

SUNOCO INC
Form 10-Q
August 07, 2008
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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 June 30, 2008

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 1-6841

SUNOCO, INC.

(Exact name of registrant as specified in its charter)

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PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

23-1743282
(I.R.S. Employer
Identification No.)

1735 MARKET STREET, SUITE LL, PHILADELPHIA, PA 19103-7583

(Address of principal executive offices) (Zip Code)

(215) 977-3000

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (do not check if a smaller reporting company)

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 June 30, 2008, there were 116,862,264 shares of Common Stock, \$1 par value outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Sunoco, Inc. and Subsidiaries

(Millions of Dollars and Shares, Except Per-Share Amounts)

	For the Six Months Ended June 30	
	2008	2007
	(UNAUDITED)	
REVENUES		
Sales and other operating revenue (including consumer excise taxes)	\$ 28,857	\$ 19,859
Interest income	12	9
Gain related to issuance of Sunoco Logistics Partners L.P. limited partnership units (Note 2)		151
Other income, net (Notes 2 and 3)	28	50
	28,897	20,069
COSTS AND EXPENSES		
Cost of products sold and operating expenses	26,886	16,853
Consumer excise taxes	1,225	1,310
Selling, general and administrative expenses (Note 2)	420	457
Depreciation, depletion and amortization	252	232
Payroll, property and other taxes	76	67
Provision for asset write-downs and other matters (Note 5)	(18)	
Interest cost and debt expense	56	67
Interest capitalized	(17)	(14)
	28,880	18,972
Income before income tax expense (benefit)	17	1,097
Income tax expense (benefit) (Note 3)	(6)	413
NET INCOME	\$ 23	\$ 684
Earnings per share of common stock:		
Basic	\$.20	\$ 5.65
Diluted	\$.20	\$ 5.63
Weighted-average number of shares outstanding (Notes 4 and 7):		
Basic	117.0	121.1
Diluted	117.2	121.4
Cash dividends paid per share of common stock (Note 7)	\$.575	\$.525

(See Accompanying Notes)

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Sunoco, Inc. and Subsidiaries

(Millions of Dollars and Shares, Except Per-Share Amounts)

	For the Three Months Ended June 30	
	2008	2007
	(UNAUDITED)	
REVENUES		
Sales and other operating revenue (including consumer excise taxes)	\$ 16,061	\$ 10,724
Interest income	3	4
Other income, net (Notes 2 and 3)	20	36
	16,084	10,764
COSTS AND EXPENSES		
Cost of products sold and operating expenses	14,951	8,865
Consumer excise taxes	635	669
Selling, general and administrative expenses (Note 2)	222	236
Depreciation, depletion and amortization	124	117
Payroll, property and other taxes	34	30
Provision for asset write-downs and other matters (Note 5)	(18)	
Interest cost and debt expense	28	32
Interest capitalized	(8)	(5)
	15,968	9,944
Income before income tax expense	116	820
Income tax expense (Note 3)	34	311
NET INCOME	\$ 82	\$ 509
Earnings per share of common stock:		
Basic	\$.70	\$ 4.21
Diluted	\$.70	\$ 4.20
Weighted-average number of shares outstanding (Notes 4 and 7):		
Basic	116.9	120.9
Diluted	117.0	121.2
Cash dividends paid per share of common stock (Note 7)	\$.30	\$.275

(See Accompanying Notes)

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CONDENSED CONSOLIDATED BALANCE SHEETS

Sunoco, Inc. and Subsidiaries

(Millions of Dollars)

