

SUNOCO LOGISTICS PARTNERS L.P.

Form 10-Q

May 06, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

23-3096839
(I.R.S. Employer
Identification No.)

Mellon Bank Center

1735 Market Street, Suite LL, Philadelphia, PA
(Address of principal executive offices)

19103-7583
(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 No

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 No

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 Accelerated filer Non-accelerated filer Smaller reporting company

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

At May 5, 2009, the number of the registrant's Common Units outstanding was 30,978,133.

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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 March 31,	
	2009	2008
Revenues		
Sales and other operating revenue:		
Affiliates	\$ 198,844	\$ 636,386
Unaffiliated customers	839,189	1,758,003
Other income	4,765	4,826
Total Revenues	1,042,798	2,399,215
Costs and Expenses		
Cost of products sold and operating expenses	923,694	2,323,250
Depreciation and amortization	11,580	9,659
Selling, general and administrative expenses	17,074	15,431
Impairment charge		5,674
Total Costs and Expenses	952,348	2,354,014
Operating Income	90,450	45,201
Net interest with affiliates	52	(106)
Other interest cost and debt expense, net	10,942	8,576
Capitalized interest	(1,450)	(772)
Net Income	\$ 80,906	\$ 37,503
Calculation of Limited Partners interest in Net Income:		
Net Income	\$ 80,906	\$ 37,503
Less: General Partner's interest in Net Income	(12,529)	(7,542)
Limited Partners interest in Net Income	\$ 68,377	\$ 29,961
Net Income per Limited Partner unit:		
Basic	\$ 2.38	\$ 1.05

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Diluted	\$	2.36	\$	1.04
Weighted average Limited Partners units outstanding:				
Basic		28,728,433		28,627,656
Diluted		28,926,034		28,806,029

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	March 31, 2009 (UNAUDITED)	December 31, 2008
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,000	\$ 2,000
Advances to affiliates	3,942	2,549
Accounts receivable, affiliated companies	53,899	77,692
Accounts receivable, net	768,784	652,840
Inventories:		
Crude oil	191,296	87,645
Refined product additives	1,873	1,670
Materials, supplies and other	841	841
Total Current Assets	1,022,635	825,237
Properties, plants and equipment	1,979,283	1,945,817
Less accumulated depreciation and amortization	(581,255)	(570,388)
Properties, plants and equipment, net	1,398,028	1,375,429
Investment in affiliates	85,698	82,882
Deferred charges and other assets	33,628	24,701
Total Assets	\$ 2,539,989	\$ 2,308,249
Liabilities and Partners' Capital		
Current Liabilities		
Accounts payable	\$ 866,038	\$ 792,674
Accrued liabilities	31,081	45,648
Accrued taxes other than income taxes	14,995	20,738
Total Current Liabilities	912,114	859,060
Long-term debt	887,024	747,631
Other deferred credits and liabilities	27,048	31,658
Commitments and contingent liabilities		
Total Liabilities	1,826,186	1,638,349
Partners' Capital:		
Limited partners' interest	694,822	653,289
General partners' interest	22,149	19,741
Accumulated other comprehensive loss	(3,169)	(3,130)
Total Partners' Capital	713,803	669,900

Total Liabilities and Partners	Capital	\$ 2,539,989	\$ 2,308,249
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(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Three Months Ended March 31,	
	2009	2008
Cash Flows from Operating Activities:		
Net Income	\$ 80,906	\$ 37,503
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	11,580	9,659
Impairment charge		5,674
Amortization of financing fees and bond discount	158	146
Restricted unit incentive plan expense	4,284	2,745
Changes in working capital pertaining to operating activities:		
Accounts receivable, affiliated companies	23,793	(185,344)
Accounts receivable, net	(115,944)	(171,177)
Inventories	(103,854)	(37,885)
Accounts payable and accrued liabilities	58,074	418,206
Accrued taxes other than income	(5,743)	(58)
Other	(15,024)	(4,890)
Net cash (used in) provided by operating activities	(61,770)	74,579
Cash Flows from Investing Activities:		
Capital expenditures	(34,201)	(23,131)
Net cash used in investing activities	(34,201)	(23,131)
Cash Flows from Financing Activities:		
Distributions paid to Limited Partners and General Partner	(38,547)	(31,591)
Payments of statutory withholding on net issuance of Limited Partner units under restricted unit incentive plan	(2,055)	(1,278)
Contributions from General Partner for Limited Partner unit transactions	77	76
Advances to/from affiliates, net	(1,393)	21,276
Borrowings under credit facility	237,723	5,000
Repayments under credit facility	(273,385)	(46,000)
Net Proceeds from issuance of long term debt	173,551	
Contributions from affiliate		1,069
Net cash provided by (used in) financing activities	95,971	(51,448)
Net change in cash and cash equivalents		
Cash and cash equivalents at beginning of year	2,000	2,000
Cash and cash equivalents at end of period	\$ 2,000	\$ 2,000

(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 Delaware limited partnership formed by Sunoco, Inc. (Sunoco) in October 2001 to acquire, own and operate a substantial portion of Sunoco's logistics business, 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, except for the impairment charge recognized in 2008 (Note 5). Results for the three months ended March 31, 2009 are not necessarily indicative of results for the full year 2009.

For purposes of comparability, certain prior year amounts, specifically our segment reporting structure as further discussed in Note 12, have been recast to conform to the current year presentation. Such recasts have no impact on previously reported consolidated net income.

2. Acquisitions

MagTex Refined Products Pipeline System Acquisition

On November 18, 2008, the Partnership purchased a refined products pipeline system from affiliates of Exxon Mobil Corporation for approximately \$185.4 million. The system consists of approximately 280 miles of refined products pipeline originating in Beaumont and Port Arthur and terminating in Hearne, Texas; approximately 200 miles of refined products pipeline originating in Beaumont and terminating in Waskom, Texas; and refined product terminal facilities located in Hearne, Hebert, Waco, Center and Waskom, Texas and Arcadia, Louisiana with active storage capacity of 0.5 million shell barrels. The purchase price of the acquisition was initially funded with borrowings under the Operating Partnership's \$400 million Credit Facility. The purchase price has been preliminarily allocated to the assets and liabilities acquired based on their relative fair values on the acquisition date.

3. Related Party Transactions

Advances to/from Affiliate

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 Operating 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 \$400 million Credit Facility (see Note 7).

Administrative Services

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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, 2008 was \$6.0 million. In January 2009, 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 remains at \$6.0 million.

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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 2009, 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.

Affiliated Revenues and Accounts Receivable, Affiliated Companies

Affiliated revenues in the 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 a pipelines and terminals storage and throughput agreement with Sunoco R&M, under which Sunoco R&M agreed to pay the Partnership a minimum level of revenues for transporting refined products and agreed to minimum levels of storage and throughput of crude oil and liquefied petroleum gas. In February 2007, certain obligations under the pipelines and terminals storage and throughput agreement relating to throughput of refined products through the Partnership's terminals and to the Marcus Hook Tank Farm expired. On March 1, 2007 the Partnership entered into (i) a new five year product terminal services agreement with Sunoco R&M under which Sunoco R&M may throughput refined products through the Partnership's terminals, and (ii) a new tank farm agreement under which Sunoco R&M may throughput refined products through the Partnership's Marcus Hook Tank Farm. These new agreements contain no minimum throughput obligations for Sunoco R&M. With the exception of the crude oil storage and throughput commitments at the Fort Mifflin Terminal, and the liquefied petroleum gas storage and throughput commitments at the Inkster Terminal, each of which will expire in May 2009, Sunoco R&M's obligations under the 2002 pipelines and terminals storage and throughput agreement expired in March 2009.

