

SunCoke Energy, Inc.  
Form 10-Q  
October 28, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended September 30, 2014

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

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SUNCOKE ENERGY, INC.

(Exact name of registrant as specified in its charter)

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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)

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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 ☐

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

As of October 24, 2014, there were 66,217,462 shares of the Registrant's \$0.01 par value Common Stock outstanding.



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## PART I – FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

## SunCoke Energy, Inc.

## Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30, 2014		2013		Nine Months Ended September 30, 2014		2013	
	(Dollars and shares in millions, except per share amounts)							
Revenues								
Sales and other operating revenue	\$367.5		\$373.1		\$1,083.2		\$1,194.8	
Other income	0.1		0.3		1.3		2.7	
Total revenues	367.6		373.4		1,084.5		1,197.5	
Costs and operating expenses								
Cost of products sold and operating expenses	280.6		299.7		858.9		981.0	
Selling, general and administrative expenses	18.7		23.1		60.4		63.9	
Depreciation and amortization expense	22.5		18.8		70.9		57.5	
Asset impairment	—		—		15.1		—	
Total costs and operating expenses	321.8		341.6		1,005.3		1,102.4	
Operating income	45.8		31.8		79.2		95.1	
Interest expense, net	11.9		12.1		51.1		40.0	
Income before income tax expense and loss from equity method investment	33.9		19.7		28.1		55.1	
Income tax expense	7.5		1.5		5.0		10.0	
Loss from equity method investment	1.5		2.3		3.0		2.5	
Income from continuing operations	24.9		15.9		20.1		42.6	
Loss from discontinued operations, net of income tax benefit of \$1.4 million, \$0.9 million, \$53.9 million and \$3.5 million, respectively	(18.5	)	(3.6	)	(66.1	)	(11.2	)
Net income (loss)	6.4		12.3		(46.0	)	31.4	
Less: Net income attributable to noncontrolling interests	10.0		6.1		14.6		17.4	
Net (loss) income attributable to SunCoke Energy, Inc.	\$(3.6	)	\$6.2		\$(60.6	)	\$14.0	
Earnings (loss) attributable to SunCoke Energy, Inc. per common share:								
Basic								
Continuing operations	\$0.21		\$0.14		\$0.08		\$0.36	
Discontinued operations	\$(0.27	)	\$(0.05	)	\$(0.95	)	\$(0.16	)
Diluted								
Continuing operations	\$0.21		\$0.14		\$0.08		\$0.36	
Discontinued operations	\$(0.26	)	\$(0.05	)	\$(0.94	)	\$(0.16	)
Weighted average number of common shares outstanding:								
Basic	69.4		69.8		69.5		69.9	
Diluted	70.4		70.0		70.4		70.2	
(See Accompanying Notes)								

(See Accompanying Notes)

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SunCoke Energy, Inc.

Consolidated Statements of Comprehensive Income/(Loss)  
(Unaudited)

	Three Months Ended September 30, 2014		2013		Nine Months Ended September 30, 2014		2013	

