SUNOCO LOGISTICS PARTNERS LP
Form 10-Q
July 31, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

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 1-31219

SUNOCO LOGISTICS PARTNERS L.P.
(Exact name of registrant as specified in its charter)

Delaware	**23-3096839**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Mellon Bank Center **1735 Market Street, Suite LL, Philadelphia, PA**	**19103-7583**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (866) 248-4344

Former name, former address and formal fiscal year, if changed since last report: Not Applicable

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.:

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

At July 31, 2007, the number of the registrant s Common Units outstanding was 28,586,280.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

SUNOCO LOGISTICS PARTNERS L.P.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(in thousands, except unit and per unit amounts)

	Three Months Ended June 30,	
	2007	**2006**
Revenues		
Sales and other operating revenue:		
Affiliates (Note 3)	$ 391,370	$ 518,439
Unaffiliated customers	1,238,910	973,057
Other income	7,698	3,872
Total Revenues	1,637,978	1,495,368
Costs and Expenses		
Cost of products sold and operating expenses	1,580,330	1,439,674
Depreciation and amortization	9,407	9,211
Selling, general and administrative expenses	13,487	13,522
Total Costs and Expenses	1,603,224	1,462,407
Operating Income	34,754	32,961
Net interest cost paid to affiliates (Note 3)	1,059	414
Other interest cost and debt expense, net	9,386	7,416
Capitalized interest	(945)	(1,189)
Net Income	$ 25,254	$ 26,320
Calculation of Limited Partners interest in Net Income (Note 4):		
Net Income	$ 25,254	$ 26,320
Less: General Partner s interest in Net Income	(3,552)	(4,101)
Limited Partners interest in Net Income	$ 21,702	$ 22,219
Net Income per Limited Partner unit:		
Basic	$ 0.76	$ 0.81
Diluted	$ 0.76	$ 0.81

Weighted average Limited Partners units outstanding (Note 4):		
Basic	28,586,280	27,466,092
Diluted	28,723,884	27,589,644

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(in thousands, except unit and per unit amounts)

	Six Months Ended June 30,	
	2007	**2006**
Revenues		
Sales and other operating revenue:		
Affiliates (Note 3)	$ 843,439	$ 996,760
Unaffiliated customers	2,336,411	1,755,707
Other income	12,737	6,263
Total Revenues	3,192,587	2,758,730
Costs and Expenses		
Cost of products sold and operating expenses	3,079,588	2,654,460
Depreciation and amortization	18,311	18,157
Selling, general and administrative expenses	29,006	28,525
Total Costs and Expenses	3,126,905	2,701,142
Operating Income	65,682	57,588
Net interest cost paid to affiliates (Note 3)	1,594	723
Other interest cost and debt expense, net	18,025	13,866
Capitalized interest	(1,498)	(1,745)
Net Income	$ 47,561	$ 44,744
Calculation of Limited Partners interest in Net Income (Note 4):		
Net Income	$ 47,561	$ 44,744
Less: General Partner s interest in Net Income	(5,631)	(5,445)
Limited Partners interest in Net Income	$ 41,930	$ 39,299
Net Income per Limited Partner unit:		
Basic	$ 1.47	$ 1.48
Diluted	$ 1.46	$ 1.48
Weighted average Limited Partners units outstanding (Note 4):		

Basic	28,575,697	26,499,007
Diluted	28,713,365	26,623,554

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2007 (UNAUDITED)	December 31, 2006
Assets		
Current Assets		
Cash and cash equivalents	$ 9,035	$ 9,412
Advances to affiliates (Note 3)	11,305	7,431
Accounts receivable, affiliated companies (Note 3)	75,926	98,952
Accounts receivable, net	922,304	776,505
Inventories:		
Crude oil	90,911	69,552
Materials, supplies and other	724	732
Total Current Assets	1,110,205	962,584
Properties, plants and equipment	1,569,959	1,506,350
Less accumulated depreciation and amortization	(517,652)	(499,682)
Properties, plants and equipment, net	1,052,307	1,006,668
Investment in affiliates (Note 5)	82,829	81,934
Deferred charges and other assets	25,800	30,891
Total Assets	$ 2,271,141	$ 2,082,077
Liabilities and Partners Capital		
Current Liabilities		
Accounts payable	$ 1,044,552	$ 922,495
Accrued liabilities	37,427	34,843
Accrued taxes other than income	19,953	22,869
Advances from affiliates (Note 3)		
Total Current Liabilities	1,101,932	980,207
Long-term debt (Note 6)	563,907	491,910
Other deferred credits and liabilities	29,456	27,049
Commitments and contingent liabilities (Note 7)		
Total Liabilities	1,695,295	1,499,166
Partners Capital:		
Limited partners interest	573,737	576,004
General partner s interest	2,109	6,907

Total Partners Capital		575,846		582,911
Total Liabilities and Partners Capital	$	2,271,141	$	2,082,077

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Cash Flows from Operating Activities:		
Net Income	$ 47,561	$ 44,744
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,311	18,157
Restricted unit incentive plan expense	3,389	2,572
Changes in working capital pertaining to operating activities net of the effect of acquisitions:		
Accounts receivable, affiliated companies	23,026	(28,808)
Accounts receivable, net	(145,799)	(223,617)
Inventories	(21,351)	506
Accounts payable and accrued liabilities	124,153	233,554
Accrued taxes other than income	(2,916)	2,867
Other	6,978	(3,762)
Net cash provided by operating activities	53,352	46,213
Cash Flows from Investing Activities:		
Capital expenditures	(50,642)	(53,759)
Acquisitions	(13,173)	(108,900)
Net cash used in investing activities	(63,815)	(162,659)
Cash Flows from Financing Activities:		
Distributions paid to Limited Partners and General Partner	(57,271)	(45,047)
Payments of statutory withholding on net issuance of Limited Partner units under restricted unit incentive plan	(1,479)	(1,443)
Net proceeds from issuance of Limited Partner units		110,357
Contributions from General Partner for Limited Partner unit transactions	58	2,426
Net proceeds from issuance of Senior Notes		173,307
Advances to affiliates, net	(3,874)	(13,504)
Borrowings under credit facility	91,900	109,500
Repayments under credit facility	(20,000)	(216,100)
Contributions from affiliate	752	747
Net cash provided by financing activities	10,086	120,243
Net change in cash and cash equivalents	(377)	3,797
Cash and cash equivalents at beginning of year	9,412	21,645

