SunCoke Energy, Inc.
Form 10-Q
April 24, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019
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	90-0640593
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1011 Warrenville Road, Suite 600
Lisle, Illinois 60532
(630) 824-1000
(Registrant’s telephone number, including area code)

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. ý 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). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of April 19, 2019, there were 65,101,151 shares of the Registrant’s $0.01 par value Common Stock outstanding.

SUNCOKE ENERGY, INC.
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PART I – FINANCIAL INFORMATION

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PART I – FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements
SunCoke Energy, Inc.
Consolidated Statements of Income
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
	(Dollars and shares in millions, except per share amounts)	
Revenues		
Sales and other operating revenue	$ 391.3	$ 350.5
Costs and operating expenses		
Cost of products sold and operating expenses	307.4	270.6
Selling, general and administrative expenses	16.7	15.9
Depreciation and amortization expense	37.2	32.9
Total costs and operating expenses	361.3	319.4
Operating income	30.0	31.1
Interest expense, net	14.8	15.8
Loss on extinguishment of debt	—	0.3
Income before income tax expense	15.2	15.0
Income tax expense	3.0	2.0
Net income	12.2	13.0
Less: Net income attributable to noncontrolling interests	2.4	4.3
Net income attributable to SunCoke Energy, Inc.	$ 9.8	$ 8.7
Earnings attributable to SunCoke Energy, Inc. per common share:		
Basic	$ 0.15	$ 0.13
Diluted	$ 0.15	$ 0.13
Weighted average number of common shares outstanding:		
Basic	64.9	64.6
Diluted	65.3	65.4

(See Accompanying Notes)

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SunCoke Energy, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
	(Dollars in millions)	
Net income	$12.2	$13.0
Other comprehensive income:		
Currency translation adjustment	—	(0.1)
Comprehensive income	12.2	12.9
Less: Comprehensive income attributable to noncontrolling interests	2.4	4.3
Comprehensive income attributable to SunCoke Energy, Inc.	$9.8	$8.6

(See Accompanying Notes)

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SunCoke Energy, Inc.
Consolidated Balance Sheets

	March 31, 2019 (Unaudited)	December 31, 2018
	(Dollars in millions, except par value amounts)	
Assets		
Cash and cash equivalents	$143.9	$ 145.7
Receivables	86.3	75.4
Inventories	150.7	110.4
Income tax receivable	—	0.7
Other current assets	6.2	2.8
Total current assets	387.1	335.0
Properties, plants and equipment (net of accumulated depreciation of $866.0 million and $855.8 million at March 31, 2019 and December 31, 2018, respectively)	1,459.0	1,471.1
Goodwill	76.9	76.9
Other intangible assets, net	154.1	156.8
Deferred charges and other assets	20.2	5.5
Total assets	$2,097.3	$ 2,045.3
Liabilities and Equity		
Accounts payable	$145.7	$ 115.0
Accrued liabilities	42.3	45.6
Deferred revenue	7.5	3.0
Current portion of long-term debt and financing obligation	4.5	3.9
Interest payable	16.8	3.6
Income tax payable	1.2	—
Total current liabilities	218.0	171.1
Long-term debt and financing obligation	828.8	834.5
Accrual for black lung benefits	45.6	44.9
Retirement benefit liabilities	24.6	25.2
Deferred income taxes	254.3	254.7
Asset retirement obligations	13.2	14.6
Other deferred credits and liabilities	25.8	17.6
Total liabilities	1,410.3	1,362.6
Equity		
Preferred stock, $0.01 par value. Authorized 50,000,000 shares; no issued shares at both March 31, 2019 and December 31, 2018	—	—
Common stock, $0.01 par value. Authorized 300,000,000 shares; issued 72,578,808 and 72,233,750 shares at March 31, 2019 and December 31, 2018, respectively	0.7	0.7
Treasury stock, 7,477,657 shares at both March 31, 2019 and December 31, 2018	(140.7)	(140.7)
Additional paid-in capital	488.0	488.8
Accumulated other comprehensive loss	(13.1)	(13.1)
Retained earnings	137.2	127.4
Total SunCoke Energy, Inc. stockholders’ equity	472.1	463.1
Noncontrolling interests	214.9	219.6
Total equity	687.0	682.7
Total liabilities and equity	$2,097.3	$ 2,045.3

(See Accompanying Notes)

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

	Three Months Ended March 31, 2019	2018
	(Dollars in millions)	
Cash Flows from Operating Activities:		
Net income	$12.2	$13.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	37.2	32.9
Deferred income tax (benefit) expense	(0.4)	0.2
Payments in excess of expense for postretirement plan benefits	(0.6)	(0.6)
Share-based compensation expense	0.9	0.8
Loss on extinguishment of debt	—	0.3
Changes in working capital pertaining to operating activities:		
Receivables	(10.9)	(6.8)
Inventories	(40.3)	0.9
Accounts payable	29.9	14.0
Accrued liabilities	(4.4)	(8.7)
Deferred revenue	4.5	1.9
Interest payable	13.2	11.7
Income taxes	1.9	(0.6)
Other	(7.9)	(1.7)
Net cash provided by operating activities	35.3	57.3
Cash Flows from Investing Activities:		
Capital expenditures	(20.9)	(15.4)
Net cash used in investing activities	(20.9)	(15.4)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	—	45.0
Repayment of long-term debt	(0.3)	(44.9)
Debt issuance costs	—	(0.5)
Proceeds from revolving credit facility	60.7	53.5
Repayment of revolving credit facility	(65.7)	(53.5)
Repayment of financing obligation	(0.7)	(0.6)
Acquisition of additional interest in the Partnership	—	(3.4)
Cash distribution to noncontrolling interests	(7.1)	(10.6)
Other financing activities	(3.1)	(0.1)
Net cash used in financing activities	(16.2)	(15.1)
Net (decrease) increase in cash and cash equivalents	(1.8)	26.8
Cash and cash equivalents at beginning of period	145.7	120.2
Cash and cash equivalents at end of period	$143.9	$147.0
Supplemental Disclosure of Cash Flow Information		
Interest paid, net of capitalized interest of $1.2 million and $0.5 million, respectively	$0.9	$3.0
Income taxes paid	$1.0	$2.3

(See Accompanying Notes)

