UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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	**(I.R.S. Employer**
incorporation or organization)	**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. x 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). x 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	x	Smaller reporting company	¨

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

As of July 26, 2012, there were 70,074,712 shares of the Registrant s $0.01 par value Common Stock outstanding.

SUNCOKE ENERGY, INC.

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PART I FINANCIAL INFORMATION

SunCoke Energy, Inc.

Combined and Consolidated Statements of Income

(Unaudited)

Item 1. Combined and Consolidated Financial Statements

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2012	2011	2012	2011
	(Dollars and shares in millions, except per share amounts)			
Revenues				
Sales and other operating revenue	$ 460.7	$ 377.6	$ 941.3	$ 710.6
Other income, net	0.2	0.3	0.9	0.7
Total revenues	460.9	377.9	942.2	711.3
Costs and operating expenses				
Cost of products sold and operating expenses	377.4	319.1	785.7	600.5
Loss on firm purchase commitments				18.5
Selling, general and administrative expenses	20.5	22.6	41.2	38.8
Depreciation, depletion and amortization	20.2	14.7	38.6	27.7
Total costs and operating expenses	418.1	356.4	865.5	685.5
Operating income	42.8	21.5	76.7	25.8
Interest income affiliate		5.7		11.4
Interest income	0.2	0.1	0.3	0.1
Interest cost affiliate		(1.7)		(3.2)
Interest cost	(12.0)		(24.1)	
Capitalized interest		0.4		0.7
Total financing (expense) income, net	(11.8)	4.5	(23.8)	9.0
Income before income tax expense	31.0	26.0	52.9	34.8
Income tax expense	7.0	1.9	12.3	5.0
Net income	24.0	24.1	40.6	29.8
Less: Net income (loss) income attributable to noncontrolling interests	1.3	1.6	1.0	(4.6)
Net income attributable to SunCoke Energy, Inc. / net parent investment	$ 22.7	$ 22.5	$ 39.6	$ 34.4
Earnings attributable to SunCoke Energy, Inc. / net parent investment per common share:				
Basic	$ 0.32	$ 0.32	$ 0.56	$ 0.49
Diluted	$ 0.32	$ 0.32	$ 0.56	$ 0.49
Weighted average common shares outstanding:				
Basic	70.0	70.0	70.0	70.0
Diluted	70.3	70.0	70.3	70.0

(See Accompanying Notes)

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SunCoke Energy, Inc.

Combined and Consolidated Statements of Comprehensive Income

(Unaudited)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2012	2011	2012	2011
	(Dollars in millions)			
Net income	$ 24.0	$ 24.1	$ 40.6	$ 29.8
Other comprehensive income (loss):				
Reclassifications of prior service benefit and actuarial loss amortization to earnings (net of related tax benefit of $0.3 for the three month periods and $0.6 and $0.7, respectively for the six month periods)	(0.5)	(0.4)	(0.9)	(1.0)
Currency translation adjustment	(1.1)	0.4	(0.9)	0.6
Comprehensive income	22.4	24.1	38.8	29.4
Less: Comprehensive income (loss) attributable to noncontrolling interests	1.3	1.6	1.0	(4.6)
Comprehensive income attributable to SunCoke Energy, Inc. / net parent investment	$ 21.1	$ 22.5	$ 37.8	$ 34.0

(See Accompanying Notes)

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SunCoke Energy, Inc.

Consolidated Balance Sheets

	June 30, 2012 (Unaudited)	December 31, 2011
	(Dollars in millions, except per share amounts)	
Assets		
Cash and cash equivalents	$ 190.0	$ 127.5
Accounts receivable	53.5	66.2
Inventories	206.5	219.7
Deferred income taxes	0.8	0.6
Total current assets	450.8	414.0
Investment in Brazilian cokemaking operations	41.0	41.0
Properties, plants and equipment, net	1,379.2	1,391.8
Lease and mineral rights, net	52.7	53.2
Goodwill	9.4	9.4
Deferred charges and other assets	37.1	32.4
Total assets	$ 1,970.2	$ 1,941.8
Liabilities and Equity		
Accounts payable	$ 154.6	$ 181.9
Current portion of long-term debt	3.3	3.3
Accrued liabilities	75.0	69.8
Interest payable	15.6	15.9
Taxes payable	11.4	10.6
Total current liabilities	259.9	281.5
Long-term debt	721.6	723.1
Accrual for black lung benefits	33.5	33.5
Retirement benefit liabilities	51.5	50.6
Deferred income taxes	335.3	261.1
Asset retirement obligations	14.0	12.5
Other deferred credits and liabilities	19.0	19.6
Commitments and contingent liabilities		
Total liabilities	1,434.8	1,381.9
Equity		
Preferred stock, $0.01 par value. Authorized 50,000,000 shares; no issued and outstanding shares at June 30, 2012 and December 31, 2011		
Common stock, $0.01 par value. Authorized 300,000,000 shares; issued and outstanding 69,973,415 and 70,012,702 shares at June 30, 2012 and December 31, 2011, respectively	0.7	0.7
Treasury stock, 299,617 shares at June 30, 2012 and no shares at December 31, 2011	(4.4)	
Additional paid-in capital	452.4	511.3
Accumulated other comprehensive loss	(8.3)	(6.5)
Retained earnings	59.6	20.0

Total SunCoke Energy, Inc. stockholders equity	500.0	525.5
Noncontrolling interests	35.4	34.4
Total equity	535.4	559.9
Total liabilities and equity	$ 1,970.2	$ 1,941.8

(See Accompanying Notes)

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SunCoke Energy, Inc.

Combined and Consolidated Statements of Cash Flows

(Unaudited)

	For the Six Months Ended June 30 2012	2011
	(Dollars in millions)	
Cash Flows from Operating Activities:		
Net income	$ 40.6	$ 29.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on firm purchase commitments		18.5
Depreciation, depletion and amortization	38.6	27.7
Deferred income tax expense	10.0	5.1
Payments less than (in excess of) expense for retirement plans	1.0	(0.2)
Share-based compensation expense	3.5	
Changes in working capital pertaining to operating activities:		
Accounts receivable	12.7	(23.8)
Inventories	9.7	(34.5)
Accounts payable and accrued liabilities	(22.1)	(5.1)
Interest payable	(0.3)	
Taxes payable	0.3	2.3
Other	(7.3)	(3.4)
Net cash provided by operating activities	86.7	16.4
Cash Flows from Investing Activities:		
Capital expenditures	(20.7)	(128.0)
Acquisition of business, net of cash received		(37.5)
Net cash used in investing activities	(20.7)	(165.5)
Cash Flows from Financing Activities:		
Repayment of long-term debt	(1.7)	
Proceeds from exercise of stock options	2.6	
Repurchase of common stock	(4.4)	
Increase in advances from affiliate		144.7
Repayments of notes payable assumed in acquisition		(2.3)
Increase in payable to affiliate		(1.7)
Cash distributions to noncontrolling interests in cokemaking operations		(1.2)
Net cash (used in) provided by financing activities	(3.5)	139.5
Net increase (decrease) in cash and cash equivalents	62.5	(9.6)
Cash and cash equivalents at beginning of period	127.5	40.1
Cash and cash equivalents at end of period	$ 190.0	$ 30.5

(See Accompanying Notes)

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SunCoke Energy, Inc.

