

SunCoke Energy, Inc.
Form 10-Q
October 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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 001-35243

SUNCOKE ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
1011 Warrenville Road, Suite 600
Lisle, Illinois 60532
(630) 824-1000
(Registrant's telephone number, including area code)

90-0640593
(I.R.S. Employer
Identification No.)

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 Smaller reporting company

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

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As of October 25, 2013, there were 69,580,319 shares of the Registrant's \$0.01 par value Common Stock outstanding.

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PART I – FINANCIAL INFORMATION

SunCoke Energy, Inc.

Consolidated Statements of Income

(Unaudited)

Item 1. Consolidated Financial Statements

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(Dollars and shares in millions, except per share amounts)			
Revenues				
Sales and other operating revenue	\$389.9	\$480.1	\$1,245.0	\$1,421.4
Other income, net	0.6	0.4	3.1	1.3
Total revenues	390.5	480.5	1,248.1	1,422.7
Costs and operating expenses				
Cost of products sold and operating expenses	316.5	388.9	1,031.3	1,174.6
Selling, general and administrative expenses	23.5	20.0	65.9	61.2
Depreciation, depletion and amortization	23.2	18.9	70.5	57.5
Total costs and operating expenses	363.2	427.8	1,167.7	1,293.3
Operating income	27.3	52.7	80.4	129.4
Interest expense, net	12.1	12.2	40.0	36.0
Income before income tax expense and loss from equity method investment	15.2	40.5	40.4	93.4
Income tax expense	0.6	7.6	6.5	19.9
Loss from equity method investment	2.3	—	2.5	—
Net income	12.3	32.9	31.4	73.5
Less: Net income attributable to noncontrolling interests	6.1	1.3	17.4	2.3
Net income attributable to SunCoke Energy, Inc.	\$6.2	\$31.6	\$14.0	\$71.2
Earnings attributable to SunCoke Energy, Inc. per common share:				
Basic	\$0.09	\$0.45	\$0.20	\$1.02
Diluted	\$0.09	\$0.45	\$0.20	\$1.01
Weighted average common shares outstanding:				
Basic	69.8	70.0	69.9	70.0
Diluted	70.0	70.3	70.2	70.3

(See Accompanying Notes)

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Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Net income	\$12.3	\$32.9	\$31.4	\$73.5
Other comprehensive loss:				
Reclassifications of prior service benefit and actuarial loss amortization to earnings (net of related tax expense of \$0.2 million and \$0.9 million for the three and nine months ended September 30, 2013, respectively, and \$0.3 million and \$0.9 million for the three and nine months ended September 30, 2012, respectively)	(0.5)	(0.6)	(1.5)	(1.5)
Currency translation adjustment	(10.1)	—	(13.5)	(0.9)
Comprehensive income	1.7	32.3	16.4	71.1
Less: Comprehensive income attributable to noncontrolling interests	6.1	1.3	17.4	2.3
Comprehensive income (loss) attributable to SunCoke Energy, Inc. (See Accompanying Notes)	\$(4.4)	\$31.0	\$(1.0)	\$68.8

Table of ContentsSunCoke Energy, Inc.
Consolidated Balance Sheets

	September 30, 2013 (Unaudited)	December 31, 2012
	(Dollars in millions, except per share amounts)	
Assets		
Cash and cash equivalents	\$268.8	\$ 239.2
Receivables	65.9	70.0
Inventories	134.5	160.1
Income tax receivable	3.7	—
Deferred income taxes	2.6	2.6
Total current assets	475.5	471.9
Investment in Brazil cokemaking operations	41.0	41.0
Equity method investment in VISA SunCoke Limited	52.5	—
Properties, plants and equipment, net	1,451.2	1,396.6
Lease and mineral rights, net	52.2	52.5
Goodwill	9.4	9.4
Deferred charges and other assets	40.9	39.6
Total assets	\$2,122.7	\$ 2,011.0
Liabilities and Equity		
Accounts payable	\$125.8	\$ 132.9
Current portion of long-term debt	0.8	3.3
Accrued liabilities	60.9	91.2
Interest payable	7.8	15.7
Income taxes payable	—	3.9
Total current liabilities	195.3	247.0
Long-term debt	648.3	720.1
Obligation for black lung benefits	34.1	34.8
Retirement benefit liabilities	40.9	42.5
Deferred income taxes	362.4	361.5
Asset retirement obligations	16.7	13.5
Other deferred credits and liabilities	17.9	16.7
Total liabilities	1,315.6	1,436.1
Equity		
Preferred stock, \$0.01 par value. Authorized 50,000,000 shares; no issued and outstanding shares at September 30, 2013 and December 31, 2012	—	—
Common stock, \$0.01 par value. Authorized 300,000,000 shares; issued and outstanding 69,524,424 and 69,988,728 shares at September 30, 2013 and December 31, 2012, respectively	0.7	0.7
Treasury stock, 1,255,355 shares at September 30, 2013 and 603,528 at December 31, 2012	(19.9)	(9.4)
Additional paid-in capital	443.4	436.9
Accumulated other comprehensive loss	(22.9)	(7.9)
Retained earnings	132.8	118.8
Total SunCoke Energy, Inc. stockholders' equity	534.1	539.1

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Noncontrolling interests	273.0	35.8
Total equity	807.1	574.9
Total liabilities and equity (See Accompanying Notes)	\$2,122.7	\$ 2,011.0

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SunCoke Energy, Inc.

Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
	(Dollars in millions)	
Cash Flows from Operating Activities:		
Net income	\$31.4	\$73.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	70.5	57.5
Deferred income tax expense	1.2	39.2
Payments in excess of expense for retirement plans	(1.6)	(6.2)
Share-based compensation expense	5.5	5.1
Loss from equity method investment	2.5	—
Changes in working capital pertaining to operating activities, net of acquisition:		
Receivables	4.1	(24.9)
Inventories	28.3	27.0
Accounts payable	(7.1)	(60.9)
Accrued liabilities	(30.3)	10.2
Interest payable	(7.9)	(7.8)
Income taxes	(7.3)	(23.6)
Other	(1.7)	(11.3)
Net cash provided by operating activities	87.6	77.8
Cash Flows from Investing Activities:		
Capital expenditures	(95.6)	(40.6)
Acquisition of business	(28.6)	—
Equity method investment in VISA SunCoke Limited	(67.7)	—
Net cash used in investing activities	(191.9)	(40.6)
Cash Flows from Financing Activities:		
Proceeds from issuance of common units of SunCoke Energy Partners, L.P., net of offering costs	237.8	—
Proceeds from issuance of long-term debt	150.0	—
Debt issuance costs	(6.9)	—
Repayment of long-term debt	(225.0)	(2.5)
Proceeds from exercise of stock options	0.9	4.7
Repurchase of common stock	(10.9)	(9.1)
Cash distribution to noncontrolling interest	(12.0)	—
Net cash provided by (used in) financing activities	133.9	(6.9)
Net increase in cash and cash equivalents	29.6	30.3
Cash and cash equivalents at beginning of period	239.2	127.5
Cash and cash equivalents at end of period	\$268.8	\$157.8

(See Accompanying Notes)