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Consolidated Balance Sheets

	September 30, 2014 (Unaudited)	December 31, 2013
	(Dollars in millions, except per share amounts)	
Assets		
Cash and cash equivalents	\$ 114.8	\$ 233.6
Receivables	64.0	85.3
Inventories	139.2	125.7
Income tax receivable	3.2	6.6
Deferred income taxes	12.6	12.6
Other current assets	4.4	2.3
Current assets held for sale	53.6	15.8
Total current assets	391.8	481.9
Investment in Brazilian cokemaking operations	41.0	41.0
Equity method investment in VISA SunCoke Limited	55.6	56.8
Properties, plants and equipment, net	1,475.9	1,458.9
Goodwill and other intangible assets, net	18.7	19.4
Deferred charges and other assets	42.8	39.8
Long-term assets held for sale	—	146.1
Total assets	\$ 2,025.8	\$ 2,243.9
Liabilities and Equity		
Accounts payable	\$ 105.3	\$ 138.4
Accrued liabilities	42.9	59.5
Short-term debt, including current portion of long-term debt	—	41.0
Interest payable	8.0	18.2
Current liabilities held for sale	28.2	25.9
Total current liabilities	184.4	283.0
Long-term debt	652.0	648.1
Accrual for black lung benefits	32.0	32.4
Retirement benefit liabilities	34.3	34.8
Deferred income taxes	317.4	376.6
Asset retirement obligations	12.2	11.3
Other deferred credits and liabilities	16.0	14.4
Long-term liabilities held for sale	—	11.0
Total liabilities	1,248.3	1,411.6
Equity		
Preferred stock, \$0.01 par value. Authorized 50,000,000 shares; no issued and outstanding shares at September 30, 2014 and December 31, 2013	—	—
Common stock, \$0.01 par value. Authorized 300,000,000 shares; issued and outstanding 69,434,769 and 69,636,785 shares at September 30, 2014 and December 31, 2013, respectively	0.7	0.7
Treasury stock 1,755,355 shares at September 30, 2014 and 1,255,355 at December 31, 2013	(30.0)	(19.9)
Additional paid-in capital	465.4	446.9
Accumulated other comprehensive loss	(14.7)	(14.1)
Retained earnings	83.2	143.8

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Total SunCoke Energy, Inc. stockholders' equity	504.6	557.4
Noncontrolling interests	272.9	274.9
Total equity	777.5	832.3
Total liabilities and equity	\$2,025.8	\$ 2,243.9
(See Accompanying Notes)		

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SunCoke Energy, Inc.  
Consolidated Statements of Cash Flows  
(Unaudited)

	Nine Months Ended September 30, 2014		2013
	(Dollars in millions)		
Cash Flows from Continuing Operating Activities:			
Net (loss) income	\$(46.0	)	\$31.4
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Loss on discontinued operations, net of tax	66.1		11.2
Asset impairment	15.1		—
Depreciation and amortization expense	70.9		57.5
Deferred income tax (benefit) expense	(4.1	)	5.2
Payments in excess of expense for retirement plans	(0.7	)	(1.6
Share-based compensation expense	7.6		5.5
Excess tax benefit from share-based awards	(0.3	)	—
Loss from equity method investment	3.0		2.5
Loss on extinguishment of debt	15.4		—
Changes in working capital pertaining to operating activities:			
Receivables	21.3		7.6
Inventories	(13.5	)	29.9
Accounts payable	(33.1	)	(2.2
Accrued liabilities	(16.6	)	(28.9
Interest payable	(10.2	)	(7.9
Income taxes	3.7		(7.2
Other	(4.5	)	(2.2
Net cash provided by continuing operating activities	74.1		100.8
Cash Flows from Continuing Investing Activities:			
Capital expenditures	(102.5	)	(87.2
Acquisition of business	—		(28.6
Equity method investment in VISA SunCoke Limited	—		(67.7
Net cash used in continuing investing activities	(102.5	)	(183.5
Cash Flows from Continuing Financing Activities:			
Net proceeds from issuance of SunCoke Energy Partners, L.P. units	90.5		237.8
Proceeds from issuance of long-term debt	268.1		150.0
Repayment of long-term debt	(276.5	)	(225.0
Debt issuance costs	(5.8	)	(6.9
Proceeds from revolving facility	40.0		—
Repayment of revolving facility	(80.0	)	—
Cash distribution to noncontrolling interests	(23.4	)	(12.0
Shares repurchased	(85.1	)	(10.9
Proceeds from exercise of stock options	1.9		0.9
Excess tax benefit from share-based awards	0.3		—
Net cash (used in) provided by continuing financing activities	(70.0	)	133.9
Net (decrease) increase in cash and cash equivalents from continuing operations	(98.4	)	51.2
Cash Flows from Discontinued Operations:			
Cash flows from discontinued operations - operating activities	(15.7	)	(13.2