Combined and Consolidated Statements of Equity

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Net Parent	Total SunCoke Energy, Inc./ Parent	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Capital	Loss	Earnings	Investment	Equity	Interests	Equity
						(Dollars in millions)					
At December 31, 2010		$		$	$	$	$	$ 369.5	$ 369.5	$ 59.8	$ 429.3
Net income (loss)								34.4	34.4	(4.6)	29.8
Reclassifications of prior service benefit and actuarial loss amortization to earnings (net of related tax expense of $0.7)								(1.0)	(1.0)		(1.0)
Currency translation adjustment								0.6	0.6		0.6
Cash distributions to noncontrolling interests										(1.2)	(1.2)
At June 30, 2011		$		$	$	$	$	$ 403.5	$ 403.5	$ 54.0	$ 457.5
At December 31, 2011	70,012,702	$ 0.7		$	$ 511.3	$ (6.5)	$ 20.0	$	$ 525.5	$ 34.4	$ 559.9
Net income							39.6		39.6	1.0	40.6
Reclassifications of prior service benefit and actuarial loss amortization to earnings (net of related tax benefit of $0.6)						(0.9)			(0.9)		(0.9)
Currency translation adjustment						(0.9)			(0.9)		(0.9)
Noncash distribution to Sunoco under Tax Sharing Agreement					(65.1)				(65.1)		(65.1)
Share-based compensation expense					3.5				3.5		3.5
Stock options exercised	253,144				2.6				2.6		2.6
Shares repurchased	(299,617)		299,617	(4.4)					(4.4)		(4.4)
Shares issued to directors	7,186				0.1				0.1		0.1
At June 30, 2012	69,973,415	$ 0.7	299,617	$ (4.4)	$ 452.4	$ (8.3)	$ 59.6	$	$ 500.0	$ 35.4	$ 535.4

(See Accompanying Notes)

SunCoke Energy, Inc.

Notes to the Combined and Consolidated Financial Statements

1. General

Description of Business and Basis of Presentation

SunCoke Energy, Inc. (SunCoke Energy or the Company) is an independent owner and operator of five cokemaking facilities in the eastern and midwestern regions of the United States and operator of a cokemaking facility for a project company in Brazil in which it has a preferred stock investment. The cokemaking operations include blast furnace coke manufacturing at the Company s Jewell Coke Company, L.P. (Jewell) facility in Vansant, Virginia; Indiana Harbor Coke Company, L.P. (Indiana Harbor) facility in East Chicago, Indiana; Haverhill North Coke Company (Haverhill) facility in Franklin Furnace, Ohio; Gateway Energy & Coke Company, LLC (Granite City) facility in Granite City, Illinois; and Middletown Coke Company, Inc. (Middletown) facility in Middletown, Ohio, which commenced operations in October 2011.

In addition to its cokemaking operations, the Company has metallurgical coal mining operations in the eastern United States. The metallurgical coal produced from underground and surface mines in Virginia and West Virginia is used primarily at the Jewell cokemaking facility.

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

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

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

Concurrent with the reorganization just prior to the IPO, substantially all related party balances with Sunoco were settled in connection with the issuance of common stock to Sunoco, with the exception of $575 million, which was repaid on July 26, 2011 in cash with a portion of the proceeds from SunCoke Energy s debt issuance.

The historical Combined Financial Statements for periods prior to the Separation Date include the accounts of all operations that comprised the cokemaking and coal mining operations of Sunoco, after elimination of all intercompany balances and transactions within the combined group of companies. The historical Combined Financial Statements also include allocations of certain Sunoco corporate expenses. SunCoke Energy management believes the assumptions and methodologies underlying the allocation of general corporate overhead expenses are reasonable. However, such expenses may not be indicative of the actual level of expense that would have been incurred by SunCoke Energy if it had operated as an independent, publicly-traded company during the periods prior to the IPO or of the costs expected to be incurred in the future. See Note 3 for further information regarding allocated expenses. The Consolidated Financial Statements for the period after the Separation Date pertains to the operations of SunCoke Energy.

Reclassifications

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

Quarterly Reporting

The accompanying Combined and Consolidated Financial Statements included herein have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim reporting. Certain information and disclosures normally included in financial statements have been omitted pursuant to the rules and regulation of the Securities and Exchange Commission (SEC).

In management s opinion, all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented have been made. The results of operations for the period ended June 30, 2012 are not necessarily indicative of the operating results for the full year.

2. Arrangements Between Sunoco and SunCoke Energy, Inc.

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

Separation and Distribution Agreement. On the Separation Date, SunCoke Energy and Sunoco entered into the separation and distribution agreement. The separation and distribution agreement identified assets to be transferred, liabilities to be assumed and contracts to be assigned to each of SunCoke Energy and Sunoco as part of the Separation. Except as expressly provided, all assets were transferred on an as is, where is basis. In general, each party to the separation and distribution agreement assumed liability for all pending, threatened and unasserted legal matters related to its own business or its assumed or retained liabilities and agreed to indemnify the other party for any liability to the extent arising out of or resulting from such assumed or retained legal matters. In addition, the separation and distribution agreement provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of SunCoke Energy s business with SunCoke Energy and financial responsibility for the obligations and liabilities of Sunoco s business with Sunoco.

The separation and distribution agreement allocates responsibility with respect to certain employee related matters, particularly with respect to Sunoco employee benefit plans in which any SunCoke Energy employees participated or SunCoke Energy employee benefit plans which held assets in joint trusts with Sunoco. In addition, the separation and distribution agreement provided for certain adjustments with respect to Sunoco equity compensation awards that occurred when Sunoco completed the Distribution.

Tax Sharing Agreement. On the Separation Date, SunCoke Energy and Sunoco entered into a tax sharing agreement that governs the parties respective rights, responsibilities and obligations with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings and other matters regarding taxes. For a detailed discussion of the tax sharing agreement, see Note 4.

Transition Services Agreement. On the Separation Date, SunCoke Energy and Sunoco entered into a transition services agreement. The services provided under this agreement generally terminated upon completion of the Distribution on January 17, 2012.

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

3. Related Party Transactions

The related party transactions with Sunoco and its affiliates are described below.