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Consolidated Statements of Equity
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total SunCoke Energy, Inc. Equity	Noncontrol Interests	Total Equity
	Shares	Amount	Shares	Amount						
	(Dollars in millions)									
At December 31, 2011	70,012,702	\$0.7	—	\$—	\$511.3	\$(6.5)	\$20.0	\$525.5	\$34.4	\$559.9
Net income	—	—	—	—	—	—	71.2	71.2	2.3	73.5
Reclassifications of prior service benefit and actuarial loss amortization to earnings (net of related tax benefit of \$0.6 million)	—	—	—	—	—	(1.5)	—	(1.5)	—	(1.5)
Currency translation adjustment	—	—	—	—	—	(0.9)	—	(0.9)	—	(0.9)
Noncash distribution to Sunoco under Tax Sharing Agreement	—	—	—	—	(88.2)	—	—	(88.2)	—	(88.2)
Share-based compensation expense	—	—	—	—	5.1	—	—	5.1	—	5.1
Stock options exercised and RSUs vested	535,143	—	—	—	4.7	—	—	4.7	—	4.7
Shares repurchased (592,197)	—	—	592,197	(9.1)	—	—	—	(9.1)	—	(9.1)
Shares issued to directors	10,140	—	—	—	0.1	—	—	0.1	—	0.1
At September 30, 2012	69,965,788	\$0.7	592,197	\$(9.1)	\$433.0	\$(8.9)	\$91.2	\$506.9	\$36.7	\$543.6
At December 31, 2012	69,988,728	\$0.7	603,528	\$(9.4)	\$436.9	\$(7.9)	\$118.8	\$539.1	\$35.8	\$574.9
Net income	—	—	—	—	—	—	14.0	14.0	17.4	31.4
Reclassifications of prior service benefit and actuarial loss amortization to earnings (net of related tax benefit of \$0.9 million)	—	—	—	—	—	(1.5)	—	(1.5)	—	(1.5)
Currency translation adjustment	—	—	—	—	—	(13.5)	—	(13.5)	—	(13.5)

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Net proceeds from issuance of SunCoke Energy Partners, L.P. units	—	—	—	—	—	—	—	—	231.8	231.8
Cash distribution to noncontrolling interests	—	—	—	—	—	—	—	—	(12.0)	(12.0)
Share-based compensation expense	—	—	—	—	5.5	—	—	5.5	—	5.5
Stock options exercised and RSUs vested	163,859	—	—	—	1.3	—	—	1.3	—	1.3
Shares repurchased	(651,827)	—	651,827	(10.5)	(0.4)	—	—	(10.9)	—	(10.9)
Shares issued to directors	23,664	—	—	—	0.1	—	—	0.1	—	0.1
At September 30, 2013	69,524,424	\$ 0.7	1,255,355	\$(19.9)	\$ 443.4	\$(22.9)	\$ 132.8	\$ 534.1	\$ 273.0	\$ 807.1

(See Accompanying Notes)

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SunCoke Energy, Inc.

Notes to the Consolidated Financial Statements

1. General

Description of Business

SunCoke Energy, Inc. ("SunCoke Energy", "Company", "we", "our" and "us") is an independent owner and operator of five cokemaking facilities in the eastern and midwestern regions of the United States ("U.S.") and operator of a cokemaking facility for a project company in Brazil in which it has a preferred stock investment. The cokemaking operations include blast furnace coke manufacturing at the Company's Jewell Coke Company, L.P. ("Jewell") facility in Vansant, Virginia; Indiana Harbor Coke Company, L.P. ("Indiana Harbor") facility in East Chicago, Indiana; Haverhill Coke Company ("Haverhill") facility in Franklin Furnace, Ohio; Gateway Energy & Coke Company, LLC ("Granite City") facility in Granite City, Illinois; and Middletown Coke Company, Inc. ("Middletown") facility in Middletown, Ohio.

Our Consolidated Financial Statements include SunCoke Energy Partners, L.P. (the "Partnership"), a publicly-traded partnership and variable interest entity. We are considered to be the primary beneficiary of the Partnership for accounting purposes as we have the sole ability to direct the activities of the Partnership that most significantly impact its economic performance. See Note 3.

On August 30, 2013, the Partnership completed its acquisition of the assets and business operations of Lakeshore Coal Handling Corporation, a coal handling and blending service provider. See Note 5.

On March 18, 2013, we completed the transaction to form a cokemaking joint venture with VISA Steel Limited ("VISA Steel") in India called VISA SunCoke Limited ("VISA SunCoke"). VISA SunCoke is comprised of a 440 thousand ton heat recovery cokemaking facility and the facility's associated steam generation units in Odisha, India. See Note 4.

On January 17, 2012 (the "Distribution Date"), we became an independent, publicly-traded company following our separation (the "Separation") from Sunoco, Inc. ("Sunoco"). The Separation occurred in two steps:

We were formed as a wholly-owned subsidiary of Sunoco in 2010. On July 18, 2011 (the "Separation Date"), Sunoco contributed the subsidiaries, assets and liabilities that were primarily related to its cokemaking and coal mining operations to us in exchange for shares of our common stock. As of such date, Sunoco owned 100 percent of our common stock. On July 26, 2011, we completed an initial public offering ("IPO") of 13,340,000 shares of our common stock, or 19.1 percent of our outstanding common stock. Following the IPO, Sunoco continued to own 56,660,000 shares of our common stock, or 80.9 percent of our outstanding common stock.

On the Distribution Date, Sunoco made a pro-rata, tax free distribution (the "Distribution") of the remaining shares of our common stock that it owned in the form of a special stock dividend to Sunoco shareholders. Sunoco shareholders received 0.53046456 of a share of common stock for every share of Sunoco common stock held as of the close of business on January 5, 2012, the record date for the Distribution. After the Distribution, Sunoco ceased to own any shares of our common stock.

Quarterly Reporting

The accompanying Consolidated Financial Statements included herein have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim reporting. Certain information and disclosures normally included in financial statements have been omitted pursuant to the rules and regulation of the Securities and Exchange Commission ("SEC"). In management's opinion, all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented have been made. The results of operations for the period ended September 30, 2013 are not necessarily indicative of the operating results for the full year.

Reclassifications

Certain amounts in the prior period Consolidated Financial Statements have been reclassified to conform to the current year presentation.

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New Accounting Standards

On January 1, 2013, we adopted Accounting Standards Update ("ASU") 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU requires the disclosure of changes to accumulated other comprehensive income to be presented by component on the face of the financial statements or in a separate note to the financial statements. This ASU also requires the disclosure of significant items reclassified out of accumulated other comprehensive income to net income during the period either on the face of the financial statements or in a separate note to the financial statements. This standard is effective prospectively for interim and annual periods beginning after December 15, 2012. See Note 17.

2. Arrangements Between Sunoco and SunCoke Energy, Inc.

In connection with the IPO, SunCoke Energy and Sunoco entered into certain agreements that effected the separation of SunCoke Energy's business from Sunoco, provided a framework for its relationship with Sunoco after the separation and provided for the allocation between SunCoke Energy and Sunoco of Sunoco's assets, employees, liabilities and obligations attributable to periods prior to, at and after the Separation.

Tax Sharing Agreement. On the Separation Date, SunCoke Energy and Sunoco entered into a tax sharing agreement that governs the parties' respective rights, responsibilities and obligations with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings and other matters regarding taxes. The tax sharing agreement expires on January 17, 2014. Upon and subsequent to the Separation, SunCoke Energy made noncash distributions of \$88.2 million related to the settlement of tax attributes under the tax sharing agreement with Sunoco during the nine months ended September 30, 2012. A corresponding reduction was made to SunCoke Energy's equity accounts. See Note 6.