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Cash flows from discontinued operations - investing activities	(4.7	) (8.4	)
Net decrease in cash and cash equivalents from discontinued operations	(20.4	) (21.6	)
Net (decrease) increase in cash and cash equivalents	(118.8	) 29.6	
Cash and cash equivalents at beginning of period	233.6	239.2	
Cash and cash equivalents at end of period	\$ 114.8	\$ 268.8	
(See Accompanying Notes)			

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SunCoke Energy, Inc.  
Consolidated Statements of Equity  
(Unaudited)

	Common Stock		Treasury Stock		Additional	Accumulated	Retained	Total	Noncontrol	Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Other Comprehensive Loss	Earnings	SunCoke Energy, Inc. Equity	Interests	Equity
	(Dollars in millions)									
At December 31, 2013	69,636,785	\$ 0.7	1,255,355	\$(19.9)	\$ 446.9	\$ (14.1 )	\$ 143.8	\$ 557.4	\$ 274.9	\$ 832.3
Net (loss) income	—	—	—	—	—	—	(60.6 )	(60.6 )	14.6	(46.0 )
Reclassifications of prior service benefit and actuarial loss amortization to earnings (net of related tax benefit of \$1.2 million)	—	—	—	—	—	(1.9 )	—	(1.9 )	—	(1.9 )
Currency translation adjustment	—	—	—	—	—	1.3	—	1.3	—	1.3
Net proceeds from issuance of SunCoke Energy Partners, L.P. units	—	—	—	—	—	—	—	—	90.5	90.5
Adjustments from changes in ownership of SunCoke Energy Partners, L.P.	—	—	—	—	83.7	—	—	83.7	(83.7 )	—
Cash distribution to noncontrolling interests	—	—	—	—	—	—	—	—	(23.4 )	(23.4 )
Share-based compensation expense	—	—	—	—	7.6	—	—	7.6	—	7.6
Excess tax benefit from share-based awards	—	—	—	—	0.3	—	—	0.3	—	0.3
Share issuances, net of shares withheld for taxes	297,984	—	—	—	1.9	—	—	1.9	—	1.9
Shares repurchased (500,000 )	—	—	500,000	(10.1 )	(75.0 )	—	—	(85.1 )	—	(85.1 )
At September 30, 2014	69,434,769	\$ 0.7	1,755,355	\$(30.0)	\$ 465.4	\$ (14.7 )	\$ 83.2	\$ 504.6	\$ 272.9	\$ 777.5

(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 United States ("U.S.") and operator of a cokemaking facility in Brazil, in which we have a preferred stock investment. In March 2013, we formed a cokemaking joint venture in India called Visa SunCoke Limited ("VISA SunCoke"). In the second half of 2013, we acquired Lakeshore Coal Handling Corporation ("Lake Terminal") and Kanawha River Terminals ("KRT"), which provide coal handling and blending services. Additionally, we own and operate coal mining operations in Virginia and West Virginia, which are reflected as discontinued operations in the Company's consolidated financial statements. See Note 2. We report our business through four segments: Domestic Coke, Brazil Coke, India Coke and Coal Logistics.

Our consolidated financial statements include SunCoke Energy Partners, L.P. (the "Partnership"), a publicly-traded partnership. We completed the initial public offering of the Partnership on January 24, 2013. At September 30, 2014, we owned the general partner of the partnership, which consists of a 2.0 percent ownership interest and incentive distribution rights, and owned a 54.0 percent limited partner interest in the Partnership. The remaining 44.0 percent interest in the Partnership was held by public unitholders.

We were formed as a wholly-owned subsidiary of Sunoco, Inc. ("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. On January 17, 2012 (the "Distribution Date"), we became an independent, publicly-traded company following our separation from Sunoco (the "Distribution").

#### Basis of Presentation

The accompanying unaudited consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") for interim reporting. Certain information and disclosures normally included in financial statements have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In management's opinion, the financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. The results of operations for the period ended September 30, 2014 are not necessarily indicative of the operating results expected for the entire year. These unaudited interim consolidated financial statements should be read in conjunction with the audited combined and consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

The results for our coal mining operations have been classified as discontinued operations for all periods presented. See Note 2. Unless otherwise specified, the information in the notes to the consolidated financial statements relates to our continuing operations.

