensed to us, as well as the combination of signals in other frequencies, may cause harmful interference to our satellite radio service in certain areas of the United States. Certain operations or combination of operations permitted by the FCC in spectrum, other than our licensed frequencies, results in the loss of signal to our service, and the reception of our satellite radio service can be adversely affected in certain areas. Elimination of this interference may not be possible in all cases. In other cases, our efforts to reduce this interference may require extensive engineering efforts and additions to our terrestrial infrastructure. These mitigation efforts may be costly and take several years to implement and may not be entirely effective. In certain cases, we are dependent on the FCC to assist us in preventing harmful interference to our service.

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We engage in extensive marketing efforts and the continued effectiveness of those efforts are an important part of our business.

We engage in extensive marketing efforts across a broad range of media to attract and retain subscribers to our services. We employ a wide variety of communications tools as part of our marketing campaigns, including telemarketing efforts and email solicitations. The effectiveness of our marketing efforts is affected by a broad range of factors, including creative and execution factors. Our ability to reach consumers with radio and television advertising, direct mail materials, email solicitations and telephone calls is an important part of our efforts and a significant factor in the effectiveness of our marketing. If we are unable to reach consumers through email solicitations or telemarketing, including as a result of “spam” and email filters or call blocking technologies, our marketing efforts will be adversely affected. A decline in the effectiveness of our marketing efforts could have a material adverse impact on our operations and financial condition.

Consumer protection laws and their enforcement could damage our business.

Consumer protection laws cover nearly all aspects of our marketing efforts, including the content of our advertising, the terms of consumer offers and the manner in which we communicate with subscribers and prospective subscribers. The nature of our business requires us to expend significant resources to try to ensure that our marketing activities comply with federal and state laws, rules and regulations relating to consumer protection, including laws relating to telemarketing activities and privacy. There can be no assurance that these efforts will be successful or that we will not have to expend even greater resources in our compliance efforts.

Modifications to federal and state laws, rules and regulations concerning consumer protection, including decisions by federal and state courts and agencies interpreting these laws, could have an adverse impact on our ability to attract and retain subscribers to our services. There can be no assurance that new laws or regulations will not be enacted or adopted, preexisting laws or regulations will not be more strictly enforced or that our varied operations will comply with all applicable laws, which could have a material adverse impact on our operations and financial condition.

We may not realize the benefits of acquisitions or other strategic investments and initiatives.

Our business strategy includes selective acquisitions, other strategic investments and initiatives that allow us to expand our business. The success of any acquisition depends upon effective integration and management of acquired businesses and assets into our operations, which is subject to risks and uncertainties, including realizing the growth potential, the anticipated synergies and cost savings, the ability to retain and attract personnel, the diversion of management’s attention for other business concerns, and undisclosed or potential legal liabilities of the acquired business or assets.

The unfavorable outcome of pending or future litigation could have a material adverse impact on our operations and financial condition.

We are parties to several legal proceedings arising out of various aspects of our business, including class actions arising out of our marketing practices and subscription plans. The outcome of these proceedings may not be favorable, and one or more unfavorable outcomes could have a material adverse impact on our financial condition. See “Item 3. Legal Proceedings” below.

The market for music rights is changing and is subject to significant uncertainties.

We must maintain music programming royalty arrangements with, and pay license fees to, owners of rights in musical works. Traditionally, BMI, ASCAP and SESAC have negotiated for these copyright users, collected royalties and distributed them to songwriters and music publishers. These traditional arrangements are changing. Owners of rights in musical works have withdrawn from BMI, ASCAP and SESAC and new entities, such as GMR, have been formed to represent owners of musical works. In addition, Committees of Congress have held hearings on substantial revisions of the Copyright Act. The fracturing of the traditional system for licensing rights in musical works may have significant consequences to our business, including increasing licensing costs and reducing the availability of certain pieces for use on our services.

Under the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act of 1998, we also must pay royalties to copyright owners of sound recordings fixed after February 15, 1972. Those royalty rates may be established through negotiation or, if negotiation is unsuccessful, by the CRB. Owners of copyrights in sound recordings have created SoundExchange, a collective organization, to collect and distribute royalties. SoundExchange is exempt by statute from certain U.S. antitrust laws and exercises significant market power in the licensing of sound recordings. Under the terms of the CRB's recent decision governing sound recording royalties for satellite radio for the five-

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year period ending on December 31, 2022, we will be required to pay a royalty based on our gross revenues, subject to certain exclusions, of 15.5% per year for each of the next five years. This is a substantial increase over the royalty rate of 11% of our gross revenues that we paid in 2017.

In addition, SoundExchange alleges that we systematically underpaid royalties for statutory licenses related to sound recordings for certain periods beginning in 2007. See “Item 3. Legal Proceedings” below.

Our business depends in large part upon the auto industry.

A substantial portion of our subscription growth has come from purchasers and lessees of new and previously owned automobiles in the United States. The sale and lease of vehicles with satellite radios is an important source of subscribers for our satellite radio service. We have agreements with every major automaker to include satellite radios in new vehicles, although these agreements do not require automakers to install specific or minimum quantities of radios in any given period.

Automotive production and sales are dependent on many factors, including the availability of consumer credit, general economic conditions, consumer confidence and fuel costs. To the extent vehicle sales by automakers decline, or the penetration of factory-installed satellite radios in those vehicles is reduced, subscriber growth for our satellite radio services may be adversely impacted.

Sales of previously owned vehicles represent a significant source of new subscribers for us. We have agreements with auto dealers and companies operating in the used vehicle market to provide us with data on sales of previously owned satellite radio enabled vehicles. The continuing availability of this information is important to our future growth.

General economic conditions can affect our business.

The purchase of a satellite radio subscription is discretionary, and our business and our financial condition can be negatively affected by general economic conditions. Poor general economic conditions could adversely affect subscriber churn, conversion rates and vehicle sales.

Existing or future laws and regulations could harm our business.

We are subject to many laws, including federal, state, local and foreign laws. These laws and regulations cover issues such as user privacy, behavioral advertising, automatic renewal of agreements, pricing, fraud, electronic waste, mobile and electronic device communications, quality of products and services, taxation, advertising, intellectual property rights and information security. The expansion of these laws, both in terms of their number and their applicability, could harm our business.

Failure of our satellites would significantly damage our business.

The lives of our satellites vary depending on a number of factors, including:

- degradation and durability of solar panels;
- quality of construction;
- random failure of satellite components, which could result in significant damage to or loss of a satellite;
- amount of fuel the satellite consumes; and
- damage or destruction as a result of electrostatic storms, terrorist attacks, collisions with other objects in space or other events, such as nuclear detonations, occurring in space.

In the ordinary course of operation, satellites experience failures of component parts and operational and performance anomalies. Components on our in-orbit satellites have failed; and from time to time we have experienced anomalies in the operation and performance of these satellites. These failures and anomalies are expected to continue in the ordinary course, and we cannot predict if any of these possible future events will have a material adverse effect on our operations or the life of our existing in-orbit satellites. Any material failure of our satellites could cause us to lose customers and could materially harm our reputation and our operating results. We hold no in-orbit insurance for our satellites. Additional information regarding our fleet of satellites is contained in the section entitled “Item 1. Business - Satellites, Terrestrial Repeaters and Other Satellite Facilities” of this Annual Report on Form 10-K.

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In addition, our Sirius network of terrestrial repeaters communicates with a single third-party satellite. Our XM network of terrestrial repeaters communicates with a single XM satellite. If the satellites communicating with the applicable repeater network fail unexpectedly, the services would be disrupted for several hours or longer.

Interruption or failure of our information technology and communications systems could negatively impact our results and our brand.

We operate a complex and growing business. We offer a wide variety of subscription packages at different price points. Our business is dependent on the operation and availability of our information technology and communication systems and those of certain third party service providers. Any degradation in the quality, or any failure, of our systems could reduce our revenues, cause us to lose customers and damage our brand. Although we have implemented practices designed to maintain the availability of our information technology systems and mitigate the harm of any unplanned interruptions, we cannot anticipate all eventualities. We occasionally experience unplanned outages or technical difficulties. We could also experience loss of data or processing capabilities, which could cause us to lose customers and could materially harm our reputation and our operating results.

We rely on internal systems and external systems maintained by manufacturers, distributors and service providers to take, fulfill and handle customer service requests and host certain online activities. Any interruption or failure of our internal or external systems could prevent us from servicing customers or cause data to be unintentionally disclosed.

Our data centers and our information technology and communications systems are vulnerable to damage or interruption from natural disasters, malicious attacks, fire, power loss, telecommunications failures, computer viruses or other attempts to harm our systems.

Rapid technological and industry changes and new entrants could adversely impact our services.

The audio entertainment industry is characterized by rapid technological change, frequent product innovations, changes in customer requirements and expectations, evolving standards and new entrants offering products and services. If we are unable to keep pace with these changes, our business may not succeed. Products using new technologies could make our technologies less competitive in the marketplace.

Failure of third parties to perform could adversely affect our business.

Our business depends, in part, on various third parties, including:

- manufacturers that build and distribute satellite radios;
- companies that manufacture and sell integrated circuits for satellite radios;
- programming providers and on-air talent;
- vendors that operate our call centers; and
- vendors that have designed or built, and vendors that support or operate, other important elements of our systems, including our satellites.

If one or more of these third parties do not perform in a satisfactory or timely manner, including complying with our standards and practices relating to business integrity, personnel, cybersecurity and other values, our business could be adversely affected. In addition, a number of third parties on which we depend have experienced, and may in the future experience, financial difficulties or file for bankruptcy protection. Such third parties may not be able to perform their obligations to us in a timely manner, if at all, as a result of their financial condition or may be relieved of their obligations to us as part of seeking bankruptcy protection.

We design, establish specifications, source or specify parts and components, and manage various aspects of the logistics of the production of satellite radios. As a result of these activities, we may be exposed to liabilities associated with the design, manufacture and distribution of radios that the providers of an entertainment service would not customarily be subject to, such as liabilities for design defects, patent infringement and compliance with applicable laws, as well as the costs of returned product.

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Failure to comply with FCC requirements could damage our business.

We hold FCC licenses and authorizations to operate commercial satellite radio services in the United States, including satellites, terrestrial repeaters and related authorizations. The FCC generally grants licenses and authorizations for a fixed term. Although we expect our licenses and authorizations to be renewed in the ordinary course upon their expiration, there can be no assurance that this will be the case. Any assignment or transfer of control of any of our FCC licenses or authorizations must be approved in advance by the FCC.

The operation of our satellite radio systems is subject to significant regulation by the FCC under authority granted through the Communications Act of 1934 and related federal law. We are required, among other things, to operate only within specified frequencies; to meet certain conditions regarding the interoperability of our satellite radios with those of other licensed satellite radio systems; to coordinate our satellite radio services with radio systems operating in the same range of frequencies in neighboring countries; and to coordinate our communications links to our satellites with other systems that operate in the same frequency band. Noncompliance by us with these requirements or other conditions or with other applicable FCC rules and regulations could result in fines, additional license conditions, license revocation or other detrimental FCC actions. There is no guarantee that Congress will not modify the statutory framework governing our services, or that the FCC will not modify its rules and regulations in a manner that would have a material impact on our operations.

We may from time to time modify our business plan, and these changes could adversely affect us and our financial condition.

We regularly evaluate our plans and strategy. These evaluations often result in changes to our plans and strategy, some of which may be material. These changes in our plans or strategy may include: the acquisition or termination of unique or compelling programming; the introduction of new features or services; significant new or enhanced distribution arrangements; investments in infrastructure, such as satellites, equipment or radio spectrum; and investments in, and/or acquisitions of, other businesses, including acquisitions that are not directly related to our satellite radio business.

We have a significant amount of indebtedness, and our debt contains certain covenants that restrict our operations.

As of December 31, 2017, we had an aggregate principal amount of approximately $6.8 billion of indebtedness outstanding, $300.0 million of which was outstanding under a $1.75 billion Senior Secured Revolving Credit Facility. Our indebtedness increases our vulnerability to general adverse economic and industry conditions; requires us to dedicate a portion of our cash flow from operations to payments on indebtedness, reducing the availability of cash flow to fund capital expenditures, marketing and other general corporate activities; limits our ability to borrow additional funds; and may limit our flexibility in planning for, or reacting to, changes in our business and the audio entertainment industry.

Our studios, terrestrial repeater networks, satellite uplink facilities or other ground facilities could be damaged by natural catastrophes or terrorist activities.

An earthquake, hurricane, tornado, flood, terrorist attack or other catastrophic event could damage our studios, terrestrial repeater networks or satellite uplink facilities, interrupt our service and harm our business.

Any damage to the satellites that transmit to our terrestrial repeater networks would likely result in degradation of the affected service for some subscribers and could result in complete loss of service in certain or all areas. Damage to our satellite uplink facilities could result in a complete loss of our services until we could transfer operations to suitable back-up facilities.

Our principal stockholder has significant influence, including over actions requiring stockholder approval, and its interests may differ from the interests of other holders of our common stock.