Cash and cash equivalents at end of period	$ 9,035	$ 25,442

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

Sunoco Logistics Partners L.P. (the Partnership) is a publicly traded Delaware limited partnership which owns and operates a geographically diverse portfolio of complementary assets, consisting of refined product pipelines, terminalling and storage assets, crude oil pipelines, and crude oil acquisition and marketing assets located in the Northeast, Midwest and South Central United States. Sunoco, Inc. and its wholly owned subsidiaries including Sunoco, Inc. (R&M) are collectively referred to as Sunoco .

The consolidated financial statements reflect the results of Sunoco Logistics Partners L.P. and its wholly-owned partnerships, including Sunoco Logistics Partners Operations L.P. (the Operating Partnership). Equity ownership interests in corporate joint ventures, which are not consolidated, are accounted for under the equity method.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States for interim financial reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. In management s opinion, all adjustments necessary for a fair presentation of the results of operations, financial position and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature. Results for the three and six months ended June 30, 2007 are not necessarily indicative of results for the full year 2007.

2. Acquisitions

Syracuse Terminal Acquisition

On June 4, 2007, the Partnership purchased a 50% undivided interest in a refined products terminal located in Syracuse, New York from Mobil Pipe Line Company, an affiliate of Exxon Mobil Corporation for approximately $13.2 million. Total terminal storage capacity is approximately 550,000 barrels. The purchase price of the acquisition was funded with borrowings under the Partnership s Credit Facility, and has been preliminarily allocated to property, plants and equipment based on the relative fair value of the assets acquired on the acquisition date. The results of the acquisition are included in the financial statements within the Terminal Facilities business segment from the date of acquisition.

Mid-Valley Pipeline Acquisition

On August 18, 2006, the Partnership purchased from Sunoco a 100 percent interest in Sun Pipe Line Company of Delaware LLC, the owner of a 55.3 percent equity interest (50 percent voting rights) in Mid-Valley Pipeline Company (Mid-Valley) for approximately $65.0 million, subject to certain adjustments five years following the date of closing, based on the throughput of Sunoco. Mid-Valley owns a 994-mile pipeline, which originates in Longview, Texas and terminates in Samaria, Michigan, and has operating capacity of approximately 238,000 bpd and 4.2 million shell barrels of storage capacity. Mid-Valley provides crude oil to a number of refineries, primarily in the Midwest United States. The purchase price of the acquisition was funded with $46.0 million in borrowings under the Partnership s Credit Facility and with cash on hand. Since the acquisition was from a related party, the interest in the entity was recorded by the Partnership at Sunoco s historical cost of approximately $12.5 million and the $52.5 million difference between the purchase price and the cost basis of the assets was recorded by the Partnership as a capital distribution. The results of the acquisition are included in the financial statements within the Western Pipeline System business segment from the date of acquisition.

Millennium and Kilgore Pipeline Acquisition

On March 1, 2006, the Partnership purchased a Texas crude oil pipeline system from affiliates of Black Hills Energy, Inc. for approximately $40.9 million. The system consists of (a) the Millennium Pipeline, a 200-mile, 12-inch crude oil pipeline with approximately 65,000 bpd operating capacity, originating near the Partnership s Nederland Terminal, and terminating at Longview Texas; (b) the Kilgore Pipeline, a 190-mile, 10-inch crude oil pipeline with approximately 35,000 barrel per day capacity originating in Kilgore, Texas and terminating at refineries in the Houston, Texas region; (c) approximately 900,000 shell barrels of storage capacity at Kilgore, and Longview, Texas, approximately 550,000 of which are inactive; (d) a crude oil sales and marketing business; and (e) crude oil line fill and working inventory. The purchase price of the acquisition was funded with borrowings under the Partnership s

Credit Facility. The purchase price has

been allocated to the assets acquired based on their relative fair values at the acquisition date. The following is a summary of the effects of the transaction on the Partnership s consolidated financial position (in thousands of dollars):

Increase in:	
Inventories	$ 2,189
Properties, plants and equipment, net	38,711
Cash paid for acquisition	$ 40,900

The results of the acquisition are included in the financial statements within the Western Pipeline System business segment from the date of acquisition.

Amdel and White Oil Pipeline Acquisition

On March 1, 2006, the Partnership acquired a Texas crude oil pipeline system from Alon USA Energy, Inc. for approximately $68.0 million. The system consists of (a) the Amdel Pipeline, a 503-mile, 10-inch common carrier crude oil pipeline with approximately 27,000 bpd operating capacity, originating at the Nederland Terminal, and terminating at Midland, Texas, and (b) the White Oil Pipeline, a 25-mile, 10-inch crude oil pipeline with approximately 40,000 bpd operating capacity, originating at the Amdel Pipeline and terminating at Alon s Big Spring, Texas refinery. The pipelines were idle at the time of purchase, were re-commissioned by the Partnership during the second quarter 2006 and began making deliveries during the fourth quarter 2006. During the first quarter of 2007, the Partnership completed a project to expand the capacity on the Amdel Pipeline from approximately 27,000 to 40,000 bpd. Construction on new tankage at the Nederland Terminal to service these new volumes more efficiently is expected to be completed during 2007. The purchase price of the acquisition was funded with borrowings under the Partnership s Credit Facility, and has been allocated to property, plant and equipment based on the relative fair value of the assets acquired on the acquisition date. The results of the acquisition are included in the financial statements within the Western Pipeline System business segment from the date of acquisition.