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

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total SunCoke Energy, Inc. Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount						
	(Dollars in millions)									
At December 31, 2017	72,006,905	$ 0.7	7,477,657	$ (140.7)	$ 486.2	$ (21.2)	$ 101.2	$ 426.2	$ 233.4	$ 659.6
Net income	—	—	—	—	—	—	8.7	8.7	4.3	13.0
Currency translation adjustment	—	—	—	—	—	(0.1)	—	(0.1)	—	(0.1)
Cash distribution to noncontrolling interests	—	—	—	—	—	—	—	—	(10.6)	(10.6)
Share-based compensation expense	—	—	—	—	0.8	—	—	0.8	—	0.8
Share-issuances, net of shares withheld for taxes	69,187	—	—	—	(0.1)	—	—	(0.1)	—	(0.1)
Acquisition of additional interest in the Partnership:										
Cash paid	—	—	—	—	(1.2)	—	—	(1.2)	(2.2)	(3.4)
Deferred tax adjustment	—	—	—	—	0.3	—	—	0.3	—	0.3
At March 31, 2018	72,076,092	$ 0.7	7,477,657	$ (140.7)	$ 486.0	$ (21.3)	$ 109.9	$ 434.6	$ 224.9	$ 659.5
At December 31, 2018	72,233,750	$ 0.7	7,477,657	$ (140.7)	$ 488.8	$ (13.1)	$ 127.4	$ 463.1	$ 219.6	$ 682.7
Net income	—	—	—	—	—	—	9.8	9.8	2.4	12.2
Cash distribution to noncontrolling interests	—	—	—	—	—	—	—	—	(7.1)	(7.1)
Share-based compensation expense	—	—	—	—	0.9	—	—	0.9	—	0.9
Share-issuances, net of shares withheld for taxes	345,058	—	—	—	(1.7)	—	—	(1.7)	—	(1.7)
At March 31, 2019	72,578,808	$ 0.7	7,477,657	$ (140.7)	$ 488.0	$ (13.1)	$ 137.2	$ 472.1	$ 214.9	$ 687.0

(See Accompanying Notes)

SunCoke Energy, Inc.
Notes to the Consolidated Financial Statements
1. General
Description of Business
SunCoke Energy, Inc. ("SunCoke Energy," "SunCoke," "Company," "we," "our" and "us") is the largest independent producer of high-quality coke in the Americas, as measured by tons of coke produced each year, and has over 55 years of coke production experience. Coke is a principal raw material in the blast furnace steelmaking process and is produced by heating metallurgical coal in a refractory oven, which releases certain volatile components from the coal, thus transforming the coal into coke. Additionally, we own and operate a logistics business, which primarily provides handling and/or mixing services of coal and other bulk products and liquids to third-party customers as well as to our own cokemaking facilities.
We have designed, developed, built, own and operate five cokemaking facilities in the United States ("U.S."), which consist of our Haverhill, Middletown, Granite City, Jewell and Indiana Harbor cokemaking facilities. Our cokemaking facilities have collective nameplate capacity to produce approximately 4.2 million tons of coke per year. Additionally, we have designed and operate one cokemaking facility in Brazil under licensing and operating agreements on behalf of ArcelorMittal Brasil S.A. ("ArcelorMittal Brazil"), which has approximately 1.7 million tons of annual cokemaking capacity.
Our cokemaking ovens utilize efficient, modern heat recovery technology designed to combust the coal's volatile components liberated during the cokemaking process and use the resulting heat to create steam or electricity for sale. This differs from by-product cokemaking, which repurposes the coal's liberated volatile components for other uses. We have constructed the only greenfield cokemaking facilities in the U.S. in approximately 30 years and are the only North American coke producer that utilizes heat recovery technology in the cokemaking process. We provide steam pursuant to steam supply and purchase agreements with our customers. Electricity is sold into the regional power market or pursuant to energy sales agreements.
Our logistics business provides handling and/or mixing services to steel, coke (including some of our domestic cokemaking facilities), electric utility, coal producing and other manufacturing based customers. Our logistics business consists of Convent Marine Terminal ("CMT"), Kanawha River Terminal ("KRT"), SunCoke Lake Terminal, ("Lake Terminal") and Dismal River Terminal ("DRT") and has collective capacity to mix and/or transload more than 40 million tons of coal and other aggregates annually and has total storage capacity of approximately 3 million tons.
Our consolidated financial statements include SunCoke Energy Partners, L.P. (the "Partnership"), a publicly-traded partnership, which owns 98 percent of our Haverhill, Middletown, and Granite City cokemaking facilities and 100 percent of CMT, KRT and Lake Terminal. At March 31, 2019, we owned the general partner of the Partnership, which consists of a 2.0 percent ownership interest and incentive distribution rights, and owned a 60.4 percent limited partner interest in the Partnership. At March 31, 2019, the remaining 37.6 percent interest in the Partnership was held by public unitholders. SunCoke is considered the primary beneficiary of the Partnership as it has the power to direct the activities that most significantly impact the Partnership's economic performance.
On February 5, 2019, the Company and the Partnership announced that they entered into a definitive agreement whereby SunCoke will acquire all outstanding common units of the Partnership not already owned by SunCoke in a stock-for-unit merger transaction (the "Simplification Transaction"). Pursuant to the terms of this agreement ("Merger Agreement"), the Partnership's unaffiliated common unitholders will receive 1.40 SunCoke common shares plus a fraction of a SunCoke common share, based on a formula as further described in the Merger Agreement, for each Partnership common unit. Following completion of the Simplification Transaction, the Partnership will become a wholly-owned subsidiary of SunCoke, the Partnership's common units will cease to be publicly traded and the Partnership's IDRs will be eliminated. The Company continues to expect the Simplification Transaction to close late in the second quarter of 2019 or early in the third quarter of 2019.
Incorporated in Delaware in 2010 and headquartered in Lisle, Illinois, we became a publicly-traded company in 2011 and our stock is listed on the New York Stock Exchange ("NYSE") under the symbol "SXC."
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 periods ended March 31, 2019 are not necessarily indicative of the

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operating results expected for the entire year. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)." ASU 2016-02 requires leases to be recognized as assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. Subsequently, the FASB has issued various ASUs to provide further clarification around certain aspects of Accounting Standards Codification ("ASC") 842, "Leases." We adopted the standard effective January 1, 2019 using the modified retrospective transition approach and elected not to adjust prior comparative periods. Upon adoption, the Company recognized right-of-use assets and lease liabilities of $5.1 million at January 1, 2019. See Note 8.

2. Inventories

The components of inventories were as follows:

	March 31, 2019	December 31, 2018
	(Dollars in millions)	
Coal	$98.0	$ 59.9
Coke	9.7	8.6
Materials, supplies and other	43.0	41.9
Total inventories	$150.7	$ 110.4

3. Goodwill and Other Intangible Assets

Goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, is tested for impairment as of October 1 of each year, or when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit to below its carrying value. Goodwill allocated to our Domestic Coke and Logistics segments was $3.4 million and $73.5 million at both March 31, 2019 and December 31, 2018, respectively.

The components of other intangible assets, net were as follows:

		March 31, 2019			December 31, 2018		
	Weighted - Average Remaining Amortization Years	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
		(Dollars in millions)					
Customer contracts	4	$31.7	$ 18.6	$13.1	$31.7	$ 17.7	$14.0
Customer relationships	13	28.7	8.0	20.7	28.7	7.5	21.2
Permits	23	139.0	18.7	120.3	139.0	17.4	121.6
Total		$199.4	$ 45.3	$154.1	$199.4	$ 42.6	$156.8

Total amortization expense for intangible assets subject to amortization was $2.7 million and $2.8 million for the three months ended March 31, 2019 and 2018, respectively.