As of December 31, 2017, Liberty Media beneficially owned approximately 70% of Holdings' common stock and has the ability to influence our affairs, policies and operations. Two Liberty Media executives and one other member of the board of directors of Liberty Media are members of our board of directors. Our board of directors currently has thirteen members. Gregory B. Maffei, the President and Chief Executive Officer of Liberty Media, is the Chairman of Holdings' board of directors. Our board of directors is responsible for, among other things, the appointment of executive management, future issuances of common stock or other securities, the payment of dividends, if any, the incurrence of debt, and the approval of various transactions.

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Liberty Media can also determine the outcome of all matters requiring general stockholder approval, including the election of the board of directors and changes to our certificate of incorporation or by-laws. Liberty Media can also cause or prevent a change of control of Holdings and could preclude any unsolicited acquisition of our company. The concentration of ownership could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock. In certain cases, the interests of Liberty Media may not be aligned with the interests of other stockholders of Holdings.

We are a "controlled company" within the meaning of the NASDAQ listing rules and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements.

We are a "controlled company" for the purposes of the NASDAQ Stock Market listing rules. As such, we have elected not to comply with certain NASDAQ corporate governance requirements. Although a majority of our board of directors consists of independent directors, we do not have a compensation committee and nominating and corporate governance committee that consist entirely of independent directors.

Our business may be impaired by third-party intellectual property rights.

Development of our systems has depended upon the intellectual property that we have developed, as well as intellectual property licensed from third parties. If the intellectual property that we have developed or use is not adequately protected, others will be permitted to and may duplicate portions of our systems or services without liability. In addition, others may challenge, invalidate, render unenforceable or circumvent our intellectual property rights, patents or existing licenses or we may face significant legal costs in connection with defending and enforcing those intellectual property rights. Some of the know-how and technology we have developed, and plan to develop, is not now, nor will it be, covered by U.S. patents or trade secret protections. Trade secret protection and contractual agreements may not provide adequate protection if there is any unauthorized use or disclosure. The loss of necessary technologies could require us to substitute technologies of lower quality performance standards, at greater cost or on a delayed basis, which could harm us.

Other parties may have patents or pending patent applications, which will later mature into patents or inventions that may block or put limits on our ability to operate our system or license technologies. We may have to resort to litigation to enforce our rights under license agreements or to determine the scope and validity of other parties' proprietary rights in the subject matter of those licenses. This may be expensive and we may not succeed in any such litigation.

Third parties may assert claims or bring suit against us for patent, trademark or copyright infringement, or for other infringement or misappropriation of intellectual property rights. Any such litigation could result in substantial cost, and diversion of effort and adverse findings in any proceeding could subject us to significant liabilities to third parties; require us to seek licenses from third parties; block our ability to operate our systems or license our technology; or otherwise adversely affect our ability to successfully develop and market our satellite radio systems.

While we currently pay a quarterly cash dividend to holders of our common stock, we may change our dividend policy at any time.

We currently pay a quarterly cash dividend to holders of our common stock, although we have no obligation to do so, and our dividend policy may change at any time without notice to our stockholders. The declaration and payment of dividends is at the discretion of our board of directors in accordance with applicable law after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, limitations imposed by our indebtedness, legal requirements and other factors that our board of directors deems relevant.

Special Note About Forward-Looking Statements

We have made various statements in this Annual Report on Form 10-K that may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be made in our other reports filed with or furnished to the SEC, in our press releases and in other documents. In addition, from time to time, we, through our management, may make oral forward-looking statements.

Forward-looking statements are subject to risks and uncertainties, including those identified above, which could cause actual results to differ materially from such statements. The words "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "believe," "intend," "plan," "may," "should," "could," "would," "likely," "projection," "outlook" an expressions are intended to identify forward-looking statements. We caution you that the risk factors described above are not exclusive. There may also be other risks that we are unable to predict at this time that may cause actual results to differ materially from those in forward-looking statements. New factors emerge from time to time, and it is not possible for us to predict which will arise or to assess with any precision the

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impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements, except as required by law.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Below is a list of the principal properties that we own or lease:

Location	Purpose	Own/Lease
New York, NY	Corporate headquarters, office facilities and studio/production facilities	Lease
Washington, DC	Office, studio/production facilities and data center	Own
Lawrenceville, NJ	Office and technical/engineering facilities	Lease
Deerfield Beach, FL	Office and technical/engineering facilities	Lease
Farmington Hills, MI	Office and technical/engineering facilities	Lease
Nashville, TN	Studio/production facilities	Lease
Vernon, NJ	Technical/engineering facilities	Own
Ellenwood, GA	Technical/engineering facilities	Lease
Fredericksburg, VA	Warehouse and technical/engineering facilities	Lease
Los Angeles, CA	Office and studio/production facilities	Lease
Irving, TX	Office and engineering facilities/call center	Lease
San Francisco, CA	Office and engineering facilities	Lease

We also lease other small facilities that we use as offices for our advertising sales personnel, studios and warehouse and maintenance space. These facilities are not material to our business or operations.

In addition, we lease or license space at approximately 560 locations for use in connection with the terrestrial repeater networks that support our satellite radio services. In general, these leases and licenses are for space on building rooftops and communications towers. None of these individual locations are material to our business or operations.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are a defendant or party to various claims and lawsuits, including the following discussed below.

SoundExchange Royalty Claims. In August 2013, SoundExchange, Inc. filed a complaint in the United States District Court for the District of Columbia (“SoundExchange I”) alleging that we underpaid royalties for statutory licenses in violation of the regulations established by the Copyright Royalty Board for the 2007-2012 period. SoundExchange principally alleges that we improperly reduced our gross revenues subject to royalties by deducting revenue attributable to pre-1972 recordings and Premier package revenue that is not “separately charged” as required by the regulations. We believe that we properly applied the gross revenue exclusions contained in the regulations established by the Copyright Royalty Board. SoundExchange is seeking compensatory damages of not less than $50 million and up to $100 million or more, payment of late fees and interest, and attorneys’ fees and costs.

In August 2014, the United States District Court for the District of Columbia, in response to our motion to dismiss the complaint, stayed the case on the grounds that it properly should be pursued in the first instance before the Copyright Royalty Board rather than the District Court. In its opinion, the District Court concluded that the gross revenue exclusions in the regulations established by the Copyright Royalty Board for the 2007-2012 period were ambiguous and did not, on their face, make clear whether our royalty calculation approaches were permissible under the regulations. In December 2014, SoundExchange filed a petition with the Copyright Royalty Board requesting an order interpreting the applicable regulations.

On September 11, 2017, the Copyright Royalty Board issued a ruling concluding that we correctly interpreted the revenue exclusions applicable to pre-1972 recordings. Given the limitations on its jurisdiction, the Copyright Royalty Board deferred to further proceedings in the District Court the question of whether we properly applied those pre-1972 revenue exclusions when calculating our royalty payments. The Judges also concluded that we improperly claimed a revenue exclusion based on our Premier package upcharge, because, in the Judges' view, the portion of the package that contained programming that did not include sound recordings was not offered for a "separate charge." We have filed a notice of appeal of this ruling to the United States Court of Appeals for the District of Columbia Circuit. We expect that the ruling by the Copyright Royalty Board in this matter will be transmitted back to the District Court for further proceedings, such as adjudication of claims relating to damages and defenses, although those proceedings may be delayed pending the appeal of the Judges' interpretive decision. We believe we have substantial defenses to SoundExchange claims that can be asserted in the District Court, and will continue to defend this action vigorously.

This matter is captioned SoundExchange, Inc. v. Sirius XM Radio, Inc., No.13-cv-1290-RJL (D.D.C.); the Copyright Royalty Board referral was adjudicated under the caption Determination of Rates and Terms for Preexisting Subscription Services and Satellite Digital Audio Radio Services, United States Copyright Royalty Board, No. 2006-1 CRB DSTRA. Information concerning SoundExchange I is publicly available in filings under the docket numbers.

On December 12, 2017, SoundExchange filed a second action against us under the Copyright Act in the United States District Court for the District of Columbia ("SoundExchange II"). This action includes claims that SoundExchange has also attempted to add to the SoundExchange I litigation through a proposed amended complaint. SoundExchange alleges that we have systematically underpaid it for our statutory license by impermissibly understating our gross revenues, as defined in the applicable regulations and, in certain cases, understating the compensable performances of recordings on our internet radio service. Specifically, the complaint in SoundExchange II alleges that: from at least 2013 through the present, we improperly excluded from gross revenues a portion of our revenues received from our Premier and All Access packages attributable to premium channels; at least between 2010 and 2012, we improperly excluded late fees received from subscribers from the calculation of gross revenues; at least between 2010 and 2012, we improperly excluded certain credits, adjustments and bad debt for which the underlying revenues had never been included in the first instance; at least between 2010 and 2012, we improperly deducted from gross revenues certain transaction fees and other expenses - for instance, credit card processing fees, collection fees and sales and use taxes - that are not permitted by the Copyright Royalty Board regulations; at least between 2010 and 2012, we improperly deducted amounts attributable to performances of recordings claimed to be directly licensed on both our satellite radio and internet radio services, even though they were not; at least between 2010 and 2012, we improperly excluded from royalty calculations performances of recordings less than thirty seconds long under the provisions of the Copyright Royalty Board regulations and the Webcaster Settlement Agreement; from 2010 through 2012, we excluded from royalty calculations performances of songs on our internet radio services that we claimed we were unable to identify; we owe associated late fees for the previously identified underpayments under the applicable Copyright Royalty Board regulations; and we have underpaid SoundExchange by an amount exceeding 10% of the royalty payment and we are therefore obligated to pay the reasonable costs of an audit. We believe that we properly applied in all material respects the regulations established by the Copyright Royalty Board. SoundExchange is seeking compensatory damages in an amount to be determined at trial from the alleged underpayments, unspecified late fees and penalties pursuant to the Copyright Royalty Board's regulations and the Webcaster Settlement Agreement and costs, including reasonable attorney fees and expenses.

This matter is titled SoundExchange, Inc. v. Sirius XM Radio, Inc., No.17-cv-02666-RJL (D.D.C.). Information concerning SoundExchange II is publicly available in filings under the docket number.

As of December 31, 2017, we concluded a loss, in excess of our recorded liabilities, was considered remote at this time in connection with SoundExchange I or SoundExchange II. The assumptions underlying our conclusions may change from time to time and the actual loss may vary from the amounts recorded.

Telephone Consumer Protection Act Suits. On March 13, 2017, Thomas Buchanan, individually and on behalf of all others similarly situated, filed a class action complaint against us in the United States District Court for the Northern District of Texas, Dallas Division. The plaintiff in this action alleges that we violated the Telephone Consumer Protection Act of 1991 (the “TCPA”) by, among other things, making telephone solicitations to persons on the National Do-Not-Call registry, a database established to allow consumers to exclude themselves from telemarketing calls unless they consent to receive the calls in a signed, written agreement, and making calls to consumers in violation of our internal Do-Not-Call registry. The plaintiff is seeking various forms of relief, including statutory damages of $500 for each violation of the TCPA or, in the alternative, treble damages of up to $1,500 for each knowing and willful violation of the TCPA and a permanent injunction prohibiting us from making, or having made, any calls to land lines that are listed on the National Do-Not-Call registry or our internal Do-Not-Call registry. We believe we have substantial defenses to the claims asserted in this action, and we intend to defend this action vigorously.

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Other Matters. In the ordinary course of business, we are a defendant in various other lawsuits and arbitration proceedings, including derivative actions; actions filed by subscribers, both on behalf of themselves and on a class action basis; former employees; parties to contracts or leases; and owners of patents, trademarks, copyrights or other intellectual property. None of these other matters, in our opinion, is likely to have a material adverse effect on our business, financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Select Market under the symbol "SIRI." The following table sets forth the high and low per share sales price for our common stock, as reported by NASDAQ, and the quarterly cash dividends declared per share of common stock for the periods indicated below:

	High	Low	Cash Dividends Declared
Year Ended December 31, 2016			
First Quarter	$4.04	$3.29	$ —
Second Quarter	$4.05		

7.625% Fixed-to-Floating Rate Subordinated Notes

On January 22, 2013, NuStar Logistics issued $402.5 million of 7.625% fixed-to-floating rate subordinated notes due January 15, 2043 (the Subordinated Notes), including the underwriters' option to purchase up to an additional $52.5 million principal amount of the notes, which was exercised in full. We received proceeds of approximately $391.2 million, net of $11.3 million of deferred issuance costs, which were used for general partnership purposes, including repayment of outstanding borrowings under our 2012 Revolving Credit Agreement. The Subordinated Notes are fully and unconditionally guaranteed on an unsecured and subordinated basis by NuStar Energy and NuPOP.