Advances from/to Affiliate

Prior to the Separation Date, Sunoco, Inc. (R&M), a wholly-owned subsidiary of Sunoco, served as a lender and borrower of funds and a clearinghouse for the settlement of receivables and payables for the Company and Sunoco and its affiliates. Amounts due to Sunoco, Inc. (R&M) for the settlement of payables, which included advances to fund capital expenditures, amounted to $1,033.2 million at June 30, 2011. Interest on such advances was based on short-term money market rates. The weighted-average annual interest rate used to determine interest expense for these amounts due was 1.4 percent for the six months ended June 30, 2011. On July 26, 2011, proceeds from SunCoke Energy s debt issuance in the third quarter of 2011 were used to repay $575 million of the advances from affiliate, and the remaining balance was treated as a contribution from Sunoco and capitalized to net parent investment.

Interest income on advances to affiliate generated by the investment of idle funds under the clearinghouse activities described above is included in interest income affiliate in the Combined and Consolidated Statements of Income and totaled $0.1 million and $0.3 million for the three and six months ended June 30, 2011, respectively. Interest paid to affiliates under the above borrowing arrangements is classified as interest cost affiliate in the Combined and Consolidated Statements of Income and totaled $1.7 million and $3.2 million for the three and six months ended June 30, 2011, respectively.

Receivables/Payable from/to Affiliate

During 2002, in connection with an investment in the partnership by a third-party investor, Indiana Harbor loaned $200.0 million of excess cash to The Claymont Investment Company (Claymont), a then wholly-owned subsidiary of Sunoco. The loan was evidenced by a note with an interest rate of 7.44 percent per annum. Interest income related to the note, which was paid quarterly, is included in interest income affiliate in the Combined and Consolidated Statements of Income and amounted to $3.6 million and $7.3 million for the three and six months ended June 30, 2011, respectively.

During 2000, in connection with an investment in the partnership by a third-party investor, Jewell loaned $89.0 million of excess cash to Claymont. The loan was evidenced by a note with an interest rate of 8.24 percent per annum. Interest income related to the note, which was paid annually, is included in interest income affiliate in the Combined and Consolidated Statements of Income and amounted to $1.8 million and $3.6 million for the three and six months ended June 30, 2011, respectively.

In connection with the Separation, Sunoco contributed Claymont to SunCoke Energy primarily to transfer certain intercompany receivables from and intercompany payables to SunCoke Energy, including the notes payable to Indiana Harbor and Jewell. Accordingly, these notes receivable are now receivables and payables of SunCoke Energy s subsidiaries and the balances and related interest income are now eliminated in consolidation.

Sales to Affiliate

The flue gas produced during the Haverhill cokemaking process is being utilized to generate low-pressure steam, which is sold to the adjacent chemical manufacturing complex formerly owned and operated by Sunoco s chemicals business. In the fourth quarter of 2011, Sunoco sold this facility to Goradia Capital LLC (Goradia). Under this agreement, Goradia has assumed Sunoco s obligations under the agreement. Steam sales to Sunoco s chemicals business totaled $2.3 million and $4.8 million for the three and six months ended June 30, 2011, respectively.

Allocated Expenses

Prior to the Separation, amounts were allocated from subsidiaries of Sunoco for employee benefit costs of certain executives of the Company as well as for the cost associated with the participation of such executives in Sunoco s principal management incentive plans. The employee benefit costs were allocated as a percentage of the executives actual pay, while the incentive plan costs represented the actual costs associated to the executives. Indirect corporate overhead attributable to the operations of the Company was also allocated from Sunoco. These overhead expenses incurred by Sunoco include costs of centralized corporate functions such as legal, accounting, tax, treasury, engineering, information technology, insurance and other corporate services. The allocation methods for these costs include estimates of the costs and level of support attributable to SunCoke Energy for legal, accounting, tax, treasury and engineering, usage and headcount for information technology and prior years claims information and historical cost of insured assets for insurance.

Concurrent with the Separation, SunCoke Energy entered into a transition services agreement with Sunoco. Under this agreement, Sunoco provided certain services and other assistance on a transitional basis to SunCoke Energy for fees which approximated Sunoco s cost of providing these services (see Note 2).

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The above allocations and transition services fee are included in cost of products sold and operating expenses and selling, general and administrative expenses in the Combined and Consolidated Statements of Income and totaled $0.2 million and $1.9 million for the three months ended June 30, 2012 and 2011, respectively, and $0.5 million and $3.9 million for the six months ended June 30, 2012 and 2011, respectively.

Guarantees and Indemnifications

For a discussion of certain guarantees that Sunoco is providing to the current and former third-party investors of the Indiana Harbor cokemaking operations and the former third-party investors of the Jewell cokemaking facility on behalf of the Company, see Note 9.

4. Income Taxes

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

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

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

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

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

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

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

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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.

Under the tax sharing agreement, certain deferred tax assets attributable to net operating losses and credit carryforwards, which had been reflected in SunCoke Energy s Consolidated Balance Sheets prior to the Separation Date on a theoretical separate-return basis, are no longer realizable by SunCoke Energy. Accordingly, after the Separation Date, current and deferred tax benefits totaling $208.5 million were eliminated from the Combined and Consolidated Balance Sheets with a corresponding reduction to SunCoke Energy s equity accounts, $65.1 million of which were eliminated in the six months ended June 30, 2012. The following table sets forth the income tax benefits which were eliminated from SunCoke Energy s income tax balances:

	Six Months Ended June 30, 2012 (Dollars in millions)
Nonconventional fuel credit carryforward	$ 38.8
Federal, state and foreign tax credit carryforwards	26.3
	$ 65.1

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 a dividend to or capital contribution from Sunoco when such amounts have been effectively settled under the terms of the tax sharing agreement. As of June 30, 2012, SunCoke Energy estimates that there are approximately $0.5 million in tax benefits that may not be realizable by SunCoke Energy. These benefits will continue to be reflected in SunCoke Energy s balance sheet until it is determined pursuant to the terms of the tax sharing agreement that such benefits are not subject to allocation to SunCoke Energy and hence will not be realizable in its stand-alone tax filings. In addition, 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 when necessary.

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The reconciliation of income tax expense at the U.S. statutory rate to income tax expense is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
	(Dollars in millions)			
Income tax expense at U.S. statutory rate of 35 percent	$ 10.8	$ 9.1	$ 18.5	$ 12.1
Increase (reduction) in income taxes resulting from:				
Loss (income) attributable to noncontrolling interests[1]	(0.4)	(0.6)	(0.3)	1.6
Nonconventional fuel credit	(3.2)	(4.3)	(5.8)	(6.5)
State and other income taxes, net of federal income tax effects	0.7	(2.4)	1.2	(2.1)
Percentage depletion allowance	(0.6)		(1.0)	(0.6)
Domestic production activity deduction	(0.2)	1.0	(0.3)	1.3
Other	(0.1)	(0.9)		(0.8)
	$ 7.0	$ 1.9	$ 12.3	$ 5.0

(1) No income tax expense is reflected in the Combined and Consolidated Statements of Income for partnership income attributable to noncontrolling interests.

