CHENIERE ENERGY INC
Form 10-Q
August 03, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

T 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 No. 001-16383
CHENIERE ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	95-4352386
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 Milam Street, Suite 800	
Houston, Texas	77002
(Address of principal executive offices)	(Zip code)

(713) 375-5000
(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. Yes x No o
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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
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. (Check one):

Large accelerated filer S	Accelerated filer £
Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company £

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

214,392,980 shares of the registrant's Common Stock, $0.003 par value, were issued and outstanding as of July 23, 2012.

CHENIERE ENERGY, INC.
INDEX TO FORM 10-Q

Part I. Financial Information

Item 1. Consolidated Financial Statements

CHENIERE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$137,885	$459,160
Restricted cash and cash equivalents	491,299	102,165
Accounts and interest receivable	4,724	3,043
LNG inventory	2,319	6,562
Prepaid expenses and other	19,103	20,522
Total current assets	655,330	591,452
Non-current restricted cash and cash equivalents	82,892	82,892
Property, plant and equipment, net	2,125,693	2,107,129
Debt issuance costs, net	15,480	33,356
Goodwill	76,819	76,819
Intangible LNG assets	4,356	4,782
Other	67,760	18,895
Total assets	$3,028,330	$2,915,325
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Current debt, net of discount	$203,176	$492,724
Accrued liabilities	57,752	63,074
Deferred revenue	25,148	26,628
Accounts payable	11,357	1,103
Other	708	1,431
Total current liabilities	298,141	584,960
Long-term debt, net of discount	2,194,765	2,465,113
Long-term debt-related parties, net of discount	—	9,598
Long-term deferred revenue	23,500	25,500
Other non-current liabilities	3,015	3,146
Commitments and contingencies		
Stockholders' equity (deficit)		
Preferred stock, $0.0001 par value, 5.0 million shares authorized, none issued	—	—
Common stock, $0.003 par value		
Authorized: 480.0 million shares and 240.0 million shares at June 30, 2012 and December 31, 2011, respectively		
Issued and outstanding: 186.4 million shares and 129.5 million shares at June 30, 2012 and December 31, 2011, respectively	559	389
	(23,340)	(20,195)

Treasury stock: 3.6 million shares and 3.4 million shares at June 30, 2012 and December 31, 2011, respectively, at cost		
Additional paid-in-capital	1,730,987	898,702
Accumulated deficit	(1,389,660)	(1,260,205)
Accumulated other comprehensive loss	(274)	(258)
Total stockholders' equity (deficit)	318,272	(381,567)
Non-controlling interest	190,637	208,575
Total equity (deficit)	508,909	(172,992)
Total liabilities and equity (deficit)	$3,028,330	$2,915,325

The accompanying notes are an integral part of these consolidated financial statements.

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CHENIERE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenues				
LNG terminal revenues	$66,071	$67,302	$133,331	$137,303
Marketing and trading revenues (losses)	(4,007)	4,606	(1,349)	13,054
Oil and gas sales	264	884	814	1,653
Other	—	18	5	31
Total revenues	62,328	72,810	132,801	152,041
Operating costs and expenses				
General and administrative expense	20,816	19,378	40,809	40,889
Depreciation, depletion and amortization	15,478	15,625	31,768	31,011
LNG terminal and pipeline operating expense	10,993	7,853	22,550	18,048
LNG terminal and pipeline development expense	21,088	13,356	42,907	21,793
Other	74	137	166	275
Total operating costs and expenses	68,449	56,349	138,200	112,016
Income (loss) from operations	(6,121)	16,461	(5,399)	40,025
Other income (expense)				
Interest expense, net	(55,864)	(64,587)	(114,215)	(128,741)
Loss on early extinguishment of debt	(14,593)	—	(15,100)	—
Derivative gain (loss)	261	(448)	(575)	(448)
Other income	458	118	583	227
Total other expense	(69,738)	(64,917)	(129,307)	(128,962)
Loss before income taxes and non-controlling interest	(75,859)	(48,456)	(134,706)	(88,937)
Income tax provision	(144)	—	(150)	—
Loss before non-controlling interest	(76,003)	(48,456)	(134,856)	(88,937)
Non-controlling interest	2,963	1,285	5,401	1,927
Net loss	$(73,040)	$(47,171)	$(129,455)	$(87,010)
Net loss per share attributable to common stockholders - basic and diluted	$(0.43)	$(0.67)	$(0.86)	$(1.26)
Weighted average number of common shares outstanding - basic and diluted	171,001	70,630	151,054	68,800