Transition Services Agreement. On the Separation Date, SunCoke Energy and Sunoco entered into a transition services agreement. The services provided under this agreement generally terminated upon completion of the Distribution on January 17, 2012. The fees paid to Sunoco under this agreement were not material to the financial statements for the three and nine months ended September 30, 2013 and 2012. We expect any remaining services under this agreement will be terminated by the end of 2013.

Guaranty, Keep Well, and Indemnification Agreement. On the Separation Date, SunCoke Energy and Sunoco entered into a guaranty, keep well, and indemnification agreement. Under this agreement, SunCoke Energy: (1) guarantees the performance of certain obligations of its subsidiaries, prior to the date that Sunoco or its affiliates may become obligated to pay or perform such obligations, including the repayment of a loan from Indiana Harbor Coke Company L.P.; (2) indemnifies, defends, and holds Sunoco and its affiliates harmless against all liabilities relating to these obligations; and (3) restricts the assets, debts, liabilities and business activities of one of its wholly-owned subsidiaries, so long as certain obligations of such subsidiary remain unpaid or unperformed. In addition, SunCoke Energy released Sunoco from its guaranty of payment of a promissory note owed by one of its subsidiaries to another of its subsidiaries.

3. Formation of a Master Limited Partnership

On January 24, 2013, we completed the initial public offering of the Partnership through the sale of 13,500,000 common units, representing limited partner interests in the Partnership in exchange for \$231.8 million of proceeds, net of \$24.7 million of offering costs, \$6.0 million of which were paid during 2012 (the "Partnership offering"). Of these net proceeds, \$67.0 million was retained by the Partnership for environmental remediation capital expenditures and \$12.4 million for sales discounts related to tax credits owed to our customers. Upon the closing of the Partnership offering, we own the general partner of the Partnership, which consists of a 2.0 percent ownership interest and incentive distribution rights, and a 55.9 percent limited partner interest in the Partnership. The key assets of the Partnership are a 65 percent interest in each of our Haverhill and Middletown cokemaking and heat recovery facilities. We are also party to an omnibus agreement pursuant to which we will provide the Partnership with: (1) remarketing efforts upon the occurrence of certain potential adverse events under our coke sales agreements; (2) indemnification of certain environmental costs; and (3) preferential rights for growth opportunities.

In connection with the closing of the Partnership offering, we entered into an amendment to our Credit Agreement and the Partnership repaid \$225.0 million of our Term Loan and issued \$150.0 million of senior notes ("Partnership Notes"). See Note 10.

As the general partner of the Partnership, we have the sole ability to direct the activities of the Partnership that most significantly impact its economic performance. We are also considered to be the primary beneficiary of the Partnership for accounting purposes and consolidate the results of the Partnership in our results. The Partnership's Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012, as presented below, are included in the Consolidated Balance Sheets of SunCoke Energy.

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	SunCoke Energy Partners, L.P.	SunCoke Energy Partners, L.P. Predecessor
	September 30, 2013 (Unaudited)	December 31, 2012
	(Dollars in millions)	
Assets		
Cash	\$78.5	\$—
Receivables	26.0	27.4
Inventories	57.9	63.2
Total current assets	162.4	90.6
Properties, plants and equipment, net	792.5	768.7
Deferred income taxes	—	21.4
Deferred charges and other assets	7.9	4.8
Total assets	\$962.8	\$885.5
Liabilities and Equity		
Accounts payable	41.5	41.5
Accrued liabilities	3.5	17.0
Interest payable	1.8	—
Payable to affiliate	0.7	—
Total current liabilities	47.5	58.5
Long-term debt	149.7	225.0
Deferred income taxes	1.7	—
Other deferred credits and liabilities	0.3	0.3
Total liabilities	199.2	283.8
Parent Net Equity		
Total equity	763.6	601.7
Total liabilities and parent net equity	\$962.8	\$885.5

During 2013, the Partnership paid two quarterly cash distributions totaling \$23.3 million, of which \$9.8 million was paid to public unitholders of the Partnership. On October 22, 2013, the Partnership declared a quarterly cash distribution totaling \$13.9 million, of which \$5.8 million will be paid to public unitholders of the Partnership. The distribution will be paid on November 29, 2013 to unitholders of record on November 15, 2013.

4. Equity Method Investment

On March 18, 2013, we completed the transaction to form a joint venture, VISA SunCoke, with VISA Steel. VISA SunCoke is comprised of a 440 thousand ton heat recovery cokemaking facility and the facility's associated steam generation units in Odisha, India. We invested \$67.7 million to acquire a 49 percent interest in VISA SunCoke with VISA Steel holding the remaining 51 percent interest. This investment is accounted for under the equity method under which investments are initially recorded at cost. We recognize our share of earnings in VISA SunCoke on a one-month lag and began recognizing such earnings in the second quarter of 2013. We intend to permanently reinvest the earnings of VISA SunCoke, and accordingly, no provision for U.S. income taxes has been recorded on such earnings. During the three and nine months ended September 30, 2013, we recognized \$2.3 million and \$2.5 million of equity losses in VISA SunCoke, respectively.

5. Acquisition

On August 30, 2013, the Partnership completed its acquisition of the assets and business operations of Lakeshore Coal Handling Corporation ("Lakeshore"), now called SunCoke Lake Terminal LLC ("Lake Terminal") for \$28.6 million. Prior to the acquisition, the entity that owns SunCoke's Indiana Harbor cokemaking operations was a customer of Lakeshore and held the purchase rights to Lakeshore. Concurrent with the closing of the transaction, the Partnership

paid \$1.8 million to DTE Energy Company, the third party investor owning a 15 percent interest in the entity that owns Indiana Harbor, in consideration for assigning its share of the Lake Terminal buyout rights to the Partnership. The Partnership recognized this payment in selling, general, and administrative expenses on the Consolidated Statement of Income during the period.

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Located in East Chicago, Indiana, Lake Terminal does not take possession of coal but instead derives its revenue by providing coal handling and blending services to its customers on a per ton basis. Lake Terminal has and will continue to provide coal handling and blending services to SunCoke's Indiana Harbor cokemaking operations. In September 2013, Lake Terminal and Indiana Harbor entered into a new 10 year contract with terms equivalent to those of an arm's-length transaction. The results of Lake Terminal have been included in the Consolidated Financial Statements since the acquisition date, and are included in the new Coal Logistics segment. The Partnership recognized plant, property, and equipment at the fair value of \$25.9 million and inventory of \$2.7 million in exchange for the \$28.6 million of consideration paid. No goodwill was recorded as a result of this acquisition.

Inclusive of intersegment sales, the acquisition of Lake Terminal increased revenues by \$1.1 million and operating income by \$0.5 million for both the three and nine months ended September 30, 2013. The acquisition of Lake Terminal is not material to the Company's Consolidated Financial Statements. Therefore, pro forma information has not been presented.

6. Income Taxes

Prior to the Distribution Date, SunCoke Energy and certain subsidiaries of Sunoco were included in the consolidated federal and certain consolidated, combined or unitary state income tax returns filed by Sunoco. However, SunCoke Energy's provision for income taxes and the deferred income tax amounts reflected in the Consolidated Financial Statements have been determined on a theoretical separate-return basis through the Distribution Date. Prior to the Separation Date, any current federal and state income tax amounts were settled with Sunoco under a previous tax sharing arrangement. Under this previous tax sharing arrangement, net operating losses and tax credit carryforwards generated on a theoretical separate-return basis could be used to offset future taxable income determined on a similar basis. Such benefits were reflected in the Company's deferred tax assets, notwithstanding the fact that such net operating losses and tax credits may actually have been realized on Sunoco's consolidated income tax returns, or may be realized in future consolidated income tax returns covering the period through the Distribution Date.