5. Inventories

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

These components of inventories were as follows:

	June 30, 2012	December 31, 2011
	(Dollars in millions)	
Coal	$ 130.2	$ 138.8
Coke	17.6	15.1
Materials, supplies and other	32.3	29.4
Consigned coke inventory	26.4	36.4
	$ 206.5	$ 219.7

During the first quarter of 2011, we estimated that Indiana Harbor would fall short of its 2011 annual minimum coke production requirements by approximately 122 thousand tons. Accordingly, we entered into contracts to procure approximately 133 thousand tons of coke from third parties. However, the coke prices in the purchase agreements exceeded the sales price in our contract with ArcelorMittal. This pricing difference resulted in an estimated loss on firm purchase commitments of $18.5 million ($12.2 million attributable to net parent investment and $6.3 million attributable to noncontrolling interests), which was recorded during the first quarter of 2011. In the second quarter of 2011, we recorded lower of cost or market adjustments of $1.2 million ($0.8 million attributable to net parent investment and $0.4 million attributable to noncontrolling interests) on this purchased coke. In the fourth quarter of 2011, we recorded lower of cost or market adjustments of $0.7 million ($0.6 million attributable to SunCoke Energy, Inc./net parent investment and $0.1 million attributable to noncontrolling interests) on this purchased coke. In the second quarter of 2011, the Company sold 38 thousand tons of this coke to ArcelorMittal. Operational improvements at Indiana Harbor subsequent to the first quarter of 2011 increased coke production for the balance of 2011 and Indiana Harbor was able to meet its 2011 contractual requirements with ArcelorMittal.

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In the third quarter of 2011, the Company entered into an agreement to sell approximately 95 thousand tons of this purchased coke to a customer on a consignment basis that will expire, as amended, on the earlier of December 31, 2012 or full consumption of, and payment for, the coke. If, after December 31, 2012, the customer has not consumed all of the consigned coke and the Company chooses to remove any of the remaining coke from the customer s facility, the Company will be entitled to collect a commitment removal fee. The customer did not consume any coke in fiscal 2011. In the six months ended June 30, 2012, the customer consumed approximately 27 thousand tons of consigned coke.

6. Retirement Benefits Plans

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

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

Effective January 1, 2011, pension benefits under the Company s defined benefit plan were frozen for all participants in this plan. The Company also amended its postretirement benefit plans during the first quarter of 2010. Postretirement medical benefits for future retirees were phased out or eliminated, effective January 1, 2011, for non-mining employees with less than ten years of service and employer costs for all those still eligible for such benefits were capped. As a result of these changes, the Company s postretirement benefit liability declined $36.7 million during 2010. Most of the benefit of this liability reduction is being amortized into income through 2016. At December 31, 2011, the Company s pension plan assets were invested in a trust with the assets of other pension plans of Sunoco. These plan assets were separated from the Sunoco trust in January 2012 and were transferred to a newly formed trust established for the defined benefit plan.

During the three months ended June 30, 2012, the pension plan s investment strategy and target asset allocation for non-cash investments were modified to implement an allocation of 66 percent to equity securities and 34 percent to investment grade fixed income securities. The objective of this strategy is to maximize the long-term return on plan assets at a prudent level of risk in order to ensure adequate funding for the Company s pension benefit obligations. Prior to this change, the plan s investment strategy for 2012 reflected a 100 percent allocation to investment grade fixed income securities with a weighted average duration approximately equal to the plan s benefit obligation. Following this change in asset allocation, the plan s expected return on assets increased from 4.25 percent to 6.25 percent. This change results in a reduction of defined benefit plan expense of $0.6 million for fiscal 2012, $0.3 million of which was recognized in the three months ended June 30, 2012.

Defined benefit plan (benefit) expense consisted of the following components:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
	(Dollars in millions)			
Interest cost on benefit obligations	0.4	0.4	0.7	0.7
Expected return on plan assets	(0.6)	(0.6)	(0.9)	(1.2)
Amortization of actuarial losses	0.2	0.1	0.5	0.3
	$	$ (0.1)	$ 0.3	$ (0.2)

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Postretirement benefit plans benefit consisted of the following components:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
	(Dollars in millions)			
Service cost	$ 0.1	$ 0.1	$ 0.2	$ 0.2
Interest cost on benefit obligations	0.4	0.5	0.9	1.0
Amortization of:				
Actuarial losses	0.4	0.3	0.7	0.7
Prior service benefit	(1.4)	(1.4)	(2.8)	(2.8)
	$ (0.5)	$ (0.5)	$ (1.0)	$ (0.9)

7. Accrued Liabilities

Accrued liabilities consisted of the following:

	June 30, 2012	December 31, 2011
	(Dollars in millions)	
Accrued sales discounts	$ 32.0	$ 24.9
Accrued benefits	15.7	18.1
Other	27.3	26.8
Total	$ 75.0	$ 69.8

8. Debt

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

	June 30, 2012	December 31, 2011
	(Dollars in millions)	
Term loans, bearing interest at variable rates, due 2018, net of original issue discount of $1.9 million and $2.0 million at June 30, 2012 and December 31, 2011, respectively(1)	$ 324.9	$ 326.4
7.625% senior notes, due 2019 (Notes)	400.0	400.0
Total debt	$ 724.9	$ 726.4
Less: current portion of long-term debt	3.3	3.3
Total long-term debt	$ 721.6	$ 723.1

(1) Borrowed under the Company s Credit Agreement dated as of July 26, 2011 (Credit Agreement).

The Credit Agreement provides for up to $75.0 million in uncommitted incremental facility term loans (Incremental Facilities) that are available subject to the satisfaction of certain conditions. As of June 30, 2012, there was $45.0 million of capacity under the Incremental Facilities. The

Credit Agreement also provides for a $150 million revolving facility (Revolving Facility) that can be used to finance capital expenditures, acquisitions, working capital needs and for other general corporate purposes. As of June 30, 2012, the Revolving Facility had letters of credit outstanding of $0.9 million, leaving $149.1 million available subject to the terms of the Credit Agreement.

9. Commitments and Contingent Liabilities

The Company is subject to indemnity agreements with current and former third-party investors of Indiana Harbor and Jewell related to certain tax benefits that they earned as limited partners. Based on the partnership s statute of limitations, as well as published filings of the limited partners, the Company believes that tax audits for years 2006 and 2007, relating to tax credits of approximately $51 million, may be still open for the limited partners and subject to examination. As of June 30, 2012, the Company has not been notified by the limited partners that any items subject to the indemnification are under examination and further believes that the potential for any claims under the indemnity agreements is remote. Sunoco guaranteed SunCoke Energy s performance under the indemnification to the current third party investor of Indiana Harbor and the former investor at Jewell. On September 30, 2011, concurrent with SunCoke Energy s purchase of the 19 percent ownership interest from one of the Indiana Harbor limited partners, Sunoco was released of its guarantee to the former Indiana Harbor partner of SunCoke Energy s performance under this indemnification. SunCoke Energy has assumed this guarantee.