4. Income Taxes

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 recorded an income tax expense of $3.0 million and $2.0 million for the three months ended March 31, 2019 and 2018, respectively, resulting in effective tax rates of 19.7 percent and 13.3 percent, respectively, as compared to the 21.0 percent federal statutory rate. The difference in the Company's effective tax rates as compared to the statutory rate in both periods was primarily the result of earnings attributable to its noncontrolling ownership interests in partnerships, which had a larger impact in the prior year period. Additionally, the effective rate for the three months ended March 31, 2019 was impacted by higher state taxes as compared to the three months ended March 31, 2018.

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5. Accrued Liabilities

Accrued liabilities consisted of the following:

	March 31, 2019	December 31, 2018
	(Dollars in millions)	
Accrued benefits	$13.9	$ 21.2
Current portion of postretirement benefit obligation	3.0	3.0
Other taxes payable	11.3	9.1
Current portion of black lung liability	4.5	4.5
Accrued legal	3.3	4.2
Other	6.3	3.6
Total accrued liabilities	$42.3	$ 45.6

6. Debt and Financing Obligation

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

	March 31, 2019	December 31, 2018
	(Dollars in millions)	
7.500 percent senior notes, due 2025 ("2025 Partnership Notes")	$700.0	$ 700.0
Term loan, due 2022 ("Term Loan")	43.6	43.9
SunCoke's revolving credit facility, due 2022 ("Revolving Facility")	—	—
Partnership's revolving credit facility, due 2022 ("Partnership Revolver")	100.0	105.0
5.82 percent financing obligation, due 2021 ("Partnership Financing Obligation")	9.4	10.1
Total borrowings	853.0	859.0
Original issue discount	(5.1)	(5.4)
Debt issuance costs	(14.6)	(15.2)
Total debt and financing obligation	833.3	838.4
Less: current portion of long-term debt and financing obligation	4.5	3.9
Total long-term debt and financing obligation	$828.8	$ 834.5

Revolving Facility

SunCoke's Revolving Facility has capacity of $100.0 million. As of March 31, 2019, the Revolving Facility had letters of credit outstanding of $23.8 million and no outstanding balance, leaving $76.2 million available.

Partnership Revolver

The Partnership Revolver has capacity of $285.0 million. As of March 31, 2019, the Partnership had no letters of credit outstanding and an outstanding balance of $100.0 million, leaving $185.0 million available.

Covenants

Under the terms of the Revolving Facility, the Company is subject to a maximum consolidated leverage ratio of 3.25:1.00 and a minimum consolidated interest coverage ratio of 2.75:1.00. Under the terms of the Partnership's credit agreement, the Partnership is subject to a maximum consolidated leverage ratio of 4.50:1.00 prior to June 30, 2020 and 4.00:1.00 after June 30, 2020 and a minimum consolidated interest coverage ratio of 2.50:1.00. The Company's and Partnership's credit agreements contain other covenants and events of default that are customary for similar agreements and may limit our ability to take various actions including our ability to pay a dividend or repurchase our stock.

If we fail to perform our obligations under these and other covenants, the lenders' credit commitment could be terminated and any outstanding borrowings, together with accrued interest, under the Revolving Facility and Partnership Revolver could be declared immediately due and payable. The Company and the Partnership have a cross default provision that applies to our indebtedness having a principal amount in excess of $35 million.

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As of March 31, 2019, the Company and the Partnership were in compliance with all applicable debt covenants. We do not anticipate a violation of these covenants nor do we anticipate that any of these covenants will restrict our operations or our ability to obtain additional financing.

7. Commitments and Contingent Liabilities

Legal Matters

SunCoke Energy is party to an omnibus agreement, pursuant to which we have agreed to indemnify the Partnership for costs and expenses related to remediation of certain identified environmental matters in existence prior to the Partnership's initial public offering on January 24, 2013 ("IPO") at the Partnership’s Haverhill and Middletown facilities and certain identified environmental matters at the Partnership's Granite City facility in existence prior to its dropdown in January of 2015 ("Granite City Dropdown"). However, under the terms of the omnibus agreement, SunCoke Energy is not obligated to indemnify the Partnership for any new environmental matters coming into existence after the IPO at the Partnership’s Haverhill and Middletown facilities, or any new environmental matters coming into existence after the Granite City Dropdown at the Partnership's Granite City facility.

The EPA issued Notices of Violations (“NOVs”) for our Haverhill and Granite City cokemaking facilities which stemmed 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 have entered into a consent decree in federal district court with these parties. The consent decree includes a $2.2 million civil penalty payment, which was paid in December 2014, as well as capital projects underway to improve the reliability of the energy recovery systems and enhance environmental performance at the Haverhill and Granite City facilities. In the third quarter of 2018, the Court entered an amendment to the consent decree, which provides the Haverhill and Granite City facilities with additional time to perform necessary maintenance on the flue gas desulfurization systems without exceeding consent decree limits. The emissions associated with this maintenance will be mitigated in accordance with the amendment, and there are no civil penalty payments associated with this amendment. The project at Granite City was due to be completed in February 2019, but the Company expects to complete the project in June 2019 and is in discussions with the government entities regarding, among other things, the timing thereof.

We anticipate spending approximately $150 million related to these projects, of which we have spent approximately $141 million to date, including $7 million spent by the Company prior to the formation of the Partnership. The remaining capital is expected to be spent through the first half of 2019. Pursuant to the omnibus agreement, the Company previously funded $139 million for these known environmental remediation projects and made capital contributions to the Partnership of $4 million during the first quarter of 2019. The Company expects to make additional capital contributions for the remaining amount to be spent on the project later in 2019.

SunCoke Energy has also received NOVs, Findings of Violations ("FOVs"), and information requests from the EPA related to our Indiana Harbor cokemaking facility, which allege violations of certain air operating permit conditions for this facility. The Clean Air Act (the "CAA") provides the EPA with the authority to issue, among other actions, an order to enforce a State Implementation Plan ("SIP") 30 days after an NOV. The CAA also authorizes EPA enforcement of other non-SIP requirements immediately after an FOV. Generally, an NOV applies to SIPs and requires the EPA to wait 30 days, while an FOV applies to all other provisions (such as federal regulations) of the CAA, and has no waiting period. The NOVs and/or FOVs were received in 2010, 2012, 2013, 2015 and 2016. After discussions with the EPA and the Indiana Department of Environmental Management (“IDEM”) in 2010, resolution of the NOVs/FOVs was postponed by mutual agreement because of ongoing discussions regarding the NOVs at Haverhill and Granite City. In January 2012, the Company began working in a cooperative manner to address the allegations with the EPA, the IDEM and Cokenergy, LLC, an independent power producer that owns and operates an energy facility, including heat recovery equipment and a flue gas desulfurization system, that processes hot flue gas from our Indiana Harbor facility to produce steam and electricity and to reduce the sulfur and particulate content of such flue gas.

The EPA, IDEM, SunCoke Energy and Cokenergy, LLC met regularly since those discussions commenced to reach a settlement of the NOVs and FOVs. Capital projects were underway during this time to address items that would be included in conjunction with a settlement. A consent decree among the parties was entered by the federal district court during the fourth quarter of 2018. The settlement includes a $2.5 million civil penalty, that was paid in the fourth quarter of 2018. Further, the settlement consists of capital projects already underway to improve reliability and environmental performance of the coke ovens at the facility.