Under various other agreements entered into in 2002, 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 agreements, which requires Sunoco to reimburse the Partnership for certain capital improvement projects incurred regarding the assets acquired. On January 24, 2008 Sunoco and the Partnership entered into an Amended and Restated Dock and Terminal Throughput Agreement for the Eagle Point logistics assets. Pursuant to the amended agreement the Partnership is obligated to make certain capital improvements to the Eagle Point docks. The term for the parties' obligations with respect to the docks has been extended from March 31, 2016 to December 31, 2026. The rates to be paid by Sunoco for throughput across the docks have been modified to reflect the capital improvements, and the rates escalate annually based on the Consumer Price Index. Sunoco's throughput obligations across the docks remain unchanged. The parties' obligations with respect to the Eagle Point terminal remain unchanged except that the throughput rates escalate annually based on the increase in the Consumer Price Index.

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During the three months ended March 31, 2008 and 2009, the Partnership was reimbursed \$1.1 million in 2008 and did not have a reimbursement during 2009, associated with these agreements. The reimbursement was recorded by the Partnership as a capital contribution to Partners' Capital within the condensed consolidated balance sheet at March 31, 2009.

In February 2009 and 2008 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

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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 the condensed consolidated balance sheets.

In April 2009 the Partnership completed a public offering of 2.2 million common units. In May 2009, the Partnership sold an additional 49,700 common units to cover over-allotments in connection with the April 2009 offering. Net proceeds before underwriting expenses of approximately \$109.8 million were used to reduce outstanding borrowings under the Partnership's \$400 million revolving Credit Facility. As a result of these offerings of common units, the general partner contributed \$2.3 million to the Partnership to maintain its 2.0 percent general partner interest.

4. Net Income Per Unit Data

On January 1, 2009 the Partnership adopted Emerging Issues Task Force No. 07-4 *Application of the Two-Class Method under FASB Statement No. 128, Earnings per Share, to Master Limited Partnerships* (EITF 07-4). EITF 07-4 requires incentive distribution rights (IDRs) in a master limited partnership to be treated as participating securities for the purpose of computing earnings per unit. EITF 07-4 also requires that when earnings differ from cash distributions, undistributed or over distributed earnings are to be allocated to the IDR holders, the general partner, and limited partners based on the contractual terms of the partnership agreement. Previously, earnings per unit was calculated as if all earnings for the period had been distributed, which resulted in an additional allocation of income to the general partner (the IDR holder) in quarterly periods where earnings exceeded the actual distribution. As a result of adopting EITF 07-4, the Partnership's earnings per unit for the three months ended March 31, 2008 increased \$0.07 per limited partner unit on both a basic and diluted basis. 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 and incentive distribution rights, by the weighted-average number of limited partner common and subordinated units outstanding during the period. For comparative purposes, prior year net income per unit data has been adjusted accordingly.

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 11). The general partner was allocated net income of \$12.5 million (representing 15.5 percent of total net income for the period) and \$7.5 million (representing 20.1 percent of total net income for the period) for the three months ended March 31, 2009 and 2008, 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 months ended March 31, 2009 and 2008:

	Three Months Ended	
	March 31,	
	2009	2008
Weighted average number of limited partner units outstanding - basic	28,728,433	28,627,656
Add effect of dilutive unit incentive awards	197,601	178,373
Weighted average number of limited partner units - diluted	28,926,034	28,806,029

5. Impairment Charge

Long-lived assets other than those held for sale are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In the first quarter of 2008, the Partnership recognized an impairment of \$5.7 million related to management's decision to discontinue efforts to expand liquefied petroleum gas storage capacity at its Inkster, Michigan facility. The impairment charge reflects the entire cost associated with the project.

6. Investment in Affiliates

The Partnership's ownership percentages in corporate joint ventures as of March 31, 2009 and December 31, 2008 were as follows:

	Partnership Ownership Percentage
Explorer Pipeline Company	9.4%
West Shore Pipe Line Company	12.3%
Yellowstone Pipe Line Company	14.0%

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	Partnership Ownership Percentage
Wolverine Pipe Line Company	31.5%
West Texas Gulf Pipe Line Company	43.8%
Mid-Valley Pipeline Company ⁽¹⁾	55.3%

⁽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 months ended March 31, 2009 and 2008 (in thousands of dollars):

	Three Months Ended March 31,	
	2009	2008
Income Statement Data:		
Total revenues	\$ 111,418	\$ 108,303
Net income	\$ 28,916	\$ 25,411

The following table provides summarized combined balance sheet data on a 100 percent basis for the Partnership's corporate joint venture interests as of March 31, 2009 and December 31, 2008 (in thousands of dollars):

	March 31, 2009	December 31, 2008
Balance Sheet Data:		
Current assets	\$ 122,841	\$ 115,097
Non-current assets	\$ 682,795	\$ 682,453
Current liabilities	\$ 119,933	\$ 123,423
Non-current liabilities	\$ 580,881	\$ 591,101
Net equity	\$ 104,822	\$ 83,026

The Partnership's investments in Wolverine, West Shore, Yellowstone, and West Texas Gulf at March 31, 2009 include an excess investment amount of approximately \$53.5 million, net of accumulated amortization of \$4.1 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.

7. Long-Term Debt

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

	March 31, 2009	December 31, 2008
\$400 million Credit Facility due November 2012	\$ 287,723	\$ 323,385
\$100 million Credit Facility due May 2009		
\$62.5 million Credit Facility due September 2011		
Senior Notes 7.25%, due February 15, 2012	250,000	250,000
Senior Notes 6.125%, due May 15, 2016	175,000	175,000
Senior Notes 8.75%, due February 15, 2014	175,000	

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Less unamortized bond discount	(699)	(754)
	\$ 887,024	\$ 747,631

8.75% Senior Notes

In February 2009, the Operating Partnership issued \$175 million of 8.75 percent Senior Notes, due February 15, 2014 (2014 Senior Notes). The 2014 Senior Notes are redeemable, at a make-whole premium, and are not subject to sinking fund provisions. The 2014 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 net proceeds of \$173.6 million from the 2014 Senior Notes, were used to repay outstanding borrowings under the Operating Partnership's \$400 million Credit Facility.

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The Operating Partnership has a five-year \$400 million revolving credit facility (\$400 million Credit Facility) with a syndicate of 10 participating financial institutions. The \$400 million Credit Facility is available to fund the Operating Partnership's working capital requirements, to finance future acquisitions, to finance future capital projects and for general partnership purposes. The \$400 million Credit Facility matures in November 2012 and may be prepaid at any time. It bears interest at the Operating Partnership's option, at either (i) LIBOR plus an applicable margin, (ii) the higher of the federal funds rate plus 0.50 percent or the Citibank prime rate (each plus the applicable margin) or (iii) the federal funds rate plus an applicable margin. The \$400 million 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 \$400 million Credit Facility also limits the Operating Partnership, on a rolling four-quarter basis, to 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. The Operating Partnership is in compliance with this requirement as of March 31, 2009.