The United States Environmental Protection Agency (the EPA) has issued Notices of Violations (NOVs) for our Haverhill and Granite City cokemaking facilities which stem from alleged violations of our air emission operating permits for these facilities. We are currently working in a cooperative manner with the EPA and the Illinois Environmental Protection Agency to address the allegations. Settlement may require payment of a penalty for alleged past violations as well as undertaking capital projects to improve reliability of the energy recovery systems and enhance environmental performance at the Haverhill and Granite City facilities. As a result of discussions with the EPA, the Company expects these projects to cost approximately $80 million to $100 million and to be carried out over the 2012 through 2016 time period. The majority of the spending is expected to take place from 2013 to 2016, although some spending may occur in 2012 depending on the timing of the settlement. The final cost of the projects will be dependent upon the ultimate outcome of discussions with regulators. We are currently engaged in penalty negotiations with regulators and estimate the range of reasonably possible loss to be approximately $1.9 million to $2.5 million.

In addition, the Company has received an NOV from the EPA related to our Indiana Harbor cokemaking facility. After initial discussions with the EPA and the Indiana Department of Environmental Management (IDEM), resolution of the NOV was postponed by mutual agreement because of ongoing discussions regarding the NOVs at the Haverhill and Granite City cokemaking facilities. In January 2012, the Company began working in a cooperative manner to address the allegations with the EPA, the IDEM and Cokenergy, Inc., an independent power producer that owns and operates an energy facility, including heat recovery equipment, a flue gas desulfurization system and a power generation plant, that processes hot flue gas from our Indiana Harbor facility to produce steam and electricity and to reduce the sulfur and particulate content of such flue gas. Settlement may require payment of a penalty for alleged past violations as well as undertaking capital projects to enhance environmental performance. We conducted an engineering study to identify major maintenance projects necessary to preserve the production capacity of the facility. In accordance with the findings of this engineering study, we expect to spend approximately $50 million in the 2012 through 2014 timeframe to refurbish the facility, of which approximately $20 million we expect will be spent in 2012. This estimate includes anticipated spending that may be required in connection with the settlement of this NOV. 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.

On February 9, 2010, the Ohio Department of Environmental Protection (OEPA) issued a New Source Review permit-to-install (NSR PTI) for the Middletown cokemaking facility. During the 30-day statutory appeal period ending March 11, 2010, four parties, including the City of Monroe, Ohio, Robert D. Snook, a pro se litigant, the National Resources Defense Council, and individuals affiliated with the SunCoke Watch opposition group, filed appeals at the Ohio Environmental Review Appeals Commission (ERAC), challenging OEPA s issuance of the NSR PTI. In May 2012, we entered into a settlement agreement with the parties. The settlement agreement was approved by the ERAC in July 2012. The terms of the settlement were not material to the financial position, results of operations or cash flows of the Company at June 30, 2012.

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, natural resource damage 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 June 30, 2012.

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10. Restructuring

In 2010, in connection with the Separation, the Company announced the relocation of its corporate headquarters from Knoxville, Tennessee to Lisle, Illinois. The relocation was completed during the second quarter of 2011 and resulted in a termination of employees eligible for severance benefits upon such termination. The Company recorded restructuring charges of $0.1 million and $0.4 million for the three and six months ended June 30, 2012 and $4.0 million and $5.7 million for the three and six months ended June 30, 2011. These charges consist of employee-related costs, primarily related to relocation, lease terminations and asset write-offs.

The following table presents aggregate restructuring charges related to the relocation:

	Employee-Related Costs	Asset Write-offs	Lease Terminations	Total
		(Dollars in millions)		
Charges incurred through December 31, 2011	$ 5.5	$ 0.9	$ 2.0	$ 8.4
Three months ended March 31, 2012	0.3			0.3
Three months ended June 30, 2012	0.1			0.1
Charges recorded through June 30, 2012	$ 5.9	$ 0.9	$ 2.0	$ 8.8

In addition to the amounts set forth in the table above, we expect to incur an additional $0.8 million in employee-related costs mostly in 2012, primarily due to relocation. Employee-related costs and lease terminations are included in selling, general and administrative expenses. Asset write-offs are included in depreciation expense.

The following table presents accrued restructuring and related activity as of and for the six months ended June 30, 2012 related to the relocation:

	Employee-Related Costs	Lease Terminations	Total
		(Dollars in millions)	
Balance at December 31, 2011	$ 0.8	$ 1.7	$ 2.5
Charges	0.4		0.4
Cash payments	(0.6)	(0.2)	(0.8)
Balance at June 30, 2012	$ 0.6	$ 1.5	$ 2.1

11. Share-Based Compensation

During the six months ended June 30, 2012, 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 486,182 shares of common stock during the six months ended June 30, 2012 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 six months ended June 30, 2012 was $5.70 using the following weighted-average assumptions:

	Six Months Ended June 30 2012
Risk Free Interest Rate	0.82%
Expected Term	5 years
Volatility	45%
Dividend Yield	%
Weighted-Average Exercise Price	$ 14.29

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

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

Restricted Stock Units

The Company issued 83,082 restricted stock units (RSU) for shares of the Company s common stock during the six months ended June 30,2012 that vest in four annual installments beginning one year from the grant date. The weighted average fair value of the RSUs granted during the six months ended June 30, 2012 is $14.29 and is calculated based on the closing price of our common stock on the date of each grant. All awards vest immediately upon a change in control and a qualifying termination of employment as defined by the SunCoke LTPEP.

Award Modifications

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

At the Distribution Date, 1,219,842 SunCoke Energy stock options were issued in connection with the conversion of the outstanding Sunoco stock options to Sunoco employees and directors. The converted stock options for Sunoco employees and directors are fully vested and exercisable and any expense associated with the modification of these stock options was recognized by Sunoco. The exercise prices for these stock options range from $4.77 to $29.35 per share. The stock options expire 10 years from the date of the original grant and have a weighted average remaining life of 5.4 years. During the six months ended June 30, 2012, 253,144 options were exercised.

At the Distribution Date, 295,854 SunCoke Energy stock options were issued in connection with the conversion of the outstanding Sunoco stock options for SunCoke Energy employees, of which 270,909 are fully vested and exercisable. The exercise prices for these stock options range from $8.93 to $22.31 per share. The stock options expire 10 years from the date of the original grant and have a weighted average remaining contractual term of 6.2 years. In the first quarter of 2012, SunCoke Energy recorded a $0.5 million charge in connection with the award modification and the addition of an anti-dilution provision. The remaining 24,945 options continue to vest over a weighted average period of less than one year. SunCoke Energy recorded $0.1 million in compensation expense related to these awards during the three and six months ended June 30, 2012. As of June 30, 2012, there was $0.1 million of total unrecognized compensation cost related to nonvested stock options.