The accompanying notes are an integral part of these consolidated financial statements.

CHENIERE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net loss	$(73,040)	$(47,171)	$(129,455)	$(87,010)
Foreign currency translation	(33)	(26)	(16)	(86)
Comprehensive loss	$(73,073)	$(47,197)	$(129,471)	$(87,096)

The accompanying notes are an integral part of these consolidated financial statements.

CHENIERE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands)
(unaudited)

	Total Stockholders' Equity (Deficit)								
	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total Equity (Deficit)
	Shares	Amount	Shares	Amount					
Balance—December 31, 2011	129,510	$389	3,386	$(20,195)	$898,702	$(1,260,205)	$(258)	$208,575	$(172,992)
Issuances of stock	56,832	170		—	828,038	—	—	—	828,208
Issuances of restricted stock	251	1	—	—	(1)	—	—	—	—
Forfeitures of restricted stock	(10)	—	10	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	4,248	—	—	—	4,248
Treasury stock acquired	(213)	(1)	213	(3,145)	—	—	—	—	(3,146)
Foreign currency translation	—	—	—	—	—	—	(16)	—	(16)
Loss attributable to non-controlling interest	—	—	—	—	—	—	—	(5,401)	(5,401)
Sale of Class B units to non-controlling interest	—	—	—	—	—	—	—	(5,000)	(5,000)
Sale of common units to non-controlling interest	—	—	—	—	—	—	—	8,793	8,793
Distribution to non-controlling interest	—	—	—	—	—	—	—	(16,330)	(16,330)
Net loss	—	—	—	—	—	(129,455)	—	—	(129,455)
Balance—June 30, 2012	186,370	$559	3,609	$(23,340)	$1,730,987	$(1,389,660)	$(274)	$190,637	$508,909

The accompanying notes are an integral part of these consolidated financial statements.

CHENIERE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities		
Net loss	$(129,455)	$(87,010)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	31,768	31,011
Loss on early extinguishment of debt	15,097	—
Purchase of Crest Royalty, net of amortization	(25,664)	—
Non-cash interest expense on 2008 Loans	—	15,627
Amortization of debt issuance and discount costs	14,287	14,093
Non-cash compensation	4,248	14,352
Non-controlling interest	(5,401)	(1,927)
Use of (investment in) restricted cash and cash equivalents	21,978	(9,090)
Other	(1,634)	(206)
Changes in operating assets and liabilities:		
Accounts and interest receivable	(1,681)	1,766
Accounts payable and accrued liabilities	(19,648)	2,046
LNG inventory, net	4,243	(3,376)
Deferred revenue	(3,480)	(2,723)
Prepaid expenses and other	405	(4,085)
Net cash used in operating activities	(94,937)	(29,522)
Cash flows from investing activities		
Use of restricted cash and cash equivalents	214,174	5,473
Investment in Cheniere Partners	(170,253)	—
LNG terminal and pipeline construction-in-process, net	(38,985)	(5,480)
Purchase of intangible and fixed assets, net of sales	(2,301)	(283)
Other	(6,080)	(575)
Net cash provided by (used in) investing activities	(3,445)	(865)
Cash flows from financing activities		
Sale of common stock, net	819,686	123,305
Repurchases and prepayments of debt	(571,884)	—
Use of (investment in) restricted cash and cash equivalents	(455,033)	4,154
Sale of common units by Cheniere Partners	8,793	8,978
Distributions to non-controlling interest	(16,330)	(13,306)
Purchase of treasury shares	(1,893)	(2)
Deferred financing costs	(5,530)	—
Other	(702)	(4,342)
Net cash provided by (used in) financing activities	(222,893)	118,787
Net increase (decrease) in cash and cash equivalents	(321,275)	88,400
Cash and cash equivalents—beginning of period	459,160	74,161
Cash and cash equivalents—end of period	$137,885	$162,561