\$100 Million Credit Facility

In anticipation of the MagTex Acquisition, the Operating Partnership, entered into a \$100 million 364-day revolving credit facility (\$100 million Credit Facility) on May 28, 2008. The \$100 million Credit Facility is available to fund the same activities as the \$400 million Credit Facility described above. The \$100 million Credit Facility matures in May 2009 and can be prepaid at any time. Interest on outstanding borrowings is calculated, at the Operating Partnership's option, using either (i) LIBOR plus an applicable margin or (ii) the higher of (a) the federal funds rates plus 0.50 percent plus an applicable margin, and (b) the Citibank prime rate plus an applicable margin. The \$100 million Credit Facility contains the same covenant requirements as the \$400 million Credit Facility described above. As of March 31, 2009 there were no borrowings outstanding under the \$100 million Credit Facility. The Partnership does not expect to renew this credit facility.

\$62.5 Million Credit Facility

On March 13, 2009, the Operating Partnership entered into a \$62.5 million revolving credit facility (\$62.5 million Credit Facility) with a syndicate of 2 participating financial institutions. The \$62.5 million Credit Facility is available to fund the Operating Partnership's working capital requirements, to finance future acquisitions and for general partnership purposes. The \$62.5 million Credit Facility matures in September 2011 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 (a) the federal funds rate plus 0.50 percent plus an applicable margin, (b) Toronto Dominion's prime rate plus an applicable margin or (c) LIBOR plus 1.0 percent plus an applicable margin. The \$62.5 million Credit Facility contains various covenants similar to the \$400 million credit facility and limits the Operating Partnership, on a rolling four-quarter basis, to a maximum total debt to EBITDA ratio of 4.0 to 1, which can generally be increased to 4.5 to 1 during an acquisition period. As of March 31, 2009 there were no borrowings outstanding under the \$62.5 million Credit Facility.

Interest Rate Swap

The Partnership uses interest rate swaps, a type of derivative financial instrument, to manage interest costs and minimize the effects of interest rate fluctuations on cash flows associated with its credit facility. The Partnership does not use derivatives for trading or speculative purposes. While interest rate swaps are subject to fluctuations in value, these fluctuations are generally offset by the value of the underlying exposures being hedged. The Partnership minimizes the risk of credit loss by entering into these agreements with major financial institutions that have high credit ratings. The Partnership accounts for its interest rate swaps in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), which requires that all derivatives be recorded on the balance sheet at fair value. SFAS 133 also requires that changes in the fair value be recorded each period in current earnings or other comprehensive income(loss), depending on whether a derivative has been designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. Interest rate swaps are designated as cash flow hedges. Changes in the fair value of a cash flow hedge, to the extent the hedge is effective, are recorded, net of tax, in other comprehensive income (loss), a component of Partners' capital, until earnings are affected by the variability of the hedged cash flows. Cash flow hedge ineffectiveness, defined as the extent that the changes in the fair value of the derivative exceed the variability of cash flows of the forecasted transaction, is recorded currently in earnings.

In January 2008, the Partnership entered into a \$50.0 million floating to fixed interest rate swap agreement (the Swap), maturing January 2010. Under the Swap, the Partnership receives interest equivalent to the three-month LIBOR and pays a fixed rate of interest of 3.489 percent with settlements occurring quarterly. The objective of the hedge is to eliminate the variability of cash flows in interest payments for \$50.0 million of floating rate debt. To maintain hedge accounting for the Swap, the Partnership is

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committed to maintaining at least \$50.0 million in borrowings at an interest rate based on the three-month LIBOR, plus an applicable margin, through January 2010. The Swap's fair value of \$0.9 million as of March 31, 2009, is included in accrued liabilities on the balance sheet and the corresponding change in fair value is included in accumulated other comprehensive loss, a component of Partners' equity.

8. 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. At March 31, 2009 and December 31, 2008, there were accrued liabilities for environmental remediation in the condensed consolidated balance sheets of \$2.9 million and \$3.6 million, respectively. The accrued liabilities for environmental remediation do not include any amounts attributable to unasserted claims, nor have any recoveries from insurance been assumed. Charges against income for environmental remediation totaled \$0.6 million and \$0.2 million for the three month periods ended March 31, 2009 and 2008, respectively.

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 the 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 current and future costs have been and will be impacted by an indemnification from Sunoco.

The Partnership is a party to certain pending and threatened claims. Although the ultimate outcome of these claims cannot be ascertained at this time, it is reasonably possible that some portion of them could be resolved unfavorably to the Partnership and its predecessor. Management does not believe that any liabilities which may arise from such claims and the environmental matters discussed above would be material in relation to the financial position of the Partnership at March 31, 2009. Furthermore, management does not believe that the overall costs for such matters will have a material impact, over an extended period of time, on the Partnership's operations, cash flows or liquidity.

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 February 2002 IPO. Sunoco has indemnified the Partnership for 100 percent of all 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 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 also has 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 currently pending against Sunoco or its affiliates and 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 financial position of the Partnership at March 31, 2009. There are certain other pending legal proceedings related to matters arising after the February 2002 IPO that 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 financial position of the Partnership at March 31, 2009.

Sunoco Partners Marketing & Terminals L.P. (SPMT), which is wholly owned by the Partnership, has received a proposed penalty assessment from the Internal Revenue Service (IRS) in the aggregate amount of \$5.1 million based on a failure to timely file excise tax information returns relating to its terminal operations during the calendar years 2004 and 2005. SPMT became current on its information return filings with the IRS in July of 2006. SPMT believes it had reasonable cause for the failure to not file the information returns on a timely basis, and provided this information to the IRS on October 19, 2007 in a formal filing. SPMT is currently awaiting a response from the IRS. The proposed penalties are for the failure to file information returns rather than any failure to pay taxes due, as no taxes were owed by SPMT in connection with such information. The timing or outcome of this claim, and the total costs to be incurred by SPMT in connection therewith, cannot be reasonably

estimated at this time.

Table of Contents**9. Fair Value Measurements**

Effective January 1, 2008, the Partnership adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157) which pertain to certain balance sheet items measured at fair value on a recurring basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about such measurements that are permitted or required under other accounting pronouncements. While SFAS No. 157 may change the method of calculating fair value, it does not require any new fair value measurements.

In accordance with SFAS No. 157, the Partnership determines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As required, the Partnership utilizes valuation techniques that maximize the use of observable inputs (levels 1 and 2) and minimize the use of unobservable inputs (level 3) within the fair value hierarchy established by SFAS No. 157. The Partnership generally applies the market approach to determine fair value. This method uses pricing and other information generated by market transactions for identical or comparable assets and liabilities. Assets and liabilities are classified within the fair value hierarchy based on the lowest level (least observable) input that is significant to the measurement in its entirety. The Partnership's financial instruments recorded at fair value were not material at March 31, 2009.

10. Management Incentive Plan

Sunoco Partners LLC, the general partner of the Partnership, participates in 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 partner's board of directors with respect to awards granted to the independent members. 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 may also include tandem distribution equivalent rights (DERs) at the discretion of the Compensation Committee.

The Partnership awarded 86,459 and 57,423 units under the LTIP, net of estimated forfeitures, and recognized share-based compensation expense of \$4.3 million and \$3.0 million for the three month periods ended March 31, 2009 and 2008, respectively. Each of the restricted unit grants also have tandem DERs which are recognized as a reduction of Partners' Capital when earned.

11. 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.

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 \$0.70 per unit. These distributions are referred to as incentive distributions.