The Company is a party to certain other pending and threatened claims, including matters related to commercial and tax disputes, product liability, employment claims, personal injury claims, premises-liability claims, allegations of exposures to toxic substances and 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

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Company believes that any liability which may arise from claims would not have a material adverse impact on our consolidated financial statements.

Black Lung Benefit Liabilities

The Company has obligations related to coal workers' pneumoconiosis, or black lung, benefits to certain of our former coal miners and their dependents. Such benefits are provided for under Title IV of the Federal Coal Mine and Safety Act of 1969 and subsequent amendments, as well as for black lung benefits provided in the states of Virginia, Kentucky and West Virginia pursuant to workers' compensation legislation. The Patient Protection and Affordable Care Act ("PPACA"), which was implemented in 2010, amended previous legislation related to coal workers' black lung obligations. PPACA provides for the automatic extension of awarded lifetime benefits to surviving spouses and changes the legal criteria used to assess and award claims. We act as a self-insurer for both state and federal black lung benefits and adjust our liability each year based upon actuarial calculations of our expected future payments for these benefits.

Our independent actuarial consultants calculate the present value of the estimated black lung liability annually based on actuarial models utilizing our population of former coal miners, historical payout patterns of both the Company and the industry, actuarial mortality rates, disability incidence, medical costs, death benefits, dependents, discount rates and the current federally mandated payout rates. The estimated liability may be impacted by future changes in the statutory mechanisms, modifications by court decisions and changes in filing patterns driven by perceptions of success by claimants and their advisors, the impact of which cannot be estimated. The estimated liability was $50.1 million and $49.4 million at March 31, 2019 and December 31, 2018, respectively, of which the current portion of $4.5 million was included in accrued liabilities on the Consolidated Balance Sheets in both periods.

8. Leases

The Company leases land, office space, equipment, railcars and locomotives. Arrangements are assessed at inception to determine if a lease exists and, with the adoption of ASC 842, "Leases," right-of-use ("ROU") assets and lease liabilities are recognized based on the present value of lease payments over the lease term. Because the Company's leases do not provide an implicit rate of return, the Company uses its incremental borrowing rate at the inception of a lease to calculate the present value of lease payments. The Company has elected to apply the short-term lease exception for all asset classes, therefore, excluding them from the balance sheet, and will recognize the lease payments in the period they are incurred. Additionally, the Company has elected to account for lease and nonlease components of an arrangement, such as assets and services, as a single lease component for all asset classes.

Certain of our long-term leases include one or more options to renew or to terminate, with renewal terms that can extend the lease term from one month to 50 years. The impact of lease renewals or terminations are included in the expected lease term to the extent the Company is reasonably certain to exercise the renewal or termination. The Company's finance leases are immaterial to our consolidated financial statements.

The components of lease expense were as follows:

	Three months ended March 31, 2019 (Dollars in millions)
Operating leases:	
Cost of products sold and operating expenses	$ 0.4
Selling, general and administrative expenses	0.1
	$ 0.5
Short-term leases:	
Cost of products sold and operating expenses(1)(2)	$ 2.3
Total lease expense	2.8

(1) Includes expenses for month-to-month equipment leases, which are classified as short-term as the Company is not reasonably certain to renew the lease term beyond one month.

(2) Includes variable lease expenses, which are immaterial to the consolidated financial statements.

Total lease expense was $2.9 million during the three months ended March 31, 2018.

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Supplemental balance sheet information related to leases was as follows:

	Financial Statement Classification	March 31, 2019 (Dollars in millions)
Operating ROU assets	Deferred charges and other assets	$ 10.9
Operating lease liabilities:		
Current operating lease liabilities	Accrued liabilities	$ 2.0
Noncurrent operating lease liabilities	Other deferred credits and liabilities	$ 8.3
Total operating lease liabilities		$ 10.3

The weighted average remaining lease term and weighted average discount rate were as follows:

	Three months ended March 31, 2019
Weighted average remaining lease term of operating leases	8.3 years
Weighted average discount rate of operating leases	5.1 %

Supplemental cash flow information related to leases was as follows:

	Three months ended March 31, 2019 (Dollars in millions)
Operating cash flow information:	
Cash paid for amounts included in the measurement of operating lease liabilities	$ 1.9
Non-cash activity:	
ROU assets obtained in exchange for new operating lease liabilities	$ 5.0

Maturities of operating lease liabilities as of March 31, 2019 are as follows:

	(Dollars in millions)
Years ending December 31:	
2019[(1)]	$ 1.8
2020	1.9
2021	1.7
2022	1.2
2023	0.9
2024-Thereafter	5.2
Total lease payments	12.7
Less: imputed interest	2.4
Total lease liabilities	$ 10.3

(1) Excluding the three months ended March 31, 2019.

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The aggregate amount of future minimum annual rental payments applicable to noncancelable leases as of December 31, 2018 were as follows:

	Minimum Rental Payments (Dollars in millions)
Year ending December 31:	
2019	$ 2.0
2020	1.1
2021	1.0
2022	0.5
2023	0.1
2024-Thereafter	0.7
Total	$ 5.4

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9. Share-Based Compensation

Equity Classified Awards

During the three months ended March 31, 2019, the Company granted share-based compensation to eligible participants under the SunCoke Energy, Inc. Long-Term Performance Enhancement Plan ("SunCoke LTPEP"). All awards vest immediately upon a change in control and a qualifying termination of employment as defined by the SunCoke LTPEP.

Stock Options

The Company granted the following stock options during the three months ended March 31, 2019 with an exercise price equal to the closing price of our common stock on the date of grant.

	Shares	Weighted Average Per Share Exercise Price	Weighted Average Per Share Grant Date Fair Value
Traditional stock options	267,897	$9.87	$4.09

The stock options vest in three equal annual installments beginning one year from the date of grant. The stock options expire ten years from the date of grant.

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 three months ended March 31, 2019 was based on using the following weighted-average assumptions:

	Three Months Ended March 31, 2019
Risk-free interest rate	2 %
Expected term	6 years
Volatility	53 %
Dividend yield	2 %

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 expected term of the employee options represent the average contractual term adjusted by the average vesting period of each option tranche. We determined expected volatility using our historical volatility calculated as our historical daily stock returns over the options' expected term. The dividend yield assumption is based on the Company's expectation of dividend payouts at the time of grant.

Restricted Stock Units Settled in Shares

The Company issued 136,425 stock-settled restricted stock units ("RSUs") to certain employees for shares of the Company's common stock during the three months ended March 31, 2019. The weighted average grant date fair value was $9.87 per share. The RSUs vest in three annual installments beginning one year from the date of grant.

Performance Share Units

The Company granted the following performance share units ("PSUs") for shares of the Company's common stock during the three months ended March 31, 2019 that vest on December 31, 2020:

	Shares	Grant Date Fair Value per

		Share
PSUs[1][2]	227,378	$10.79

(1) The PSU awards are split 50/50 between the Company's three year cumulative Adjusted EBITDA performance measure and the Company's three-year average pre-tax return on capital performance measure for its coke and logistics businesses and unallocated corporate expenses.