The accompanying notes are an integral part of these consolidated financial statements.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1—Basis of Presentation

The accompanying unaudited consolidated financial statements of Cheniere Energy, Inc. have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation, have been included. As used herein, the terms "Cheniere," "the Company," "we," "our" and "us" refer to Cheniere Energy, Inc. and its wholly owned or controlled subsidiaries, unless otherwise stated or indicated by context.

Results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2012.

Certain reclassifications have been made to prior period information to conform to the current presentation. The reclassifications had no effect on our overall consolidated financial position, results of operations or cash flows.

For further information, refer to the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2011, as amended by Amendment No. 1 on Form 10-K/A.

NOTE 2—Liquidity

As of June 30, 2012, we had unrestricted cash and cash equivalents of $137.9 million available to Cheniere. In addition, we had consolidated restricted cash and cash equivalents of $574.2 million (which included cash and cash equivalents and other working capital available to Cheniere Energy Partners, L.P. ("Cheniere Partners"), in which we own an 89.3% interest, and Sabine Pass LNG, L.P. ("Sabine Pass LNG"), a wholly owned subsidiary of Cheniere Partners) designated for the following purposes: $301.4 million to purchase Class B Units from Cheniere Partners; $96.1 million for interest payments related to the Senior Notes described below; $2.5 million for Sabine Pass LNG's working capital; $168.4 million for Cheniere Partners' working capital; and $5.8 million for other restricted purposes.

We had $203.2 million of current debt as of June 30, 2012. See Note 16—"Subsequent Events" for a description of our repayment of the entire outstanding balance of our Convertible Senior Unsecured Notes.

We believe that we will have sufficient unrestricted cash, liquid assets, cash generated from our operations, financing commitments and access to capital markets to satisfy our debt obligations, fund our operations and incur planned expenditures.

NOTE 3—Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of cash and cash equivalents that are contractually restricted as to usage or withdrawal, as follows:

Senior Notes Debt Service Reserve

Sabine Pass LNG has consummated private offerings of an aggregate principal amount of $2,215.5 million of Senior Notes (See Note 8—"Debt and Debt—Related Parties"). Under the indenture governing the Senior Notes (the "Sabine Pass Indenture"), except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied, including that there must be on deposit in an interest payment account an amount equal to one-sixth of the semi-annual interest payment multiplied by the number of elapsed months since the last semi-annual interest payment and there must be on deposit in a permanent debt service reserve fund an amount equal to one semi-annual interest payment of $82.4 million. Distributions are permitted only after satisfying the foregoing funding requirements, a fixed charge coverage ratio test of 2:1 and other conditions specified in the Sabine Pass Indenture.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(unaudited)

As of June 30, 2012 and December 31, 2011, we classified $13.7 million as current restricted cash and cash equivalents for the payment of interest due within twelve months. As of June 30, 2012 and December 31, 2011, we classified the permanent debt service reserve fund of $82.4 million as non-current restricted cash and cash equivalents. These cash accounts are controlled by a collateral trustee and, therefore, are shown as restricted cash and cash equivalents on our Consolidated Balance Sheets.