Distributions paid by the Partnership for the period from January 1, 2008 through March 31, 2009 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, 2008	\$ 0.8700	\$ 24.9	\$ 6.7
May 15, 2008	\$ 0.8950	\$ 25.6	\$ 7.5
August 14, 2008	\$ 0.9350	\$ 26.8	\$ 8.6

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November 14, 2008	\$ 0.9650	\$ 27.6	\$ 9.5
February 13, 2009	\$ 0.9900	\$ 28.4	\$ 10.2

On April 30, 2009, Sunoco Partners LLC, the general partner of Sunoco Logistics Partners L.P., declared a cash distribution of \$1.015 per common partnership unit (\$4.06 annualized), representing the distribution for the first quarter 2009. The \$43.2 million distribution, including \$11.8 million to the general partner, will be paid on May 15, 2009 to unitholders of record at the close of business on May 11, 2009.

Table of Contents**12. Business Segment Information**

On January 1, 2009 the Partnership re-aligned its reporting segments. Prior to this date, the reporting segments were designated by geographic region. The Partnership has determined it more meaningful to functionally align its reporting segments. As such, the updated reporting segments as of January 1, 2009 are *Refined Products Pipeline System*, *Terminal Facilities*, and *Crude Oil Pipeline System*. The primary difference in the new reporting is the consolidation of an eastern area crude oil pipeline with the western area crude oil pipelines. For comparative purposes all prior year amounts have been recast to reflect the new segment reporting and do not impact consolidated net income.

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 March 31, 2009 and 2008, respectively (in thousands of dollars).

	Three Months Ended March 31,	
	2009	2008
Segment Operating Income		
Refined Products Pipeline System:		
Sales and other operating revenue:		
Affiliates	\$ 18,816	\$ 17,920
Unaffiliated customers	12,584	6,365
Other income	2,317	1,279
Total Revenues	33,717	25,564
Operating expenses	13,973	11,624
Depreciation and amortization	3,210	2,192
Selling, general and administrative expenses	5,942	5,070
Total Costs and Expenses	23,125	18,886
Operating Income	\$ 10,592	\$ 6,678
Terminal Facilities:		
Sales and other operating revenue:		
Affiliates	\$ 23,217	\$ 24,710
Unaffiliated customers	23,071	14,674
Total Revenues	46,288	39,384
Operating expenses	15,111	13,688
Depreciation and amortization	4,725	3,937
Selling, general and administrative expenses	5,208	4,875
Impairment charge		5,674
Total Costs and Expenses	25,044	28,174
Operating Income	\$ 21,244	\$ 11,210
Crude Oil Pipeline System:		
Sales and other operating revenue:		
Affiliates	\$ 156,811	\$ 593,756
Unaffiliated customers	803,535	1,736,964
Other income	2,447	3,547
Total Revenues	962,793	2,334,267
Cost of products sold and operating expenses	894,610	2,297,938

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Depreciation and amortization	3,645	3,530
Selling, general and administrative expenses	5,924	5,486
Total Costs and Expenses	904,179	2,306,954
Operating Income	\$ 58,614	\$ 27,313
Reconciliation of Segment Operating Income to Net Income:		
Operating Income:		
Refined Products Pipeline System	\$ 10,592	\$ 6,678
Terminal Facilities	21,244	11,210
Crude Oil Pipeline System	58,614	27,313
Total segment operating income	90,450	45,201
Net interest expense	9,544	7,698
Net Income	\$ 80,906	\$ 37,503

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The following table provides the identifiable assets for each segment as of March 31, 2009 and December 31, 2008 (in thousands):

	March 31, 2009	December 31, 2008
Refined Products Pipeline System	\$ 500,315	\$ 498,098
Terminal Facilities	500,025	484,349
Crude Oil Pipeline System	1,509,101	1,301,948
Corporate and other	30,548	23,854
Total identifiable assets	\$ 2,539,989	\$ 2,308,249

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 guarantees the debt obligations of the Operating Partnership and serves as guarantor of the 2012, 2014 and 2016 Senior Notes and of any obligations under the credit facilities. These guarantees are full and unconditional. For purposes of the following note, 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, Sunoco Pipeline Acquisition LLC, Sunoco Logistics Partners GP LLC, Sunoco Logistics Partners Operations GP LLC and Sunoco Partners Lease Acquisition & Marketing LLC, are collectively 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 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.

Table of Contents**Condensed Consolidating Statement of Income****Three Months Ended March 31, 2009****(unaudited)**

	Parent	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue:					
Affiliates	\$	\$	\$ 198,844	\$	\$ 198,844
Unaffiliated customers			839,189		839,189
Equity in earnings of subsidiaries	80,899	89,618	9	(170,526)	
Other income			4,765		4,765
Total Revenues	80,899	89,618	1,042,807	(170,526)	1,042,798
Costs and Expenses					
Cost of products sold and operating expenses			923,694		923,694
Depreciation and amortization			11,580		11,580
Selling, general and administrative expenses			17,074		17,074
Impairment Charge					
Total Costs and Expenses			952,348		952,348
Operating Income	80,899	89,618	90,459	(170,526)	90,450
Net interest with affiliates		(773)	825		52
Other interest cost and debt expenses, net		10,942			10,942
Capitalized interest		(1,450)			(1,450)
Net Income	\$ 80,899	\$ 80,899	\$ 89,634	\$ (170,526)	\$ 80,906

Table of Contents**Condensed Consolidating Statement of Income****Three Months Ended March 31, 2008****(unaudited)**

	Parent	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue:					
Affiliates	\$	\$	\$ 636,386	\$	\$ 636,386
Unaffiliated customers			1,758,003		1,758,003
Equity in earnings of subsidiaries	37,504	44,377	4	(81,885)	
Other income			4,826		4,826
Total Revenues	37,504	44,377	2,399,219	(81,885)	2,399,215
Costs and Expenses					
Cost of products sold and operating expenses			2,323,250		2,323,250
Depreciation and amortization			9,659		9,659
Selling, general and administrative expenses			15,431		15,431
Impairment Charge			5,674		5,674
Total Costs and Expenses			2,354,014		2,354,014
Operating Income	37,504	44,377	45,205	(81,885)	45,201
Net interest with affiliates		(931)	825		(106)
Other interest cost and debt expenses, net		8,576			8,576
Capitalized interest		(772)			(772)
Net Income	\$ 37,504	\$ 37,504	\$ 44,380	\$ (81,885)	\$ 37,503

Table of Contents**Condensed Consolidating Balance Sheet****March 31, 2009****(unaudited)**

	Parent	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current Assets					
Cash and cash equivalents	\$	\$ 2,000	\$	\$	\$ 2,000
Advances to Affiliates	(182)	48,000	(43,876)		3,942
Accounts receivable, affiliated companies			53,899		53,899
Accounts receivable, net			768,784		768,784
Inventories					
Crude oil			191,296		191,296
Refined product			1,873		1,873
Materials, supplies and other			841		841
Total Current Assets	(182)	50,000	972,817		1,022,635
Properties, plants and equipment, net			1,398,028		1,398,028
Investment in affiliates	715,667	1,599,486	85,864	(2,315,319)	85,698
Deferred charges and other assets		4,766	28,862		33,628
Total Assets	\$ 715,485	\$ 1,654,252	\$ 2,485,571	\$ (2,315,319)	\$ 2,539,989
Liabilities and Partners Capital					
Current Liabilities					
Accounts payable	\$	\$ 1	\$ 866,037	\$	\$ 866,038
Accrued liabilities	980	1,407	28,694		31,081
Accrued taxes			14,995		14,995
Total Current Liabilities	980	1,408	909,726		912,114
Long-term debt		887,024			887,024
Other deferred credits and liabilities			27,048		27,048
Total Liabilities	980	888,432	936,774		1,826,186
Total Partners Capital	714,505	765,820	1,548,797	(2,315,319)	713,803
Total Liabilities and Partners Capital	\$ 715,485	\$ 1,654,252	\$ 2,485,571	\$ (2,315,319)	\$ 2,539,989