The Subordinated Notes bear interest at a fixed annual rate of 7.625%, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year beginning on April 15, 2013 and ending on January 15, 2018. Thereafter, the Subordinated Notes will bear interest at an annual rate equal to the sum of the three-month LIBOR rate for the related quarterly interest period plus 6.734% payable quarterly on January 15, April 15, July 15 and October 15 of each year, commencing April 15, 2018, unless payment is deferred in accordance with the terms of the notes. NuStar Logistics may elect to defer interest payments on the Subordinated Notes on one or more occasions for up to five consecutive years. Deferred interest will accumulate additional interest at a rate equal to the interest rate then applicable to the Subordinated Notes until paid. If NuStar Logistics elects to defer interest payments, NuStar Energy cannot declare or make cash distributions to its unitholders during the period interest is deferred.

The Subordinated Notes do not have sinking fund requirements and are subordinated to existing senior unsecured indebtedness of NuStar Logistics and NuPOP. The Subordinated Notes do not contain restrictions on NuStar Logistics' ability to incur additional indebtedness, including debt that ranks senior in priority of payment to the notes. In addition, the Subordinated Notes do not limit NuStar Logistics' ability to incur indebtedness secured by certain liens or to engage in certain sale-leaseback transactions. At the option of NuStar Logistics, the Subordinated Notes may be redeemed in whole or in part at any time at a redemption price, which may include a make-whole premium, plus accrued and unpaid interest to the redemption date.

Gulf Opportunity Zone Revenue Bonds

In 2008, 2010 and 2011, the Parish of St. James, Louisiana issued, pursuant to the Gulf Opportunity Zone Act of 2005, tax-exempt revenue bonds (GoZone Bonds) associated with our St. James, Louisiana terminal expansions. The GoZone Bonds bear interest based on a weekly tax-exempt bond market interest rate, and we pay interest monthly. The interest rate was 0.1% as of March 31, 2013. Following the issuance, the proceeds were deposited with a trustee and are disbursed to us upon our request for reimbursement of expenditures related to our St. James terminal expansions. We include the amount remaining in trust in

"Other long-term assets, net," and we include the amount of bonds issued in "Long-term debt, less current portion" on the consolidated balance sheets. For the three months ended March 31, 2013, we received $4.2 million from the trustee. As of March 31, 2013, the amount remaining in trust totaled $122.3 million.

Port Authority of Corpus Christi Note Payable
In February 2013, we repaid the remaining principal balance of $0.6 million on our $12.0 million note payable due to the Port of Corpus Christi Authority of Nueces County, Texas.

Other
In January 2013, Moody's lowered our credit rating to Ba1 from Baa3. This downgrade caused the interest rates on the 2012 Revolving Credit Agreement, NuStar Terminals Limited's £21 million amended and restated term loan agreement and NuStar Logistics' $350.0 million of 7.65% senior notes due 2018 to increase by 0.375%, 0.375% and 0.25%, respectively, effective January 2013. This downgrade may also require us to provide additional credit support for certain contracts.

5. COMMITMENTS AND CONTINGENCIES

Contingencies
We have contingent liabilities resulting from various litigation, claims and commitments. We record accruals for loss contingencies when losses are considered probable and can be reasonably estimated. Legal fees associated with defending the Partnership in legal matters are expensed as incurred. As of March 31, 2013, we have accrued $0.5 million for contingent losses. The amount that will ultimately be paid related to these matters may differ from the recorded accruals, and the timing of such payments is uncertain. In addition, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on our results of operations, financial position or liquidity.

6. FAIR VALUE MEASUREMENTS

We segregate the inputs used in measuring fair value into three levels: Level 1, defined as observable inputs such as quoted prices for identical assets or liabilities in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in markets that are not active; and Level 3, defined as unobservable inputs in which little or no market data exists. We consider counterparty credit risk and our own credit risk in the determination of all estimated fair values.

Recurring Fair Value Measurements
Product Imbalances. We value our assets and liabilities related to product imbalances using quoted market prices in active markets as of the reporting date.

Interest Rate Swaps. We estimate the fair value of both our fixed-to-floating and forward-starting interest rate swaps using discounted cash flows, which use observable inputs such as time to maturity and market interest rates.

Commodity Derivatives. We base the fair value of certain of our commodity derivative instruments on quoted prices on an exchange; accordingly, we include these items in Level 1 of the fair value hierarchy. We also have derivative instruments for which we determine fair value using industry pricing services and other observable inputs, such as quoted prices on an exchange for similar derivative instruments. Therefore, we include these derivative instruments in

Level 2 of the fair value hierarchy. See Note 7. Derivatives and Risk Management Activities for a discussion of our derivative instruments.

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The following assets and liabilities are measured at fair value:

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Other current assets:				
Product imbalances	$264	$—	$—	$264
Commodity derivatives	—	7,753	—	7,753
Other long-term assets, net:				
Commodity derivatives	—	8,802	—	8,802
Accrued liabilities:				
Product imbalances	(183)	—	—	(183)
Commodity derivatives	(3,097)	(15,644)	—	(18,741)
Interest rate swaps	—	(19,968)	—	(19,968)
Other long-term liabilities:				
Commodity derivatives	—	(506)	—	(506)
Total	$(3,016)	$(19,563)	$—	$(22,579)

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Other current assets:				
Product imbalances	$1,232	$—	$—	$1,232
Commodity derivatives	1,001	8,357	—	9,358
Other long-term assets, net:				
Commodity derivatives	—	9,206	—	9,206
Accrued liabilities:				
Product imbalances	(1,686)	—	—	(1,686)
Commodity derivatives	—	(19,210)	—	(19,210)
Interest rate swaps	—	(40,911)	—	(40,911)
Total	$547	$(42,558)	$—	$(42,011)

Fair Value of Financial Instruments

We recognize cash equivalents, receivables, the note receivable from related party, payables and debt in our consolidated balance sheets at their carrying amount. The fair values of these financial instruments, except for our note receivable from related party and debt, approximate their carrying amounts. The estimated fair value and carrying amounts of our note receivable from related party and debt were as follows:

	March 31, 2013		December 31, 2012	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(Thousands of Dollars)			
Debt	$2,448,108	$2,418,317	$2,377,120	$2,411,004
Note receivable from related party	$115,379	$159,200	$91,705	$95,711

We estimated the fair value of our publicly-traded senior notes based upon quoted prices in active markets; therefore, we determined the fair value of our publicly traded senior notes falls in Level 1 of the fair value hierarchy. For our other debt, for which a quoted market price is not available, we estimated the fair value using a discounted cash flow analysis using current incremental borrowing rates for similar types of borrowing arrangements and determined the fair value falls in Level 2 of the fair value hierarchy.

We estimated the fair value of the note receivable using discounted cash flows, which use inputs such as time to maturity and estimated market interest rates, and determined the fair value falls in Level 3 of the fair value hierarchy. See Note 8. Related Party Transactions for additional information on the NuStar JV Facility.

7. DERIVATIVES AND RISK MANAGEMENT ACTIVITIES

We utilize various derivative instruments to manage our exposure to commodity price risk and interest rate risk. Our risk management policies and procedures are designed to monitor interest rates, futures and swap positions and over-the-counter positions, as well as physical volumes, grades, locations and delivery schedules, to help ensure that our hedging activities address our market risks. Our risk management committee oversees our trading controls and procedures and certain aspects of commodity and trading risk management. Our risk management committee also reviews all new commodity and trading risk management strategies in accordance with our risk management policy, as approved by our board of directors.

Interest Rate Risk

We are a party to certain interest rate swap agreements to manage our exposure to changes in interest rates, which include forward-starting interest rate swap agreements related to forecasted probable debt issuances in 2013. We entered into these swaps in order to hedge the risk of changes in the interest payments attributable to changes in the benchmark interest rate during the period from the effective date of the swap to the issuance of the forecasted debt. These swaps qualified, and we designated them, as cash flow hedges. In connection with the maturity of the 6.05% senior notes due March 15, 2013, we terminated forward-starting interest rate swap agreements with an aggregate notional amount of $125.0 million. We paid $16.3 million in connection with the terminations, which we will amortize into “Interest expense, net” over the lives of forecasted probable debt issuances. As of March 31, 2013 and December 31, 2012, the total aggregate notional amount of forward-starting interest rate swaps is $150.0 million and $275.0 million, respectively.

Commodity Price Risk

We are exposed to market risks related to the volatility of crude oil and refined product prices. In order to reduce the risk of commodity price fluctuations with respect to our crude oil and finished product inventories and related firm commitments to purchase and/or sell such inventories, we utilize commodity futures and swap contracts, which qualify, and we designate as, fair value hedges. Derivatives that are intended to hedge our commodity price risk, but fail to qualify as fair value or cash flow hedges, are considered economic hedges, and we record associated gains and losses in net income. Changes in the fair values are recorded in net income.

To determine the volume represented by commodity contracts, we combined the volume of our long and short open positions on an absolute basis, which totaled 23.6 million barrels and 18.4 million barrels as of March 31, 2013 and December 31, 2012, respectively.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The fair values of our derivative instruments included in our consolidated balance sheets were as follows:

	Balance Sheet Location	Asset Derivatives March 31, 2013	Asset Derivatives December 31, 2012	Liability Derivatives March 31, 2013	Liability Derivatives December 31, 2012
		(Thousands of Dollars)			
Derivatives Designated as Hedging Instruments:					
Commodity contracts	Other current assets	$—	$1,471	$—	$(811)
Commodity contracts	Accrued liabilities	182	—	(1,446)	—
Interest rate swaps	Accrued liabilities	—	—	(19,968)	(40,911)
Total		182	1,471	(21,414)	(41,722)
Derivatives Not Designated as Hedging Instruments:					
Commodity contracts	Other current assets	12,019	22,269	(4,266)	(13,571)
Commodity contracts	Other long-term assets, net	23,867	39,322	(15,065)	(30,116)
Commodity contracts	Accrued liabilities	27,650	17,406	(45,127)	(36,616)
Commodity contracts	Other long-term liabilities	8,829	—	(9,335)	—
Total		72,365	78,997	(73,793)	(80,303)
Total Derivatives		$72,547	$80,468	$(95,207)	$(122,025)

Certain of our derivative instruments are eligible for offset in the consolidated balance sheets and subject to master netting arrangements. Under our master netting arrangements, there is a legally enforceable right to offset amounts, and we intend to settle such amounts on a net basis. The following are the net amounts presented on the consolidated balance sheets:

Commodity Contracts	March 31, 2013	December 31, 2012
	(Thousands of Dollars)	
Net amounts of assets presented in the consolidated balance sheets	$16,555	$18,564
Net amounts of liabilities presented in the consolidated balance sheets	$(19,247)	$(19,210)

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The earnings impact of our derivative activity was as follows:

Derivatives Designated as Fair Value Hedging Instruments	Income Statement Location	Amount of Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Hedged Item	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
		(Thousands of Dollars)		
Three months ended March 31, 2013:				
Commodity contracts	Cost of product sales	$(1,276)	$1,636	$ 360
Three months ended March 31, 2012:				
Interest rate swaps	Interest expense, net	$2,228	$(2,228)	$ —
Commodity contracts	Cost of product sales	(2,587)	2,390	(197)
Total		$(359)	$162	$ (197)

Derivatives Designated as Cash Flow Hedging Instruments	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Income Statement Location (a)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
	(Thousands of Dollars)		(Thousands of Dollars)	
Three months ended March 31, 2013:				
Interest rate swaps	$ 4,687	Interest expense, net	$(487)	$ —
Three months ended March 31, 2012:				
Interest rate swaps	$ 3,298	Interest expense, net	$(423)	$ —
Commodity contracts	(57,121)	Income (loss) from discontinued operations	(7,344)	4,010
Total	$ (53,823)		$(7,767)	$ 4,010

(a) Amounts are included in specified location for both the gain (loss) reclassified from accumulated other comprehensive income (OCI) into income (effective portion) and the gain (loss) recognized in income on derivative (ineffective portion).

Derivatives Not Designated as Hedging Instruments	Income Statement Location	Amount of Gain (Loss) Recognized in Income (Thousands of Dollars)
Three months ended March 31, 2013:		
Commodity contracts	Cost of product sales	$ (6,827)
Commodity contracts	Operating expenses	(1)
Commodity contracts	Income (loss) from discontinued operations	(218)
Total		$ (7,046)

Three months ended March 31, 2012:			
Commodity contracts	Revenues	$ 510	
Commodity contracts	Cost of product sales	4,161	
Commodity contracts	Income (loss) from discontinued operations	(8,479	)
Total		$ (3,808	)

For derivatives designated as cash flow hedging instruments, once a hedged transaction occurs, we reclassify the effective portion from accumulated OCI to "Cost of product sales" or "Interest expense, net." As of March 31, 2013, we expect to reclassify a loss of $5.1 million to "Interest expense, net" within the next twelve months. The maximum length of time over

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which we are hedging our exposure to the variability in future cash flows is approximately two months for our forward-starting interest rate swaps.