(2) The number of PSUs ultimately awarded will be determined by the above performance versus targets and the Company's three-year total shareholder return ("TSR") as compared to the TSR of the companies making up the Nasdaq Iron & Steel Index ("TSR Modifier"). The TSR Modifier can impact the payout between 75 percent and 125 percent of the Company's final performance measure results.

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The award may vest between zero and 250 percent of the original units granted. The fair value of the PSUs granted during the three months ended March 31, 2019 is based on the closing price of our common stock on the date of grant as well as a Monte Carlo simulation for the valuation of the TSR Modifier.

Liability Classified Awards

Restricted Stock Units Settled in Cash

During the three months ended March 31, 2019, the Company issued 129,005 restricted stock units to be settled in cash ("Cash RSUs"), which vest in three annual installments beginning one year from the grant date. The weighted average grant date fair value of the Cash RSUs granted during the three months ended March 31, 2019 was $9.87 and was based on the closing price of our common stock on the day of grant.

The Cash RSU liability is adjusted based on the closing price of our common stock at the end of each period and at both March 31, 2019 and December 31, 2018 was not material.

Cash Incentive Award

The Company also granted share-based compensation to eligible participants under the SunCoke Energy, Inc. Long-Term Cash Incentive Plan ("SunCoke LTCIP"), which became effective January 1, 2016. The SunCoke LTCIP is designed to provide for performance-based, cash-settled awards. All awards vest immediately upon a change in control and a qualifying termination of employment as defined by the SunCoke LTCIP.

The Company issued a grant date fair value award of $0.6 million during the three months ended March 31, 2019 that vest on December 31, 2020. The awards are split 50/50 between the Company's three-year cumulative Adjusted EBITDA performance and the Company's three-year average pre-tax return on capital for its coke and logistics businesses and unallocated corporate expenses. The ultimate award value will be determined by the performance versus targets and the Company's three-year TSR Modifier performance but will be capped at 250 percent of the target award.

The cash incentive award liability at March 31, 2019 was adjusted based on the Company's three-year cumulative Adjusted EBITDA performance and adjusted average pre-tax return on capital for the Company's coke and logistics businesses and unallocated corporate expenses. The cash incentive award liability at both March 31, 2019 and December 31, 2018 was not material.

Summary of Share-Based Compensation Expense

Below is a summary of the compensation expense, unrecognized compensation costs, and the period for which the unrecognized compensation cost is expected to be recognized over:

	Three Months Ended March 31,		March 31, 2019	
	2019	2018		
	Compensation Expense[(1)]		Unrecognized Compensation Cost	Recognition Period
	(Dollars in millions)			(Years)
Equity Awards:				
Stock Options	$ 0.2	$ 0.2	$1.4	2.3
RSUs	0.1	0.1	$1.5	1.5
PSUs	0.5	0.4	$5.2	2.3
Total equity awards	$ 0.8	$ 0.7		
Liability Awards:				
Cash RSUs	$ 0.4	$ 0.1	$1.6	1.9
Cash incentive award	0.1	0.2	$1.3	2.1
Total liability awards	$ 0.5	$ 0.3		

(1) Compensation expense recognized by the Company is in selling, general and administrative expenses on the Consolidated Statements of Income.

The Company and the Partnership issued $0.1 million of shared-based compensation to the Company's and the Partnership's Board of Directors during both the three months ended March 31, 2019 and 2018.

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10. Earnings per Share

Basic earnings per share ("EPS") has been computed by dividing net income attributable to SunCoke Energy, Inc. 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 EPS to those used to compute diluted EPS:

	Three Months Ended March 31,	
	2019	2018
	(Shares in millions)	
Weighted-average number of common shares outstanding-basic	64.9	64.6
Add: Effect of dilutive share-based compensation awards	0.4	0.8
Weighted-average number of shares-diluted	65.3	65.4

The following table shows stock options, restricted stock units, and performance stock units that are excluded from the computation of diluted earnings per share as the shares would have been anti-dilutive:

	Three Months Ended March 31,	
	2019	2018
	(Shares in millions)	
Stock options	2.8	2.8
Performance stock units	0.1	0.2
Total	2.9	3.0

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11. 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. The Company's cash equivalents, which amounted to $5.5 million and $3.2 million at March 31, 2019 and December 31, 2018, respectively, were measured at fair value based on quoted prices in active markets for identical assets. These inputs are classified as Level 1 within the valuation hierarchy.

CMT Contingent Consideration

In connection with the CMT acquisition, the Partnership entered into a contingent consideration arrangement that runs through 2022 and requires the Partnership to make future payments to The Cline Group based on future volume over a specified threshold, price and contract renewals. The fair value of the contingent consideration was estimated based on a probability-weighted analysis using significant inputs that are not observable in the market, or Level 3 inputs. Key assumptions included probability adjusted levels of handling services provided by CMT, anticipated price per ton on future sales and probability of contract renewal, including length of future contracts, volume commitment, and anticipated price per ton. The fair value of the contingent consideration was $3.7 million and $5.0 million at March 31, 2019 and December 31, 2018, respectively, and was primarily included in other deferred credits and liabilities on the Consolidated Balance Sheets. The decrease in the contingent consideration liability in the first quarter of 2019 was the result of a $0.9 million payment made as well as a decrease in expected future payments for changes in expected throughput volumes related to the long-term, take-or-pay agreements.

Certain Financial Assets and Liabilities not Measured at Fair Value

At March 31, 2019 and December 31, 2018, the fair value of the Company’s total debt was estimated to be $863.5 million and $822.8 million, respectively, compared to a carrying amount of $853.0 million and $859.0 million, respectively. The fair value was estimated by management based upon estimates of debt pricing provided by financial institutions, which are considered Level 2 inputs.

12. Revenue from Contracts with Customers

Disaggregated Sales and Other Operating Revenue

The following table provides disaggregated sales and other operating revenue by product or service, excluding intersegment revenues:

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	Three Months Ended March 31, 2019	2018
	(Dollars in millions)	
Sales and other operating revenue:		
Cokemaking	$344.5	$302.5
Energy	13.8	13.6
Logistics	22.0	22.1
Operating and licensing fees	9.7	10.1
Other	1.3	2.2
Sales and other operating revenue	$391.3	$350.5

The following table provides disaggregated sales and other operating revenue by customer:

	Three Months Ended March 31, 2019	2018
	(Dollars in millions)	
Sales and other operating revenue:		
AM USA	$197.6	$164.1
AM Brazil	9.7	10.1
AK Steel	104.1	92.9
U.S. Steel	54.1	51.7
Foresight and Murray	10.9	14.1
Other	14.9	17.6
Sales and other operating revenue	$391.3	$350.5

Logistics Contract Balances

Our logistics business has long-term, take-or-pay agreements requiring us to handle over 13 million tons annually. The take-or-pay provisions in these agreements require our customers to purchase such handling services or pay the contract price for services they elect not to take. Estimated take-or-pay revenue of approximately $295 million from all of our long-term logistics contracts is expected to be recognized over the next five years for unsatisfied or partially unsatisfied performance obligations as of March 31, 2019.