Table of Contents**SUNOCO LOGISTICS PARTNERS L.P.****NOTES TO FINANCIAL STATEMENTS (Continued)****Balance Sheet****December 31, 2008**

	Parent	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current Assets					
Cash and cash equivalents	\$	\$ 2,000	\$	\$	\$ 2,000
Advances to affiliates	(161)	48,000	(45,290)		2,549
Accounts receivable, affiliated companies			77,692		77,692
Accounts receivable, net			652,840		652,840
Inventories					
Crude oil			87,645		87,645
Refined product			1,670		1,670
Materials, supplies and other			841		841
Total Current Assets	(161)	50,000	775,398		825,237
Properties, plants and equipment, net			1,375,429		1,375,429
Investment in affiliates	670,672	1,415,691	83,012	(2,086,493)	82,882
Deferred charges and other assets		2,566	22,135		24,701
Total Assets	\$ 670,511	\$ 1,468,257	\$ 2,255,974	\$ (2,086,493)	\$ 2,308,249
Liabilities and Partners Capital					
Current Liabilities					
Accounts payable	\$	\$	\$ 792,674	\$	\$ 792,674
Accrued liabilities	980	2,034	42,634		45,648
Accrued taxes			20,738		20,738
Total Current Liabilities	980	2,034	856,046		859,060
Long-term debt		747,631			747,631
Other deferred credits and liabilities			31,658		31,658
Total Liabilities	980	749,665	887,704		1,638,349
Total Partners Capital	669,531	718,592	1,368,270	(2,086,493)	669,900
Total Liabilities and Partners Capital	\$ 670,511	\$ 1,468,257	\$ 2,255,974	\$ (2,086,493)	\$ 2,308,249

Table of Contents**Condensed Consolidating Statement of Cash Flows****Three Months Ended March 31, 2009****(unaudited)**

	Parent	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net Cash Flows from Operating Activities	\$ 80,899	\$ 78,073	\$ (50,216)	\$ (170,526)	\$ (61,770)
Cash Flows from Investing Activities:					
Capital expenditures			(34,201)		(34,201)
Intercompany	(42,450)	(215,962)	87,886	170,526	
	(42,450)	(215,962)	53,685	170,526	(34,201)
Cash Flows from Financing Activities:					
Distribution paid to Limited Partners and General Partner	(38,547)				(38,547)
Contribution from General Partner for Limited Partner unit transactions	77				77
Payments of statutory withholding on net issuance of Limited Partner units under restricted unit incentive plan			(2,055)		(2,055)
Advances to affiliates, net	21		(1,414)		(1,393)
Borrowings under credit facility		237,723			237,723
Repayments under credit facility		(273,385)			(273,385)
Net proceeds from issuance of senior notes		173,551			173,551
Contributions from affiliate					
	(38,449)	137,889	(3,469)		95,971
Net change in cash and cash equivalents					
Cash and cash equivalents at beginning of year		2,000			2,000
Cash and cash equivalents at end of year	\$	\$ 2,000	\$	\$	\$ 2,000

Table of Contents**Condensed Consolidating Statement of Cash Flows****Three Months Ended March 31, 2008****(unaudited)**

	Parent	Subsidiary Issuer	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net Cash Flows from Operating Activities	\$ 37,504	\$ 35,035	\$ 83,925	\$ (81,885)	\$ 74,579
Cash Flows from Investing Activities:					
Capital expenditures			(23,131)		(23,131)
Intercompany	(15,963)	5,455	(71,377)	81,885	
	(15,963)	5,455	(94,508)	81,885	(23,131)
Cash Flows from Financing Activities:					
Distribution paid to Limited Partners and General Partner	(31,591)				(31,591)
Payments of statutory withholding on net issuance of Limited Partner units under restricted unit incentive plan			(1,278)		(1,278)
Contribution from General Partner for Limited Partner unit transactions	76				76
Advances to affiliates, net	9,974	510	10,792		21,276
Borrowings under credit facility		5,000			5,000
Repayments under credit facility		(46,000)			(46,000)
Contributions from affiliate			1,069		1,069
	(21,541)	(40,490)	10,583		(51,448)
Net change in cash and cash equivalents					
Cash and cash equivalents at beginning of year		2,000			2,000
Cash and cash equivalents at end of year	\$	\$ 2,000	\$	\$	\$ 2,000

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations Three Months Ended March 31, 2009 and 2008****Sunoco Logistics Partners L.P.****Operating Highlights****Three Months Ended March 31, 2009 and 2008**

	Three Months Ended March 31	
	2009	2008
Refined Products Pipeline System: ⁽¹⁾⁽²⁾⁽³⁾		
Total shipments (barrel miles per day) ⁽⁴⁾	60,034,244	45,482,329
Revenue per barrel mile (cents)	0.581	0.587
Terminal Facilities:		
Terminal throughput (bpd):		
Refined product terminals ⁽³⁾	460,031	418,615
Nederland terminal	652,669	569,769
Refinery terminals ⁽⁵⁾	582,762	675,196
Crude Oil Pipeline System: ⁽¹⁾⁽²⁾		
Crude oil pipeline throughput (bpd)	664,146	675,492
Crude oil purchases at wellhead (bpd)	191,162	171,458
Gross margin per barrel of pipeline throughput (cents) ⁽⁶⁾	103.9	48.5

(1) Excludes amounts attributable to equity ownership interests in corporate joint ventures.

(2) Effective January 1, 2009 the Partnership realigned its operating segments. Prior period amounts have been recast to reflect the current operating segments.

(3) Includes results of the Partnership's purchase of the MagTex refined products pipeline and terminal system from the acquisition date.

(4) Represents total average daily pipeline throughput multiplied by the number of miles of pipeline through which each barrel has been shipped.

(5) Consists of the Partnership's Fort Mifflin Terminal Complex, the Marcus Hook Tank Farm and the Eagle Point Dock.

(6) Represents total segment sales minus cost of products sold and operating expenses and depreciation and amortization divided by crude oil pipeline throughput.

Analysis of Consolidated Net Income

Net income was \$80.9 million for the first quarter 2009 as compared with \$37.5 million for the first quarter 2008, an increase of \$43.4 million. This increase was due mainly to operating income improvements driven by significantly higher lease acquisition results, increased crude oil pipeline and storage revenues and results from the November 2008 acquisition of the MagTex refined products and terminal system.

Net interest expense increased \$1.8 million to \$9.5 million for the first quarter 2009 from \$7.7 million for the prior year's quarter primarily due to higher borrowings associated with the \$185.4 million MagTex acquisition, organic growth initiatives, and increased contango inventory positions.