8. RELATED PARTY TRANSACTIONS

The following table summarizes information pertaining to related party transactions:

	Three Months Ended March 31,	
	2013	2012
	(Thousands of Dollars)	
Revenues	$2,011	$697
Operating expenses	$32,991	$36,777
General and administrative expenses	$18,784	$19,149
Interest income	$1,122	$—
Expenses included in discontinued operations, net of tax	$382	$2,175

NuStar GP, LLC
Our operations are managed by NuStar GP, LLC, the general partner of our general partner. Under a services agreement between NuStar Energy and NuStar GP, LLC, employees of NuStar GP, LLC perform services for our U.S. operations. Certain of our wholly owned subsidiaries employ persons who perform services for our international operations. Employees of NuStar GP, LLC provide services to both NuStar Energy and NuStar GP Holdings; therefore, we reimburse NuStar GP, LLC for all employee costs, other than the expenses allocated to NuStar GP Holdings.

We had a payable to NuStar GP, LLC of $11.8 million and $1.4 million as of March 31, 2013 and December 31, 2012, respectively, with both amounts representing payroll, employee benefit plan expenses and unit-based compensation. We also had a long-term payable to NuStar GP, LLC as of March 31, 2013 and December 31, 2012 of $18.8 million and $18.1 million, respectively, related to amounts payable for retiree medical benefits and other post-employment benefits.

Asphalt JV
On September 28, 2012, we sold a 50% ownership interest in NuStar Asphalt LLC (Asphalt JV), previously a wholly owned subsidiary. Asphalt JV owns and operates the asphalt refining assets that were previously wholly owned by NuStar Energy, including asphalt refineries located in Paulsboro, New Jersey and Savannah, Georgia. Unless otherwise indicated, the term “Asphalt JV” is used in this report to refer to NuStar Asphalt LLC, to one or more of its consolidated subsidiaries or to all of them taken as a whole.

Financing Agreements and Credit Support. The NuStar JV Facility is an unsecured revolving credit facility provided by NuStar Energy to Asphalt JV in an aggregate principal amount not to exceed $250.0 million for a term of seven years. As of March 31, 2013 and December 31, 2012, our note receivable from Asphalt JV totaled $159.2 million and $95.7 million, respectively, under the NuStar JV Facility.

In addition, during the term of the NuStar JV Facility, NuStar Energy will provide credit support, such as guarantees, letters of credit and cash collateral, as applicable, of up to $150.0 million. As of March 31, 2013, NuStar Energy has provided guarantees for commodity purchases, lease obligations and certain utilities for Asphalt JV with an aggregate maximum potential exposure of $102.3 million. In addition, NuStar Energy has provided two guarantees to suppliers that do not specify a maximum amount, but for which we believe any amounts due would be minimal. A majority of these guarantees have no expiration date. As of March 31, 2013, NuStar Energy has also provided $9.2 million in letters of credit. In the event NuStar Energy must fund its obligation under these guarantees or letters of credit, that amount will be added to borrowings under the NuStar JV Facility, but it will not reduce the availability under the NuStar JV Facility.

Crude Oil Supply Agreement. We entered into a crude oil supply agreement with Asphalt JV (the Asphalt JV Crude Oil Supply Agreement) that commits Asphalt JV to purchase from us a minimum amount of crude oil in a given year. As of March 31, 2013 and December 31, 2012, we had a receivable from Asphalt JV of $82.3 million and $109.4 million, respectively, mainly associated with crude oil sales under the Asphalt JV Crude Oil Supply Agreement.

Variable Interest Entity. We determined the equity of Asphalt JV is not sufficient to finance its activities without additional subordinated support, including support provided by us as described above. Therefore, we determined Asphalt JV is a variable

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interest entity (VIE). We analyzed our relationship with Asphalt JV, including our representation on the board of members, our equity interests and our rights under the various agreements with Asphalt JV and determined that we do not have the power to direct the activities most significant to the economic performance of Asphalt JV. As a result, we are not the primary beneficiary of Asphalt JV, and we report our 50% ownership in Asphalt JV using the equity method of accounting. Therefore, we have presented our investment in Asphalt JV within “Investment in joint ventures” on the consolidated balance sheets as of March 31, 2013 and December 31, 2012.

Our maximum exposure to loss as a result of our involvement with Asphalt JV is approximately $507.1 million, which consists of: (i) our investment in Asphalt JV of $24.8 million as of March 31, 2013; (ii) up to $250.0 million under the NuStar JV Facility; (iii) up to $150.0 million for credit support, including guarantees; and (iv) a receivable from Asphalt JV of $82.3 million as of March 31, 2013.

Other

As of March 31, 2013, we had a receivable of $7.0 million from our 50% joint venture in ST Linden Terminals, LLC.

9. PARTNERS’ EQUITY

Partners’ Equity Activity

The following table summarizes changes in the carrying amount of equity attributable to NuStar Energy L.P. partners and noncontrolling interest:

	Three Months Ended March 31, 2013			Three Months Ended March 31, 2012		
	NuStar Energy L.P. Partners’ Equity	Noncontrolling Interest	Total Partners’ Equity	NuStar Energy L.P. Partners’ Equity	Noncontrolling Interest	Total Partners’ Equity
	(Thousands of Dollars)					
Beginning balance	$2,572,384	$ 12,611	$2,584,995	$2,852,201	$ 12,134	$2,864,335
Net (loss) income	24,565	(161)	24,404	26,351	(97)	26,254
Other comprehensive (loss) income:						
Foreign currency translation adjustment	(7,277)	(287)	(7,564)	7,911	1,119	9,030
Net unrealized gain (loss) on cash flow hedges	4,687	—	4,687	(53,823)	—	(53,823)
Net loss reclassified on cash flow hedges into interest expense, net	487	—	487	423	—	423
Net loss reclassified on cash flow hedges into income (loss) from discontinued operations	—	—	—	7,344	—	7,344
Total other comprehensive (loss) income	(2,103)	(287)	(2,390)	(38,145)	1,119	(37,026)
Cash distributions to	(98,051)	—	(98,051)	(89,076)	—	(89,076)

partners						
Other	222	—	222	(269)	—	(269)
Ending balance	$2,497,017	$ 12,163	$2,509,180	$2,751,062	$ 13,156	$2,764,218

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Allocations of Net Income

Our partnership agreement, as amended, sets forth the calculation to be used to determine the amount and priority of cash distributions that the common unitholders and the general partner will receive. The partnership agreement also contains provisions for the allocation of net income and loss to the unitholders and the general partner. For purposes of maintaining partner capital accounts, the partnership agreement specifies that items of income and loss shall be allocated among the partners in accordance with their respective percentage interests. Normal allocations according to percentage interests are made after giving effect to priority income allocations, if any, in an amount equal to incentive cash distributions allocated 100% to the general partner. The following table details the calculation of net income applicable to the general partner:

	Three Months Ended March 31,	
	2013	2012
	(Thousands of Dollars)	
Net income attributable to NuStar Energy L.P.	$24,565	$26,351
Less general partner incentive distribution	10,805	9,816
Net income after general partner incentive distribution	13,760	16,535
General partner interest	2 %	2 %
General partner allocation of net income after general partner incentive distribution	276	331
General partner incentive distribution	10,805	9,816
Net income applicable to general partner	$11,081	$10,147

Cash Distributions

On February 14, 2013, we paid a quarterly cash distribution totaling $98.1 million, or $1.095 per unit, related to the fourth quarter of 2012. On April 24, 2013, we announced a quarterly cash distribution of $1.095 per unit related to the first quarter of 2013. This distribution will be paid on May 10, 2013 to unitholders of record on May 6, 2013 and will total $98.1 million.

The following table reflects the allocation of total cash distributions to the general and limited partners applicable to the period in which the distributions were earned:

	Three Months Ended March 31,	
	2013	2012
	(Thousands of Dollars, Except Per Unit Data)	
General partner interest	$1,961	$1,782
General partner incentive distribution	10,805	9,816
Total general partner distribution	12,766	11,598
Limited partners’ distribution	85,285	77,478
Total cash distributions	$98,051	$89,076
Cash distributions per unit applicable to limited partners	$1.095	$1.095

10. NET INCOME PER UNIT

We have identified the general partner interest and incentive distribution rights (IDR) as participating securities and use the two-class method when calculating the net income per unit applicable to limited partners, which is based on the weighted-average number of common units outstanding during the period. Basic and diluted net income per unit applicable to limited partners are the same because we have no potentially dilutive securities outstanding.

The following table details the calculation of earnings per unit:

	Three Months Ended March 31,	
	2013	2012
	(Thousands of Dollars, Except Unit and Per Unit Data)	
Net income attributable to NuStar Energy L.P.	$24,565	$26,351
Less general partner distribution (including IDR)	12,766	11,598
Less limited partner distribution	85,285	77,478
Distributions in excess of earnings	$(73,486)	$(62,725)
General partner earnings:		
Distributions	$12,766	$11,598
Allocation of distributions in excess of earnings (2%)	(1,469)	(1,255)
Total	$11,297	$10,343
Limited partner earnings:		
Distributions	$85,285	$77,478
Allocation of distributions in excess of earnings (98%)	(72,017)	(61,470)
Total	$13,268	$16,008
Weighted-average limited partner units outstanding	77,886,078	70,756,078
Net income per unit applicable to limited partners	$0.17	$0.23

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11. STATEMENTS OF CASH FLOWS
Changes in current assets and current liabilities were as follows:

	Three Months Ended March 31,	
	2013	2012
	(Thousands of Dollars)	
Decrease (increase) in current assets:		
Accounts receivable	$50,811	$52,418
Receivable from related parties	20,448	—
Inventories	(54,416)	(186,135)
Income tax receivable	50	(4,989)
Other current assets	18,678	(9,677)
Increase (decrease) in current liabilities:		
Accounts payable	31,318	76,683
Payable to related party	10,369	8,566
Accrued interest payable	6,797	(5,550)
Accrued liabilities	(10,491)	(8,513)
Taxes other than income tax	(2,136)	(664)
Income tax payable	2,158	1,403
Changes in current assets and current liabilities	$73,586	$(76,458)

The above changes in current assets and current liabilities differ from changes between amounts reflected in the applicable balance sheets due to the effect of foreign currency translation.

Cash flows related to interest and income taxes were as follows:

	Three Months Ended March 31,	
	2013	2012
	(Thousands of Dollars)	
Cash paid for interest, net of amount capitalized	$24,698	$31,961
Cash paid for income taxes, net of tax refunds received	$1,750	$8,106

12. SEGMENT INFORMATION

Our reportable business segments consist of storage, pipeline (formerly known as the transportation segment), and fuels marketing. In 2013, we renamed the “Asphalt and Fuels Marketing Segment” to the “Fuels Marketing Segment” in order to better reflect the current business in this segment. We believe this name is a more accurate description of the operations that remain after our deconsolidation of Asphalt JV in 2012 and the San Antonio Refinery Sale.

Our segments represent strategic business units that offer different services and products. We evaluate the performance of each segment based on its respective operating income, before general and administrative expenses and certain non-segmental depreciation and amortization expense. General and administrative expenses are not allocated to the operating segments since those expenses relate primarily to the overall management at the entity level. Our principal operations include terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and fuels marketing. Intersegment revenues result from storage and throughput agreements with wholly owned subsidiaries of NuStar Energy at lease rates consistent with rates charged to third parties for storage and at pipeline tariff rates based upon the applicable published tariff. Related party revenues mainly result from storage agreements with our joint ventures and the noncontrolling shareholder of our Turkey subsidiary.

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Results of operations for the reportable segments were as follows:

	Three Months Ended March 31,	
	2013	2012
	(Thousands of Dollars)	
Revenues:		
Storage:		
Third parties	$131,414	$127,687
Intersegment	10,894	17,045
Related party	2,011	697
Total storage	144,319	145,429
Pipeline	93,277	77,761
Fuels marketing	773,008	1,403,260
Consolidation and intersegment eliminations	(10,894)	(17,045)
Total revenues	$999,710	$1,609,405
Operating income:		
Storage	$51,178	$56,147
Pipeline	39,881	37,216
Fuels marketing	(1,593)	(5,393)
Consolidation and intersegment eliminations	(12)	30
Total segment operating income	89,454	88,000
General and administrative expenses	27,494	27,167
Other depreciation and amortization expense	2,498	1,814
Total operating income	$59,462	$59,019

Total assets by reportable segment were as follows:

	March 31, 2013	December 31, 2012
	(Thousands of Dollars)	
Storage	$2,606,020	$2,627,946
Pipeline	1,690,820	1,720,711
Fuels marketing	822,603	885,661
Total segment assets	5,119,443	5,234,318
Other partnership assets	427,587	378,771
Total consolidated assets	$5,547,030	$5,613,089

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13. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

NuStar Energy has no operations and its assets consist mainly of its investments in NuStar Logistics and NuPOP, both wholly owned subsidiaries. The senior notes issued by NuStar Logistics and NuPOP are fully and unconditionally guaranteed by NuStar Energy, and each of NuStar Logistics and NuPOP fully and unconditionally guarantee the outstanding senior notes of the other. As a result, the following condensed consolidating financial statements are presented as an alternative to providing separate financial statements for NuStar Logistics and NuPOP.