3. Related Party Transactions

Advances To and From Affiliates

The Partnership has a treasury services agreement with Sunoco pursuant to which it, among other things, participates in Sunoco s centralized cash management program. Under this program, all of the Partnership s cash receipts and cash disbursements are processed, together with those of Sunoco and its other subsidiaries, through Sunoco s cash accounts with a corresponding credit or charge to an intercompany account. The intercompany balances are settled periodically, but no less frequently than monthly. Amounts due from Sunoco earn interest at a rate equal to the average rate of the Partnership s third-party money market investments, while amounts due to Sunoco bear interest at a rate equal to the interest rate provided in the Partnership s revolving credit facility (see Note 6).

Selling, general and administrative expenses in the condensed consolidated statements of income include costs incurred by Sunoco for the provision of certain centralized corporate functions such as legal, accounting, treasury, engineering, information technology, insurance and other corporate services, including the administration of employee benefit plans. These are provided to the Partnership under an omnibus agreement (Omnibus Agreement) with Sunoco for an annual administrative fee. The fee for the annual period ended December 31, 2006 was $7.7 million. In January 2007, the parties extended the term of Section 4.1 of the Omnibus Agreement (which concerns the Partnership s obligation to pay the annual fee for provision of certain general and administrative services) by one year. The annual administrative fee applicable to this one-year extension is $6.5 million, which reflects the Partnership directly incurring some of these general and administrative costs. These costs may be increased if the acquisition or construction of new assets or businesses requires an increase in the level of general and administrative services received by the Partnership. There can be no assurance that Section 4.1 of the Omnibus Agreement will be extended beyond 2007, or that, if extended, the administrative fee charged by Sunoco will be at or below the current administrative fee. In the event that the Partnership is unable to obtain such services from Sunoco or third parties at or below the current cost, the Partnership s financial condition and results of operations may be adversely impacted.

The annual administrative fee does not include the costs of shared insurance programs, which are allocated to the Partnership based upon its share of the cash premiums incurred. This fee also does not include salaries of pipeline and terminal personnel or other employees of the general partner, or the cost of their employee benefits. These employees are employees of the Partnership s general partner or its affiliates, which are wholly-owned subsidiaries of Sunoco. The Partnership has no employees. Allocated Sunoco employee benefit plan expenses for employees who work in the pipeline, terminalling, storage and crude oil gathering operations, including senior executives, include non-contributory defined benefit retirement plans, defined contribution 401(k) plans, employee and retiree medical, dental and life insurance plans, incentive compensation plans, and other such benefits. The Partnership is reimbursing Sunoco for these costs and other direct expenses incurred on its behalf. These expenses are reflected in cost of products sold and operating expenses and selling, general and administrative expenses in the condensed consolidated statements of income.

Accounts Receivable, Affiliated Companies

Affiliated revenues in the condensed consolidated statements of income consist of sales of crude oil as well as the provision of crude oil and refined product pipeline transportation, terminalling and storage services to Sunoco. Sales of crude oil are priced using market based rates. Pipeline revenues are generally determined using posted tariffs. In 2002, the Partnership entered into the pipelines and terminals storage and throughput agreement and various other agreements with Sunoco under which the Partnership is charging Sunoco fees for services provided under these agreements that, in management s opinion, are comparable to those charged in arm s-length, third-party transactions. During the first quarter of 2007, the agreement to throughput at the Partnership s refined product terminals and to receive and deliver refined product into the Partnership s Marcus Hook Tank Farm expired. During the second quarter of 2007, the Partnership executed new five year agreements with Sunoco to provide these services.

Under various other agreements, Sunoco is, among other things, purchasing from the Partnership, at market-based rates, particular grades of crude oil that the Partnership s crude oil acquisition and marketing business purchases for delivery to certain pipelines. These agreements automatically renew on a monthly basis unless terminated by either party on 30 days written notice. Sunoco also leases the Partnership s 58 miles of interrefinery pipelines between Sunoco s Philadelphia and Marcus Hook refineries for a term of 20 years.

Capital Contributions

The Partnership has agreements with Sunoco which requires Sunoco to, among other things, reimburse the Partnership for certain expenditures. These agreements include:

- the Interrefinery Lease Agreement, which requires Sunoco to reimburse the Partnership for any non-routine maintenance expenditures incurred, as defined through February 2022; and
- the Eagle Point purchase agreement, which requires Sunoco to reimburse the Partnership for certain capital improvement projects incurred regarding the assets acquired, as defined, up to $5.0 million through March 2014. The Partnership has received $2.6 million to date under this agreement.

During the six months ended June 30, 2007 and 2006, the Partnership was reimbursed $0.8 million and $0.7 million, respectively, associated with these agreements. The reimbursement of these amounts was recorded by the Partnership as capital contributions to Partners Capital within the condensed consolidated balance sheet at June 30, 2007.

In May 2006, the Partnership sold 2.4 million common units in a public offering. In June 2006, the Partnership sold an additional 280,000 common units to cover over-allotments in connection with the May 2006 sale (see Note 9). As a result of this issuance of 2.680 million common units, the general partner contributed $2.4 million to the Partnership to maintain its 2.0 percent general partner interest. The Partnership recorded this amount as a capital contribution to Partners Capital within its condensed consolidated balance sheet.