On the Separation Date, SunCoke Energy and Sunoco entered into a new tax sharing agreement that governs the parties' respective rights, responsibilities and obligations with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings and other matters regarding taxes. In general, under the tax sharing agreement:

With respect to any periods ending at or prior to the Distribution, SunCoke Energy is responsible for any U.S. federal income taxes and any U.S. state or local income taxes reportable on a consolidated, combined or unitary return, in each case, as would be applicable to SunCoke Energy as if it filed tax returns on a stand-alone basis. With respect to any periods beginning after the Distribution, SunCoke Energy is responsible for any U.S. federal, state or local income taxes of it or any of its subsidiaries.

Sunoco is responsible for any income taxes reportable on returns that include only Sunoco and its subsidiaries (excluding SunCoke Energy and its subsidiaries), and SunCoke Energy is responsible for any income taxes filed on returns that include only it and its subsidiaries.

Sunoco is responsible for any non-income taxes reportable on returns that include only Sunoco and its subsidiaries (excluding SunCoke Energy and its subsidiaries), and SunCoke Energy is responsible for any non-income taxes filed on returns that include only it and its subsidiaries.

SunCoke Energy is generally not entitled to receive payment from Sunoco in respect of any of SunCoke Energy's tax attributes or tax benefits or any reduction of taxes of Sunoco. Moreover, Sunoco is generally entitled to refunds of income taxes with respect to periods ending at or prior to the Distribution. If SunCoke Energy realizes any refund, credit or other reduction in otherwise required tax payments in any period beginning after the Distribution Date as a result of an audit adjustment resulting in taxes for which Sunoco would otherwise be responsible, then, subject to certain exceptions, SunCoke Energy must pay Sunoco the amount of any such taxes for which Sunoco would otherwise be responsible. Further, if any taxes result to Sunoco as a result of a reduction in SunCoke Energy's tax attributes for a period ending at or prior to the Distribution Date pursuant to an audit adjustment (relative to the amount of such tax attribute reflected on Sunoco's tax return as originally filed), then, subject to certain exceptions, SunCoke Energy is generally responsible to pay Sunoco the amount of any such taxes.

SunCoke Energy has also agreed to certain restrictions that are intended to preserve the tax-free status of the contribution and the Distribution. These covenants include restrictions on SunCoke Energy's issuance or sale of stock or other securities (including securities convertible into our stock but excluding certain compensatory arrangements), and sales of assets outside the ordinary course of business and entering into any other corporate transaction which would cause SunCoke Energy to undergo a 50 percent or greater change in its stock ownership.

SunCoke Energy has generally agreed to indemnify Sunoco and its affiliates against any and all tax-related liabilities incurred by them relating to the contribution or the Distribution to the extent caused by an acquisition of SunCoke Energy's

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stock or assets, or other of its actions. This indemnification applies even if Sunoco has permitted SunCoke Energy to take an action that would otherwise have been prohibited under the tax-related covenants as described above. Under the tax sharing agreement, certain deferred tax assets attributable to net operating losses and tax credit carryforwards, which had been reflected in SunCoke Energy's Consolidated Balance Sheets prior to the Separation Date on a theoretical separate-return basis, were no longer realizable by SunCoke Energy. Accordingly, after the Separation Date, current and deferred tax benefits totaling \$229.2 million were eliminated from the Consolidated Balance Sheets, \$88.2 million of which were eliminated in the nine months ended September 30, 2012, with a corresponding reduction to SunCoke Energy's equity accounts.

SunCoke Energy's tax provision was computed on a theoretical separate-return basis through the Distribution Date. To the extent any tax assets or liabilities computed on that basis differ from amounts actually payable or realizable under the provisions of the tax sharing agreement, adjustments to the tax assets and liabilities will be reflected as an income tax expense or benefit with a corresponding payable due to Sunoco, if necessary, when such amounts have been effectively settled under the terms of the tax sharing agreement. For the nine months ended September 30, 2013, SunCoke recorded income tax expense of \$1.7 million to settle potential obligations under the provisions of the tax sharing agreement. SunCoke Energy will continue to monitor the utilization of all tax attributes subject to the tax sharing agreement as applicable tax returns are filed or as tax examinations progress and will record additional adjustments when necessary, consistent with the terms of the tax sharing agreement.

At the end of each interim period, we make our best estimate of the effective tax rate expected to be applicable for the full fiscal year and the impact of discrete items, if any, and adjust the rate as necessary.

The Company's income tax provision for the three and nine months ended September 30, 2013 is lower than the U.S. federal statutory income tax rate primarily due to the impact of earnings that are attributable to noncontrolling ownership interests in partnerships and nonconventional fuel tax credits. The income tax provision for the nine months ended September 30, 2013 includes \$0.4 million related to prior period adjustments associated with local income taxes due for the Company's Middletown operations, a \$1.7 million favorable provision-to-return adjustment as a result of filing our 2012 federal income tax returns, \$1.4 million of additional valuation allowances associated with state and local taxes and \$1.7 million to settle potential obligations under the provisions of our tax sharing agreement with Sunoco. The Company's income tax provision for the three and nine months ended September 30, 2012 is lower than the U.S. federal statutory income tax rate principally due to the impact of nonconventional fuel tax credits.

We have not provided U.S. income taxes on our share of earnings from our joint venture with VISA Steel as we intend to permanently reinvest the earnings of VISA SunCoke.

7. Inventories

The Company's inventory consists of metallurgical coal, which is the principal raw material for the Company's cokemaking operations, coke, which is the finished good sold by the Company to its customers, and materials, supplies and other.

These components of inventories were as follows:

	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Coal	\$90.5	\$108.0
Coke	8.2	11.8
Materials, supplies and other	35.8	32.0
Consigned coke inventory ⁽¹⁾	—	8.3
	\$134.5	\$160.1

(1) During 2011, we estimated that Indiana Harbor would fall short of its 2011 annual minimum coke production requirements by approximately 122 thousand tons. Accordingly, we entered into contracts to procure approximately 133 thousand tons of coke from third parties. The Company then entered into an agreement to sell approximately 95 thousand tons of this purchased coke to a customer on a consignment basis. During 2012, the customer consumed 73 thousand tons of consigned coke and the remaining 22 thousand tons of consigned coke

were consumed during the first quarter of 2013.

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8. Retirement Benefits Plans

Defined Benefit Pension Plan and Postretirement Health Care and Life Insurance Plans

The Company has a noncontributory defined benefit pension plan (“defined benefit plan”), which provides retirement benefits for certain of its employees. The Company also has plans which provide health care and life insurance benefits for many of its retirees (“postretirement benefit plans”). The postretirement benefit plans are unfunded and the costs are borne by the Company.

Effective January 1, 2011, pension benefits under the Company’s defined benefit plan were frozen for all participants in this plan. The Company also amended its postretirement benefit plans during the first quarter of 2010.

Postretirement medical benefits for future retirees were phased out or eliminated, effective January 1, 2011, for non-mining employees with less than ten years of service and employer costs for all those still eligible for such benefits were capped. As a result of these changes, the Company’s postretirement benefit liability declined \$36.7 million during 2010. Most of the benefit of this liability reduction is being amortized into income through 2016.