Condensed Consolidating Balance Sheets
March 31, 2013
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Assets						
Cash and cash equivalents	$7,033	$26,799	$—	$ 82,681	$—	$116,513
Receivables, net	—	151,979	5,994	286,773	(18,621)	426,125
Inventories	—	2,324	4,380	220,965	(43)	227,626
Income tax receivable	—	—	—	1,186	—	1,186
Other current assets	—	18,550	365	27,436	—	46,351
Assets held for sale	—	2,847	—	—	—	2,847
Intercompany receivable	—	171,904	628,671	—	(800,575)	—
Total current assets	7,033	374,403	639,410	619,041	(819,239)	820,648
Property, plant and equipment, net	—	1,446,695	576,891	1,215,969	—	3,239,555
Intangible assets, net	—	18,298	—	70,637	—	88,935
Goodwill	—	145,990	170,652	633,944	—	950,586
Investment in wholly owned subsidiaries	3,060,312	168,455	1,216,620	2,352,293	(6,797,680)	—
Investment in joint ventures	—	24,764	—	62,808	—	87,572
Deferred income tax asset	—	—	—	3,832	—	3,832
Note receivable from related party	—	159,200	—	—	—	159,200
Other long-term assets, net	490	155,680	26,329	14,203	—	196,702
Total assets	$3,067,835	$2,493,485	$2,629,902	$ 4,972,727	$(7,616,919)	$5,547,030
Liabilities and Partners’ Equity						
Current portion of long-term debt	$—	$—	$250,390	$ 31,855	$—	$282,245
Payables	6	123,670	14,380	321,166	(18,621)	440,601
Accrued interest payable	—	25,625	4,896	17	—	30,538
Accrued liabilities	772	38,982	5,258	35,389	—	80,401
Taxes other than income tax	188	3,792	3,524	268	—	7,772
Income tax payable	—	477	4	4,332	—	4,813
Intercompany payable	508,884	—	—	291,691	(800,575)	—
Total current liabilities	509,850	192,546	278,452	684,718	(819,196)	846,370
	—	2,136,072	—	—	—	2,136,072

Long-term debt, less current portion						
Long-term payable to related party	—	13,364	—	5,442	—	18,806
Deferred income tax liability	—	—	—	30,288	—	30,288
Other long-term liabilities	—	887	322	5,105	—	6,314
Total partners’ equity	2,557,985	150,616	2,351,128	4,247,174	(6,797,723)	2,509,180
Total liabilities and partners’ equity	$3,067,835	$2,493,485	$2,629,902	$4,972,727	$(7,616,919)	$5,547,030

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Balance Sheets
December 31, 2012
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Assets						
Cash and cash equivalents	$7,033	$1,112	$—	$ 75,457	$—	$83,602
Receivables, net	—	157,452	10,561	340,144	(10,381)	497,776
Inventories	—	2,320	5,590	165,349	(31)	173,228
Income tax receivable	—	—	—	1,265	—	1,265
Other current assets	—	26,353	1,468	37,417	—	65,238
Assets held for sale	—	35,337	—	82,997	—	118,334
Intercompany receivable	—	353,384	599,599	—	(952,983)	—
Total current assets	7,033	575,958	617,218	702,629	(963,395)	939,443
Property, plant and equipment, net	—	1,423,991	582,299	1,232,170	—	3,238,460
Intangible assets, net	—	18,733	—	73,702	—	92,435
Goodwill	—	145,990	170,652	634,382	—	951,024
Investment in wholly owned subsidiaries	3,133,097	161,957	1,208,595	2,329,595	(6,833,244)	—
Investment in joint ventures	—	35,883	—	67,062	—	102,945
Deferred income tax asset	—	—	—	3,108	—	3,108
Note receivable from related party	—	95,711	—	—	—	95,711
Other long-term assets, net	490	148,384	26,330	14,759	—	189,963
Total assets	$3,140,620	$2,606,607	$2,605,094	$ 5,057,407	$(7,796,639)	$5,613,089
Liabilities and Partners' Equity						
Current portion of long-term debt	$—	$1,313	$250,967	$ 34,142	$—	$286,422
Payables	15	122,706	12,657	274,044	(10,381)	399,041
Accrued interest payable	—	22,512	1,224	5	—	23,741
Accrued liabilities	862	76,322	7,542	39,477	—	124,203
Taxes other than income tax	129	5,671	2,830	1,263	—	9,893
Income tax payable	—	247	—	2,424	—	2,671
Intercompany payable	508,365	—	—	444,618	(952,983)	—
Total current liabilities	509,371	228,771	275,220	795,973	(963,364)	845,971
Long-term debt, less current portion	—	2,124,582	—	—	—	2,124,582
Long-term payable to related party	—	12,629	—	5,442	—	18,071
Deferred income tax liability	—	—	—	32,114	—	32,114
Other long-term liabilities	—	2,701	279	4,376	—	7,356
Total partners' equity	2,631,249	237,924	2,329,595	4,219,502	(6,833,275)	2,584,995
Total liabilities and partners' equity	$3,140,620	$2,606,607	$2,605,094	$ 5,057,407	$(7,796,639)	$5,613,089

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Comprehensive Income
For the Three Months Ended March 31, 2013
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Revenues	$—	$98,863	$52,626	$ 856,246	$(8,025)	$999,710
Costs and expenses	491	66,113	36,009	845,648	(8,013)	940,248
Operating (loss) income	(491)	32,750	16,617	10,598	(12)	59,462
Equity in earnings (loss) of subsidiaries	25,056	6,498	8,025	21,566	(61,145)	—
Equity in (loss) earnings of joint ventures	—	(11,541)	—	398	—	(11,143)
Interest expense, net	—	(26,790)	(3,023)	(300)	—	(30,113)
Other income (expense), net	—	2,808	(84)	(2,356)	—	368
Income from continuing operations before income tax expense	24,565	3,725	21,535	29,906	(61,157)	18,574
Income tax expense	—	186	2	2,348	—	2,536
Income from continuing operations	24,565	3,539	21,533	27,558	(61,157)	16,038
Loss from discontinued operations, net of tax	—	25	—	8,341	—	8,366
Net income	24,565	3,564	21,533	35,899	(61,157)	24,404
Less net loss attributable to noncontrolling interest	—	—	—	(161)	—	(161)
Net income attributable to NuStar Energy L.P.	$24,565	$3,564	$21,533	$ 36,060	$(61,157)	$24,565
Comprehensive income	$24,565	$10,532	$21,533	$ 26,541	$(61,157)	$22,014
Less comprehensive loss attributable to noncontrolling interest	—	—	—	(448)	—	(448)
Comprehensive income attributable to NuStar Energy L.P.	$24,565	$10,532	$21,533	$ 26,989	$(61,157)	$22,462

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the Three Months Ended March 31, 2012
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Revenues	$—	$80,221	$49,092	$ 1,486,187	$(6,095)	$1,609,405
Costs and expenses	435	46,098	34,957	1,475,019	(6,123)	1,550,386
Operating (loss) income	(435)	34,123	14,135	11,168	28	59,019
Equity in earnings of subsidiaries	26,786	(25,171)	25,905	36,057	(63,577)	—
Equity in earnings of joint venture	—	—	—	2,386	—	2,386
Interest expense, net	—	(17,105)	(4,171)	(101)	—	(21,377)
Other income, net	—	189	182	996	—	1,367
Income (loss) from continuing operations before income tax expense	26,351	(7,964)	36,051	50,506	(63,549)	41,395
Income tax expense	—	90	2	3,351	—	3,443
Income (loss) from continuing operations	26,351	(8,054)	36,049	47,155	(63,549)	37,952
Loss from discontinued operations, net of tax	—	(1,249)	—	(10,418)	(31)	(11,698)
Net income (loss)	26,351	(9,303)	36,049	36,737	(63,580)	26,254
Less net income attributable to noncontrolling interest	—	—	—	(97)	—	(97)
Net income (loss) attributable to NuStar Energy L.P.	$26,351	$(9,303)	$36,049	$ 36,834	$(63,580)	$26,351
Comprehensive income (loss)	$26,351	$(5,582)	$36,049	$ (4,010)	$(63,580)	$(10,772)
Less comprehensive income attributable to noncontrolling interest	—	—	—	1,022	—	1,022
Comprehensive income (loss) attributable to NuStar Energy L.P.	$26,351	$(5,582)	$36,049	$ (5,032)	$(63,580)	$(11,794)

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Cash Flows
For the Three Months Ended March 31, 2013
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$97,520	$25,327	$30,733	$ 88,881	$(98,061)	$144,400
Cash flows from investing activities:						
Capital expenditures	—	(39,277)	(1,478)	(11,809)	—	(52,564)
Proceeds from San Antonio Refinery Sale	—	112,715	—	—	—	112,715
Increase in note receivable from related party	—	(63,489)	—	—	—	(63,489)
Investment in subsidiaries	(211)	—	—	—	211	—
Other, net	211	(66)	6	69	—	220
Net cash (used in) provided by investing activities	—	9,883	(1,472)	(11,740)	211	(3,118)
Cash flows from financing activities:						
Debt borrowings	—	334,226	—	—	—	334,226
Debt repayments	—	(718,782)	—	—	—	(718,782)
Note offering, net	—	391,217	—	—	—	391,217
Distributions to unitholders and general partner	(98,051)	(98,051)	—	(10)	98,061	(98,051)
Payments for termination of interest rate swaps	—	(16,255)	—	—	—	(16,255)
Contributions from (distributions to) affiliates	—	211	—	—	(211)	—
Net intercompany borrowings (repayments)	520	98,175	(29,261)	(69,434)	—	—
Other, net	11	(264)	—	329	—	76
Net cash provided by (used in) financing activities	(97,520)	(9,523)	(29,261)	(69,115)	97,850	(107,569)
Effect of foreign exchange rate changes on cash	—	—	—	(802)	—	(802)
Net increase (decrease) in cash and cash equivalents	—	25,687	—	7,224	—	32,911
Cash and cash equivalents as of the beginning of the period	7,033	1,112	—	75,457	—	83,602
Cash and cash equivalents as of the end of the period	$7,033	$26,799	$—	$ 82,681	$—	$116,513

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Cash Flows
For the Three Months Ended March 31, 2012
(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries (a)	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$88,503	$5,831	$13,470	$(28,340)	$(89,077)	$(9,613)
Cash flows from investing activities:						
Capital expenditures	—	(75,008)	(2,285)	(22,991)	—	(100,284)
Investment in other long-term assets	—	—	—	(94)	—	(94)
Other, net	—	135	7	22	—	164
Net cash used in investing activities	—	(74,873)	(2,278)	(23,063)	—	(100,214)
Cash flows from financing activities:						
Debt borrowings	—	510,548	—	—	—	510,548
Debt repayments	—	(260,374)	(250,000)	—	—	(510,374)
Note offering, net	—	247,408	—	—	—	247,408
Distributions to unitholders and general partner	(89,076)	(89,076)	—	(9)	89,085	(89,076)
Payments for termination of interest rate swaps	—	(25,358)	—	—	—	(25,358)
Net intercompany borrowings (repayments)	838	(312,383)	238,808	72,745	(8)	—
Other, net	(269)	(3,598)	—	639	—	(3,228)
Net cash (used in) provided by financing activities	(88,507)	67,167	(11,192)	73,375	89,077	129,920
Effect of foreign exchange rate changes on cash	—	1,881	—	(1,775)	—	106
Net (decrease) increase in cash and cash equivalents	(4)	6	—	20,197	—	20,199
Cash and cash equivalents as of the beginning of the period	139	14	—	17,344	—	17,497
Cash and cash equivalents as of the end of the period	$135	$20	$—	$37,541	$—	$37,696

(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

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

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains certain estimates, predictions, projections, assumptions and other forward-looking statements that involve various risks and uncertainties. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this report. These forward-looking statements can generally be identified by the words “anticipates,” “believes,” “expects,” “plans,” “intends,” “estimates,” “forecasts,” “budgets,” “projects,” “could,” “should,” “may” and similar expressions. These statements reflect our current views with regard to future events and are subject to various risks, uncertainties and assumptions. Please read our Annual Report on Form 10-K for the year ended December 31, 2012, Part I, Item 1A “Risk Factors,” as well as our subsequent current and quarterly reports, for a discussion of certain of those risks, uncertainties and assumptions.

If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those described in any forward-looking statement. Other unknown or unpredictable factors could also have material adverse effects on our future results. Readers are cautioned not to place undue reliance on this forward-looking information, which is as of the date of this Form 10-Q. We do not intend to update these statements unless it is required by the securities laws to do so, and we undertake no obligation to publicly release the result of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

OVERVIEW

NuStar Energy L.P. (NuStar Energy) (NYSE: NS) is a publicly held Delaware limited partnership engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and fuels marketing. Unless otherwise indicated, the terms “NuStar Energy,” “the Partnership,” “we,” “our” and “us” are used in th report to refer to NuStar Energy L.P., to one or more of our consolidated subsidiaries or to all of them taken as a whole. NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH) owns our general partner, Riverwalk Logistics, L.P., and owns a 15.0% total interest in us as of March 31, 2013. Our Management’s Discussion and Analysis of Financial Condition and Results of Operations is presented in six sections:

- Overview
- Results of Operations
- Trends and Outlook
- Liquidity and Capital Resources
- Related Party Transactions
- Critical Accounting Policies

Dispositions and Acquisitions

San Antonio Refinery Sale. On January 1, 2013, we sold our fuels refinery in San Antonio, Texas (the San Antonio Refinery) and related assets, which included inventory, a terminal in Elmendorf, Texas and a pipeline connecting the terminal and refinery for approximately $117.0 million (the San Antonio Refinery Sale). We have presented the results of operations for the San Antonio Refinery and related assets, previously reported in the fuels marketing and pipeline segments, as discontinued operations for periods presented. Please refer to Note 2 of the Condensed Notes to Consolidated Financial Statements in Item 1. “Financial Statements” for a discussion of the San Antonio Refinery Sale.