#### Reclassifications

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current year presentation.

#### New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which provides guidance for revenue recognition. Under this ASU, an entity is required to recognize revenue upon transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently reviewing the provisions of ASU 2014-09 but does not expect it to have a material effect on the Company's financial condition, results of operations, and cash flows.

In April 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This ASU is effective for annual periods beginning on or after December 15, 2014 with early adoption permitted.

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The application of this guidance is prospective from the date of adoption and applies only to disposals (or new classifications to held for sale) that have not been reported as discontinued operations in previously issued financial statements. The Company early adopted this ASU during the third quarter of 2014. See Note 2.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern". This ASU is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. It is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company does not expect it to have a material effect on the Company's financial condition, results of operations, and cash flows.

### Labor Concentrations

The labor agreement at our Granite City cokemaking facility expired on August 31, 2014. A new labor agreement was ratified and is effective through August 31, 2017.

### 2. Coal Impairment Charges and Discontinued Operations

During the second quarter of 2014, as part of the Company's strategic evaluation of the coal mining business and realignment of the Company's businesses and priorities, the Company solicited bids related to the potential sale of its coal mining operations. Due to the level of interest observed in the market, the Company concluded that it was more-likely-than-not that the assets would be sold, but at that time the asset group did not yet meet the criteria to be classified as held for sale. Due to the probable disposition of the assets as well as projected losses resulting from the weakening coal market, the Company evaluated the recoverability of its long-lived asset group.

In the second quarter of 2014, the Company performed a probability-weighted undiscounted cash flows analysis which indicated that the carrying value of the asset group was not recoverable. As such, the Company reduced the carrying value of the long-lived assets to their estimated fair value and recorded a pre-tax impairment charge of \$97.1 million. The fair value was determined based on estimated discounted cash flows from the coal mining assets, which reflected the weakness in the coal market and were considered Level 3 inputs in the fair value hierarchy. Key assumptions included (a) coal sales prices of \$97 per ton to \$149 per ton; (b) sales volumes of 1.6 million tons to 1.8 million tons; and (c) a 14.0 percent discount rate representing the estimated weighted average cost of capital. Various third party indicative offers for the assets were considered and were also included in the Company's assessment of the fair value of the asset group. In previous analyses, based upon the business plan and market expectations of coal prices at that time, the carrying value was recoverable and was substantially in excess of the undiscounted cash flows.

Recent changes in market conditions, specifically decreased coal sales price expectations, were included in our asset impairment analysis.

As a result of the probable sale of the business, the weakening coal market and the long-lived asset impairment discussed above, the Company also performed a goodwill impairment analysis as of June 30, 2014 for the coal mining reporting unit. This analysis concluded the fair value of the reporting unit, based on a discounted cash flows analysis, was less than the carrying amount. As a result, the Company recorded a \$6.0 million pre-tax impairment of the entire goodwill balance.

On July 17, 2014, the Company's Board of Directors authorized the Company to sell and/or otherwise dispose of the Company's coal mining business. The Company expects that the sale and/or other disposition of the Company's coal mining business will occur in 2014. In conjunction with the expected sale of the coal mining business, the Company plans to enter into a long-term coal supply agreement with the buyer and may also agree to build and operate a coal preparation plant.

Concurrent with this authorization, the coal mining operations are reflected as discontinued operations and the related net assets are presented as held for sale in the Company's consolidated financial statements. Certain legacy coal mining assets (i.e. coal preparation plant and net pension assets) and liabilities (i.e. black lung, workers' compensation and other postretirement employee benefit obligations) are expected to be retained by the Company and are not part of the disposal group. These legacy assets and liabilities and related legacy costs are reported in Corporate and Other in continuing operations. The Company's coal mining business was previously reported in the Coal Mining reportable segment. The coal mining net assets and results of operations for all periods presented have been reclassified to reflect discontinued operations and held for sale presentation.