Defined benefit plan expense consisted of the following components:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2012	2012	2012	2012
	(Dollars in millions)			
Interest cost on benefit obligations	0.3	0.4	1.0	1.1
Expected return on plan assets	(0.6)	(0.5)	(1.8)	(1.4)
Amortization of actuarial losses	0.3	0.2	0.8	0.7
	\$—	\$0.1	\$—	\$0.4

Postretirement benefit plans benefit consisted of the following components:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2012	2012	2012	2012
	(Dollars in millions)			
Service cost	\$0.1	\$0.1	\$0.2	\$0.2
Interest cost on benefit obligations	0.3	0.4	1.0	1.4
Amortization of:				
Actuarial losses	0.4	0.4	1.1	1.1
Prior service benefit	(1.4)	(1.4)	(4.3)	(4.2)
	\$(0.6)	\$(0.5)	\$(2.0)	\$(1.5)

9. Accrued Liabilities

Accrued liabilities consisted of the following:

	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Accrued sales discounts ⁽¹⁾	\$12.5	\$36.2
Accrued benefits	18.3	21.5
Other taxes payable	11.8	10.9
Other	18.3	22.6
Total	\$60.9	\$91.2

At December 31, 2012, we had \$12.4 million accrued related to sales discounts to be paid to our customer at our Haverhill facility. During the first quarter of 2013, we settled this obligation for \$11.8 million which resulted in a gain of \$0.6 million. This gain is recorded in sales and other operating revenue on our Consolidated Statement of Income.

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10. Debt

Total debt, including the current portion of long-term debt, consisted of the following:

	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Term loans, bearing interest at variable rates, due 2018, net of original issue discount of \$1.0 million and \$1.7 million at September 30, 2013 and December 31, 2012, respectively ⁽¹⁾	\$99.1	\$323.4
7.625% senior notes, due 2019 ("Senior Notes")	400.0	400.0
7.375% senior notes, due 2020 ("Partnership Notes")	150.0	—
Total debt	\$649.1	\$723.4
Less: current portion of long-term debt	0.8	3.3
Total long-term debt	\$648.3	\$720.1

(1) Borrowed under the Company's Credit Agreement on July 26, 2011, as amended ("Credit Agreement").

Concurrent with the IPO, SunCoke Energy entered into a Credit Agreement that provides for a seven-year term loan ("Term Loan") in a principal amount of \$300.0 million. The Credit Agreement provides for up to \$75.0 million in uncommitted incremental facility term loans ("Incremental Facilities") that are available subject to the satisfaction of certain conditions. SunCoke Energy also issued \$400.0 million aggregate principal amount of senior notes ("Senior Notes") that bear interest at a rate of 7.625 percent per annum and will mature in 2019 with all principal paid at maturity.

As of September 30, 2013, there was \$45.0 million of capacity under the Incremental Facilities. The Credit Agreement also provides for a \$150.0 million revolving facility ("Revolving Facility") that can be used to finance capital expenditures, acquisitions, working capital needs and for other general corporate purposes. As of September 30, 2013, the Revolving Facility had letters of credit outstanding of \$2.1 million, leaving \$147.9 million available subject to the terms of the Credit Agreement.

In connection with the closing of the Partnership offering, the Partnership repaid \$225.0 million of our Term Loan and we entered into an amendment to our Credit Agreement. In conjunction with the repayment, we incurred a charge of approximately \$2.9 million, which is included in interest expense, net on the Consolidated Statement of Income, representing the write-off of unamortized debt issuance costs and original issue discount related to the portion of the Term Loan extinguished.

The amendment to our Credit Agreement, among other things, modified provisions to reflect the Partnership offering including (i) changing the definition of "Consolidated Net Income" to include cash distributions received by the Company or a Restricted Subsidiary from an Unrestricted Subsidiary that is controlled directly or indirectly by the Company when calculating "Consolidated Net Income", (ii) clarifying that obligations incurred by certain subsidiaries of the Company at or about the timing of the closing of the Partnership offering shall not be included in the definition of "Indebtedness," and (iii) permitting an allowance for investments in Middletown Coke Company, LLC and Haverhill Coke Company LLC and certain other subsidiaries of the Company. In addition, we also designated Middletown Coke Company, LLC and Haverhill Coke Company LLC as unrestricted subsidiaries. Furthermore, the term of the Credit Agreement was extended to January 2018. We incurred debt issuance costs of \$0.7 million in conjunction with this amendment which will be amortized through January 2018.

In addition, with the closing of the Partnership offering, the Partnership issued \$150.0 million of Partnership Notes. The Partnership Notes have an interest rate of 7.375 percent and mature on February 1, 2020. The Partnership may redeem some or all of the Partnership Notes prior to February 1, 2016 by paying a "make-whole" premium. The Partnership also may redeem some or all of the Partnership Notes on or after February 1, 2016 at specified redemption prices. In addition, prior to February 1, 2016, the Partnership may redeem up to 35 percent of the Partnership Notes using the proceeds of certain equity offerings. If the Partnership sells certain of its assets or experiences specific kinds of changes in control, subject to certain exceptions, the Partnership must offer to purchase the Partnership Notes. In

conjunction with the closing of the Partnership offering, the Partnership also entered into a \$100.0 million revolving credit facility with a term extending through January 2018. In conjunction with these transactions, the Partnership incurred debt issuance costs of \$5.9 million, \$0.8 million of which were immediately expensed and are included in interest expense, net on the Consolidated Statement of Income, as they were related to the portion of the issuance that was considered a modification of the existing Term Loan discussed above. Approximately \$0.6 million of these costs were paid in 2012. This credit facility was amended on August 28, 2013, increasing the total aggregate commitments from lenders to \$150.0 million and now also providing for up to \$100.0 million uncommitted incremental revolving capacity, subject to the satisfaction of certain conditions. We paid \$0.9 million in fees related to the

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credit facility amendment. The fees have been included in deferred charges and other assets in the Consolidated Balance Sheet, which will be amortized over the life of the facility. As of September 30, 2013, this credit facility had letters of credit outstanding of \$0.7 million, leaving \$149.3 million available.

11. Commitments and Contingent Liabilities

The Company is subject to indemnity agreements with current and former third-party investors of Indiana Harbor and Jewell related to certain tax benefits that they earned as limited partners. Based on the applicable statute of limitations, as well as published filings of the limited partners, the Company believes that tax audits for years 2006 and 2007, relating to tax credits of approximately \$51 million, may still be open for the limited partners and subject to examination. As of September 30, 2013, the Company has not been notified by the limited partners that any items subject to the indemnification are under examination and further believes that the potential for any claims under the indemnity agreements is remote.

SunCoke is also party to an omnibus agreement pursuant to which we will provide remarketing efforts to the Partnership upon the occurrence of certain potential adverse events under our coke sales agreements, indemnification of certain environmental costs and preferential rights for growth opportunities.

In June 2013, AK Steel experienced a blast furnace outage at their Middletown plant. Due to this outage, we agreed to manage production at our Haverhill cokemaking facility to be consistent with annual contract maximums and to temporarily scale back coke production at our Middletown facility to name plate capacity levels in the second half of 2013. Pursuant to the omnibus agreement, the Company remitted a make-whole payment to the Partnership of \$0.6 million in the third quarter 2013, which was based on lower production levels at our Middletown cokemaking facility. We recorded this payment as a capital contribution to the Partnership. The Company expects to make additional payments of approximately \$0.4 million in the fourth quarter 2013 due to the anticipated lower coke production levels at the Middletown facility. In addition, the Partnership plans to provide AK Steel extended payment terms on December 2013 coke production and pursuant to our omnibus agreement, the Company will remit to the Partnership the amounts due under normal contract terms and hold the extended-term receivables with AK Steel, resulting in a shift of approximately \$20 million in expected operating cash flow from 2013 to early 2014.