The following table provides changes in the Company's deferred revenue:

	Three Months Ended March 31, 2019	2018
	(Dollars in millions)	
Beginning balance at December 31, 2018 and 2017, respectively	$3.0	$1.7
Reclassification of the beginning contract liabilities to revenue, as a result of performance obligation satisfied	(1.0)	(0.6)
Billings in excess of services performed, not recognized as revenue	5.5	2.5
Ending balance at March 31, 2019 and 2018, respectively	$7.5	$3.6

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13. Business Segment Information

The Company reports its business through three segments: Domestic Coke, Brazil Coke and Logistics. 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.

The Brazil Coke segment includes the licensing and operating fees payable to us under long-term contracts with ArcelorMittal Brazil, under which we operate a cokemaking facility located in Vitória, Brazil through at least 2023.

Logistics operations are comprised of CMT, KRT, Lake Terminal, which provides services to our Indiana Harbor cokemaking facility, and DRT, which provides services to our Jewell cokemaking facility. Handling and mixing results are presented in the Logistics segment.

Corporate expenses that can be identified with a segment have been included in determining segment results. The remainder is included in Corporate and Other. Corporate and Other also includes activity from our legacy coal mining business.

Segment assets are those assets utilized within a specific segment and exclude taxes.

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

	Three Months Ended March 31,	
	2019	2018
	(Dollars in millions)	
Sales and other operating revenue:		
Domestic Coke	$359.3	$318.1
Brazil Coke	9.7	10.1
Logistics	22.3	22.3
Logistics intersegment sales	6.5	5.4
Elimination of intersegment sales	(6.5)	(5.4)
Total sales and other operating revenues	$391.3	$350.5
Adjusted EBITDA:		
Domestic Coke	$58.5	$54.3
Brazil Coke	4.5	4.7
Logistics	12.7	13.6
Corporate and Other[1]	(8.4)	(8.6)
Total Adjusted EBITDA	$67.3	$64.0
Depreciation and amortization expense:		
Domestic Coke	$30.6	$25.3
Brazil Coke	0.2	0.2
Logistics	6.1	7.0
Corporate and Other	0.3	0.4
Total depreciation and amortization expense	$37.2	$32.9
Capital expenditures:		
Domestic Coke	$18.9	$15.1
Logistics	2.0	0.3
Corporate and Other	—	—

Total capital expenditures	$20.9	$15.4

(1) Corporate and Other includes the activity from our legacy coal mining business, which contributed Adjusted EBITDA losses of $1.8 million during the three months ended March 31, 2019, as well as $2.3 million during the three months ended March 31, 2018.

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The following table sets forth the Company's segment assets:

	March 31, 2019	December 31, 2018
	(Dollars in millions)	
Segment assets		
Domestic Coke	$1,488.8	$1,446.5
Brazil Coke	16.1	15.1
Logistics	471.4	463.0
Corporate and Other	121.0	120.0
Segment assets, excluding tax assets	2,097.3	2,044.6
Tax assets	—	0.7
Total assets	$2,097.3	$2,045.3

The Company evaluates the performance of its segments based on segment Adjusted EBITDA, which is defined as earnings before interest, taxes, depreciation and amortization ("EBITDA"), adjusted for any impairments, loss on extinguishment of debt, changes to our contingent consideration liability related to our acquisition of CMT and/or transaction costs incurred as part of the Simplification Transaction. EBITDA and Adjusted EBITDA do not represent and should not be considered alternatives to net income or operating income under GAAP and may not be comparable to other similarly titled measures in other businesses.

Management believes Adjusted EBITDA is an important measure of the operating performance and liquidity of the Company's net assets and its ability to incur and service debt, fund capital expenditures and make distributions. Adjusted EBITDA provides useful information to investors because it highlights trends in our business that may not otherwise be apparent when relying solely on GAAP measures and because it eliminates items that have less bearing on our operating performance and liquidity. EBITDA and Adjusted EBITDA are not measures calculated in accordance with GAAP, and they should not be considered a substitute for net income, operating cash flow or any other measure of financial performance presented in accordance with GAAP. Set forth below is additional discussion of the limitations of Adjusted EBITDA as an analytical tool.

Limitations. Other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure. Adjusted EBITDA also has limitations as an analytical tool and should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP. Some of these limitations include that Adjusted EBITDA:

- does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- does not reflect items such as depreciation and amortization;
- does not reflect changes in, or cash requirement for, working capital needs;
- does not reflect our interest expense, or the cash requirements necessary to service interest on or principal payments of our debt;
- does not reflect certain other non-cash income and expenses;
- excludes income taxes that may represent a reduction in available cash; and
- includes net income attributable to noncontrolling interests.

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Below is a reconciliation of Adjusted EBITDA to net income and net cash provided by operating activities, which are its most directly comparable financial measures calculated and presented in accordance with GAAP:

	Three Months Ended March 31,	
	2019	2018
	(Dollars in millions)	
Net cash provided by operating activities	$35.3	$57.3
Subtract:		
Depreciation and amortization expense	37.2	32.9
Deferred income tax (benefit) expense	(0.4)	0.2
Changes in working capital and other	(13.7)	11.2
Net income	$12.2	$13.0
Add:		
Depreciation and amortization expense	$37.2	$32.9
Interest expense, net	14.8	15.8
Loss on extinguishment of debt	—	0.3
Income tax expense	3.0	2.0
Contingent consideration adjustments[1]	(0.4)	—
Simplification Transaction costs	0.5	—
Adjusted EBITDA	$67.3	$64.0
Subtract: Adjusted EBITDA attributable to noncontrolling interests[2]	18.9	19.0
Adjusted EBITDA attributable to SunCoke Energy, Inc.	$48.4	$45.0

(1) In connection with the CMT acquisition, the Partnership entered into a contingent consideration arrangement that requires the Partnership to make future payments to the seller based on future volume over a specified threshold, price and contract renewals. Contingent consideration adjustments in 2019 were primarily the result of modifications to the volume forecast.

(2) Reflects noncontrolling interest in Indiana Harbor and the portion of the Partnership owned by public unitholders.

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14. Supplemental Condensed Consolidating Financial Information

Certain 100 percent owned subsidiaries of the Company serve as guarantors of the obligations under the Credit Agreement (“Guarantor Subsidiaries”). These guarantees are full and unconditional (subject, in the case of the Guarantor Subsidiaries, to customary release provisions as described below) and joint and several. For purposes of the following information, SunCoke Energy is referred to as “Issuer.” The indenture dated July 26, 2011 among the Company, the guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., governs subsidiaries designated as “Guarantor Subsidiaries.” All other consolidated subsidiaries of the Company are collectively referred to as “Non-Guarantor Subsidiaries.”