Other Restricted Cash and Cash Equivalents

As of June 30, 2012 and December 31, 2011, $171.0 million and $81.4 million, respectively, of current restricted cash and cash equivalents were primarily related to cash and cash equivalents held by Sabine Pass LNG and Cheniere Partners that were considered restricted to Cheniere. As of June 30, 2012, $301.4 million had been classified as current restricted cash and cash equivalents to purchase Class B Units from Cheniere Partners, and $5.2 million had been classified as current restricted cash and cash equivalents due to various other contractual restrictions. As of December 31, 2011, $6.4 million had been classified as current restricted cash and cash equivalents due to various other contractual restrictions on our Consolidated Balance Sheets. As of June 30, 2012 and December 31, 2011, $0.5 million had been classified as non-current restricted cash and cash equivalents due to various other contractual restrictions on our Consolidated Balance Sheets.

NOTE 4—Variable Interest Entity

In 2010, Cheniere Marketing, LLC ("Cheniere Marketing"), our wholly owned subsidiary, entered into various agreements ("LNGCo Agreements") with JPMorgan LNG Co. ("LNGCo") under which Cheniere Marketing agreed to develop and maintain commercial and trading opportunities in the LNG industry and present any such opportunities exclusively to LNGCo. Cheniere Marketing also agreed to provide, or arrange for the provision of, all of the operations and administrative services required by LNGCo in connection with any LNG cargoes purchased by LNGCo, including negotiating agreements and arranging for transporting, receiving, storing, hedging and regasifying LNG cargoes. In return for the services provided by Cheniere Marketing, LNGCo paid a fixed fee to Cheniere Marketing and additional fees depending upon the gross margin of each transaction. In June 2012, Cheniere Marketing and LNGCo terminated the LNGCo Agreements.

During the three and six months ended June 30, 2012, we recognized $1.5 million and $4.0 million, respectively, of marketing and trading revenues from LNGCo. During the three and six months ended June 30, 2011, we recognized $4.9 million and $7.3 million, respectively, of marketing and trading revenues from LNGCo. As of June 30, 2012, the carrying amount of Cheniere Marketing’s assets relating to LNGCo, which is equivalent to Cheniere Marketing's maximum exposure to loss, was $2.6 million. The $2.6 million represents our fixed fee receivable, gross margin receivable and margin deposit receivable that are reported as accounts and interest receivable on our consolidated financial statements.

NOTE 5—Property, Plant and Equipment

Property, plant and equipment consists of LNG terminal and natural gas pipeline costs, LNG site and related costs, investments in oil and gas properties, and fixed assets, as follows (in thousands):

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(unaudited)

	June 30, 2012	December 31, 2011
LNG terminal costs		
LNG terminal	$1,649,306	$1,647,107
LNG terminal construction-in-process	84,342	39,010
LNG site and related costs, net	4,978	4,982
Accumulated depreciation	(146,253)	(125,108)
Total LNG terminal costs, net	$1,592,373	$1,565,991
Natural gas pipeline costs		
Natural gas pipeline	$564,028	$564,021
Natural gas pipeline construction-in-process	2,427	2,427
Pipeline right-of-ways	18,455	18,455
Accumulated depreciation	(60,318)	(52,878)
Total natural gas pipeline costs	$524,592	$532,025
Oil and gas properties, successful efforts method		
Proved	$4,170	$4,170
Accumulated depreciation, depletion and amortization	(3,125)	(3,033)
Total oil and gas properties, net	$1,045	$1,137
Fixed assets		
Computer and office equipment	$6,565	$5,952
Furniture and fixtures	4,057	4,057
Computer software	12,647	12,601
Leasehold improvements	8,474	7,318
Other	2,449	1,892
Accumulated depreciation	(26,509)	(23,844)
Total fixed assets, net	$7,683	$7,976
Property, plant and equipment, net	$2,125,693	$2,107,129

LNG Terminal Costs

Depreciation expense related to the Sabine Pass LNG terminal totaled $10.5 million and $10.7 million for the three months ended June 30, 2012 and 2011, respectively. Depreciation expense related to the Sabine Pass LNG terminal totaled $21.1 million and $21.4 million for the six months ended June 30, 2012 and 2011, respectively.