The United States Environmental Protection Agency (the "EPA") has issued Notices of Violations ("NOVs") for our Haverhill and Granite City cokemaking facilities which stem from alleged violations of our air emission operating permits for these facilities. We are working in a cooperative manner with the EPA, the Ohio Environmental Protection Agency and the Illinois Environmental Protection Agency to address the allegations, and a Consent Decree among the parties was lodged in federal court in June 2013. The settlement includes payment of a civil penalty, and we estimate our reasonably probable loss to be approximately \$2.2 million. Further, the settlement consists of capital projects to improve reliability of the energy recovery systems and enhance environmental performance at the Haverhill and Granite City facilities. As a result of discussions with the EPA, we spent approximately \$5 million related to these projects in 2012 and expect to spend approximately \$23 million in 2013. We also plan to spend an additional \$72 million in the 2014 to 2016 time frame. A portion of the proceeds from the Partnership offering is being used to fund \$67 million of the total spending on this project.

The Company has received NOVs from the EPA related to our Indiana Harbor cokemaking facility. The Company is working in a cooperative manner to address the allegations with the EPA, the Indiana Department of Environmental Management ("IDEM") and Cokenergy, Inc., an independent power producer that owns and operates an energy facility, including heat recovery equipment, a flue gas desulfurization system and a power generation plant that processes hot flue gas from our Indiana Harbor cokemaking facility to produce steam and electricity and to reduce the sulfur and particulate content of such flue gas. Settlement may require payment of a penalty for alleged past violations as well as undertaking capital projects to enhance environmental performance. In conjunction with the contract renewal with our customer, we are undertaking an estimated \$85 million refurbishment project to improve the reliability and condition of the facility. We spent \$14 million related to this project in 2012 and anticipate spending

\$58 million in 2013. We believe that the scope of the project will address items that may be required in connection with the settlement of the NOV's at our Indiana Harbor cokemaking facility. At this time, the Company cannot yet assess any future injunctive relief or potential monetary penalty and any potential future citations. The Company is unable to estimate a range of probable or reasonably possible loss.

The Southwest Ohio Air Quality Agency ("SWOAQA") also issued a NOV to our Middletown facility in November 2012. We responded to the NOV by providing a carbon injection plan requested by SWOAQA. At present, the Company cannot assess whether there will be a monetary penalty or any future citations, but we do not expect such a penalty or citations to be material to the financial position, results of operations or cash flows of the Company at September 30, 2013.

Other legal and administrative proceedings are pending or may be brought against the Company arising out of its current and past operations, including matters related to commercial and tax disputes, product liability, antitrust, employment claims, premises-liability claims, allegations of exposures of third parties to toxic substances and general environmental claims.

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Although the ultimate outcome of these claims cannot be ascertained at this time, it is reasonably possible that some portion of these claims could be resolved unfavorably to the Company. Management of the Company believes that any liability which may arise from such matters would not be material in relation to the financial position, results of operations or cash flows of the Company at September 30, 2013.

12. Restructuring

During the first quarter of 2013, we implemented a reduction in force at our Coal Mining segment. This reduction in force resulted in the termination of 52 employees eligible to receive certain payments. The Company incurred restructuring charges of \$0.9 million related to this reduction in force during the first quarter of 2013 and does not anticipate any further significant charges. At September 30, 2013, there was no liability remaining related to the restructuring.

13. Share-Based Compensation

During the nine months ended September 30, 2013, we granted share-based compensation to eligible participants under the SunCoke Energy, Inc. Long-Term Performance Enhancement Plan (“SunCoke LTPEP”).

Stock Options

We granted stock options to purchase 446,948 shares of common stock during the nine months ended September 30, 2013 with an exercise price equal to the closing price of our common stock on the date of grant. The stock options become exercisable in three equal annual installments beginning one year from the date of grant. The stock options expire 10 years from the date of grant. All awards vest immediately upon a change in control and a qualifying termination of employment as defined by the SunCoke LTPEP.

The Company calculates the value of each employee stock option, estimated on the date of grant, using the Black-Scholes option pricing model. The fair value of employee stock options granted during the nine months ended September 30, 2013 was \$6.00 using the following weighted-average assumptions:

	Nine months ended September 30, 2013	
Risk free interest rate	0.93	%
Expected term	5 years	
Volatility	44	%
Dividend yield	—	%
Weighted-average exercise price	\$16.55	

The Company uses the average implied volatility of the Dow Jones U.S. Steel index coupled with the implied volatility of the S&P 600. Since the Company does not have a direct peer group and only has a limited trading history it believes this approach provides a reasonable implied volatility.

The risk-free interest rate assumption is based on the U.S. Treasury yield curve at the date of grant for periods which approximate the expected life of the option. The dividend yield assumption is based on the Company’s future expectation of dividend payouts. The expected life of employee options represents the average contractual term adjusted by the average vesting period of each option tranche. The Company estimated a three percent forfeiture rate for these awards. This estimated forfeiture rate may be revised in subsequent periods if the actual forfeiture rate differs.

As of September 30, 2013, the Company had 2.3 million stock options outstanding excluding the stock options issued in conjunction with the award modifications discussed below. The Company recognized compensation cost of \$1.2 million and \$3.3 million for the three and nine months ended September 30, 2013, respectively, and compensation expense of \$1.0 million and \$2.9 million for the three and nine months ended September 30, 2012. As of September 30, 2013, there was \$6.1 million of total unrecognized compensation cost related to these nonvested stock options. This compensation cost is expected to be recognized over the next 1.6 years.

Restricted Stock Units

The Company issued 277,918 restricted stock units (“RSU”) for shares of the Company’s common stock during the nine months ended September 30, 2013 that vest in three annual installments beginning one year from the grant date. The

weighted-average fair value of the RSUs granted during the nine months ended September 30, 2013 of \$16.54 was based on the closing

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price of our common stock on the date of grant. The Company estimated a three percent forfeiture rate for these awards. This estimated forfeiture rate may be revised in subsequent periods if the actual forfeiture rate differs. All awards vest immediately upon a change in control and a qualifying termination of employment as defined by the SunCoke LTPEP.

As of September 30, 2013, the Company had 489,951 RSUs outstanding excluding the RSUs issued in conjunction with the award modifications discussed below. The Company recognized \$0.7 million and \$1.7 million in compensation expense during the three and nine months ended September 30, 2013, respectively, and \$0.3 million and \$1.2 million of compensation expense during the three and nine months ended September 30, 2012, respectively. As of September 30, 2013, there was \$6.1 million of total unrecognized compensation cost related to these nonvested RSUs. This compensation cost is expected to be recognized over the next 2.2 years.

Performance Share Units

The Company issued 96,073 performance share units ("PSU") for shares of the Company's common stock during the nine months ended September 30, 2013 that vest on December 31, 2015. All awards vest immediately upon a change in control and a qualifying termination of employment as defined by the SunCoke LTPEP. The weighted average fair value of the PSUs granted during the nine months ended September 30, 2013 is \$19.56 and is based on the closing price of our common stock on the date of grant as well as a Monte Carlo simulation for the portion of the award subject to a market condition. The Company estimated a three percent forfeiture rate for these awards. This estimated forfeiture rate may be revised in subsequent periods if the actual forfeiture rate differs.

The number of PSUs ultimately awarded will be adjusted based upon the following metrics: (1) 50 percent of the award will be determined by the Company's three year total shareholder return ("TSR") as compared to the TSR of the companies making up the S&P 600; and (2) 50 percent of the award will be determined by the Company's three year average pre-tax return on capital for the Company's coke business. Each portion of the award may be adjusted between zero and 200 percent of the original units granted.