Analysis of Segment Operating Income

On January 1, 2009 the Partnership realigned its reporting segments. Prior to this date, the reporting segments were designated by geographic region. The Partnership has determined it more meaningful to functionally align its reporting segments. As such, the updated reporting segments as of January 1, 2009 are *Refined Products Pipeline System*, *Terminal Facilities*, and *Crude Oil Pipeline System*. The primary difference in the new reporting is the consolidation of an eastern area crude oil pipeline with the western area crude oil pipelines. For comparative purposes all prior year amounts have been recast to reflect the new segment reporting and these changes do not impact consolidated net income.

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Refined Products Pipeline System

Operating income for the Refined Products Pipeline System increased \$3.9 million to \$10.6 million for the first quarter ended March 31, 2009 compared to the prior year's quarter. Sales and other operating revenue increased by \$7.1 million to \$31.4 million due primarily to results from the Partnership's acquisition of the MagTex refined products pipeline and terminals system in November 2008. Other income increased \$1.0 million due primarily to an increase in equity income associated with the Partnership's joint venture interests. Operating expenses and depreciation and amortization expense increased primarily due to the MagTex acquisition.

Terminal Facilities

Operating income for the Terminal Facilities segment increased \$10.0 million to \$21.2 million for the first quarter ended March 31, 2009 compared to the prior year's quarter. Total revenues for the first quarter of 2009 increased \$6.9 million to \$46.3 million due primarily to increased throughput and fees at the Nederland crude oil terminal facility, additional tankage placed into service during 2008 and 2009 at the Nederland facility and results from the MagTex acquisition. These increases were partially offset by lower volumes at the Partnership's refinery terminals. Cost of products sold and operating expenses increased \$1.4 million for the first quarter of 2009 to \$15.1 million due primarily to increased costs associated with the MagTex acquisition partially offset by reduced utilities expense. Depreciation and amortization expense increased \$0.8 million to \$4.7 million for the first quarter of 2009 due to the MagTex acquisition and increased tankage at the Nederland facility. During 2008, a \$5.7 million non-cash impairment charge was recognized related to the Partnership's decision to discontinue efforts to expand LPG storage capacity at its Inkster, Michigan facility.

Crude Oil Pipeline System

Operating income for the Crude Oil Pipeline System increased \$31.3 million to a record \$58.6 million for the first quarter of 2009 compared to the prior year's quarter due to significantly higher lease acquisition results and optimization of crude oil storage capabilities as the crude oil market shifted to contango. Higher pipeline fees also contributed to the improved operating performance. Other income decreased \$1.1 million compared to the prior year's quarter due primarily to reduced equity income from the Partnership's joint venture interests.

Lower crude oil prices were a key driver of the decrease in total revenue and cost of products sold and operating expenses from the prior year's quarter. The average price of West Texas Intermediate crude oil at Cushing, Oklahoma decreased to \$43.21 per barrel for the first quarter of 2009 from \$97.96 per barrel for the first quarter of 2008.

Liquidity and Capital Resources

Liquidity

Cash generated from operations and borrowings under the \$400 million Credit Facility are the Partnership's primary sources of liquidity. At March 31, 2009, the Partnership had available borrowing capacity under the credit facilities of \$269.8 million. The Partnership's working capital position reflects crude oil inventories based on historical costs under the LIFO method of accounting. If the inventories had been valued at their current replacement cost, the Partnership would have had working capital of \$185.7 million at March 31, 2009.

In February 2009, Sunoco Logistics Partners Operations L.P. (the Operating Partnership) issued \$175 million of 8.75 percent Senior Notes, due February 15, 2014 (2014 Senior Notes). The 2014 Senior Notes are redeemable, at a make-whole premium, and are not subject to sinking fund provisions. The 2014 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 net proceeds from the 2014 Senior Notes were used to repay outstanding borrowings under the \$400 million Credit Facility, which were associated with the MagTex acquisition.

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Capital Resources

The Partnership periodically supplements its cash flows from operations with proceeds from debt and equity financing activities.

\$400 Million Credit Facility

The Operating Partnership has a five-year \$400 million Credit Facility, which is available to fund the Operating Partnership's working capital requirements, to finance future acquisitions, to finance future capital projects and for general partnership purposes. The Credit Facility matures in November 2012. At December 31, 2008, there was \$323.4 million outstanding under the credit facility. During the first quarter of 2009, the Partnership had net repayments of \$35.7 million resulting in an outstanding balance of \$287.7 million at March 31, 2009.

The \$400 million Credit Facility bears interest at the Operating Partnership's option, at either (i) LIBOR plus an applicable margin, (ii) the higher of the federal funds rate plus 0.50 percent or the Citibank prime rate (each plus the applicable margin) or (iii) the federal funds rate plus an applicable margin.

The \$400 million Credit Facility contains various covenants limiting the Operating Partnership's ability to a) incur indebtedness, b) grant certain liens, c) make certain loans, acquisitions and investments, d) make any material change to the nature of its business, e) acquire another company, f) or enter into a merger or sale of assets, including the sale or transfer of interests in the Operating Partnership's subsidiaries. The \$400 million Credit Facility also limits the Operating Partnership, on a rolling four-quarter basis, to 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. The Operating Partnership is in compliance with this requirement as of March 31, 2009. The Partnership's ratio of total debt to EBITDA was 2.5 to 1 at March 31, 2009.

In September 2008, Lehman Brothers, one of the participating banks with a commitment under the facility amounting to \$5 million, declared bankruptcy and its loan commitment is no longer in effect.

\$100 Million Credit Facility

In anticipation of the MagTex Acquisition, the Operating Partnership, entered into a \$100 million 364-day revolving credit facility (\$100 million Credit Facility) on May 28, 2008. The \$100 million Credit Facility is available to fund the same activities as the \$400 million Credit Facility described above. The \$100 million Credit Facility matures in May 2009 and can be prepaid at any time. Interest on outstanding borrowings is calculated, at the Operating Partnership's option, using either (i) LIBOR plus an applicable margin or (ii) the higher of (a) the Federal funds rates plus 0.50 percent plus an applicable margin, and (b) the Citibank prime rate plus an applicable margin. The \$100 million Credit Facility contains the same covenant requirements as the \$400 million Credit Facility described above. As of March 31, 2009 there were no borrowings outstanding under the \$100 million Credit Facility. The Partnership does not expect to renew this credit facility.

\$62.5 Million Credit Facility

On March 13, 2009, the Operating Partnership entered into a \$62.5 million revolving credit facility (\$62.5 million Credit Facility) with a syndicate of 2 participating financial institutions. The \$62.5 million Credit Facility is available to fund the Operating Partnership's working capital requirements, to finance future acquisitions and for general partnership purposes. The \$62.5 million Credit Facility matures in September 2011 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 (a) the federal funds rate plus 0.50 percent plus an applicable margin, (b) Toronto Dominion's prime rate plus an applicable margin or (c) LIBOR plus 1.0 percent plus an applicable margin. The \$62.5 million Credit Facility contains various covenants similar to the \$400 million credit facility and limits the Operating Partnership, on a rolling four-quarter basis, to a maximum total debt to EBITDA ratio of 4.0 to 1, which can generally be increased to 4.5 to 1 during an acquisition period. The Operating Partnership is in compliance with this requirement as of March 31, 2009. As of March 31, 2009 there were no borrowings outstanding under the \$62.5 million Credit Facility.

Equity Offering

In April 2009 the Partnership completed a public offering of 2.2 million common units. In May 2009, the Partnership sold an additional 49,700 common units to cover over-allotments in connection with the April 2009 offering. Net proceeds before underwriting expenses of approximately \$109.8 million were used to reduce outstanding borrowings under the Partnership's \$400 million revolving Credit Facility. As a result of these offerings of common units, the general partner contributed \$2.3 million to the Partnership to maintain its 2.0 percent general partner interest.