In June 2012, the Sabine Pass liquefaction project satisfied the criteria for capitalization. Accordingly, costs associated with the construction of the liquefaction facilities have been recorded as construction-in-process since that date.

Natural Gas Pipeline Costs

Depreciation expense related to the Creole Trail Pipeline totaled $3.7 million and $3.8 million for the three months ended June 30, 2012 and 2011, respectively. Depreciation expense related to the Creole Trail Pipeline totaled $7.4 million and $7.5 million for the six months ended June 30, 2012 and 2011, respectively.

Fixed Assets

Depreciation expense related to our fixed assets totaled $0.7 million and $0.8 million for the three months ended June 30, 2012 and 2011, respectively. Depreciation expense related to our fixed assets totaled $2.7 million and $1.6 million for the six months ended June 30, 2012 and 2011, respectively.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(unaudited)

NOTE 6—Non-controlling Interest

We have consolidated certain partnerships because we have a controlling interest in these ventures. Therefore, the entities' financial statements are consolidated in our consolidated financial statements and the entities' other equity is recorded as a non-controlling interest. The following table sets forth the components of our non-controlling interest balance since inception attributable to third-party investors' interests at June 30, 2012 (in thousands):

Net proceeds from Cheniere Partners' issuance of common units (1)	$159,586
Net proceeds from Holdings' sale of Cheniere Partners common units (2)	203,946
Distributions to Cheniere Partners' non-controlling interest (3)	(137,353)
Net proceeds from Cheniere Partners' issuance of class B units (4)	(5,000)
Non-controlling interest share of loss of Cheniere Partners	(30,542)
Non-controlling interest at June 30, 2012	$190,637

(1) In March and April 2007, we and Cheniere Partners completed a public offering of 15,525,000 Cheniere Partners common units (the "Cheniere Partners Offering"). Cheniere Partners received $98.4 million in net proceeds from the issuance of its common units to the public. Prior to January 1, 2009, a company was able to elect an accounting policy of recording a gain or loss on the sale of common equity of a subsidiary equal to the amount of proceeds received in excess of the carrying value of the parent's investment. Effective January 1, 2009, the sale of common equity of a subsidiary is accounted for as an equity transaction.

In January 2011, Cheniere Partners initiated an at-the-market program to sell up to 1.0 million common units, the proceeds from which would be used primarily to fund development costs associated with its proposed liquefaction project at the Sabine Pass LNG terminal. As of December 31, 2011, Cheniere Partners had sold 0.5 million common units with net proceeds of $9.0 million. During the six months ended June 30, 2012, Cheniere Partners sold 0.4 million common units with net proceeds of $8.8 million related to this at-the-market program.

In September 2011, Cheniere Partners sold 3.0 million common units in an underwritten public offering and 1.1 million common units to Cheniere Common Units Holding, LLC, a wholly owned subsidiary of Cheniere, at a price of $15.25 per common unit. Cheniere Partners received net proceeds of $43.3 million and $16.4 million from the public offering and Cheniere Common Units Holding, LLC sale, respectively.

(2) In conjunction with the Cheniere Partners Offering, Cheniere LNG Holdings, LLC ("Holdings") sold a portion of the Cheniere Partners common units held by it to the public, realizing net proceeds of $203.9 million, which included $39.4 million of net proceeds realized once the underwriters exercised their option to purchase an additional 2,025,000 common units from Holdings. Due to the subordinated distribution rights on our subordinated units, we have recorded those proceeds as a non-controlling interest.

(3) Cash distributions to the non-controlling interest are recorded directly against the non-controlling interest on our Consolidated Balance Sheets. There is no obligation beyond what is reflected in our consolidated financial statements to fund or absorb such distributions to the non-controlling interest. If in the future the non-controlling interest on our Consolidated Balance Sheets is reduced to zero, these distributions may increase the loss allocated to us.