In the third quarter of 2014, the Company adjusted the carrying value of the held for sale net assets to fair value less costs to sell which resulted in a \$16.4 million pre-tax impairment charge and related valuation allowance against the held for sale net assets. The valuation impairment charge of \$16.4 million and related \$6.4 million tax benefit were recorded in loss from discontinued operations, net of tax on the Consolidated Statement of Operations. This charge was in addition to the \$88.0 million asset and goodwill impairment and related \$44.5 million tax benefit recorded during the second quarter of 2014 related to coal assets now classified as held for sale. The remaining impairment charge recorded during the second quarter of 2014 on assets expected to be retained of \$15.1 million remains included in asset impairment with a corresponding tax benefit of \$7.6

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million included in income tax expense on the Consolidated Statement of Operations and were included in income from continuing operations.

The Company currently estimates that it will incur total pre-tax exit and disposal costs during the fourth quarter in the range of \$10 million to \$15 million, of which \$10 million to \$14 million are anticipated to result in cash expenditures, including employee separation and retention costs for certain key management employees of approximately \$1 million to \$2 million and contract termination and other exit and disposal costs of approximately \$9 million to \$13 million.

The Company has recorded \$0.6 million of these exit and disposal costs to date in loss from discontinued operations, net of income tax benefit on the Consolidated Statement of Operations. The Company expects to record the remaining costs during the fourth quarter of 2014. The foregoing are estimates only and total actual costs relating to these actions will be recorded when the Company has finalized the sale/disposition plan.

In the event that a sale of the coal business does not occur, the Company will evaluate the various restructuring options to rationalize coal production over the near term and/or potentially cease coal production. At this time, the Company is unable in good faith to make a determination of an estimate with respect to the charges related to such potential actions. Any such charges could result in future cash expenditures.

Summarized below is the major financial information of our coal business presented as held for sale on our Consolidated Balance Sheet:

	September 30, 2014 (Unaudited)	December 31, 2013
	(Dollars in millions)	
Assets		
Receivables	\$5.4	\$6.2
Inventories	12.9	9.6
Properties, plants and equipment, net	29.3	—
Lease and mineral rights, net	18.6	—
Other current assets	3.8	—
Valuation allowance	(16.4	) —
Total current assets held for sale	53.6	15.8
Properties, plants and equipment, net	—	85.2
Lease and mineral rights, net	—	52.8
Goodwill and other intangible assets, net	—	6.0
Other assets	—	2.1
Total assets held for sale	\$53.6	\$161.9
Liabilities		
Accounts payable	\$11.4	\$15.9
Accrued liabilities	10.3	10.0
Asset retirement obligations	6.5	—
Total current liabilities held for sale	28.2	25.9
Asset retirement obligations	—	6.5
Other deferred credits and liabilities	—	4.5
Total liabilities held for sale	\$28.2	\$36.9



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Summarized below is the major financial information of our coal business presented as discontinued operations in our Consolidated Statements of Operations:

	Three Months Ended September 30, (Dollars in millions)		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues				
Total revenues	\$9.4	\$17.0	\$24.3	\$50.5
Costs and operating expenses				
Cost of products sold and operating expenses	12.0	16.8	27.8	50.2
Selling, general and administrative expenses	0.6	0.2	2.5	2.0
Depreciation, depletion and amortization	0.3	4.5	9.6	13.0
Asset and goodwill impairment	16.4	—	104.4	—
Pre-tax loss from discontinued operations	(19.9	) (4.5	) (120.0	) (14.7
Income tax benefit	1.4	0.9	53.9	3.5
Loss from discontinued operations, net of tax	\$(18.5	) \$(3.6	) \$(66.1	) \$(11.2

### 3. Drop-Down Transaction

On May 9, 2014, SunCoke Energy contributed an additional 33.0 percent interest in the Haverhill and Middletown cokemaking facilities to the Partnership for total consideration of \$365.0 million (the "Drop-Down"). After the Drop-Down, SunCoke Energy continued to own the general partner of the Partnership, which consisted of a 2.0 percent ownership interest and incentive distribution rights, and decreased its limited partner interest in the Partnership from 55.9 percent to 54.1 percent. The remaining 43.9 percent interest in the Partnership was held by public unitholders and was reflected as a noncontrolling interest in the consolidated financial statements. We accounted for the Drop-Down as an equity transaction, which resulted in a decrease in noncontrolling interest and an increase in SunCoke's Equity of \$83.7 million.