In February 2007 and 2006, the Partnership issued 0.1 million common units in each period to participants in the Sunoco Partners LLC Long-Term Incentive Plan (LTIP) upon completion of award vesting requirements. As a result of these issuances of common units, the general partner contributed $0.1 million in each period to the Partnership to maintain its 2.0 percent general partner interest. The Partnership recorded these amounts as capital contributions to Partners Capital within its condensed consolidated balance sheets.

Asset Acquisition

On August 18, 2006, the Partnership purchased from Sunoco a 100 percent interest in Sun Pipe Line Company of Delaware LLC, the owner of a 55.3 percent equity interest (50 percent voting rights) in Mid-Valley Pipeline Company

(Mid-Valley) for approximately $65 million, subject to certain adjustments five years following the date of closing, based on throughput of Sunoco (see Note 2). Since the acquisition was from a related party, the interest in the entity was recorded by the Partnership at Sunoco s historical cost of approximately $12.5 million, and the $52.5 million difference between the purchase price and the cost basis of the assets was recorded by the Partnership as a capital distribution.

Conversion of Subordinated Units

A total of 11,383,639 subordinated limited partner units, equal to all of the originally issued subordinated units held by the general partner, have been converted into common units on a one-for-one basis, 2,845,910 each on February 15, 2005 and February 15, 2006 and 5,691,819 on February 15, 2007 (see Note 10).

4. Net Income Per Unit Data

Basic and diluted net income per limited partner unit is calculated by dividing net income, after deducting the amount allocated to the general partner s interest, by the weighted-average number of limited partner common and subordinated units outstanding during the period.

The general partner s interest in net income consists of its 2.0 percent general partner interest and incentive distributions , which are increasing percentages, up to 50 percent of quarterly distributions in excess of $0.50 per limited partner unit (see Note 10). The general partner was allocated net income of $3.6 million (representing 14.1 percent of total net income for the period) and $4.1 million (representing 15.6 percent of total net income for the period) for the three months ended June 30, 2007 and 2006, respectively, and $5.6 million (representing 11.8 percent of total net income for the period) and $5.4 million (representing 12.2 percent of total net income for the period) for the six months ended June 30, 2007 and 2006, respectively. Diluted net income per limited partner unit is calculated by dividing net income applicable to limited partners by the sum of the weighted-average number of common and subordinated units outstanding and the dilutive effect of incentive unit awards, as calculated by the treasury stock method.

The following table sets forth the reconciliation of the weighted average number of limited partner units used to compute basic net income per limited partner unit to those used to compute diluted net income per limited partner unit for the three and six months ended June 30, 2007 and 2006:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Weighted average number of limited partner units outstanding basic	28,586,280	27,466,092	28,575,697	26,499,007
Add effect of dilutive unit incentive awards	137,604	123,552	137,668	124,547
Weighted average number of limited partner units diluted	28,723,884	27,589,644	28,713,365	26,623,554

5. Investment in Affiliates

The Partnership s ownership percentages in corporate joint ventures as of June 30, 2007 and December 31, 2006 are as follows:

	Partnership Ownership Percentage
Mid-Valley Pipeline Company [1]	55.3%
West Texas Gulf Pipe Line Company	43.8%
Wolverine Pipe Line Company	31.5%
Yellowstone Pipe Line Company	14.0%
West Shore Pipe Line Company	12.3%

Explorer Pipeline Company	9.4%

(1) The Partnership s interest in the Mid-Valley Pipeline Company includes 50 percent voting rights.

The following table provides summarized combined statement of income data on a 100 percent basis for the Partnership s corporate joint venture interests for the three and six months ended June 30, 2007 and 2006 (in thousands of dollars):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Income Statement Data:				
Total revenues	$133,564	$96,497	$243,253	$179,583
Net income	$ 40,573	$24,162	$ 70,545	$ 44,900

The following table provides summarized combined balance sheet data on a 100 percent basis for the Partnership s corporate joint venture interests as of June 30, 2007 and December 31, 2006 (in thousands of dollars):

	June 30, 2007	December 31, 2006
Balance Sheet Data:		
Current assets	$122,421	$104,276
Non-current assets	$485,357	$489,514
Current liabilities	$122,780	$111,476
Non-current liabilities	$394,119	$399,826
Net equity	$ 90,879	$ 83,028

The Partnership s investments in Wolverine, West Shore, Yellowstone, and West Texas Gulf at June 30 2007 include an excess investment amount of approximately $54.6 million, net of accumulated amortization of $2.9 million. The excess investment is the difference between the investment balance and the Partnership s proportionate share of the net assets of the entities. The excess investment was allocated to the underlying tangible and intangible assets. Other than land and indefinite-lived intangible assets, all amounts allocated, principally to pipeline and related assets, are amortized using the straight-line method over their estimated useful life of 40 years and included within depreciation and amortization in the condensed consolidated statements of income.

6. Long-Term Debt

The components of long-term debt are as follows (in thousands of dollars):

	June 30, 2007	December 31, 2006
Credit Facility	$ 139,900	$ 68,000
Senior Notes 7.25%, due February 15, 2012	250,000	250,000
Senior Notes 6.125%, due May 15, 2016	175,000	175,000
Less unamortized bond discount	(993)	(1,090)
	$ 563,907	$ 491,910