As of September 30, 2013, the Company had 96,073 PSUs outstanding. The Company recognized \$0.2 million and \$0.4 million of compensation expense during the three and nine months ended September 30, 2013, respectively. As of September 30, 2013, there was \$1.5 million of total unrecognized compensation cost related to these nonvested PSUs. This compensation cost is expected to be recognized over the next 2.4 years.

Award Modifications

In connection with the Distribution, certain Sunoco common stock awards and stock options that were held by Sunoco employees, Sunoco directors and SunCoke Energy employees were modified and an anti-dilutive provision was added. In general, all Sunoco stock options held by Sunoco employees and Sunoco directors were converted into both Sunoco and SunCoke Energy stock options. Sunoco stock options held by SunCoke Energy employees were converted to SunCoke Energy stock options. All SunCoke Energy common stock issued as a result of option exercises or the vesting of common stock awards will be issued under the SunCoke LTPEP.

At the Distribution Date, 1,219,842 SunCoke Energy stock options were issued in connection with the conversion of the outstanding Sunoco stock options to Sunoco employees and directors, of which 336,781 were outstanding at September 30, 2013. The converted stock options for Sunoco employees and directors are fully vested and exercisable and any expense associated with the modification of these stock options was recognized by Sunoco. The exercise prices for these stock options range from \$4.77 to \$29.35 per share. The stock options expire 10 years from the date of the original grant. During the nine months ended September 30, 2013, 79,561 options were exercised and 325,320 options were forfeited.

At the Distribution Date, 295,854 SunCoke Energy stock options were issued in connection with the conversion of the outstanding Sunoco stock options for SunCoke Energy employees, all of which are fully vested with 282,277 outstanding and exercisable as of September 30, 2013. The exercise prices for these stock options range from \$8.93 to \$22.31 per share. The stock options expire 10 years from the date of the original grant. In the first quarter of 2012, SunCoke Energy recorded a \$0.5 million charge in connection with the award modification and the addition of an anti-dilution provision. Compensation expense related to these awards during the three and nine months ended September 30, 2013 and 2012 was not material.

At the Distribution Date, outstanding Sunoco common stock units held by SunCoke Energy employees were converted into 95,984 SunCoke Energy restricted stock units, all of which had vested as of September 30, 2013. Compensation expense related to these awards during the three and nine months ended September 30, 2013 and 2012 was not material.

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14. Share Repurchase Program

In February 2012, the Company's Board of Directors authorized the repurchase of up to 3.5 million shares of the Company's common stock over a three year period in order to counter the dilutive impact of exercised stock options and the vesting of restricted stock grants ("Repurchase Program"). During the nine months ended September 30, 2013, the Company repurchased 625,000 shares on the open-market at a cost of approximately \$10.1 million. As of September 30, 2013, the Company had approximately 2.3 million shares remaining available for repurchase under the Repurchase Program.

In addition to shares repurchased under the Repurchase Program discussed above, during the nine months ended September 30, 2013, the Company withheld shares from LTPEP participants to satisfy \$0.8 million in minimum tax withholding obligations, pursuant to the terms of our LTPEP.

15. Earnings per Share

Basic earnings per share has been computed by dividing net income by the weighted average number of shares outstanding during the period. Except where the result would be anti-dilutive, diluted earnings per share has been computed to give effect to share-based compensation awards using the treasury stock method.

The following table sets forth the reconciliation of the weighted-average number of common shares used to compute basic earnings per share ("EPS") to those used to compute diluted EPS:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
	2013	2012	2013	2012
	(Shares in millions)			
Weighted-average number of common shares outstanding-basic	69.8	70.0	69.9	70.0
Add: Effect of dilutive share-based compensation awards	0.2	0.3	0.3	0.3
Weighted-average number of shares-diluted	70.0	70.3	70.2	70.3

The potential dilutive effect of 1.9 million and 2.4 million stock options was excluded from the computation of diluted weighted-average shares outstanding for the three and nine months ended September 30, 2013 respectively, as the shares would have been anti-dilutive. The potential dilutive effect of 2.6 million stock options was excluded from the computation of diluted weighted-average shares outstanding for the three months ended and 2.5 million stock options and 0.1 million restricted stock units was excluded from the computation of diluted weighted-average shares outstanding for the nine months ended September 30, 2012, as the shares would have been anti-dilutive.

16. Supplemental Cash Flow Information

Cash flows from operations reflected cash payments for interest and income taxes as follows:

	Nine Months Ended September 30,	
	2013	2012
	(Dollars in millions)	
Interest paid	\$36.2	\$40.7
Income taxes paid	\$12.6	\$3.9

17. Supplemental Accumulated Other Comprehensive Loss Information

Changes in the balance of accumulated other comprehensive loss, by component, are presented below:

	Defined Benefit Plans	Currency Translation Adjustments	Total
	(Dollars in millions)		
At December 31, 2012	\$(6.6)	\$(1.3)	\$(7.9)
Other comprehensive loss before reclassifications	—	(13.5)	(13.5)
Amounts reclassified from accumulated other comprehensive loss	(1.5)	—	(1.5)
Net current period other comprehensive loss	(1.5)	(13.5)	(15.0)
At September 30, 2013	\$(8.1)	\$(14.8)	\$(22.9)

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The impact on net income of reclassification adjustments from accumulated other comprehensive loss were as follows:

	Three Months Ended September 30, 2013 (Dollars in millions)	Nine Months Ended September 30, 2013
Amortization of defined benefit plan items to net income:		
Prior service benefit	\$1.4	\$4.3
Actuarial loss	(0.7) (1.9
Total before taxes	0.7	2.4
Income tax expense	(0.2) (0.9
Total, net of tax	\$0.5	\$1.5

18. Fair Value Measurement

The Company measures certain financial and non-financial assets and liabilities at fair value on a recurring basis. Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of unobservable inputs.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

• Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market.

• Level 2 – inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.

• Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are measured at fair value on a recurring basis.

Foreign Currency Hedge

The Company occasionally utilizes foreign exchange derivatives to manage the risks associated with fluctuations in foreign currency exchange rates and accounts for them under ASC 815-Derivatives and Hedging, which requires all derivatives to be marked to market (fair value). The Company does not purchase or hold any derivatives for trading purposes. On November 26, 2012, the Company entered into agreements to purchase 1.845 billion Indian rupees at a weighted average rate of 56.075 with a settlement date of January 31, 2013. During the first quarter of 2013, the settlement date for these agreements was extended to March 14, 2013. Additionally, on February 21, 2013, the Company entered into agreements to purchase an additional 1.830 billion Indian rupees at a weighted average rate of 54.810 with a settlement date of March 14, 2013, at which point our India joint venture investment was fully hedged. The Company did not elect hedge accounting treatment for these foreign exchange contracts and, therefore, the changes in the fair value of the derivative are recorded in other income, net on the Consolidated Statement of Income. The fair value of the foreign exchange contract at December 31, 2012 was an asset of approximately \$0.6 million. In estimating the fair market value of the foreign exchange contract, the Company utilized published exchange rates at December 31, 2012 between the U.S. dollar and Indian rupee. The contracts were cash settled on March 14, 2013 and the net mark to market impact of the foreign exchange contract was a gain of approximately \$0.9 million for the nine months ended September 30, 2013 which was recorded in other income, net on the Consolidated Statement of Income.