Outstanding Sunoco common stock units held by SunCoke Energy employees were converted into 95,984 SunCoke Energy restricted stock units at the Distribution Date, which vest over a weighted average period of less than one year. Compensation expense, which is calculated based on the grant-date fair value of the original award and the addition of an anti-dilutive provision, approximates $0.6 million and will be recognized over the remaining service period. SunCoke Energy recorded $0.2 million and $0.3 million in compensation expense related to these awards during the three and six months ended June 30, 2012, respectively. Outstanding Sunoco common stock units held by Sunoco employees were not converted into SunCoke Energy awards.

12. Share Repurchase Program

In February 2012, the Company s Board of Directors authorized the repurchase of up to 3.5 million shares of the Company s common stock over a three year period in order to counter the dilutive impact of exercised stock options and the vesting of restricted stock grants (Repurchase Program). During the six months ended June 30, 2012, the Company repurchased 299,617 shares at a cost of approximately $4.4 million. As of June 30, 2012, the Company had approximately 3.2 million shares remaining available for repurchase under the Repurchase Program.

13. Earnings per Share

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
	(Shares in millions)			
Weighted-average number of common shares outstanding-basic	70.0	70.0	70.0	70.0
Add: effect of dilutive share-based compensation awards	0.3		0.3	
Weighted-average number of shares-diluted	70.3	70.0	70.3	70.0

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

The weighted average number of common shares outstanding for the three and six months ended June 30, 2011 includes 70.0 million shares of common stock owned by Sunoco on the Separation Date as a result of its contribution of the assets of its cokemaking and coal mining operations to SunCoke Energy and related capitalization.

The dollar and share amounts presented within this note and on the Combined and Consolidated Statements of Income are rounded to the nearest million; however, EPS is calculated based on the actual, unrounded, dollar and share values.

14. Supplemental Cash Flow Information

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

	Six Months Ended June 30	
	2012	2011
	(Dollars in millions)	
Interest paid	$ 22.1	$
Income taxes paid	$ 2.2	$ 3.0

15. Fair Value Measurements

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 to sell 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.

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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 utilizes interest rate swaps to manage the risk associated with changing interest rates and accounts for them under ASC 815 *Derivatives and Hedging,* which requires all derivatives to be marked to market (fair value). The Company does not purchase or hold any derivatives for trading purposes. On August 15, 2011, the Company entered into interest rate swap agreements with an aggregate notional amount of $125.0 million. These agreements expire three years from the forward effective date of October 11, 2011. Under the interest rate swap agreements, the Company will pay a weighted average fixed rate of 1.322 percent in exchange for receiving floating rate payments based on the greater of 1.0 percent or three-month LIBOR. The Company did not elect hedge accounting treatment for these interest rate swaps and, therefore, the changes in the fair value of the interest rate swap agreements are recorded in interest expense. The counterparties of the interest rate swap agreements are large financial institutions which the Company believes are of high quality creditworthiness. While the Company may be exposed to potential losses due to the credit risk of nonperformance by these counterparties, such losses are not anticipated.

The fair value of the swap agreements at June 30, 2012 was a liability of approximately $0.8 million. The mark to market impact of the swap arrangements on interest expense was an increase of approximately $0.1 million and $0.3 million for the three and six months ended June 30, 2012, respectively. In estimating the fair market value of interest rate swaps, the Company utilized a present value technique which discounts future cash flows against the underlying floating rate benchmark. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty. These inputs are not observable in the market and are classified as Level 3 within the valuation hierarchy.

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

Contingent consideration related to acquisition of the Harold Keene Coal Co., Inc. and affiliated companies (HKCC) is measured at fair value and amounted to $8.3 million at June 30, 2012. The estimated fair value is based on significant inputs that are not observable in the market, or Level 3 within the valuation hierarchy. Key assumptions at June 30, 2012 include (a) a risk-adjusted discount rate range of 2.555 percent to 9.219 percent, which reflects a credit spread adjustment for each period, and (b) production levels of HKCC operations between 140 thousand and 475 thousand tons per year. The fair value adjustments to contingent consideration decreased cost of products sold by $0.5 million and $0.7 million for the three and six months ended June 30, 2012, respectively, and $0.4 million for the three and six months ended June 30, 2011.

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

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). At June 30, 2012, no material fair value adjustments or fair value measurements were required for these non-financial assets or liabilities.

Certain Financial Assets and Liabilities not Measured at Fair Value

At June 30, 2012, the estimated fair value of the Company s long-term debt was estimated to be $717.8 million, compared to a carrying amount of $724.9 million, which is net of original issue discount and mandatory pre-payments made since issuance. The fair value was estimated by management based upon estimates of debt pricing provided by financial institutions and are considered Level 3 inputs.

16. Business Segment Information

The Company is an independent owner and operator of five cokemaking facilities in the eastern and midwestern regions of the United States and operator of a cokemaking facility for a project company in Brazil in which it has a preferred stock investment. In addition to its cokemaking operations, the Company has metallurgical coal mining operations in the eastern United States. The Company s cokemaking operations are reported as three segments: Jewell Coke, Other Domestic Coke and International Coke.

The Jewell Coke segment consists of the operations of the Company s cokemaking facilities in Vansant, Virginia. The Indiana Harbor, Haverhill, Granite City and Middletown cokemaking facilities are individual operating segments that have been aggregated into the Other Domestic Coke segment. The Middletown cokemaking facility commenced operations in October 2011 and beginning in the fourth quarter of 2011 is included in the Other Domestic Coke segment results. Prior to the commencement of operations, all costs associated with Middletown were included in Corporate and Other. Each of these facilities produces coke and recovers waste heat which is converted to steam or electricity through a similar production process. The coke production for these facilities is sold directly to integrated steel producers under contracts which provide for the pass-through of coal costs subject to contractual coal-to-coke yields plus an operating cost component and fixed fee component received for each ton of coke sold. Accordingly, the Company s management believes that the facilities in the Other Domestic Coke segment have similar long-term economic characteristics.

The International Coke segment operates a cokemaking facility located in Vitória, Brazil for a project company. The International Coke segment earns income from the Brazilian facility through (1) licensing and operating fees payable to us under long-term contracts with the local project company that will run through 2023, subject, in the case of the licensing agreement, to the issuance prior to 2014 of certain patents in Brazil that have been granted in the United States and (2) an annual preferred dividend on our preferred stock investment from the project company guaranteed by the Brazilian subsidiary of ArcelorMittal.

The Company s Coal Mining segment conducts coal mining operations near the Company s Jewell cokemaking facility with mines located in Virginia and West Virginia. Currently, a substantial portion of the coal production is sold to the Jewell Coke segment for conversion into coke. Beginning in 2012, intersegment coal revenues for sales to Jewell Coke are reflective of the contract price that Jewell Coke charges its customer. Prior year periods have been adjusted to reflect this change.

Some coal is also sold to the Other Domestic Coke facilities and third parties. Intersegment coal revenues for sales to the Other Domestic Coke segments are based on the prices that the coke customers of the Other Domestic Coke segment have agreed to pay for the internally produced coal, which approximate the market prices for this quality of metallurgical coal.