Sunoco Logistics Partners Operations L.P. (the Operating Partnership), a wholly-owned entity of the Partnership, has a $300 million Credit Facility available to fund the Operating Partnership s working capital requirements, to finance future acquisitions and for general partnership purposes. It may also be used to fund the quarterly distribution to a maximum of $20.0 million. Borrowing under this distribution sublimit must be reduced to zero each year for a 15-day period. The Credit Facility matures in November 2010 and may be prepaid at any time. It bears interest at the Operating Partnership s option, at either (i) LIBOR plus an applicable margin or (ii) the higher of the federal funds rate plus 0.50 percent or the Citibank prime rate (each plus the applicable margin). There were $139.9 million of outstanding borrowings under the Credit Facility at June 30, 2007. The Credit Facility contains various covenants limiting the Operating Partnership s ability to incur indebtedness; grant certain liens; make certain loans, acquisitions and investments; make any material change to the nature of its business; acquire another company; or enter into a merger or sale of assets, including the sale or transfer of interests in the Operating Partnership s subsidiaries. The Credit Facility also contains covenants (each as defined in the credit agreement) requiring the Operating Partnership to maintain, on a rolling four-quarter basis, a maximum total debt to EBITDA ratio of 4.75 to 1, which can generally be increased to 5.25 to 1 during an acquisition period; and an interest coverage ratio of at least 3.0 to 1. The Operating Partnership is in compliance with these covenants as of June 30, 2007. The Partnership s ratio of total debt to EBITDA was 3.4 to 1 and the interest coverage ratio was 4.4 to 1 at June 30, 2007.

On March 1, 2006, the Partnership completed its acquisition of two Texas crude oil pipeline systems for $108.9 million (see Note 2). The Partnership initially financed these transactions with $109.5 million of borrowings under the Credit Facility.

During May 2006, the Operating Partnership issued $175 million of 6.125 percent Senior Notes, due May 15, 2016 at 99.858 percent of the principal amount, for net proceeds of $173.3 million after the underwriter s commission and legal, accounting and other transaction expenses. The Senior Notes are redeemable, at a make-whole premium, and are not subject to sinking fund provisions. The Senior Notes contain various covenants limiting the Operating Partnership s ability to incur certain liens, engage in sale/leaseback transactions, or merge, consolidate or sell substantially all of its assets. The Operating Partnership is in compliance with these covenants as of March 31, 2007. The net proceeds from the Senior Notes, together with the $110.3 million in net proceeds from the concurrent offering of 2.68 million limited partner common units (see Note 9), were used to repay all of the $216.1 million in outstanding borrowings under the Partnership s Credit Facility. The balance of the proceeds from the offerings were used to fund the Partnership s organic growth program and for general Partnership purposes, including to finance pending and future acquisitions.

On August 21, 2006, the Partnership purchased from Sunoco a 100 percent interest in Sun Pipe Line Company of Delaware LLC, the owner of a 55.3 percent equity interest in Mid-Valley Pipeline Company (Mid-Valley) for $65 million, subject to certain adjustments five years following the date of closing (see Note 2). The purchase price of the acquisition was funded with $46.0 million in borrowings under the Partnership s Credit Facility and with cash on hand.

On June 4, 2007, the Partnership purchased a 50% undivided interest in a refined products terminal located in Syracuse, New York from Mobil Pipe Line Company, an affiliate of Exxon Mobil Corporation for approximately $13.2 million. The purchase price of the acquisition was funded with $11.9 million in borrowings under the Partnership s Credit Facility and with cash on hand.

The Partnership and the operating partnerships of the Operating Partnership serve as joint and several guarantors of the Senior Notes and of any obligations under the Credit Facility. The guarantees are full and unconditional. See Note 13 for supplemental condensed consolidating financial information.

7. Commitments and Contingent Liabilities

The Partnership is subject to numerous federal, state and local laws which regulate the discharge of materials into the environment or that otherwise relate to the protection of the environment. These laws and regulations result in liabilities and loss contingencies for remediation at the Partnership s facilities and at third-party or formerly owned sites. The accrued liability for environmental remediation in the condensed consolidated balance sheets was $1.8 million and $0.5 million as of June 30, 2007 and December 31, 2006, respectively. There are no liabilities attributable to unasserted claims, nor have any recoveries from insurance been assumed.

Total future costs for environmental remediation activities will depend upon, among other things, the identification of any additional sites, the determination of the extent of any contamination at each site, the timing and nature of required remedial actions, the technology available and needed to meet the various existing legal requirements, the nature and extent of future environmental laws, inflation rates and the determination of the Partnership s liability at multi-party sites, if any, in light of uncertainties with respect to joint and several liability, and the number, participation levels and financial viability of other parties. As discussed below, the Partnership s future costs will also be impacted by an indemnification from Sunoco.

Sunoco has indemnified the Partnership for 30 years from environmental and toxic tort liabilities related to the assets contributed to the Partnership that arise from the operation of such assets prior to the closing of the Partnership s initial public offering (IPO) on February 8, 2002. Sunoco has indemnified the Partnership for 100 percent of all such losses asserted within the first 21 years of closing of the February 2002 IPO. Sunoco s share of liability for claims asserted thereafter will decrease by 10 percent a year. For example, for a claim asserted during the twenty-third year after closing of the February 2002 IPO, Sunoco would be required to indemnify the Partnership for 80 percent of its loss. There is no monetary cap on the amount of indemnity coverage provided by Sunoco. The Partnership has agreed to indemnify Sunoco and its affiliates for events and conditions associated with the operation of the Partnership s assets that occur on or after the closing of the February 2002 IPO and for environmental and toxic tort liabilities to the extent Sunoco is not required to indemnify the Partnership.

Sunoco has also indemnified the Partnership for liabilities, other than environmental and toxic tort liabilities related to the assets contributed to the Partnership, that arise out of Sunoco s ownership and operation of the assets prior to the closing of the February 2002 IPO and that are asserted within 10 years after closing of the February 2002 IPO. In addition, Sunoco has indemnified the Partnership from liabilities relating to certain defects in title to the assets contributed to the Partnership and associated with failure to obtain certain consents and permits necessary to conduct its business that arise within 10 years after closing of the February 2002 IPO as well as from liabilities relating to legal actions pending against Sunoco or its affiliates as of February 2, 2002, or events and conditions associated with any assets retained by Sunoco or its affiliates.