Interest Rate Swaps

The Company utilizes interest rate swaps to manage the risk associated with changing interest rates and accounts for them under ASC 815—Derivatives and Hedging, which requires all derivatives to be marked to market (fair value). The Company does not purchase or hold any derivatives for trading purposes. On August 15, 2011, the Company entered into interest rate swap agreements with an aggregate notional amount of \$125.0 million. During the first quarter of

2013, we settled

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one of the interest rate swaps having a notional amount of \$25.0 million. The impact of this transaction on the financial statements was not material. The remaining agreements expire three years from the forward effective date of October 11, 2011. Under the outstanding interest rate swap agreements, the Company will pay a weighted average fixed rate of 1.3175 percent in exchange for receiving floating rate payments based on the greater of 1.0 percent or three-month LIBOR. The Company did not elect hedge accounting treatment for these interest rate swaps and, therefore, the changes in the fair value of the interest rate swap agreements are recorded in interest expense. The counterparties of the interest rate swap agreements are large financial institutions which the Company believes are of high quality creditworthiness. While the Company may be exposed to potential losses due to the credit risk of nonperformance by these counterparties, such losses are not anticipated.

The fair value of the swap agreements at September 30, 2013 was a liability of approximately \$0.4 million. The mark to market impact of the swap arrangements was a reduction in interest expense of \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2013, respectively and an increase in interest expense of zero and \$0.3 million for the three and nine months ended September 30, 2012, respectively. In estimating the fair market value of interest rate swaps, the Company utilized a present value technique which discounts future cash flows against the underlying floating rate benchmark. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty. These inputs are not observable in the market and are classified as Level 3 within the valuation hierarchy.

Non-Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Contingent consideration related to the acquisition of Harold Keene Coal Co., Inc. and affiliated companies ("HKCC") is measured at fair value and amounted to \$4.6 million at September 30, 2013. The estimated fair value is based on significant inputs that are not observable in the market, or Level 3 within the valuation hierarchy. Key assumptions at September 30, 2013 include (a) a risk-adjusted discount rate range of 1.314 percent to 8.225 percent, which reflects a credit spread adjustment for each period, and (b) production levels of HKCC operations between zero and 318 thousand tons per year. The fair value adjustments to contingent consideration decreased cost of products sold by \$0.2 million for the three and nine months ended September 30, 2013. The fair value adjustments to contingent consideration decreased cost of products sold by \$3.2 million and \$3.9 million for the three and nine months ended September 30, 2012, respectively.

Non-Financial Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). At September 30, 2013, no material fair value adjustments or fair value measurements were required for these non-financial assets or liabilities.

Certain Financial Assets and Liabilities not Measured at Fair Value

At September 30, 2013, the estimated fair value of the Company's debt was estimated to be \$682.6 million, compared to a carrying amount of \$649.1 million, which was net of original issue discount and mandatory pre-payments made since issuance. The fair value was estimated by management based upon estimates of debt pricing provided by financial institutions and are considered Level 3 inputs.

19. Business Segment Information

The Company is an independent owner and operator of five cokemaking facilities in the eastern and midwestern regions of the United States. The Company is also the operator of a cokemaking facility for a project company in Brazil in which it has a preferred stock investment and is a 49 percent joint venture partner in a cokemaking operation in India. In addition to its cokemaking operations, the Company has metallurgical coal mining operations in the eastern United States as well as coal handling and blending operations in the midwest.

The Domestic Coke segment includes the Jewell, Indiana Harbor, Haverhill, Granite City and Middletown cokemaking facilities. Each of these facilities produces coke and all facilities except Jewell recover waste heat which is converted to steam or electricity through a similar production process. The coke production for these facilities is sold directly to integrated steel producers under contracts which provide for the pass-through of coal costs subject to contractual coal-to-coke yields plus an operating cost component and fixed fee component received for each ton of coke sold.

Prior to 2011, the results of our Jewell cokemaking facility were not comparable to our other domestic cokemaking facilities due to a difference in pricing for the coal component of coke price. Beginning in January 2011, the coal component of coke price in the Jewell Coke sales agreement was changed, and as a result the economic characteristics of Jewell became similar to the Company's other domestic cokemaking facilities. Prior to 2013, the Company elected to continue to report Jewell separately due to the differences in comparability of Jewell's results caused by different coal pricing terms in pre 2011 periods versus post 2011 periods. Beginning in January 2013, Jewell has been reflected within the Domestic Coke segment as

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there is now consistency in Jewell's contract terms between all periods presented. Prior periods have been restated to reflect this change.

On March 18, 2013, we completed the transaction to form a cokemaking joint venture called VISA SunCoke with VISA Steel. VISA SunCoke is comprised of a 440 thousand ton heat recovery cokemaking facility and the facility's associated steam generation units in Odisha, India. We own a 49 percent interest in VISA SunCoke and account for this investment under the equity method. We recognize our share of earnings in VISA SunCoke on a one-month lag and began recognizing such earnings in the second quarter of 2013. The results of our joint venture are presented below in the India Coke segment.

With the addition of VISA SunCoke, our operations in Brazil are no longer our only foreign coke operations and have been renamed the Brazil Coke segment. The Brazil Coke segment operates a cokemaking facility located in Vitória, Brazil for a project company. The Brazil Coke segment earns income from the Brazilian facility through (1) licensing and operating fees payable to us under long-term contracts with the local project company that will run through 2023, subject, in the case of the licensing agreement, to the issuance prior to 2014 of certain patents in Brazil that have been granted in the United States and (2) an annual preferred dividend on our preferred stock investment from the project company guaranteed by the Brazil subsidiary of ArcelorMittal.

The Company's Coal Mining segment conducts coal mining operations near the Company's Jewell cokemaking facility with mines located in Virginia and West Virginia. Currently, a substantial portion of the coal production is sold to the Jewell cokemaking facility for conversion into coke. Some coal is also sold to other cokemaking facilities within the Domestic Coke segment. Intersegment coal revenues for sales to the Domestic Coke segment are reflective of the contract price that the facilities within the Domestic Coke segment charge their customers, which approximate the market prices for this quality of metallurgical coal.

On August 30, 2013, the Partnership completed its acquisition of Lake Terminal. Located in East Chicago, Indiana, Lake Terminal has and will provide coal handling and blending services to our Indiana Harbor cokemaking operations. The results of Lake Terminal are presented in the new Coal Logistics segment below.

Overhead expenses that can be identified with a segment have been included in determining segment results. The remainder is included in Corporate and Other. Interest expense, net is also excluded from segment results. Segment assets are those assets that are utilized within a specific segment.

The following table includes Adjusted EBITDA, which is the measure of segment profit or loss reported to the chief operating decision maker for purposes of allocating resources to the segments and assessing their performance:

	Three Months Ended September 30, 2013						
	(Dollars in millions)						
	Domestic Coke	Brazil Coke	India Coke	Coal Mining	Coal Logistics	Corporate and Other	Consolidated
Sales and other operating revenue	\$364.8	\$8.2	\$—	\$16.8	\$0.1	\$—	\$389.9
Intersegment sales	\$—	\$—	\$—	\$35.7	\$1.0	\$—	\$—
Adjusted EBITDA	\$64.3	\$1.5	\$(2.1)	\$(2.6)	\$0.7	\$(11.1)	\$50.7
Loss from equity method investment	\$—	\$—	\$2.3	\$—	\$—	\$—	\$2.3
Depreciation, depletion and amortization	\$16.8	\$0.1	\$—	\$5.6	\$0.2	\$0.5	\$