	At June 30 2008 (UNAUDITED)	At December 31 2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 214	\$ 648
Accounts and notes receivable, net	4,471	2,710
Inventories:		
Crude oil	595	341
Petroleum and chemical products	671	647
Materials, supplies and other	181	162
Deferred income taxes	132	130
Total Current Assets	6,264	4,638
Investments and long-term receivables	172	175
Properties, plants and equipment	11,933	11,466
Less accumulated depreciation, depletion and amortization	4,580	4,427
Properties, plants and equipment, net	7,353	7,039
Deferred charges and other assets	537	574
Total Assets	\$ 14,326	\$ 12,426
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	\$ 6,815	\$ 4,812
Accrued liabilities (Note 5)	588	631
Short-term borrowings	100	
Current portion of long-term debt	3	4
Taxes payable	329	193
Total Current Liabilities	7,835	5,640
Long-term debt	1,723	1,724
Retirement benefit liabilities (Note 6)	518	525
Deferred income taxes	880	1,027
Other deferred credits and liabilities (Note 5)	518	538
Commitments and contingent liabilities (Note 5)		
Minority interests (Note 2)	438	439
Shareholders' equity (Note 7)	2,414	2,533
Total Liabilities and Shareholders' Equity	\$ 14,326	\$ 12,426

(See Accompanying Notes)

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Sunoco, Inc. and Subsidiaries

(Millions of Dollars)

	For the Six Months Ended June 30	
	2008	2007
	(UNAUDITED)	
INCREASES (DECREASES) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 23	\$ 684
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain related to issuance of Sunoco Logistics Partners L.P. limited partnership units (Note 2)		(151)
Provision for asset write-downs and other matters	(18)	
Depreciation, depletion and amortization	252	232
Deferred income tax expense (benefit)	(135)	124
Payments less than expense for retirement plans	8	2
Changes in working capital pertaining to operating activities:		
Accounts and notes receivable	(1,749)	(129)
Inventories	(297)	(16)
Accounts payable and accrued liabilities	1,918	(128)
Taxes payable	136	192
Other	15	13
Net cash provided by operating activities	153	823
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(561)	(644)
Proceeds from divestments	8	30
Other	35	(23)
Net cash used in investing activities	(518)	(637)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from (repayments of) short-term borrowings	100	(82)
Net proceeds from issuance of long-term debt	85	92
Repayments of long-term debt	(87)	(24)
Cash distributions to investors in cokemaking operations	(20)	(12)
Cash distributions to investors in Sunoco Logistics Partners L.P.	(29)	(27)
Cash dividend payments	(67)	(64)
Purchases of common stock for treasury	(49)	(100)
Proceeds from issuance of common stock under management incentive plans		6
Other	(2)	2
Net cash used in financing activities	(69)	(209)
Net decrease in cash and cash equivalents	(434)	(23)
Cash and cash equivalents at beginning of period	648	263
Cash and cash equivalents at end of period	\$ 214	\$ 240

(See Accompanying Notes)

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

1. General.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and U.S. generally accepted accounting principles 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 gain related to Sunoco Logistics Partners L.P.'s prior issuance of limited partnership units and gains related to an insurance recovery and certain income tax matters (Notes 2, 3 and 5). Results for the three and six months ended June 30, 2008 are not necessarily indicative of results for the full-year 2008.

2. Minority Interests.

Cokemaking Operations

Sunoco received a total of \$415 million in exchange for interests in its Indiana Harbor cokemaking operations in two separate transactions in 1998 and 2002. Sunoco did not recognize any gain as of the dates of these transactions because the third-party investors were entitled to a preferential return on their respective investments. The returns of the investors were equal to 98 percent of the cash flows and tax benefits from such cokemaking operations during the preferential return period, which continued until the fourth quarter of 2007 at which time the investor entitled to the preferential return recovered its investment and achieved a cumulative annual after-tax return of approximately 10 percent. After payment of the preferential return, the investors are now entitled to a minority interest in the related net income amounting to 34 percent which declines to 10 percent by 2038.

The following table sets forth the minority interest balances and the changes in these balances attributable to the third-party investors' interests in cokemaking operations (in millions of dollars):

	Six Months Ended June 30	
	2008	2007
Balance at beginning of year	\$ 83	\$ 102
Nonconventional fuel credit and other tax benefits		(18)
Preferential return		11