Asphalt Sale. On September 28, 2012, we sold a 50% ownership interest (the Asphalt Sale) in NuStar Asphalt LLC (Asphalt JV), previously a wholly owned subsidiary. Asphalt JV owns and operates the asphalt refining assets that were previously wholly owned by NuStar Energy, including the asphalt refineries located in Paulsboro, New Jersey and Savannah, Georgia (collectively, the Asphalt Operations). Upon closing, we deconsolidated Asphalt JV and started reporting our remaining investment in Asphalt JV using the equity method of accounting. The results of the Asphalt Operations were previously included in the fuels marketing segment.

TexStar Asset Acquisition. On December 13, 2012, NuStar Logistics completed its acquisition of the TexStar Crude Oil Assets
(as defined below), including 100% of the partnership interest in TexStar Crude Oil Pipeline, LP, from TexStar Midstream
Services, LP and certain of its affiliates (collectively, TexStar) for approximately $325.0 million (the TexStar Asset Acquisition). The TexStar Crude Oil Assets consist of approximately 140 miles of crude oil pipelines and gathering lines, as well as five terminals and storage facilities providing 0.6 million barrels of storage capacity. The consolidated statements of

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income include the results of operations for the TexStar Asset Acquisition in the pipeline segment commencing on December 13, 2012.

Operations

We conduct our operations through our subsidiaries, primarily NuStar Logistics, L.P. (NuStar Logistics) and NuStar Pipeline Operating Partnership L.P. (NuPOP). Our operations are divided into three reportable business segments: storage, pipeline (formerly known as the transportation segment), and fuels marketing.

Storage. We own terminals and storage facilities in the United States, Canada, Mexico, the Netherlands, including St. Eustatius in the Caribbean, the United Kingdom and Turkey providing approximately 85.0 million barrels of storage capacity. Our terminals and storage facilities provide storage and handling services on a fee basis for petroleum products, specialty chemicals and other liquids, including crude oil and other feedstocks.

Pipeline. We own common carrier refined product pipelines in Texas, Oklahoma, Colorado, New Mexico, Kansas, Nebraska, Iowa, South Dakota, North Dakota and Minnesota covering approximately 5,484 miles, consisting of the Central West System, the East Pipeline and the North Pipeline. The East and North Pipelines also include 21 terminals providing storage capacity of 4.9 million barrels, and the East Pipeline includes two tank farms providing storage capacity of 1.4 million barrels. In addition, we own a 2,000 mile anhydrous Ammonia Pipeline located in Louisiana, Arkansas, Missouri, Illinois, Indiana, Iowa and Nebraska. We also own 1,137 miles of crude oil pipelines in Texas, Oklahoma, Kansas, Colorado and Illinois, as well as 2.5 million barrels of crude storage in Texas and Oklahoma located along those crude oil pipelines. We charge tariffs on a per barrel basis for transporting refined products, crude oil and other feedstocks in our refined product and crude oil pipelines and on a per ton basis for transporting anhydrous ammonia in our Ammonia Pipeline.

Fuels Marketing. In 2013, in order to better reflect the current operations of this segment, we renamed it the "Fuels Marketing Segment." We believe this name is a more accurate description of the operations that remain after our deconsolidation of the Asphalt Operations in the third quarter of 2012 and the January 2013 sale of the San Antonio Refinery. Within our fuels marketing operations, we purchase crude oil and refined petroleum products for resale. The results of operations for the fuels marketing segment depend largely on the margin between our cost and the sales prices of the products we market. Therefore, the results of operations for this segment are more sensitive to changes in commodity prices compared to the operations of the storage and pipeline segments. We enter into derivative contracts to attempt to mitigate the effects of commodity price fluctuations.

The following factors affect the results of our operations:

- company-specific factors, such as facility integrity issues and maintenance requirements that impact the throughput rates of our assets;
- seasonal factors that affect the demand for products transported by and/or stored in our assets and the demand for products we sell;
- industry factors, such as changes in the prices of petroleum products, that affect demand and operations of our competitors;
- factors such as commodity price volatility that impact our fuels marketing segment; and
- other factors, such as refinery utilization rates and maintenance turnaround schedules, that impact the operations of refineries served by our storage and pipeline assets.

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RESULTS OF OPERATIONS
Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012
Financial Highlights
(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Change
Statement of Income Data:			
Revenues:			
Services revenues	$227,283	$209,719	$17,564
Product sales	772,427	1,399,686	(627,259)
Total revenues	999,710	1,609,405	(609,695)
Costs and expenses:			
Cost of product sales	752,254	1,354,530	(602,276)
Operating expenses	117,574	125,114	(7,540)
General and administrative expenses	27,494	27,167	327
Depreciation and amortization expense	42,926	43,575	(649)
Total costs and expenses	940,248	1,550,386	(610,138)
Operating income	59,462	59,019	443
Equity in (loss) earnings of joint ventures	(11,143)	2,386	(13,529)
Interest expense, net	(31,235)	(21,377)	(9,858)
Interest income from related party	1,122	—	1,122
Other income, net	368	1,367	(999)
Income from continuing operations before income tax expense	18,574	41,395	(22,821)
Income tax expense	2,536	3,443	(907)
Income from continuing operations	16,038	37,952	(21,914)
Income (loss) from discontinued operations, net of tax	8,366	(11,698)	20,064
Net income	$24,404	$26,254	$(1,850)
Net (loss) income per unit applicable to limited partners:			
Continuing operations	$0.06	$0.39	$(0.33)
Discontinued operations	0.11	(0.16)	0.27
Total	$0.17	$0.23	$(0.06)
Weighted-average limited partner units outstanding	77,886,078	70,756,078	7,130,000

Highlights
Net income decreased $1.9 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, primarily due to a decrease in earnings of joint ventures and an increase in interest expense. In addition, we recorded income from discontinued operations in 2013, compared to a loss from discontinued operations in 2012, all of which is attributable to the San Antonio Refinery Sale. Segment operating income increased $1.5 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, primarily due to increased operating income from the pipeline segment, offset by decreased operating income from the storage segment. As a result of the Asphalt Sale, the fuels marketing segment includes the results of the Asphalt Operations for the three months ended March 31, 2012, but not for the three months ended March 31, 2013.

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Segment Operating Highlights
(Thousands of Dollars, Except Barrels/Day Information)

	Three Months Ended March 31, 2013	2012	Change
Storage:			
Throughput (barrels/day)	669,604	739,076	(69,472)
Throughput revenues	$22,361	$22,264	$97
Storage lease revenues	121,958	123,165	(1,207)
Total revenues	144,319	145,429	(1,110)
Operating expenses	68,710	65,982	2,728
Depreciation and amortization expense	24,431	23,300	1,131
Segment operating income	$51,178	$56,147	$(4,969)
Pipeline:			
Refined products pipelines throughput (barrels/day)	471,294	491,570	(20,276)
Crude oil pipelines throughput (barrels/day)	351,193	330,081	21,112
Total throughput (barrels/day)	822,487	821,651	836
Throughput revenues	$93,277	$77,761	$15,516
Operating expenses	37,406	27,564	9,842
Depreciation and amortization expense	15,990	12,981	3,009
Segment operating income	$39,881	$37,216	$2,665
Fuels Marketing:			
Product sales	$773,008	$1,403,260	$(630,252)
Cost of product sales	758,732	1,360,518	(601,786)
Gross margin	14,276	42,742	(28,466)
Operating expenses	15,862	42,655	(26,793)
Depreciation and amortization expense	7	5,480	(5,473)
Segment operating loss	$(1,593)	$(5,393)	$3,800
Consolidation and Intersegment Eliminations:			
Revenues	$(10,894)	$(17,045)	$6,151
Cost of product sales	(6,478)	(5,988)	(490)
Operating expenses	(4,404)	(11,087)	6,683
Total	$(12)	$30	$(42)
Consolidated Information:			
Revenues	$999,710	$1,609,405	$(609,695)
Cost of product sales	752,254	1,354,530	(602,276)
Operating expenses	117,574	125,114	(7,540)
Depreciation and amortization expense	40,428	41,761	(1,333)
Segment operating income	89,454	88,000	1,454
General and administrative expenses	27,494	27,167	327
Other depreciation and amortization expense	2,498	1,814	684
Consolidated operating income	$59,462	$59,019	$443

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Storage

Despite a decrease in throughputs of 69,472 barrels per day, throughput revenues remained flat for the three months ended March 31, 2013, compared to the three months ended March 31, 2012. Decreased throughputs of 125,828 barrels per day and decreased revenues of $2.6 million resulted from turnarounds and operational issues during the first quarter of 2013 at the refineries served by our Corpus Christi, Texas City and Benicia crude oil storage tanks and our Three Rivers refined products terminals. These decreases were offset by an increase in throughputs of 64,360 barrels per day and an increase in revenues of $2.9 million as a result of changing our Corpus Christi crude storage tank facility from a lease-based to a throughput-based facility in July 2012 in connection with the Eagle Ford Shale projects in our pipeline segment.

Storage lease revenues decreased $1.2 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, primarily due to:

- a decrease of $5.3 million at various domestic terminals, mainly as a result of reduced demand in several markets;
- a decrease of $4.9 million at our Point Tupper and St. Eustatius terminal facilities, mainly due to decreased reimbursable revenue and throughputs, as well as decreased dockage at our Point Tupper terminal facility;
- a decrease of $2.4 million due to the sale of five refined product terminals in April 2012;
- a decrease of $2.1 million at our Corpus Christi crude storage tank facility due to the change to throughput-based fees in July 2012; and
- a decrease of $1.5 million at our UK, Amsterdam and Turkey terminals, mainly due to a decrease in customer product movements and reimbursable revenues.

Those decreases were partially offset by an increase in revenues of $15.0 million resulting from the completed unit train offloading facility at our St. James terminal and completed tank expansion projects at our St. James and St. Eustatius terminals.

Operating expenses increased $2.7 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, primarily due to:

- an increase of $2.0 million resulting from lower capitalized overhead consistent with the decline in capital expenditures;
- an increase of $1.7 million in maintenance and regulatory expenses associated with tank inspections and repairs, mainly at refined product terminals in our central west and northeast regions; and
- an increase of $1.3 million in salaries and wages, mainly due to a collective labor agreement that became effective in mid-2012 associated with our St. Eustatius terminal.

These increases were partially offset by a decrease of $2.5 million in reimbursable expenses, consistent with the decrease in reimbursable revenues, mainly at our Point Tupper, St. Eustatius and Amsterdam terminals.

Depreciation and amortization expense increased $1.1 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, primarily due to completion of the St. James terminal unit train and tank expansion projects.

Pipeline

Revenues increased $15.5 million, despite throughputs that remained flat, for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, primarily due to:

- an increase in revenues of $11.9 million and an increase in throughputs of 55,549 barrels per day on crude oil pipelines that serve Eagle Ford Shale production in South Texas, mainly resulting from the TexStar Asset Acquisition;
-

an increase in revenues of $2.3 million and an increase in throughputs of 4,485 barrels per day on the North Pipeline, mainly due to the completion of an expansion project at the Mandan refinery in June 2012 and higher average tariffs resulting from an increase in the annual index adjustment in July 2012;

- an increase in revenues of $1.7 million, while throughputs remained flat, on the East Pipeline due to higher average tariffs resulting from increased long-haul deliveries and an increase in the annual index adjustment in July 2012; and
- an increase in revenues of $1.0 million, despite a decrease in throughputs of 8,010 barrels per day, on the crude oil and refined product pipelines serving the McKee refinery due to increased volumes on certain pipelines with higher tariffs and an increase in the annual index adjustment in July 2012; however, the throughputs decreased due to operating issues at the McKee refinery in the latter part of the first quarter, prior to a turnaround in April 2013.

The increases in revenues and throughputs were partially offset by a decrease in revenues of $0.8 million and a decrease in throughputs of 31,371 barrels per day on crude oil pipelines serving the Ardmore refinery due to a turnaround and operational

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issues during the first quarter of 2013. In addition, revenues decreased $0.9 million and throughputs decreased 7,805 barrels per day on the Houston pipeline as it is being converted to new service.

Operating expenses increased $9.8 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, primarily due to an increase of $6.3 million resulting from the TexStar Asset Acquisition. In addition, internal overhead expense increased $2.4 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, due to decreased capitalized overhead consistent with the decline in capital expenditures.