Total consideration received for the Drop-Down included 2.7 million common units totaling \$80.0 million and \$3.3 million of general partner interests. In addition, the Partnership assumed and repaid approximately \$271.3 million of our outstanding debt and other liabilities, including a market premium of \$11.4 million to complete the tender of the senior unsecured notes. The remaining \$10.4 million of consideration consisted of a \$3.4 million cash payment from the Partnership as well as \$7.0 million withheld by the Partnership to pre-fund our obligation to the Partnership for the anticipated cost of the environmental remediation project at Haverhill.

In conjunction with the Drop-Down, the Partnership issued 3.2 million common units to the public for \$88.7 million of net proceeds, which was completed on April 30, 2014, and received approximately \$263.1 million of gross proceeds from the issuance of \$250.0 million aggregate principal amount of 7.375 percent senior notes due 2020 through a private placement on May 9, 2014. In addition, the Partnership received \$5.0 million to fund interest from February 1, 2014 to May 9, 2014, the period prior to the issuance. This interest was paid to noteholders on August 1, 2014. See Note 7.

The table below summarizes the effects of the changes in the Company's ownership interest in Haverhill and Middletown on SunCoke's equity.

	Three months ended September 30, 2014 (Dollars in millions)	Nine months ended
Net loss attributable to SunCoke Energy, Inc.	\$(3.6	) \$(60.6
Change in SunCoke Energy, Inc. equity for the contribution of 33.0 percent interest in Haverhill and Middletown	—	83.7
Change from net income attributable to SunCoke Energy, Inc. and transfers from noncontrolling interest	\$(3.6	) \$23.1



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## 4. Inventories

The components of inventories were as follows:

	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Coke	\$12.0	\$11.8
Coal	93.4	81.2
Materials, supplies and other	33.8	32.7
Total inventories	\$139.2	\$125.7

## 5. Income Taxes

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. 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.

As of December 31, 2013, SunCoke Energy estimated that all tax benefits were settled under the provisions of the tax sharing agreement. SunCoke Energy will continue to monitor the full utilization of all tax attributes when the respective tax returns are filed and will, consistent with the terms of the tax sharing agreement, record additional adjustments through earnings when necessary.

SunCoke Energy also agreed to certain restrictions intended to preserve the tax-free status of the contribution and the Distribution. These covenants included 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. These key restrictions expired on January 18, 2014.

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 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.

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

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terms 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 effective tax rate from continuing operations was 22.1 percent for the three months ended September 30, 2014 and 17.8 percent for the nine months ended September 30, 2014, primarily due to income tax benefits related to tax credits and by the impact of earnings attributable to noncontrolling interests in partnership. The nine months ended September 30, 2014 includes an income tax benefit of \$2.0 million related to the enacted reduction in Indiana statutory tax rate.

The Company's effective tax rate from continuing operations was 7.6 percent for the three months ended September 30, 2013 and 18.1 percent for the nine months ended September 30, 2013, primarily due to the impact of earnings that are attributable to noncontrolling ownership interests in partnerships and nonconventional fuel credits. The income tax provision for the nine months ended September 30, 2013 also includes income tax expense of \$0.4 million related to prior period adjustments associated with local income taxes due for the Company's Middletown operations, \$0.9 million favorable provision-to-return adjustments as a result of filing our 2012 federal income taxes return, and \$1.1 million of additional valuation allowances associated with state and local taxes.