Table of Contents*Cash Flows and Capital Expenditures*

Net cash used in operating activities for the three months ended March 31, 2009 was \$61.8 million compared with \$74.6 million of net cash provided by operating activities for the first three months of 2008. Net cash used in operating activities for the first three months of 2009 was primarily the result of net income of \$80.9 million, depreciation and amortization of \$11.6 million, and a \$143.7 million increase in working capital. The increase in working capital was the result of increases in accounts receivable and contango inventory positions partially offset by an increase in accounts payable. Net cash provided by operating activities for the first three months of 2008 was primarily the result of net income of \$37.5 million, depreciation and amortization of \$9.7 million, the \$5.7 million impairment charge, and a \$23.7 million decrease in working capital. The decrease in working capital was the result of an increase in accounts payable partially offset by increases in accounts receivable and inventory.

Net cash used in investing activities for the three months of 2009 was \$34.2 million compared with \$23.1 million for the first three months of 2008.

Net cash provided by financing activities for the first three months of 2009 was \$96.0 million compared with \$51.4 million net cash used in financing activities for the first three months of 2008. Net cash provided by financing activities for the first three months of 2009 resulted from a \$173.6 million issuance of senior notes partially offset by \$35.7 million net repayment of the Partnership's \$400 million Credit Facility, and \$38.5 million in distributions paid to limited partners and the general partner. Net cash provided by financing activities was utilized to finance operating and investing activities, including contango inventory positions. Net cash used in financing activities for the first three months of 2008 resulted from a \$41.0 million net repayment of the Partnership's \$400 million Credit Facility as well as \$31.6 million in distributions paid to limited partners and the general partner. These decreases were partially offset by net advances from affiliates in the amount of \$21.3 million.

Under a treasury services agreement with Sunoco, the Partnership participates in Sunoco's centralized cash management program. Advances to affiliates in the Partnership's condensed consolidated balance sheets at March 31, 2009 and December 31, 2008 represent amounts due to Sunoco under this agreement.

Capital Requirements

The pipeline, terminalling, and crude oil transport operations are capital intensive, requiring significant investment to maintain, upgrade or enhance existing operations and to meet environmental and operational regulations. The capital requirements have consisted, and are expected to continue to consist, primarily of:

Maintenance capital expenditures, such as those required to maintain equipment reliability, tankage and pipeline integrity and safety, and to address environmental regulations; and

Expansion capital expenditures to acquire assets to grow the business and to expand existing and construct new facilities, such as projects that increase storage or throughput volume.

The following table summarizes maintenance and expansion capital expenditures, including net cash paid for acquisitions, for the periods presented (in thousands of dollars):

	Three Months Ended March 31,	
	2009	2008
Maintenance	\$ 2,650	\$ 3,322
Expansion	31,551	19,809
	\$ 34,201	\$ 23,131

Management continues to expect maintenance capital expenditures to be approximately \$30.0 million for the year ended December 31, 2009, excluding reimbursements from Sunoco in accordance with the terms of certain agreements. Maintenance capital expenditures for both periods

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presented include recurring expenditures such as pipeline integrity costs, pipeline relocations, repair and upgrade of field instrumentation, including measurement devices, repair and replacement of tank floors and roofs, upgrades of cathodic protection systems, crude trucks and related equipment, and the upgrade of pump stations.

Expansion capital expenditures for the three months ended March 31, 2009 were \$31.6 million compared to \$19.8 million for the first three months of 2008. Expansion capital for 2009 includes construction in progress in connection with the Partnership's agreement with Motiva Enterprises LLC to construct three crude oil storage tanks at its Nederland Terminal with a combined capacity of 1.8 million shell barrels and a crude oil pipeline from Nederland to Motiva's Port Arthur, Texas refinery. Expansion capital also includes construction of two additional crude oil storage tanks at Nederland, which are expected to be placed into service during the second half of 2009. These two crude oil storage tanks will have a total capacity of approximately 1.2 million shell barrels.

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Management expects to invest approximately \$100.0 million to \$125.0 million in expansion capital projects in 2009, which includes the continued construction of new tankage and pipeline connections associated with the previously discussed agreement with Motiva Enterprises LLC, the continued construction of tankage at the Nederland facility and further integration of the MagTex refined product pipeline system.

The Partnership expects to fund capital expenditures, including pending and future acquisitions, from both cash provided by operations and, to the extent necessary, from the proceeds of borrowings under its credit facilities, other borrowings and the issuance of additional common units.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various market risks, including volatility in crude oil commodity prices and interest rates. To manage such exposure, inventory levels and expectations of future commodity prices and interest rates are monitored when making decisions with respect to risk management. We have not entered into derivative transactions that would expose us to price risk.

Interest Rate Risk

We have interest-rate risk exposure for changes in interest rates relating to our outstanding borrowings. We manage our exposure to changing interest rates through the use of a combination of fixed- and variable-rate debt.

At March 31, 2009, we had \$287.7 million of variable-rate borrowings under our revolving credit facilities. On January 8, 2008, we entered into an interest rate swap agreement (the Swap) with a notional amount of \$50.0 million maturing January 2010. Under the Swap, we receive interest equivalent to the three-month LIBOR and pay a fixed rate of interest of 3.489 percent with settlements occurring quarterly. To maintain hedge accounting for the Swap, we are committed to maintaining at least \$50.0 million in borrowings on the \$400 million Credit Facility at an interest rate based on the three-month LIBOR, plus an applicable margin, through January 2010. The remaining \$237.7 million bears interest cost of LIBOR plus an applicable margin. An increase in short-term interest rates will have a favorable impact on the \$50 million in borrowings related to the Swap and a negative impact on funds borrowed in excess of the \$50 million. Our weighted average variable interest rate on our variable-rate borrowings, not related to the swap, was 0.9 percent at March 31, 2009. A one percent change in the weighted average rate would have impacted annual interest expense by approximately \$2.4 million.

At March 31, 2009, we had \$600.0 million of fixed-rate borrowings, which is comprised of \$250.0 million of 2012 Senior Notes, \$175.0 million of 2014 Senior Notes, and \$175.0 million of 2016 Senior Notes. A hypothetical one-percent decrease in interest rates would increase the fair value of our fixed-rate borrowings at March 31, 2009 by approximately \$22.4 million.

Commodity Market Risk

We are exposed to volatility in crude oil commodity prices. To manage such exposures, inventory levels and expectations of future commodity prices are monitored when making decisions with respect to risk management and inventory carried. Our policy is to purchase only commodity products for which we have a market and to structure our sales contracts so that price fluctuations for those products do not materially affect the margin we receive. We also seek to maintain a position that is substantially balanced within our various commodity purchase and sales activities. In the ordinary course of doing business, we enter into crude purchase contracts with third parties generally for a term of one year or less, with a majority of the transactions on a 30-day renewable basis. Simultaneously, we enter into contracts for the future physical sale and delivery on a specified date of the related crude purchased. Contracts that qualify as derivatives have been designated as normal purchases and sales and are accounted for using traditional accrual accounting.

We do not acquire and hold futures contracts or other derivative products for the purpose of speculating on price changes, as these activities could expose us to significant losses. We may experience net unbalanced positions for short periods of time as a result of production, transportation and delivery variances as well as logistical issues associated with inclement weather conditions.