The ability of the Partnership and Indiana Harbor to pay dividends and make loans to the Company is restricted under the partnership agreements of the Partnership and Indiana Harbor, respectively. The credit agreement governing the Partnership’s credit facility and the indenture governing the Partnership Notes contain customary provisions which would potentially restrict the Partnership’s ability to make distributions or loans to the Company under certain circumstances. For the year ended December 31, 2018, less than 25 percent of net assets were restricted. Additionally, certain coal mining entities are designated as unrestricted subsidiaries. As such, all the subsidiaries described above are presented as "Non-Guarantor Subsidiaries." There have been no changes to the "Guarantor Subsidiaries" and "Non-Guarantor Subsidiaries" during 2019

The guarantee of a Guarantor Subsidiary will terminate upon:

- a sale or other disposition of the Guarantor Subsidiary or of all or substantially all of its assets;
- a sale of the majority of the Capital Stock of a Guarantor Subsidiary to a third-party, after which the Guarantor Subsidiary is no longer a "Restricted Subsidiary" in accordance with the indenture governing the Notes;
- the liquidation or dissolution of a Guarantor Subsidiary so long as no "Default" or "Event of Default", as defined under the indenture governing the Notes, has occurred as a result thereof;
- the designation of a Guarantor Subsidiary as an "unrestricted subsidiary" in accordance with the indenture governing the Notes;
- the requirements for defeasance or discharge of the indentures governing the Notes having been satisfied; or
- the release, other than the discharge through payments by a Guarantor Subsidiary, from its guarantee under the Credit Agreement or other indebtedness that resulted in the obligation of the Guarantor Subsidiary under the indenture governing the Notes.

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

SunCoke Energy, Inc.
Condensed Consolidating Statement of Income
Three Months Ended March 31, 2019
(Dollars in millions)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue	$—	$ 62.3	$ 330.3	$ (1.3)	$391.3
Equity in earnings of subsidiaries	11.9	6.3	—	(18.2)	—
Total revenues, net of equity earnings of subsidiaries	11.9	68.6	330.3	(19.5)	391.3
Costs and operating expenses					
Cost of products sold and operating expense	—	45.6	263.1	(1.3)	307.4
Selling, general and administrative expense	2.1	3.4	11.2	—	16.7
Depreciation and amortization expense	—	2.0	35.2	—	37.2
Total costs and operating expenses	2.1	51.0	309.5	(1.3)	361.3
Operating income	9.8	17.6	20.8	(18.2)	30.0
Interest (income) expense, net - affiliate	—	(0.4)	0.4	—	—
Interest expense (income), net	0.8	(0.6)	14.6	—	14.8
Total interest expense (income), net	0.8	(1.0)	15.0	—	14.8
Income before income tax (benefit) expense	9.0	18.6	5.8	(18.2)	15.2
Income tax (benefit) expense	(0.8)	5.0	(1.2)	—	3.0
Net income	9.8	13.6	7.0	(18.2)	12.2
Less: Net income attributable to noncontrolling interests	—	—	2.4	—	2.4
Net income attributable to SunCoke Energy, Inc.	$9.8	$ 13.6	$ 4.6	$ (18.2)	$9.8
Comprehensive income	$9.8	$ 13.5	$ 7.0	$ (18.1)	$12.2
Less: Comprehensive income attributable to noncontrolling interests	—	—	2.4	—	2.4
Comprehensive income attributable to SunCoke Energy, Inc.	$9.8	$ 13.5	$ 4.6	$ (18.1)	$9.8

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SunCoke Energy, Inc.
Condensed Consolidating Statement of Income
Three Months Ended March 31, 2018
(Dollars in millions)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Revenues					
Sales and other operating revenue	$—	$ 51.0	$ 300.7	$ (1.2)	$350.5
Equity in earnings of subsidiaries	10.9	8.7	—	(19.6)	—
Total revenues, net of equity in earnings of subsidiaries	10.9	59.7	300.7	(20.8)	350.5
Costs and operating expenses					
Cost of products sold and operating expenses	—	39.1	232.7	(1.2)	270.6
Selling, general and administrative expenses	1.4	3.4	11.1	—	15.9
Depreciation and amortization expense	—	2.0	30.9	—	32.9
Total costs and operating expenses	1.4	44.5	274.7	(1.2)	319.4
Operating income	9.5	15.2	26.0	(19.6)	31.1
Interest (income) expense, net - affiliate	—	(2.0)	2.0	—	—
Interest expense (income), net	0.7	(0.2)	15.3	—	15.8
Total interest expense (income), net	0.7	(2.2)	17.3	—	15.8
Loss on extinguishment of debt	0.3	—	—	—	0.3
Income before income tax (benefit) expense	8.5	17.4	8.7	(19.6)	15.0
Income tax (benefit) expense	(0.2)	3.1	(0.9)	—	2.0
Net income	8.7	14.3	9.6	(19.6)	13.0
Less: Net income attributable to noncontrolling interests	—	—	4.3	—	4.3
Net income attributable to SunCoke Energy, Inc.	$8.7	$ 14.3	$ 5.3	$ (19.6)	$8.7
Comprehensive income	$8.6	$ 26.7	$ 9.5	$ (31.9)	$12.9
Less: Comprehensive income attributable to noncontrolling interests	—	—	4.3	—	4.3
Comprehensive income attributable to SunCoke Energy, Inc.	$8.6	$ 26.7	$ 5.2	$ (31.9)	$8.6

SunCoke Energy, Inc.
Condensed Consolidating Balance Sheet
March 31, 2019
(Dollars in millions, except per share amounts)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Assets					
Cash and cash equivalents	$—	$ 121.9	$ 22.0	$ —	$ 143.9
Receivables	—	14.9	71.4	—	86.3
Inventories	—	12.7	138.0	—	150.7
Other current assets	—	3.3	2.9	—	6.2
Advances to affiliate	—	297.1	—	(297.1)	—
Total current assets	—	449.9	234.3	(297.1)	387.1
Notes receivable from affiliate	—	—	200.0	(200.0)	—
Properties, plants and equipment, net	—	54.1	1,404.9	—	1,459.0
Goodwill	—	3.4	73.5	—	76.9
Other intangible assets, net	—	0.9	153.2	—	154.1
Deferred income taxes	7.5	—	—	(7.5)	—
Deferred charges and other assets	—	10.1	10.1	—	20.2
Total assets	$ 7.5	$ 518.4	$ 2,076.0	$ (504.6)	$ 2,097.3
Liabilities and Equity					
Advances from affiliate	$ 172.2	$ —	$ 124.9	$ (297.1)	—
Accounts payable	—	20.9	124.8	—	145.7
Accrued liabilities	1.2	9.7	31.4	—	42.3
Deferred revenue	—	—	7.5	—	7.5
Current portion of long-term debt and financing obligation	1.7	—	2.8	—	4.5
Interest payable	0.5	—	16.3	—	16.8
Income taxes payable	1.3	97.2	(97.3)	—	1.2
Total current liabilities	176.9	127.8	210.4	(297.1)	218.0
Long-term debt and financing obligation	40.5	—	788.3	—	828.8
Payable to affiliate	—	200.0	—	(200.0)	—
Accrual for black lung benefits	—	11.0	34.6	—	45.6
Retirement benefit liabilities	—	11.9	12.7	—	24.6
Deferred income taxes	—	195.8	66.0	(7.5)	254.3
Asset retirement obligations	—	—	13.2	—	13.2
Other deferred credits and liabilities	3.2	8.9	13.7	—	25.8
Total liabilities	220.6	555.4	1,138.9	(504.6)	1,410.3
Equity					
Preferred stock, $0.01 par value. Authorized 50,000,000 shares; no issued shares at March 31, 2019	—	—	—	—	—
Common stock, $0.01 par value. Authorized 300,000,000 shares; issued 72,578,808 shares at March 31, 2019	0.7	—	—	—	0.7
Treasury stock, 7,477,657 shares at March 31, 2019	(140.7)	—	—	—	(140.7)
Additional paid-in capital	488.0	81.6	604.3	(685.9)	488.0
Accumulated other comprehensive loss	(13.1)	(2.1)	(11.0)	13.1	(13.1)
Retained earnings	137.3	539.6	128.9	(668.6)	137.2
Equity investment eliminations	(685.3)	(656.1)	—	1,341.4	—