Depreciation and amortization expense increased $3.0 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, mainly due to the TexStar Asset Acquisition in December 2012.

Fuels Marketing

The consolidated statements of comprehensive income include the results of operations for Asphalt JV in "Equity in (loss) earnings of joint ventures" commencing on September 28, 2012, which were previously reported in the fuels marketing segment. For the three months ended March 31, 2013, this segment only includes our crude oil trading, heavy fuel oil and bunkering operations. The table below presents pro forma financial information that removes the historical financial information for our asphalt operations from the segment results for the three months ended March 31, 2012.

	Three Months Ended March 31,		Change
	2013	2012	
	(Thousands of Dollars)		
Product sales	$773,008	$1,198,629	$(425,621)
Cost of product sales	758,732	1,168,034	(409,302)
Gross margin	14,276	30,595	(16,319)
Operating expenses	15,862	14,785	1,077
Depreciation and amortization expense	7	43	(36)
Segment operating loss	$(1,593)	$15,767	$(17,360)

Sales and cost of product sales decreased $425.6 million and $409.3 million, respectively, resulting in a decrease in total gross margin of $16.3 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012. The decrease in total gross margin was primarily due to a decrease of $14.9 million in the gross margin from our crude oil trading, resulting from fewer contract volumes in the first quarter of 2013, as compared to 2012, that benefited from the widening price differential on two traded crude oil grades (WTI and LLS). In addition, the gross margin from bunker fuel sales decreased $2.0 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, mainly due to a decrease in volumes sold at our St. Eustatius terminal facility.

Operating expenses increased $1.1 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, primarily due to higher vessel costs associated with our bunker fuels sales at our St. Eustatius terminal facility and new tank rental expenses associated with fuel oil trading.

Consolidation and Intersegment Eliminations

Revenue and operating expense eliminations primarily relate to storage and transportation fees charged to the fuels marketing segment by the pipeline and storage segments. Revenue and operating expense eliminations decreased $6.2 million and $6.7 million, respectively, for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, mainly due to the Asphalt Sale in September 2012. Cost of product sales eliminations represent expenses charged to the fuels marketing segment for costs associated with inventory that are expensed once the inventory is sold.

General

General and administrative expenses increased $0.3 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, primarily due to higher compensation expenses, including costs associated with our long-term incentive plans, which fluctuate with our unit price. These were partially offset by expenses that are now billed to Asphalt JV for corporate support services under a services agreement between Asphalt JV and NuStar GP, LLC.

Equity in (loss) earnings of joint ventures changed by $13.5 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, primarily due to an $11.5 million loss from our investment in Asphalt JV, which was mainly due to seasonally weak demand for asphalt.

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Interest income from related party of $1.1 million for the three months ended March 31, 2013 represents the interest earned on a $250.0 million seven-year unsecured revolving credit facility with Asphalt JV.

Interest expense, net increased $9.9 million for the three months ended March 31, 2013, compared to the three months ended March 31, 2012, mainly due to the issuance of the $402.5 million of 7.625% fixed-to-floating rate subordinated notes in January 2013. In addition, we incurred higher interest rates and letter of credit fees related to the $1.5 billion five-year revolving credit agreement and higher interest rates due to the downgrades by credit rating agencies.

For the three months ended March 31, 2013, we recorded income from discontinued operations of $8.4 million, compared to a loss from discontinued operations of $11.7 million for the three months ended March 31, 2012, all of which is attributable to the San Antonio Refinery. Income from discontinued operations for the three months ended March 31, 2013 includes a gain of $9.2 million related to the San Antonio Refinery Sale.

TRENDS AND OUTLOOK

We expect our operating income for 2013 to be higher than 2012 in each of our three reporting segments.

Storage Segment

We expect storage segment earnings for the second quarter of 2013 to be less than the first quarter of 2013 and less than the second quarter of 2012. Continued backwardation of the forward pricing curve could result in reduced demand for storage in the markets we serve, thus negatively affecting our earnings.

However, we expect the full-year earnings for 2013 to improve compared to 2012. Expansion projects completed in 2012 and in the first quarter of 2013 at our St. James, Louisiana terminal and our St. Eustatius terminal in the Caribbean as well as the expected completion of a second 70,000 barrel per day rail-car offloading facility at our St. James, Louisiana terminal in the fourth quarter should more than offset the impacts of reduced demand at some of our terminals.

Pipeline Segment

We expect earnings for the pipeline segment to continue to improve throughout the year. Results for the second quarter and full year of 2013 should exceed the comparable periods of 2012 mainly due to higher throughputs resulting from our Eagle Ford Shale projects and from our TexStar Asset Acquisition. Within the Eagle Ford Shale, we expect to complete projects in the third and fourth quarter of 2013 that should significantly increase throughputs and improve our earnings.

For the full-year 2013, we expect earnings for the pipeline segment to be higher than 2012. We expect crude oil pipeline throughputs to increase in 2013 as a result of the Eagle Ford Shale projects completed in 2012 and the December 2012 TexStar Asset Acquisition, as well as from an additional Eagle Ford Shale project we should complete in the third quarter of 2013. These increased throughputs and the benefits from our TexStar Asset Acquisition should contribute to higher earnings.

Fuels Marketing Segment

The second quarter of 2013 will continue to present challenges, but we expect 2013 results for the fuels marketing operations to be higher than the results for 2012, primarily due to higher projected earnings from heavy fuel oil and bunker fuel marketing. However, due to the many factors affecting margins of these businesses, actual results may be higher or lower than what we currently forecast.

Our outlook for the partnership may change depending on, among other things, crude oil prices, the state of the economy, changes to refinery maintenance schedules and other factors that affect overall demand for the products we store, transport and sell as well as changes in commodity prices for the products we market.

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LIQUIDITY AND CAPITAL RESOURCES

General

Our primary cash requirements are for distributions to partners, working capital, including inventory purchases, debt service, capital expenditures, a financing agreement with Asphalt JV, acquisitions and operating expenses. On an annual basis, we attempt to fund our operating expenses, interest expense, reliability capital expenditures and distribution requirements with cash generated from our operations. If we do not generate sufficient cash from operations to meet those requirements, we utilize available borrowing capacity under our revolving credit agreement and, to the extent necessary, funds raised through equity or debt offerings under our shelf registration statements. Additionally, we typically fund our strategic capital expenditures from external sources, primarily borrowings under our $1.5 billion five-year revolving credit agreement (the 2012 Revolving Credit Agreement) or funds raised through equity or debt offerings. However, our ability to raise funds by issuing debt or equity depends on many factors beyond our control. The volatility of the capital and credit markets could restrict our ability to issue debt or equity or may increase our cost of capital beyond rates acceptable to us.

Cash Flows for the Three Months Ended March 31, 2013 and 2012

The following table summarizes our cash flows from operating, investing and financing activities:

	Three Months Ended March 31,	
	2013	2012
	(Thousands of Dollars)	
Net cash provided by (used in):		
Operating activities	$144,400	$(9,613)
Investing activities	(3,118)	(100,214)
Financing activities	(107,569)	129,920
Effect of foreign exchange rate changes on cash	(802)	106
Net increase in cash and cash equivalents	$32,911	$20,199

Net cash provided by operating activities for the three months ended March 31, 2013 was $144.4 million, compared to $9.6 million used in operating activities for the three months ended March 31, 2012. Working capital decreased by $73.6 million for the three months ended March 31, 2013, compared to an increase of $76.5 million for the three months ended March 31, 2012. Please refer to the Working Capital Requirements section below for a discussion of the changes in working capital.

For the three months ended March 31, 2013, net cash provided by operating activities and proceeds from the San Antonio Refinery Sale were used to fund our distributions to unitholders and our general partner, strategic and reliability capital expenditures and the increase in the note receivable from Asphalt JV.

For the three months ended March 31, 2012, our operations resulted in a cash shortfall. As a result, we utilized borrowings under our previous revolving credit agreement to fund that shortfall and our remaining cash requirements.

Revolving Credit Agreement

As of March 31, 2013, our consolidated debt coverage ratio could not exceed 5.50-to-1.00, as a result of the TexStar Asset Acquisition in December 2012. The requirement not to exceed a maximum consolidated debt coverage ratio may limit the amount we can borrow under the 2012 Revolving Credit Agreement to an amount less than the total amount available for borrowing. As of March 31, 2013, our consolidated debt coverage ratio was 4.3x, and we had $902.1 million available for borrowing.

Shelf Registration Statements

Our two shelf registration statements on Form S-3 permit us to offer and sell various types of securities, including NuStar Energy common units and debt securities of NuStar Logistics and NuPOP. The shelf registration statement that became effective on April 29, 2011 permits us to sell securities having an aggregate value of up to $200.0 million, while the shelf registration statement that became effective in May 2010 does not have a stated maximum dollar limit.

If the capital markets become more volatile, our access to the capital markets may be limited, or we could face increased costs. In addition, it is possible that our ability to access the capital markets may be limited at a time when we would like or need access, which could have an impact on our ability to refinance maturing debt and/or react to changing economic and business conditions.

7.625% Fixed-to-Floating Rate Subordinated Notes. On January 22, 2013, NuStar Logistics issued $402.5 million of 7.625% fixed-to-floating rate subordinated notes due January 15, 2043 (the Subordinated Notes), including the underwriters' option to purchase up to an additional $52.5 million principal amount of the notes, which was exercised in full. The net proceeds of approximately $391.2 million were used for general partnership purposes, including repayment of outstanding borrowings under our 2012 Revolving Credit Agreement. The Subordinated Notes are fully and unconditionally guaranteed on an unsecured and subordinated basis by NuStar Energy and NuPOP.

The Subordinated Notes bear interest at a fixed annual rate of 7.625%, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year beginning on April 15, 2013 and ending on January 15, 2018. Thereafter, the Subordinated Notes will bear interest at an annual rate equal to the sum of the three-month LIBOR rate for the related quarterly interest period plus 6.734% payable quarterly on January 15, April 15, July 15 and October 15 of each year, commencing April 15, 2018, unless payment is deferred in accordance with the terms of the notes. NuStar Logistics may elect to defer interest payments on the Subordinated Notes on one or more occasions for up to five consecutive years. Deferred interest will accumulate additional interest at a rate equal to the interest rate then applicable to to the Subordinated Notes until paid. If NuStar Logistics elects to defer interest payments, NuStar Energy cannot declare or make cash distributions to its unitholders during the period interest is deferred. Please refer to Note 4 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a more detailed discussion on certain of our long-term debt agreements.

Capital Requirements

Our operations require significant investments to maintain, upgrade or enhance the operating capacity of our existing assets. Our capital expenditures consist of:

- reliability capital expenditures, such as those required to maintain equipment reliability and safety; and
- strategic capital expenditures, such as those to expand and upgrade pipeline capacity or terminal facilities and to construct new pipelines, terminals and storage tanks. In addition, strategic capital expenditures may include acquisitions of pipelines, terminals or storage tank assets, as well as certain capital expenditures related to support functions.

During the three months ended March 31, 2013, our reliability capital expenditures totaled $5.7 million, primarily related to maintenance upgrade projects at our terminals. Strategic capital expenditures for the three months ended March 31, 2013 totaled $46.8 million and were primarily related to projects associated with Eagle Ford Shale production in South Texas and projects at our St. James, Louisiana terminal.

For the full year 2013, we expect our capital expenditures to total approximately $435.0 million to $495.0 million, including $35.0 million to $45.0 million for reliability capital projects and $400.0 million to $450.0 million for strategic capital projects, not including acquisitions. We continue to evaluate our capital budget and make changes as economic conditions warrant, and our actual capital expenditures for 2013 may increase or decrease from the budgeted amounts. We believe cash generated from operations, combined with other sources of liquidity previously described, will be sufficient to fund our capital expenditures in 2013, and our internal growth projects can be accelerated or scaled back depending on the condition of the capital markets.

Working Capital Requirements

Our fuels marketing operations require us to make substantial investments in working capital. Those working capital requirements may vary with fluctuations in the commodity prices of inventory and with the seasonality of demand for the products we market. This seasonality in demand affects our accounts receivable and accounts payable balances, which vary depending on timing of payments. As a result of the Asphalt Sale and the San Antonio Refinery Sale, our working capital requirements should be reduced. The Asphalt Operations, which we deconsolidated as of September 28, 2012, and the San Antonio Refinery operations, which we sold January1, 2013, are included in working capital for the three months ended March 31, 2012, but not for the three months ended March 31, 2013.

Within working capital, inventory increased by $54.4 million during the three months ended March 31, 2013, compared to an increase of $186.1 million during the three months ended March 31, 2012, primarily due to a decrease in crude oil purchases related to the Asphalt Operations and the San Antonio Refinery. In addition, other current assets decreased $18.7 million during the three months ended March 31, 2013, compared to an increase of $9.7 million during the three months ended March 31, 2012, primarily due to decreases in prepaid inventory, mainly resulting from the Asphalt Sale. The receivable from related parties decreased $20.4 million during the three months ended March 31, 2013 and is comprised primarily of receivables from Asphalt JV associated with crude oil sales under the a crude oil supply agreement. Please refer to Note 8 of the Condensed Notes to Consolidated Financial Statements in Item 1. “Financial Statements” for a more detailed discussion of our agreements with Asphalt JV.