Management of the Partnership does not believe that any liabilities which may arise from claims indemnified by Sunoco would be material in relation to the consolidated financial position of the Partnership at June 30, 2007. There are certain other pending legal proceedings related to matters arising after the February 2002 IPO which are not indemnified by Sunoco. Management believes that any liabilities that may arise from these legal proceedings will not be material in relation to the consolidated financial position of the Partnership at June 30, 2007.

8. Management Incentive Plan

Sunoco Partners LLC, the general partner of the Partnership, has adopted the Sunoco Partners LLC Long-Term Incentive Plan (LTIP) for employees and directors of the general partner who perform services for the Partnership. The LTIP is administered by the independent directors of the Compensation Committee of the general partner s board of directors with respect to employee awards, and by the non-independent members of the general partners board of directors with respect to awards granted to the independent directors. The LTIP currently permits the grant of restricted units and unit options covering an aggregate of 1,250,000 common units. There have been no grants of unit options since the inception of the LTIP. Restricted unit awards under the Partnership s LTIP generally vest upon completion of a three-year service period. For performance-based awards, adjustments for attainment of performance targets can range from 0 200 percent of the award grant, and are payable in common units. Restricted unit awards may also include tandem distribution equivalent rights (DERs) at the discretion of the Compensation Committee. Subject to applicable vesting criteria, a DER entitles the grantee to a cash payment equal to cash distributions paid on an outstanding common unit during the period the restricted unit is outstanding. DERs are recognized as a reduction of Partners Capital as they become vested.

As of June 30, 2007, there were approximately 0.2 million unvested restricted units outstanding with a weighted average grant-date fair value of $46.59 per unit, and a contractual life of three years. As of June 30, 2007, total compensation cost related to non-vested awards not yet recognized was $3.2 million, and the weighted-average period over which this cost is expected to be recognized in expense is 1.6 years. The number of restricted stock units outstanding and the total compensation cost related to non-vested awards not yet recognized reflect the Partnership s estimates of performance factors pertaining to performance-based restricted unit awards.

Effective January 1, 2006, the Partnership adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), using the modified-prospective method. SFAS No. 123R revised the accounting for stock-based compensation required by Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation (SFAS No. 123). Among other things, SFAS No. 123R requires a fair-value-based method of accounting for share-based payment transactions, which is similar to the method followed by the Partnership under the provisions of SFAS No. 123.

SFAS No. 123R also requires the use of a non-substantive vesting period approach for new share-based payment awards that vest when an employee becomes retirement eligible, as is the case under the Partnership s LTIP (i.e., the vesting period cannot exceed the date an employee becomes retirement eligible). The effect will be to accelerate expense recognition compared to the vesting period approach that the Partnership previously followed under SFAS No. 123.

The Partnership recognized share-based compensation expense related to the LTIP of approximately $3.4 million in the first six months of 2007 and $2.6 million for the first six months of 2006. During the first quarter of 2007, the Partnership issued 50,410 new common units (after netting for taxes of approximately $1.5 million) and made DER-related payments of approximately $0.6 million in connection with the vesting.

9. Equity Offerings

In May 2006, the Partnership sold 2.4 million common units in a public offering at a price of $43.00 per unit. In June 2006, the Partnership sold an additional 280,000 common units to cover over-allotments in connection with the May 2006 sale. The purchase price for the over allotment was equal to the offering price in the May 2006 sale. The total sale of units resulted in gross proceeds of $115.2 million, and net proceeds of $110.3 million, after the underwriters commission and legal, accounting and other transaction expenses. Net proceeds of the offering, together with the $173.3 million in net proceeds from the concurrent offering of Senior Notes (see Note 6), were used to repay $216.1 million of the debt incurred under the revolving credit facility, to fund the Partnership s 2006 organic growth program, and for general partnership purposes. Also as a result of the issuance of these units, the general partner contributed $2.4 million to the Partnership to maintain its 2.0 percent general partner interest. At June 30, 2007, Sunoco s ownership in the Partnership, including its 2.0 percent general partner interest, was 43.4 percent.

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10. Cash Distributions

Within 45 days after the end of each quarter, the Partnership distributes all cash on hand at the end of the quarter, less reserves established by the general partner in its discretion. This is defined as available cash in the partnership agreement. The general partner has broad discretion to establish cash reserves that it determines are necessary or appropriate to properly conduct the Partnership s business. The Partnership will make quarterly distributions to the extent there is sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to the general partner.

The Partnership issued 11,383,639 subordinated units to its general partner in connection with the February 2002 IPO. The Partnership had 5,691,819 subordinated units outstanding as of December 31, 2006, all of which were held by the general partner, and for which there is no established public trading market. Any subordinated units that remain outstanding at the end of the subordination period convert to common units on a one-for-one basis if the Partnership meets certain required financial tests set forth in the Partnership Agreement. Upon conversion to common units, the subordinated units will no longer be subordinated to the rights of the holders of common units.

The Partnership has met the minimum quarterly distribution requirements on all outstanding units for each of the four-quarter periods ended December 31, 2004, 2005 and 2006. As a result, the total of 11,383,639 subordinated units have been converted into common units on a one-for-one basis, 2,845,910 each on February 15, 2005 and February 15, 2006 and 5,691,819 on February 15, 2007.