Overhead expenses that can be identified with a segment have been included in determining segment results. The remainder is included in Corporate and Other. Total financing (expense) income, net, which consists principally of interest income, interest expense and interest capitalized, is also excluded from segment results. Identifiable assets are those assets that are utilized within a specific segment.

Three Months Ended June 30, 2012
(Dollars in millions)

	Jewell Coke	Other Domestic Coke	International Coke	Coal Mining	Corporate and Other	Consolidated
Sales and other operating revenue	$ 68.5	$ 373.0	$ 9.0	$ 10.2	$	$ 460.7
Intersegment sales	$	$	$	$ 50.6	$	$
Adjusted EBITDA	$ 12.5	$ 48.6	$ 0.7	$ 9.3	$ (5.6)	$ 65.5
Depreciation, depletion and amortization	$ 1.3	$ 13.7	$ 0.1	$ 4.3	$ 0.8	$ 20.2
Capital expenditures	$ 0.9	$ 4.6	$ 0.7	$ 4.9	$ 0.1	$ 11.2
Identifiable assets	$ 81.4	$ 1,458.4	$ 53.9	$ 193.0	$ 183.5	$ 1,970.2

	Three Months Ended June 30, 2011 (Dollars in millions)					
	Jewell Coke	Other Domestic Coke	International Coke	Coal Mining	Corporate and Other	Combined
Sales and other operating revenue	$ 62.1	$ 299.8	$ 10.0	$ 5.7	$	$ 377.6
Intersegment sales	$	$	$	$ 46.2	$	$
Adjusted EBITDA	$ 10.6	$ 25.3	$ 0.8	$ 11.5	$ (10.5)	$ 37.7
Depreciation, depletion and amortization	$ 1.4	$ 9.6	$ 0.1	$ 3.2	$ 0.4	$ 14.7
Capital expenditures	$ 0.1	$ 3.4	$	$ 8.9	$ 56.1[(1)]	$ 68.5
Identifiable assets	$ 85.1	$ 954.4	$ 53.6	$ 173.5	$ 706.0[(2)]	$ 1,972.6

(1) Includes $51.2 million attributable to the Middletown facility.
(2) Includes receivables from affiliate totaling $292.6 million and Middletown facility construction-in-progress totaling $346.1 million.

	Six Months Ended June 30, 2012 (Dollars in millions)					
	Jewell Coke	Other Domestic Coke	International Coke	Coal Mining	Corporate and Other	Consolidated
Sales and other operating revenue	$ 142.6	$ 751.1	$ 19.0	$ 28.6	$	$ 941.3
Intersegment sales	$	$	$	$ 96.3	$	$
Adjusted EBITDA	$ 27.5	$ 88.7	$ 0.8	$ 16.7	$ (12.4)	$ 121.3
Depreciation, depletion and amortization	$ 2.6	$ 26.3	$ 0.2	$ 8.4	$ 1.1	$ 38.6
Capital expenditures	$ 0.9	$ 8.8	$ 0.9	$ 9.0	$ 1.1	$ 20.7
Identifiable assets	$ 81.4	$ 1,458.4	$ 53.9	$ 193.0	$ 183.5	$ 1,970.2

	Six Months Ended June 30, 2011 (Dollars in millions)					
	Jewell Coke	Other Domestic Coke	International Coke	Coal Mining	Corporate and Other	Combined
Sales and other operating revenue	$ 126.1	$ 547.3	$ 19.7	$ 17.5	$	$ 710.6
Intersegment sales	$	$	$	$ 85.0	$	$
Adjusted EBITDA	$ 21.6	$ 33.8	$ 1.8	$ 23.8	$ (16.7)	$ 64.3
Depreciation, depletion and amortization	$ 2.5	$ 18.2	$ 0.1	$ 5.9	$ 1.0	$ 27.7
Capital expenditures	$ 0.2	$ 4.0	$ 0.2	$ 13.9	$ 109.7[(1)]	$ 128.0
Identifiable assets	$ 85.1	$ 954.4	$ 53.6	$ 173.5	$ 706.0[(2)]	$ 1,972.6

(1) Includes $103.9 million attributable to the Middletown facility.
(2) Includes receivables from affiliate totaling $292.6 million and Middletown facility construction-in-progress totaling $346.1 million.

The Company evaluates the performance of its segments based on segment Adjusted EBITDA, which is defined as earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) adjusted for sales discounts and the deduction of income attributable to noncontrolling interests in our Indiana Harbor cokemaking operations. The Company s presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

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Below is a reconciliation of Adjusted EBITDA to net income.

	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
	(Dollars in millions)			
Adjusted EBITDA	$ 65.5	$ 37.7	$ 121.3	$ 64.3
Subtract: Depreciation, depletion and amortization	20.2	14.7	38.6	27.7
Subtract (Add): Financing expense (income), net	11.8	(4.5)	23.8	(9.0)
Subtract: Income tax expense	7.0	1.9	12.3	5.0
Subtract: Sales discount provided to customers due to sharing of nonconventional fuel tax credits	3.8	3.1	7.0	6.2
Subtract (Add) : Net loss (income) attributable to noncontrolling interest	(1.3)	(1.6)	(1.0)	4.6
Net income	$ 24.0	$ 24.1	$ 40.6	$ 29.8

The following table sets forth the Company s total sales and other operating revenue by product or service:

	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
	(Dollars in millions)			
Coke sales	$ 425.4	$ 350.7	$ 862.3	$ 649.6
Steam and electricity sales	16.1	11.4	31.6	23.9
Operating and licensing fees	9.0	9.9	19.0	19.7
Metallurgical coal sales	10.2	5.6	28.4	17.4
Sales and other operating revenue	$ 460.7	$ 377.6	$ 941.3	$ 710.6

17. Supplemental Condensed Consolidating Financial Information

Certain wholly-owned subsidiaries of the Company serve as guarantors of the obligations under the Credit Agreement and $400 million Notes (Guarantor Subsidiaries). These guarantees are full and unconditional and joint and several. For purposes of the following footnote, SunCoke Energy, Inc. 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. Prior to the Separation Date, the Company was a wholly-owned subsidiary of Sunoco. Therefore, there is no parent entity for purposes of this footnote for periods prior to the Separation Date.

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 combined and 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.

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SunCoke Energy, Inc.