(4) In May 2012, we, through a wholly owned subsidiary, and Cheniere Partners entered into a unit purchase agreement (the "CEI Unit Purchase Agreement") whereby we agreed to purchase from Cheniere Partners 33.3 million Class B Units at a price of $15.00 per unit for total consideration of $500 million. In June 2012, Cheniere Partners sold $166.7 million of Class B Units to us pursuant to the CEI Unit Purchase Agreement and incurred $5.0 million in financing costs.

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CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(unaudited)

NOTE 7—Accrued Liabilities

As of June 30, 2012 and December 31, 2011, accrued liabilities consisted of the following (in thousands):

	June 30, 2012	December 31, 2011
Accrued interest expense and related fees	$15,653	$35,884
Payroll	13,284	19,321
Financing costs	13,675	351
Provision for loss on LNG inventory	4,850	—
LNG terminal costs	3,249	1,122
LNG liquefaction costs	1,847	1,702
Other accrued liabilities	5,194	4,694
Accrued liabilities	$57,752	$63,074

NOTE 8—Debt and Debt—Related Parties

As of June 30, 2012 and December 31, 2011, our debt consisted of the following (in thousands):

	June 30, 2012	December 31, 2011
Current debt		
2007 Term Loan	$—	$298,000
Convertible Senior Unsecured Notes	204,630	204,630
Total current debt	204,630	502,630
Current debt discount		
Convertible Senior Unsecured Notes	(1,454)	(9,906)
Total current debt, net of discount	$203,176	$492,724
Long-term debt (including related parties)		
Senior Notes	$2,215,500	$2,215,500
2008 Loans (including related parties)	—	282,293
Total long-term debt	2,215,500	2,497,793
Long-term debt discount		
Senior Notes	(20,735)	(23,082)
Total long-term debt (including related parties), net of discount	$2,194,765	$2,474,711

2007 Term Loan

In May 2007, Cheniere Subsidiary Holdings, LLC, a wholly owned subsidiary of Cheniere, entered into a $400.0 million credit agreement ("2007 Term Loan"). Borrowings under the 2007 Term Loan generally bore interest at a fixed rate of 9¾% per annum. Interest was calculated on the unpaid principal amount of the 2007 Term Loan outstanding and was payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The 2007 Term Loan had a maturity date of May 31, 2012. The 2007 Term Loan was secured by a pledge of our 135,383,831 subordinated units in Cheniere Partners.

In May 2010, we sold our 30% interest in Freeport LNG Development, L.P. ("Freeport LNG") to institutional investors for net proceeds of $104.3 million. The net proceeds from the sale were used to prepay $102.0 million of the

2007 Term Loan in May 2010. As of December 31, 2010, $298.0 million was outstanding under the 2007 Term Loan and included in long-term debt on our Consolidated Balance Sheets. During the second quarter of 2011, we reclassified $298.0 million of debt from a long-term liability to a current liability because our 2007 Term Loan was due within 12 months as of May 31, 2011.

In January 2012, we used a portion of the net proceeds from the public offering of common stock in December 2011 to repay in full the outstanding principal balance of the 2007 Term Loan. The aggregate repayment amount was $298.2 million, including the outstanding principal amount and accrued interest through January 5, 2012.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(unaudited)

Convertible Senior Unsecured Notes

In July 2005, we consummated a private offering of $325.0 million aggregate principal amount of Convertible Senior Unsecured Notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended ("the Securities Act"). The notes bore interest at a rate of 2¼% per year. The notes were convertible at any time into our common stock under certain circumstances at an initial conversion rate of 28.2326 shares per $1,000 principal amount of the notes, which was equal to a conversion price of approximately $35.42 per share. As of June 30, 2012, no holders had elected to convert their notes at the conversion rate.

We had the right to redeem some or all of the notes on or before August 1, 2012, for cash equal to 100% of the principal plus any accrued and unpaid interest if in the previous 10 trading days the volume-weighted average price of our common stock exceeded $53.13, subject to adjustment, for at least five consecutive trading days. In the event of such redemption, we would have made an additional payment equal to the present value of all remaining scheduled interest payments through August 1, 2012, discounted at the U.S. Treasury securities rate plus 50 basis points. The indenture governing the notes contained customary reporting requirements.