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Higher inventory balances would typically also result in higher amounts of accounts payable, offsetting the impact to working capital. During the three months ended March 31, 2013, accounts payable increased $31.3 million, compared to an increase of $76.7 million during the three months ended March 31, 2012. These variances were due to the timing of payments and the lower amount of inventory purchases during the first quarter of 2013, compared to the first quarter of 2012.

Our working capital requirements were reduced as a result of the Asphalt Sale. However, in connection with the Asphalt Sale, we agreed to provide Asphalt JV with an unsecured revolving credit facility in an aggregate principal amount not to exceed $250.0 million for a term of seven years (the NuStar Facility), and to provide credit support, such as guarantees, letters of credit and cash collateral, as applicable, of up to $150.0 million. The NuStar Facility is used to fund working capital and general corporate needs of Asphalt JV. During the three months ended March 31, 2013, we advanced $63.5 million, net of repayments, to Asphalt JV under the NuStar Facility.

Distributions

On February 14, 2013, we paid a quarterly cash distribution totaling $98.1 million, or $1.095 per unit, related to the fourth quarter of 2012. On April 24, 2013, we announced a quarterly cash distribution of $1.095 per unit related to the first quarter of 2013. This distribution will be paid on May 10, 2013 to unitholders of record on May 6, 2013 and will total $98.1 million.

The following table reflects the allocation of total cash distributions to the general and limited partners applicable to the period in which the distributions were earned:

	Three Months Ended March 31,	
	2013	2012
	(Thousands of Dollars, Except Per Unit Data)	
General partner interest	$1,961	$1,782
General partner incentive distribution	10,805	9,816
Total general partner distribution	12,766	11,598
Limited partners' distribution	85,285	77,478
Total cash distributions	$98,051	$89,076
Cash distributions per unit applicable to limited partners	$1.095	$1.095

Distributions declared for the quarter are paid within 45 days following the end of each quarter based on the partnership interests outstanding as of a record date that is set after the end of each quarter.

Debt Obligations

We are a party to the following debt agreements as of March 31, 2013:

- the 2012 Revolving Credit Agreement due May 2, 2017, with a balance of $280.3 million as of March 31, 2013;
- NuStar Logistics' 7.65% senior notes due April 15, 2018 with a face value of $350.0 million; 4.80% senior notes due September 1, 2020 with a face value of $450.0 million; 4.75% senior notes due February 1, 2022 with a face value of $250.0 million; and 7.625% fixed-to-floating rate subordinated notes due January 15, 2043 with a face value of $402.5 million;
- NuPOP's 5.875% senior notes due June 1, 2013 with a face value of $250.0 million;
- NuStar Logistics' $365.4 million Gulf Opportunity Zone Revenue Bonds due from 2038 to 2041; and
- NuStar Terminals Limited's £21 million term loan due December 10, 2013 (the UK Term Loan).

In February 2013, we repaid the remaining principal balance of $0.6 million on our $12.0 million note payable due to the Port of Corpus Christi Authority of Nueces County, Texas. In March 2013, we repaid the $229.9 million of 6.05% senior notes due March 15, 2013 with borrowings under our 2012 Revolving Credit Agreement. We have $250.0 million of debt maturing in June 2013, which we expect to refinance with long-term debt.

Management believes that, as of March 31, 2013, we are in compliance with all ratios and covenants of both the 2012 Revolving Credit Agreement and the UK Term Loan. Our other long-term debt obligations do not contain any financial covenants that are different than those contained in the 2012 Revolving Credit Agreement. However, a default under any of our debt instruments would be considered an event of default under all of our debt instruments. Please refer to Note 4 of the Condensed Notes to Consolidated Financial Statements in Item 1. “Financial Statements” for a more detailed discussion on certain of our long-term debt agreements.

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Credit Ratings

In January 2013, Moody's Investor Service (Moody's) lowered our credit rating to Ba1 from Baa3. This downgrade caused the interest rates on NuStar Terminals Limited's £21.0 million amended and restated term loan agreement and NuStar Logistics' $350.0 million of 7.65% senior notes due 2018 to increase by 0.375% and 0.25%, respectively, effective January 2013. In addition, the interest rates on the 2012 Revolving Credit Agreement increased by 0.375% effective January 2013 as a result of the Moody's downgrade and a credit rating downgrade by Standard & Poor's in July 2012. These downgrades may also require us to provide additional credit support for certain contracts.

Interest Rate Swaps

As of March 31, 2013 and December 31, 2012, we were a party to forward-starting swap agreements for the purpose of hedging interest rate risk. The following table contains information on our interest rate swap agreements:

	Notional Amount		Fair Value Asset (Liability)	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
	(Thousands of Dollars)			
Forward-starting	$150,000	$275,000	$(19,968)	$(40,911)

In connection with the maturity of the 6.05% senior notes due March 15, 2013, we terminated forward-starting interest rate swap agreements with an aggregate notional amount of $125.0 million and paid $16.3 million in connection with the terminations. Please refer to Note 7 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a more detailed discussion of our interest rate swaps.

Environmental, Health and Safety

We are subject to extensive federal, state and local environmental and safety laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures, pipeline integrity and operator qualifications, among others. Because more stringent environmental and safety laws and regulations are continuously being enacted or proposed, the level of future expenditures required for environmental, health and safety matters is expected to increase.

Contingencies

We are subject to certain loss contingencies, the outcomes of which could have an adverse effect on our cash flows and results of operations, as further disclosed in Note 5 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements."

RELATED PARTY TRANSACTIONS

Please refer to Note 8 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a detailed discussion of our related party transactions.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk
We manage our exposure to changing interest rates principally through the use of a combination of fixed-rate debt and variable-rate debt. In addition, we utilize forward-starting interest rate swap agreements to lock in the rate on the interest payments related to forecasted debt issuances. We have also entered into fixed-to-floating interest rate swap agreements to manage a portion of the exposure to changing interest rates by converting certain fixed-rate debt to variable-rate debt. Borrowings under the 2012 Revolving Credit Agreement and Gulf Opportunity Zone Revenue Bonds expose us to increases in applicable interest rates.

During 2012, we terminated all of our outstanding fixed-to-floating interest rate swap agreements, which had an aggregate notional amount of $470.0 million. We had no fixed-to-floating interest rate swaps as of December 31, 2012 or March 31, 2013. Please refer to Note 7 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a more detailed discussion of our interest rate swaps.

The following tables present principal cash flows and related weighted-average interest rates by expected maturity dates for our long-term debt.

	March 31, 2013 Expected Maturity Dates							
	2013	2014	2015	2016	2017	There-after	Total	Fair Value
	(Thousands of Dollars, Except Interest Rates)							
Long-term Debt:								
Fixed rate	$281,855	$—	$—	$—	$—	$1,452,500	$1,734,355	$1,802,044
Weighted-average interest rate	5.5 %	—	—	—	—	6.4 %	6.2 %	
Variable rate	$—	$—	$—	$—	$280,263	$365,440	$645,703	$646,064
Weighted-average interest rate	—	—	—	—	2.2 %	0.1 %	1.0 %	

	December 31, 2012 Expected Maturity Dates							
	2013	2014	2015	2016	2017	There-after	Total	Fair Value
	(Thousands of Dollars, Except Interest Rates)							
Long-term Debt:								
Fixed rate	$514,651	$—	$—	$—	$—	$1,050,000	$1,564,651	$1,601,985
Weighted-average interest rate	5.7 %	—	—	—	—	5.8 %	5.8 %	
Variable rate	$—	$—	$—	$—	$440,330	$365,440	$805,770	$775,135
Weighted-average interest rate	—	—	—	—	1.9 %	0.1 %	1.1 %	

The following table presents information regarding our forward-starting interest rate swap agreements:

Notional Amount		Period of Hedge	Weighted-Average Fixed Rate	Fair Value	
March 31, 2013	December 31, 2012		March 31, 2013	March 31, 2013	December 31, 2012
(Thousands of Dollars)				(Thousands of Dollars)	

$—	$125,000	06/13 - 06/23	3.5 %	$—	$(18,921)
150,000	150,000	06/13 - 06/23	3.5 %	(19,968)	(21,990)
$150,000	$275,000		3.5 %	$(19,968)	$(40,911)

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Commodity Price Risk

Since the operations of our fuels marketing segment expose us to commodity price risk, we enter into derivative instruments to attempt to mitigate the effects of commodity price fluctuations. The derivative instruments we use consist primarily of commodity futures and swap contracts. We have a risk management committee that oversees our trading controls and procedures and certain aspects of commodity and trading risk management. Our risk management committee also reviews all new commodity and trading risk management strategies in accordance with our risk management policy, as approved by our board of directors.

We record commodity derivative instruments in the consolidated balance sheets as assets or liabilities at fair value. We recognize mark-to-market adjustments for derivative instruments designated and qualifying as fair value hedges (Fair Value Hedges) and the related change in the fair value of the associated hedged physical inventory or firm commitment within “Cost of product sales.” For derivative instruments that have associated underlying physical inventory but do not qualify for hedge accounting (Economic Hedges and Other Derivatives), we record the mark-to-market adjustments in “Cost of product sales” or “Operating expenses.”

The commodity contracts disclosed below represent only those contracts exposed to commodity price risk at the end of the period. Please refer to Note 7 of Condensed Notes to Consolidated Financial Statement in Item 1. “Financial Statements” for the volume and related fair value of all commodity contracts.

	March 31, 2013			
	Contract Volumes (Thousands of Barrels)	Weighted Average Pay Price	Weighted Average Receive Price	Fair Value of Current Asset (Liability) (Thousands of Dollars)
Fair Value Hedges:				
Futures – short:				
(refined products)	45	N/A	$127.19	$ (35)
Swaps – long:				
(refined products)	90	$95.56	N/A	$ 26
Swaps – short:				
(refined products)	1,955	N/A	$95.00	$ (1,645)
Economic Hedges and Other Derivatives:				
Futures – long:				
(crude oil and refined products)	15	$120.11	N/A	$ 26
Futures – short:				
(crude oil and refined products)	648	N/A	$101.45	$ (1,330)
Swaps – long:				
(refined products)	2,261	$91.26	N/A	$ 1,377
Swaps – short:				
(refined products)	2,576	N/A	$99.16	$ 4,663
Forward purchase contracts:				
(crude oil)	2,890	$104.28	N/A	$ 7,133
Forward sales contracts:				
(crude oil)	2,890	N/A	$103.25	$ (5,733)
Total fair value of open positions exposed to commodity price risk				$ 4,482

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	December 31, 2012			
	Contract Volumes	Weighted Average		Fair Value of Current Asset (Liability)
		Pay Price	Receive Price	
	(Thousands of Barrels)			(Thousands of Dollars)
Fair Value Hedges:				
Futures – long:				
(refined products)	10	$127.47	N/A	$ (1)
Futures – short:				
(refined products)	55	N/A	$127.99	$ 36
Swaps – long:				
(refined products)	11	$97.76	N/A	$ 2
Swaps – short:				
(refined products)	36	N/A	$96.58	$ (51)
Economic Hedges and Other Derivatives:				
Futures – long:				
(crude oil and refined products)	88	$97.60	N/A	$ 202
Futures – short:				
(crude oil and refined products)	94	N/A	$100.13	$ (142)
Swaps – long:				
(crude oil and refined products)	5,196	$93.75	N/A	$ (2,329)
Swaps – short:				
(crude oil and refined products)	6,952	N/A	$94.43	$ (2,033)
Forward purchase contracts:				
(crude oil)	2,998	$100.03	N/A	$ 12,574
Forward sales contracts:				
(crude oil)	2,998	N/A	$99.68	$ (9,365)
Total fair value of open positions exposed to commodity price risk				$ (1,107)

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Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.
Our management has evaluated, with the participation of the principal executive officer and principal financial officer of NuStar GP, LLC, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective as of March 31, 2013.
(b) Changes in internal control over financial reporting.
There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 6. Exhibits

Exhibit Number	Description
*12.01	Statement of Computation of Ratio of Earnings to Fixed Charges
*31.01	Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal executive officer
*31.02	Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal financial officer
*32.01	Section 1350 Certification (under Section 906 of the Sarbanes-Oxley Act of 2002) of principal executive officer
*32.02	Section 1350 Certification (under Section 906 of the Sarbanes-Oxley Act of 2002) of principal financial officer
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

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SIGNATURES

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

NUSTAR ENERGY L.P.
(Registrant)

By: Riverwalk Logistics, L.P., its general partner
By: NuStar GP, LLC, its general partner

By: /s/ Curtis V. Anastasio
Curtis V. Anastasio
President and Chief Executive Officer
May 8, 2013

By: /s/ Steven A. Blank
Steven A. Blank
Executive Vice President and Chief Financial Officer
May 8, 2013

By: /s/ Thomas R. Shoaf
Thomas R. Shoaf
Senior Vice President and Controller
May 8, 2013