The Partnership will, in general, pay cash distributions each quarter in the following manner:

	Percentage of Distributions	
Quarterly Cash Distribution Amount per Unit	**Unitholders**	**General Partner**
Up to minimum quarterly distribution ($0.45 per Unit)	98%	2%
Above $0.45 per Unit up to $0.50 per Unit	98%	2%
Above $0.50 per Unit up to $0.575 per Unit	85%	15%
Above $0.575 per Unit up to $0.70 per Unit	75%	25%
Above $0.70 per Unit	50%	50%

If cash distributions exceed $0.50 per unit in a quarter, the general partner will receive increasing percentages, up to 50 percent, of the cash distributed in excess of that amount. These distributions are referred to as incentive distributions . The amounts shown in the table under Percentage of Distributions are the percentage interests of the general partner and the unitholders in any available cash from operating surplus that is distributed up to and including the corresponding amount in the column Quarterly Cash Distribution Amount per Unit, until the available cash that is distributed reaches the next target distribution level, if any. The percentage interests shown for the unitholders and the general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution.

Distributions paid by the Partnership for the period from January 1, 2006 through June 30, 2007 were as follows:

Date Cash Distribution Paid	**Cash Distribution per Limited Partner Unit**	**Total Cash Distribution to Limited Partners**	**Total Cash Distribution to the General Partner**
		($ in millions)	**($ in millions)**
February 14, 2006	$0.7125	$ 18.4	$ 2.0
May 15, 2006	$0.7500	$ 21.4	$ 3.3
August 14, 2006	$0.7750	$ 22.1	$ 4.0

November 14, 2006	$0.7875	$ 22.4	$ 4.4
February 14, 2007	$0.8125	$ 23.2	$ 5.1
May 15, 2007	$0.8250	$ 23.6	$ 5.4

On July 24, 2007, Sunoco Partners LLC, the general partner of Sunoco Logistics Partners L.P., declared a cash distribution of $0.8375 per common partnership unit ($3.35 annualized), representing the distribution for the second quarter 2007. The $29.7 million distribution, including $5.8 million to the general partner, will be paid on August 14, 2007 to unitholders of record at the close of business on August 7, 2007.

11. Exit Costs Associated with Western Pipeline Headquarters Relocation

On June 10, 2005, the Partnership announced its intention to relocate its Western area headquarters operations from Tulsa, Oklahoma to the Houston, Texas area. The Partnership offered to relocate all affected employees. The Partnership substantially completed the relocation during the first quarter 2006.

The total non-recurring expenses incurred in connection with the relocation plan amounted to $5.0 million, including $2.9 million recognized during the first quarter 2006. These costs consist primarily of employee relocation costs, one-time termination benefits and new hire expenses. These costs are included in selling, general and administrative expenses in the condensed statement of income, and are included in the operating results for the Western Pipeline System segment. In addition, the total capital expenditures associated with the move amounted to $5.5 million, including $2.8 million in the first quarter 2006. These capital expenditures include furniture and equipment, communication infrastructure and a pipeline control center. The Partnership has not incurred any material costs related to the move since the first quarter of 2006, and does not expect the remaining costs related to the relocation to be material.

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12. Business Segment Information

The following table sets forth condensed statement of income information concerning the Partnership s business segments and reconciles total segment operating income to net income for the three months ended June 30, 2007 and 2006, respectively (in thousands of dollars):

	Three Months Ended June 30, 2007	2006
Segment Operating Income		
Eastern Pipeline System:		
Sales and other operating revenue:		
Affiliates	$ 19,455	$ 18,849
Unaffiliated customers	8,461	6,274
Other income	3,796	2,859
Total Revenues	31,712	28,082
Operating expenses	13,627	9,583
Depreciation and amortization	2,249	2,568
Selling, general and administrative expenses	5,021	4,604
Total Costs and Expenses	20,897	16,755
Operating Income	$ 10,815	$ 11,327
Terminal Facilities:		
Sales and other operating revenue:		
Affiliates	$ 3,045	$ 20,803
Unaffiliated customers	12,241	9,574
Other income	(7)	
Total Revenues	35,279	30,377
Operating expenses	12,797	12,739
Depreciation and amortization	3,815	3,880
Selling, general and administrative expenses	3,139	3,883
Total Costs and Expenses	19,751	20,502
Operating Income	$ 15,528	$ 9,875
Western Pipeline System:		
Sales and other operating revenue:		
Affiliates	$ 348,870	$ 478,687
Unaffiliated customers	1,218,208	957,209
Other income	3,909	1,013

Total Revenues		1,570,987		1,436,909
Cost of products sold and operating expenses		1,553,906		1,417,352
Depreciation and amortization		3,343		2,763
Selling, general and administrative expenses		5,327		5,035
Total Costs and Expenses		1,562,576		1,425,150
Operating Income	$	8,411	$	11,759
Reconciliation of Segment Operating Income to Net Income:				
Operating Income:				
Eastern Pipeline System	$	10,815	$	11,327
Terminal Facilities		15,528		9,875
Western Pipeline System		8,411		11,759
Total segment operating income		34,754		32,961
Net interest expense		9,500		6,641
Net Income	$	25,254	$	26,320

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The following table sets forth condensed statement of income information concerning the Partnership s business segments and reconciles total segment operating income to net income for the six months ended June 30, 2007 and 2006, respectively (in thousands of dollars):

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Segment Operating Income		
Eastern Pipeline System:		
Sales and other operating revenue:		
Affiliates	$ 38,299	$ 37,387
Unaffiliated customers	16,591	13,112
Other income	6,332	4,831
Total Revenues	61,222	55,330
Operating expenses	25,583	20,232
Depreciation and amortization	4,556	5,218
Selling, general and administrative expenses	10,580	8,672
Total Costs and Expenses	40,719	34,122
Operating Income	$ 20,503	$ 21,208
Terminal Facilities:		
Sales and other operating revenue:		
Affiliates	$ 44,489	$ 39,959
Unaffiliated customers	23,685	19,531
Other income	(15)	7
Total Revenues	68,159	59,497
Operating expenses	25,278	25,296
Depreciation and amortization	7,490	7,580
Selling, general and administrative expenses	7,608	7,356
Total Costs and Expenses	40,376	40,232
Operating Income	$ 27,783	$ 19,265
Western Pipeline System:		
Sales and other operating revenue:		
Affiliates	$ 760,651	$ 919,414
Unaffiliated customers	2,296,135	1,723,064
Other income	6,420	1,425