During the second quarter of 2009, we reduced debt by exchanging $120.4 million aggregate principal amount of our Convertible Senior Unsecured Notes for a combination of $30.0 million cash and cash equivalents and 4.0 million shares of common stock, reducing our principal amount due in 2012 to $204.6 million. The remaining principal amount of the Convertible Senior Unsecured Notes were convertible into 5.8 million shares of our common stock as of June 30, 2012.

During the third quarter of 2011, we reclassified $190.7 million of debt, net of discount, from a long-term liability to a current liability because our Convertible Senior Unsecured Notes were due within 12 months as of August 1, 2011.

We adopted on January 1, 2009 an accounting standard that requires issuers of certain convertible debt instruments to separately account for the liability component and the equity component represented by the embedded conversion option in a manner that will reflect that entity's nonconvertible debt borrowing rate when interest costs are recognized in subsequent periods. The fair value of the embedded conversion option at the date of issuance of the Convertible Senior Unsecured Notes was determined to be $134.0 million and has been recorded as a debt discount to the Convertible Senior Unsecured Notes, with a corresponding adjustment to additional paid-in capital. At June 30, 2012, the unamortized debt discount to the Convertible Senior Unsecured Notes was $1.5 million.

See Note 16—"Subsequent Events" for a description of our repayment of the entire outstanding balance of the Convertible Senior Unsecured Notes.

Senior Notes

In November 2006, Sabine Pass LNG issued an aggregate principal amount of $2,032.0 million of Senior Notes (the "Senior Notes"), consisting of $550.0 million of 7¼% Senior Secured Notes due 2013 (the "2013 Notes") and $1,482.0 million of 7½% Senior Secured Notes due 2016 (the "2016 Notes"). In September 2008, Sabine Pass LNG issued an additional $183.5 million, before discount, of 2016 Notes whose terms were identical to the previously outstanding 2016 Notes. Interest on the Senior Notes is payable semi-annually in arrears on May 30 and November 30 of each year. The Senior Notes are secured on a first-priority basis by a security interest in all of Sabine Pass LNG’s equity interests and substantially all of its operating assets.

Sabine Pass LNG may redeem some or all of the Senior Notes at any time, and from time to time, at a redemption price equal to 100% of the principal plus any accrued and unpaid interest plus the greater of:

- 1.0% of the principal amount of the Senior Notes; or
- the excess of: a) the present value at such redemption date of (i) the redemption price of the Senior Notes plus (ii) all required interest payments due on the Senior Notes (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over b) the principal amount of the Senior Notes, if greater.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
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Under the Sabine Pass Indenture, except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied: there must be on deposit in an interest payment account an amount equal to one-sixth of the semi-annual interest payment multiplied by the number of elapsed months since the last semi-annual interest payment, and there must be on deposit in a permanent debt service reserve fund an amount equal to one semi-annual interest payment of approximately $82.4 million. Distributions are permitted only after satisfying the foregoing funding requirements, a fixed charge coverage ratio test of 2:1 and other conditions specified in the Sabine Pass Indenture. During the six months ended June 30, 2012, Sabine Pass LNG made distributions of $146.7 million after satisfying all the applicable conditions in the Sabine Pass Indenture. During the six months ended June 30, 2011, Sabine Pass LNG made distributions of $155.6 million after satisfying all the applicable conditions in the Sabine Pass Indenture.