Total SunCoke Energy, Inc. stockholders’ equity	(213.1)	(37.0)	722.2	—	472.1
Noncontrolling interests	—	—	214.9	—	214.9
Total equity	(213.1)	(37.0)	937.1	—	687.0
Total liabilities and equity	$7.5	$ 518.4	$ 2,076.0	$ (504.6)	$2,097.3

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SunCoke Energy, Inc.
Condensed Consolidating Balance Sheet
December 31, 2018
(Dollars in millions, except per share amounts)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Assets					
Cash and cash equivalents	$—	$ 123.2	$ 22.5	$ —	$ 145.7
Receivables	—	13.3	62.1	—	75.4
Inventories	—	10.6	99.8	—	110.4
Income tax receivable	—	—	96.1	(95.4)	0.7
Other current assets	—	1.8	1.0	—	2.8
Advances to affiliate	—	281.1	—	(281.1)	—
Total current assets	—	430.0	281.5	(376.5)	335.0
Notes receivable from affiliate	—	—	200.0	(200.0)	—
Properties, plants and equipment, net	—	54.3	1,416.8	—	1,471.1
Goodwill	—	3.4	73.5	—	76.9
Other intangible assets, net	—	1.1	155.7	—	156.8
Deferred income taxes	7.0	—	—	(7.0)	—
Deferred charges and other assets	—	5.1	0.4	—	5.5
Total assets	$7.0	$ 493.9	$ 2,127.9	$ (583.5)	$ 2,045.3
Liabilities and Equity					
Advances from affiliate	$ 167.3	$ —	$ 113.8	$ (281.1)	$—
Accounts payable	—	14.7	100.3	—	115.0
Accrued liabilities	1.8	13.7	30.1	—	45.6
Deferred revenue	—	—	3.0	—	3.0
Current portion of long-term debt and financing obligation	1.1	—	2.8	—	3.9
Interest payable	0.4	—	3.2	—	3.6
Income taxes payable	1.9	93.5	—	(95.4)	—
Total current liabilities	172.5	121.9	253.2	(376.5)	171.1
Long-term debt and financing obligation	41.2	—	793.3	—	834.5
Payable to affiliate	—	200.0	—	(200.0)	—
Accrual for black lung benefits	—	10.9	34.0	—	44.9
Retirement benefit liabilities	—	12.2	13.0	—	25.2
Deferred income taxes	—	194.9	66.8	(7.0)	254.7
Asset retirement obligations	—	—	14.6	—	14.6
Other deferred credits and liabilities	3.5	6.6	7.5	—	17.6
Total liabilities	217.2	546.5	1,182.4	(583.5)	1,362.6
Equity					
Preferred stock, $0.01 par value. Authorized 50,000,000 shares; no issued and outstanding shares at December 31, 2018	—	—	—	—	—
Common stock, $0.01 par value. Authorized 300,000,000 shares; issued 72,223,750 shares at December 31, 2018	0.7	—	—	—	0.7
Treasury Stock, 7,477,657 shares at December 31, 2018	(140.7)	—	—	—	(140.7)
Additional paid-in capital	488.9	61.0	612.8	(673.9)	488.8
Accumulated other comprehensive loss	(13.1)	(2.0)	(11.1)	13.1	(13.1)

Retained earnings	127.5	526.1	124.2	(650.4)	127.4
Equity investment eliminations	(673.5)	(637.7)	—	1,311.2	—
Total SunCoke Energy, Inc. stockholders’ equity	(210.2)	(52.6)	725.9	—	463.1
Noncontrolling interests	—	—	219.6	—	219.6
Total equity	(210.2)	(52.6)	945.5	—	682.7
Total liabilities and equity	$7.0	$ 493.9	$ 2,127.9	$ (583.5)	$2,045.3

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SunCoke Energy, Inc.
Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2019
(Dollars in millions)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
Cash Flows from Operating Activities:					
Net income	$9.8	$ 13.6	$ 7.0	$ (18.2)	$12.2
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Depreciation and amortization expense	—	2.0	35.2	—	37.2
Deferred income tax (benefit) expense	(0.5)	0.9	(0.8)	—	(0.4)
Payments in excess of expense for postretirement plan benefits	—	(0.3)	(0.3)	—	(0.6)
Share-based compensation expense	0.9	—	—	—	0.9
Equity in loss of subsidiaries	(11.9)	(6.3)	—	18.2	—
Changes in working capital pertaining to operating activities:					
Receivables	—	(1.6)	(9.3)	—	(10.9)
Inventories	—	(2.1)	(38.2)	—	(40.3)
Accounts payable	—	6.6	23.3	—	29.9
Accrued liabilities	(0.6)	(4.8)	1.0	—	(4.4)
Deferred revenue	—	—	4.5	—	4.5
Interest payable	0.1	—	13.1	—	13.2
Income taxes	(1.1)	3.7	(0.7)	—	1.9
Other	0.3	(3.8)	(4.4)		(7.9)
Net cash (used in) provided by operating activities	(3.0)	7.9	30.4	—	35.3
Cash Flows from Investing Activities:					
Capital expenditures	—	(1.6)	(19.3)	—	(20.9)
Net cash used in investing activities	—	(1.6)	(19.3)	—	(20.9)
Cash Flows from Financing Activities:					
Repayment of long-term debt	(0.3)	—	—	—	(0.3)
Proceeds from revolving facility	—	—	60.7	—	60.7
Repayment of revolving facility	—	—	(65.7)	—	(65.7)
Repayment of financing obligation	—	—	(0.7)	—	(0.7)
Cash distribution to noncontrolling interests	—	—	(7.1)	—	(7.1)
Other financing activities	(1.7)	—	(1.4)	—	(3.1)
Net increase (decrease) in advances from affiliates	5.0	(7.6)	2.6	—	—
Net cash provided by (used in) financing activities	3.0	(7.6)	(11.6)	—	(16.2)
Net decrease in cash and cash equivalents	—	(1.3)	(0.5)	—	(1.8)
Cash and cash equivalents at beginning of period	—	123.2	22.5	—	145.7
Cash and cash equivalents at end of period	$—	$ 121.9	$ 22.0	$ —	$143.9

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SunCoke Energy, Inc.
Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2018
(Dollars in millions)

Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Combining and Consolidating