The Company has not recorded income taxes on the undistributed earnings of our India joint venture because such earnings are intended to be reinvested indefinitely to finance foreign activities. These additional foreign earnings could be subject to additional tax if remitted, or deemed remitted, as a dividend. At September 30, 2014, our VISA SunCoke joint venture had a cumulative loss on unconsolidated earnings.

#### 6. Accrued Liabilities

Accrued liabilities consisted of the following:

	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Accrued sales discounts <sup>(1)</sup>	\$—	\$13.6
Accrued benefits	15.3	21.5
Other taxes payable	11.9	9.8
Other	15.7	14.6
Total accrued liabilities	\$42.9	\$59.5

(1) At December 31, 2013, we had \$13.6 million accrued related to sales discounts payable to our customer at our Granite City facility. During the first quarter of 2014, we settled this obligation for \$13.1 million, which resulted in a gain of \$0.5 million. This gain was recorded in sales and other operating revenue on our Consolidated Statement of Operations.

#### 7. Debt

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

	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Term loans, bearing interest at variable rates, due 2018, net of original issue discount of \$1.0 million at December 31, 2013 ("Term Loan")	\$—	\$99.1
Revolving credit facility, due 2019 ("Partnership Revolver")	—	40.0
7.625% Notes, due 2019 ("Notes")	240.0	400.0
7.375% senior notes, due 2020 ("Partnership Notes"), including original issue premium of \$12.0 million at September 30, 2014	412.0	150.0
Total debt	\$652.0	\$689.1
Less: short-term debt, including current portion of long-term debt	—	41.0
Total long-term debt	\$652.0	\$648.1

Under the Company's credit agreement dated July 26, 2011, as amended ("Credit Agreement"), the Company has a \$150.0 million revolving credit facility ("Revolving Facility"). At September 30, 2014, the Revolving Facility had letters of credit outstanding of \$1.5 million, leaving \$148.5 million available.

On May 9, 2014, in connection with the Drop-Down, the Partnership issued \$250.0 million Partnership Notes. The Partnership Notes bear interest at a rate of 7.375 percent per annum and will mature on February 1, 2020. Interest is payable semi-annually in cash in arrears on February 1 and August 1 of each year. Proceeds of \$263.1 million included an original issue premium of \$13.1 million. In addition, the Partnership received \$5.0 million to fund interest from February 1, 2014 to May 9, 2014, the period prior to the issuance. This interest was paid to noteholders on August 1, 2014. The Partnership incurred debt issuance costs of \$4.9 million, of which \$0.9 million was considered a modification of debt and was immediately expensed and recorded in interest expense, net in the Consolidated Statement of Operations and was included in other operating cash flows in the Consolidated Statement of Cash Flows. Furthermore, in connection with the Drop-Down, the Partnership assumed from SunCoke and repaid \$99.9 million of Term Loan and \$160.0 million of Notes. The Partnership also paid a market premium of \$11.4 million to complete the tender of the Notes, which was included in interest expense, net in the Consolidated Statement of Operations. Debt extinguishment costs, including unamortized debt issuance costs and original issue discount, of \$3.1 million were immediately expensed and recorded in interest expense, net in the Consolidated Statement of Operations.

Also, in connection with the Drop-Down, the Partnership repaid \$40.0 million on the Partnership Revolver and amended the Partnership Revolver to include (i) an increase in the total aggregate commitments from lenders from \$150.0 million to \$250.0 million and (ii) an extension of the maturity date from January 2018 to May 2019. The Partnership paid \$1.8 million in fees related to the Partnership Revolver amendment, which are included in deferred charges and other assets in the Consolidated Balance Sheet. At September 30, 2014, the Partnership Revolver had letters of credit outstanding of \$0.7 million, leaving \$249.3 million available.