Forward-Looking Statements

Some of the information included in this quarterly report on Form 10-Q contains forward-looking statements and information relating to Sunoco Logistics Partners L.P. that is based on the beliefs of its management as well as assumptions made by and information currently available to management.

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Forward-looking statements discuss expected future results based on current and pending business operations, and may be identified by words such as anticipates, believes, expects, planned, scheduled or similar expressions. Although management of the Partnership believes these forward-looking statements are reasonable, they are based upon a number of assumptions, any or all of which may ultimately prove to be inaccurate. Statements made regarding future results are subject to numerous assumptions, uncertainties and risks that may cause future results to be materially different from the results stated or implied in this document.

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The following are among the important factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted:

Our ability to successfully consummate announced acquisitions or expansions and integrate them into our existing business operations;

Delays related to construction of, or work on, new or existing facilities and the issuance of applicable permits;

Changes in demand for, or supply of, crude oil, refined petroleum products and natural gas liquids that impact demand for the Partnership's pipeline, terminalling and storage services;

Changes in the demand for crude oil we both buy and sell;

The loss of Sunoco R&M as a customer or a significant reduction in its current level of throughput and storage with the Partnership;

An increase in the competition encountered by the Partnership's petroleum products terminals, pipelines and crude oil acquisition and marketing operations;

Changes in the financial condition or operating results of joint ventures or other holdings in which the Partnership has an equity ownership interest;

Changes in the general economic conditions in the United States;

Changes in laws and regulations to which the Partnership is subject, including federal, state, and local tax, safety, environmental and employment laws;

Changes in regulations concerning required composition of refined petroleum products that result in changes in throughput volumes, pipeline tariffs and/or terminalling and storage fees;

Improvements in energy efficiency and technology resulting in reduced demand for petroleum products;

The Partnership's ability to manage growth and/or control costs;

The effect of changes in accounting principles and tax laws and interpretations of both;

Global and domestic economic repercussions, including disruptions in the crude oil and petroleum products markets, from terrorist activities, international hostilities and other events, and the government's response thereto;

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Changes in the level of operating expenses and hazards related to operating facilities (including equipment malfunction, explosions, fires, spills and the effects of severe weather conditions);

The occurrence of operational hazards or unforeseen interruptions for which the Partnership may not be adequately insured;

The age of, and changes in the reliability and efficiency of the Partnership's operating facilities;

Changes in the expected level of capital, operating, or remediation spending related to environmental matters;

Changes in insurance markets resulting in increased costs and reductions in the level and types of coverage available;

Risks related to labor relations and workplace safety;

Non-performance by or disputes with major customers, suppliers or other business partners;

Changes in the Partnership's tariff rates implemented by federal and/or state government regulators;

The amount of the Partnership's indebtedness, which could make the Partnership vulnerable to adverse general economic and industry conditions, limit the Partnership's ability to borrow additional funds, place it at competitive disadvantages compared to competitors that have less debt, or have other adverse consequences;

Restrictive covenants in the Partnership's or Sunoco, Inc.'s credit agreements;

Changes in the Partnership's or Sunoco, Inc.'s credit ratings, as assigned by ratings agencies;

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The condition of the debt capital markets and equity capital markets in the United States, and the Partnership's ability to raise capital in a cost-effective way;

Performance of financial institutions impacting the Partnership's liquidity, including those supporting the Partnership's credit facilities;

Changes in interest rates on the Partnership's outstanding debt, which could increase the costs of borrowing;

Claims of the Partnership's non-compliance with regulatory and statutory requirements; and

The costs and effects of legal and administrative claims and proceedings against the Partnership or any entity in which it has an ownership interest, and changes in the status of, or the initiation of new litigation, claims or proceedings, to which the Partnership, or any entity in which it has an ownership interest, is a party.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of the Partnership's forward-looking statements. Other factors could also have material adverse effects on future results. The Partnership undertakes no obligation to update publicly any forward-looking statement whether as a result of new information or future events.

Item 4. Controls and Procedures

(a) Disclosure controls and procedures are designed to ensure that information required to be disclosed in the Partnership reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Partnership reports under the Exchange Act is accumulated and communicated to management, including the President and Chief Executive Officer of Sunoco Partners LLC (the Partnership's general partner) and the Vice President and Chief Financial Officer of the general partner, as appropriate, to allow timely decisions regarding required disclosure.

(b) As of March 31, 2009, the Partnership carried out an evaluation, under the supervision and with the participation of the management of the general partner (including the President and Chief Executive Officer and the Vice President and Chief Financial Officer), of the effectiveness of the design and operation of the Partnership's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the general partner's President and Chief Executive Officer, and its Vice President and Chief Financial Officer, concluded that the Partnership's disclosure controls and procedures are effective.

(c) No change in the Partnership's internal control over financial reporting has occurred during the fiscal quarter ended March 31, 2009 that has materially affected, or that is reasonably likely to materially affect, the Partnership's internal control over financial reporting.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

There are certain legal and administrative proceedings arising prior to the February 2002 IPO pending against the Partnership's Sunoco-affiliated predecessors and the Partnership (as successor to certain liabilities of those predecessors). Although the ultimate outcome of these proceedings cannot be ascertained at this time, it is reasonably possible that some of them may be resolved unfavorably. Sunoco has agreed to indemnify the Partnership for 100 percent of all losses from environmental liabilities related to the transferred assets arising prior to, and asserted within 21 years of February 8, 2002. There is no monetary cap on this indemnification from Sunoco. Sunoco's share of liability for claims asserted thereafter will decrease by 10 percent each year through the thirtieth year following the February 8, 2002 date. Any remediation liabilities not covered by this indemnity will be the Partnership's responsibility. In addition, Sunoco is obligated to indemnify the Partnership under certain other agreements executed after the February 2002 IPO.

There are certain other pending legal proceedings related to matters arising after the February 2002 IPO that are not indemnified by Sunoco. Management believes that any liabilities that may arise from these legal proceedings will not be material to the Partnership's financial position at March 31, 2009.

Item 1A. Risk Factors

There have been no material changes from the risk factors described previously in Part I, Item IA of the Partnership's Annual Report on Form 10-K for the year ended December 31, 2008, filed on February 24, 2009.

Item 2. Unregistered Sales of Equity Securities and Uses of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibits

- 12.1: Statement of Computation of Ratio of Earnings to Fixed Charges
- 31.1: Chief Executive Officer Certification of Periodic Report Pursuant to Exchange Act Rule 13a-14(a)
- 31.2: Chief Financial Officer Certification of Periodic Report Pursuant to Exchange Act Rule 13a-14(a)
- 32.1: Chief Executive Officer Certification of Periodic Report Pursuant to Exchange Act Rule 13a-14(b) and U.S.C. §1350
- 32.2: Chief Financial Officer Certification of Periodic Report Pursuant to Exchange Act Rule 13a-14(b) and U.S.C. §1350

We are pleased to furnish this Form 10-Q to unitholders who request it by writing to:

Sunoco Logistics Partners L.P.

Investor Relations

Mellon Bank Center

1735 Market Street

Philadelphia, PA 19103-7583

or through our website at www.sunocologistics.com.

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SIGNATURE

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.

Sunoco Logistics Partners L.P.

By: /s/ NEAL E. MURPHY
Neal E. Murphy
Vice President and Chief Financial Officer
Date: May 6, 2009