Total Revenues	3,063,206	2,643,903
Cost of products sold and operating expenses	3,028,727	2,608,932
Depreciation and amortization	6,265	5,359
Selling, general and administrative expenses	10,818	12,497
Total Costs and Expenses	3,045,810	2,626,788
Operating Income	$ 17,396	$ 17,115
Reconciliation of Segment Operating Income to Net Income:		
Operating Income:		
Eastern Pipeline System	$ 20,503	$ 21,208
Terminal Facilities	27,783	19,265
Western Pipeline System	17,396	17,115
Total segment operating income	65,682	57,588
Net interest expense	18,121	12,844
Net Income	$ 47,561	$ 44,744

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The following table provides the identifiable assets for each segment as of June 30, 2007 and December 31, 2006 (in thousands):

	June 30, 2007	December 31, 2006
Eastern Pipeline System	$ 366,882	$ 367,718
Terminal Facilities	374,425	341,878
Western Pipeline System	1,498,661	1,346,232
Corporate and other	31,173	26,249
Total identifiable assets	$ 2,271,141	$ 2,082,077

Corporate and other assets consist primarily of cash and cash equivalents, advances to affiliates and deferred charges.

13. Supplemental Condensed Consolidating Financial Information

The Partnership and the operating subsidiaries of the Operating Partnership serve as joint and several guarantors of the 6.125% and 7.25% Senior Notes and of any obligations under the Credit Facility. The guarantees are full and unconditional. Given that certain, but not all subsidiaries of the Partnership are guarantors, the Partnership is required to present the following supplemental condensed consolidating financial information. For purposes of the following footnote, Sunoco Logistics Partners, L.P. is referred to as Parent and Sunoco Logistics Partners Operations L.P. is referred to as Subsidiary Issuer. Sunoco Partners Marketing and Terminals L.P., Sunoco Pipeline L.P., Sun Pipeline Company of Delaware LLC and Sunoco Pipeline Acquisition LLC are collectively referred to as the Subsidiary Guarantors . Sunoco Logistics Partners GP LLC, Sunoco Logistics Partners Operations GP LLC and Sunoco Partners Lease Acquisition & Marketing LLC, are referred to as Non-Guarantor Subsidiaries.

The following supplemental condensed consolidating financial information (in thousands) reflects the Parent s separate accounts, the Subsidiary Issuer s separate accounts, the combined accounts of the Subsidiary Guarantors, the combined accounts of the Non-Guarantor Subsidiaries, the combined consolidating adjustments and eliminations and the Parent s consolidated accounts for the dates and periods indicated. For purposes of the following condensed consolidating information, the Parent s investments in its subsidiaries and the Subsidiary Issuer s investments in its subsidiaries are accounted for under the equity method of accounting.

Condensed Consolidating Statement of Income
Three Months Ended June 30, 2007
(unaudited)

	Parent	Subsidiary Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues						
Sales and other operating revenue:						
Affiliates	$	$	$ 391,370	$	$	$ 391,370
Unaffiliated customers			1,238,910			1,238,910
Equity in earnings of subsidiaries	25,257	33,932		3	(59,192)	
Other income			7,698			7,698
Total Revenues	25,257	33,932	1,637,978	3	(59,192)	1,637,978
Costs and Expenses						
Cost of products sold and operating expenses			1,580,324	6		1,580,330
Depreciation and amortization			9,407			9,407
Selling, general and administrative expenses			13,487			13,487
Total Costs and Expenses			1,603,218	6		1,603,224
Operating Income	25,257	33,932	34,760	(3)	(59,192)	34,754
Net interest cost paid to affiliates		234	825			1,059
Other interest cost and debt expenses, net		9,386				9,386
Capitalized interest		(945)				(945)
Net Income (Loss)	$ 25,257	$ 25,257	$ 33,935	$ (3)	$ (59,192)	$ 25,254

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Condensed Consolidating Statement of Income
Three Months Ended June 30, 2006
(unaudited)

	Parent	Subsidiary Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues						
Sales and other operating revenue:						
Affiliates	$	$	$ 518,439	$	$	$ 518,439
Unaffiliated customers			973,057			973,057
Equity in earnings of subsidiaries	26,317	32,970		3	(59,290)	
Other income			3,872			3,872
Total Revenues	26,317	32,970	1,494,368	3	(59,290)	1,495,368
Costs and Expenses						
Cost of products sold and operating expenses			1,439,674			1,439,674
Depreciation and amortization			9,211			9,211
Selling, general and administrative expenses			13,522			13,522
Total Costs and Expenses			1,462,407			1,462,407
Operating Income	26,317	32,970	32,961	3	(59,290)	32,961
Net interest cost paid to / (received from) affiliates		426	(12)			414
Other interest cost and debt expenses, net		7,416				7,416
Capitalized interest		(1,189)				(1,189)
Net Income	$ 26,317	$ 26,317	$ 32,973	$ 3	$ (59,290)	$ 26,320

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Condensed Consolidating Statement of Income
Six Months Ended June 30, 2007
(unaudited)

	Parent	Subsidiary Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues						
Sales and other operating revenue:						
Affiliates	$	$	$ 843,439	$	$	$ 843,439