The Company and the Partnership are subject to certain debt covenants that, among other things, limit the Company's and Partnership's ability and the ability of certain of the Company's and the Partnership's subsidiaries to (i) incur indebtedness, (ii) pay dividends or make other distributions, (iii) prepay, redeem or repurchase certain debt, (iv) make loans and investments, (v) sell assets, (vi) incur liens, (vii) enter into transactions with affiliates and (viii) consolidate or merge. These covenants are subject to a number of exceptions and qualifications set forth in the respective agreements. Additionally, under the terms of the Credit Agreement, the Company is subject to a maximum consolidated leverage ratio of 3.75 to 1.00, calculated by dividing total debt by EBITDA as defined by the Credit Agreement, and a minimum consolidated interest coverage ratio of 2.75 to 1.00, calculated by dividing EBITDA by interest expense as defined by the Credit Agreement. Under the terms of the Partnership Revolver, the Partnership is subject to a maximum consolidated leverage ratio of 4.00 to 1.00, calculated by dividing total debt by EBITDA as defined by the Partnership Revolver, and a minimum consolidated interest coverage ratio of 2.50 to 1.00, calculated by dividing EBITDA by interest expense as defined by the Partnership Revolver. At September 30, 2014, the Company and the Partnership were in compliance with all applicable debt covenants contained in the Credit Agreement and the Partnership Revolver. We do not anticipate any violation of these covenants nor do we anticipate that any of these covenants will restrict our operations or our ability to obtain additional financing.

#### 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.

Effective May 30, 2014, Dominion Coal Corporation, a wholly-owned subsidiary of the Company, terminated its defined benefit plan, a plan that was previously offered to generally all full-time employees of Dominion Coal Corporation. Distribution of plan assets resulting from the defined benefit plan termination will not be made until the

Internal Revenue Service and Pension Benefit Guarantee Corporation determines that the termination satisfies the regulatory requirements, which is expected to occur in 2015, at which time settlement accounting will also occur. As a result of the termination of the defined benefit plan, each participant will become fully vested in his or her benefits under the defined benefit plan without regard to age and years of service. Participants with \$25 thousand or less of benefits owed will have the option of receiving a lump sum

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payout or an annuity in full payment of their benefits under the defined benefit plan. All other participants will receive an annuity in full payment of their benefits under the defined benefit plan.

Defined benefit plan expense consisted of the following components:

	Three Months Ended September 30, 2014		September 30, 2013		Nine Months Ended September 30, 2014		2013	



In September 2013, we reached agreement with our customer for a 10-year extension of our long-term contract at our Indiana Harbor cokemaking facility. Key provisions of the extension agreement, which took effect October 1, 2013, are

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substantially similar to the existing agreement, including continuing the pass through of coal costs, reimbursement of operating and maintenance expenses subject to certain metrics and a pricing adjustment per ton of coke produced to recognize the new capital being deployed to refurbish and upgrade this facility. We expect to earn a reasonable return on our investment, along with DTE Energy Company, the third party investor owning a 15 percent interest in the partnership (the “Indiana Harbor Partnership”). In addition, 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 Company is in discussions with ArcelorMittal to resolve claims by ArcelorMittal that certain shipments of coke did not meet coke quality targets. In the fourth quarter of 2013, the Company recorded an estimated liability of \$2.5 million for the possible reimbursement of certain freight and handling costs incurred by ArcelorMittal and for the Company’s potential legal fees and costs in connection with this matter.

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. 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, 2014.

#### 10. Restructuring

In the first quarter of 2014, we initiated a plan to reduce the workforce in our corporate office. The workforce reduction costs related to this plan were primarily part of an existing benefit arrangement; therefore, the full amount of expected severance benefits was accrued during the first quarter of 2014. We incurred total charges of \$1.4 million in Corporate and Other related to this initiative and do not expect to incur any additional charges. Payments of \$0.7 million were made during the nine months ended September 30, 2014.

#### 11. Share-Based Compensation

During the nine months ended September 30, 2014, 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 407,075 shares of common stock during the nine months ended September 30, 2014 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 weighted-average fair value of employee stock options granted during the nine months ended September 30, 2014 was \$7.86 using the following weighted-average assumptions:

	Nine months ended September 30, 2014	%
Risk free interest rate	1.57	
Expected term		