Condensed Consolidating Statement of Income

Three Months Ended June 30, 2012

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
			(Dollars in millions)		
Revenues					
Sales and other operating revenue	$	$ 330.3	$ 130.4	$	$ 460.7
Equity in earnings of subsidiaries	33.8	8.0		(41.8)	
Other income, net		0.2			0.2
Total revenues	33.8	338.5	130.4	(41.8)	460.9
Costs and operating expenses					
Cost of products sold and operating expenses		256.5	120.9		377.4
Selling, general and administrative expenses	2.6	15.3	2.6		20.5
Depreciation, depletion, and amortization		18.4	1.8		20.2
Total costs and operating expenses	2.6	290.2	125.3		418.1
Operating income	31.2	48.3	5.1	(41.8)	42.8
Interest income affiliate		1.8		(1.8)	
Interest income		0.1	0.1		0.2
Interest cost affiliate			(1.8)	1.8	
Interest cost	(12.0)				(12.0)
Total financing (loss) income, net	(12.0)	1.9	(1.7)		(11.8)
Income before income tax expense	19.2	50.2	3.4	(41.8)	31.0
Income tax (benefit) expense	(3.5)	10.8	(0.3)		7.0
Net income	22.7	39.4	3.7	(41.8)	24.0
Less: Net income attributable to noncontrolling interests			1.3		1.3
Net income attributable to SunCoke Energy, Inc.	$ 22.7	$ 39.4	$ 2.4	(41.8)	$ 22.7
Comprehensive income	$ 22.7	$ 38.9	$ 2.6	$ (41.8)	$ 22.4
Less: Comprehensive income attributable to noncontrolling interests			1.3		1.3
Comprehensive income attributable to SunCoke Energy, Inc.	$ 22.7	$ 38.9	1.3	$ (41.8)	$ 21.1

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SunCoke Energy, Inc.

Condensed Combining Statement of Income

Three Months Ended June 30, 2011

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
		(Dollars in millions)		
Revenues				
Sales and other operating revenue	$ 251.4	$ 126.2	$	$ 377.6
Equity in earnings of subsidiaries	2.9		(2.9)	
Other income (loss), net	0.5	(0.2)		0.3
Total revenues	254.8	126.0	(2.9)	377.9
Costs and operating expenses				
Cost of products sold and operating expenses	197.0	122.1		319.1
Selling, general and administrative expenses	20.5	2.1		22.6
Depreciation, depletion, and amortization	12.9	1.8		14.7
Total costs and operating expenses	230.4	126.0		356.4
Operating income	24.4		(2.9)	21.5
Interest income affiliate	1.9	3.8		5.7
Interest income		0.1		0.1
Interest cost affiliate	(1.7)			(1.7)
Capitalized interest	0.4			0.4
Total financing income, net	0.6	3.9		4.5
Income before income tax expense	25.0	3.9	(2.9)	26.0
Income tax expense (benefit)	2.4	(0.5)		1.9
Net income	22.6	4.4	(2.9)	24.1
Less: Net income attributable to noncontrolling interests		1.6		1.6
Net income attributable to net parent investment	$ 22.6	$ 2.8	(2.9)	$ 22.5
Comprehensive income	22.2	4.8	(2.9)	$ 24.1
Less: Net income attributable to noncontrolling interests		1.6		1.6
Comprehensive income attributable to net parent investment	$ 22.2	$ 3.2	(2.9)	$ 22.5

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SunCoke Energy, Inc.

Condensed Consolidating Statement of Income

Six Months Ended June 30, 2012

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
			(Dollars in millions)		
Revenues					
Sales and other operating revenue	$	$ 668.3	$ 273.0	$	$ 941.3
Equity in earnings of subsidiaries	62.6	7.6		(70.2)	
Other income, net		0.9			0.9
Total revenues	62.6	676.8	273.0	(70.2)	942.2
Costs and operating expenses					
Cost of products sold and operating expenses		521.5	264.2		785.7
Selling, general and administrative expenses	5.5	30.3	5.4		41.2
Depreciation, depletion, and amortization		34.9	3.7		38.6
Total costs and operating expenses	5.5	586.7	273.3		865.5
Operating income (loss)	57.1	90.1	(0.3)	(70.2)	76.7
Interest income affiliate		3.6		(3.6)	
Interest income		0.1	0.2		0.3
Interest cost affiliate			(3.6)	3.6	
Interest cost	(24.1)				(24.1)
Total financing (loss) income, net	(24.1)	3.7	(3.4)		(23.8)
Income (loss) before income tax expense	33.0	93.8	(3.7)	(70.2)	52.9
Income tax (benefit) expense	(6.6)	19.3	(0.4)		12.3
Net income (loss)	39.6	74.5	(3.3)	(70.2)	40.6
Less: Net income attributable to noncontrolling interests			1.0		1.0
Net income (loss) attributable to SunCoke Energy, Inc.	$ 39.6	$ 74.5	$ (4.3)	(70.2)	$ 39.6
Comprehensive income (loss)	$ 39.6	$ 73.6	$ (4.2)	$ (70.2)	$ 38.8
Less: Comprehensive income attributable to noncontrolling interests			1.0		1.0
Comprehensive income (loss) attributable to SunCoke Energy, Inc.	$ 39.6	$ 73.6	(5.2)	$ (70.2)	$ 37.8

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SunCoke Energy, Inc.

Condensed Combining Statement of Income

Six Months Ended June 30, 2011

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
		(Dollars in millions)		
Revenues				
Sales and other operating revenue	$ 478.9	$ 231.7	$	$ 710.6
Equity in loss of subsidiaries	(11.6)		11.6	
Other income (loss), net	0.9	(0.2)		0.7
Total revenues	468.2	231.5	11.6	711.3
Costs and operating expenses				
Cost of products sold and operating expenses	370.5	230.0		600.5
Loss on firm purchase commitment		18.5		18.5
Selling, general and administrative expenses	34.9	3.9		38.8
Depreciation, depletion, and amortization	24.1	3.6		27.7
Total costs and operating expenses	429.5	256.0		685.5
Operating income (loss)	38.7	(24.5)	11.6	25.8
Interest income affiliate	3.9	7.5		11.4
Interest income		0.1		0.1
Interest cost affiliate	(3.2)			(3.2)
Capitalized interest	0.7			0.7
Total financing income, net	1.4	7.6		9.0
Income (loss) before income tax expense	40.1	(16.9)	11.6	34.8
Income tax (benefit) expense	5.6	(0.6)		5.0
Net income (loss)	34.5	(16.3)	11.6	29.8
Less: Net loss attributable to noncontrolling interests		(4.6)		(4.6)
Net income (loss) attributable to net parent investment	$ 34.5	$ (11.7)	$ 11.6	$ 34.4
Comprehensive income (loss)	33.5	(15.7)	11.6	$ 29.4
Less: Net loss attributable to noncontrolling interests		(4.6)		(4.6)
Comprehensive income (loss) attributable to net parent investment	$ 33.5	$ (11.1)	$ 11.6	$ 34.0

SunCoke Energy, Inc.

Condensed Consolidating Balance Sheet

June 30 2012

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Combining and Consolidating Adjustments	Total
		(Dollars in millions, except per share amounts)			
Assets					
Cash and cash equivalents	$	$ 125.7	$ 64.3	$	$ 190.0
Accounts receivable		51.3	2.2		53.5
Inventories		154.0	52.5		206.5
Deferred income taxes		0.8			0.8
Advances from affiliate	98.5	22.2		(120.7)	
Interest receivable from affiliate		3.7		(3.7)	
Total current assets	98.5	357.7	119.0	(124.4)	450.8