2008 Loans (Including Related Parties)

In August 2008, we entered into a credit agreement pursuant to which we obtained $250.0 million in convertible term loans ("2008 Loans"). The 2008 Loans had a maturity date in 2018. The 2008 Loans bore interest at a fixed rate of 12% per annum, except during the occurrence of an event of default during which time the rate of interest would have been 14% per annum. Interest was due semi-annually on the last business day of January and July. The 2008 Loans were secured by Cheniere's rights and fees payable under management services agreements with Sabine Pass LNG and Cheniere Partners, by Cheniere's 12.0 million common units in Cheniere Partners, by the equity and assets of Cheniere's pipeline entities, by the equity of various other subsidiaries and certain other assets and subsidiary guarantees.

In June 2010, the 2008 Loans were amended to permit all funds on deposit in a terminal use agreement ("TUA") reserve payment account to be applied to the prepayment of the accrued interest on the loans outstanding under the 2008 Loans, with any remainder to be applied to the prepayment of the principal balance of such 2008 Loans. As a result, $63.6 million from the TUA reserve account was used to prepay $60.9 million of accrued interest and $2.7 million of principal of the 2008 Loans.

In December 2010, the 2008 Loans were amended to, among other things: eliminate the "put rights" which had allowed the lenders to demand repayment of the 2008 Loans on the third, fifth, and seventh anniversaries thereof; allow for the early prepayment of the 2008 Loans; allow Cheniere for a limited period to sell Cheniere Partners common units held as collateral and prepay the 2008 Loans with the proceeds; and release restrictions on prepayments of other indebtedness of Cheniere as certain conditions were met. In addition, 96.6% of the lenders agreed to terminate their rights to exchange the 2008 Loans for Series B Preferred Stock of Cheniere.

The outstanding principal amount of the 2008 Loans held by Scorpion Capital Partners, L.P. ("Scorpion"), the holder of 3.4% of the 2008 Loans as of June 30, 2012, was exchangeable for shares of Cheniere common stock at a price of $5.00 per share pursuant to an amendment to the 2008 Loans adopted in September 2011. No portion of any accrued interest was eligible for exchange into Cheniere common stock. On June 16, 2011, our stockholders approved a proposal to permit Scorpion to exchange its 2008 Loans for common stock, to hold such shares of common stock, and to allow Scorpion to vote the common stock as any other stockholder. The portion of outstanding principal amount of the 2008 Loans for Scorpion was classified as related party long-term debt on our consolidated financial statements because Scorpion is an affiliate of one of Cheniere's directors. As of December 31, 2011, we classified $9.6 million of the 2008 Loans as part of Long-Term Debt—Related Parties on our Consolidated Balance Sheets because a related party then held these portions of this debt. In April 2012, Scorpion exchanged all $8.4 million of its loan for 1.7 million shares of Cheniere common stock and $1.4 million.

In June 2012, we repaid in full the entire outstanding principal balance of the 2008 Loans. Upon such payment, the credit agreement and related agreements were terminated. As a result, we recorded a $14.6 million loss on early extinguishment of debt in June 2012.

Liquefaction Project Debt Financing

See Note 16—"Subsequent Events" for a description of our debt financing to fund the costs of developing, constructing and placing into service the first two LNG trains of the liquefaction facilities adjacent to the Sabine Pass LNG terminal.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
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NOTE 9—Financial Instruments

Derivative Instruments

We have entered into certain derivative instruments to hedge the exposure to variability in expected future cash flows attributable to the future sale of our LNG inventory ("LNG Inventory Derivatives"), and to hedge the price risk attributable to future purchases of natural gas to be utilized as fuel to operate the Sabine Pass LNG terminal ("Fuel Derivatives"). Changes in the fair value of our derivatives instruments are reported in earnings because we have not elected to designate these derivative instruments as a hedging instrument that is required to qualify for cash flow hedge accounting. The estimated fair value of financial instruments is the amount at which the instrument could be exchanged currently between willing parties.

The fair values of our derivative instruments are based on inputs that are quoted prices in active markets for similar assets or liabilities, resulting in Level 2 categorization of such measurements. The following table (in thousands) sets forth, by level within the fair value hierarchy, the fair value of our derivative instruments assets and liabilities at June 30, 2012:

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
LNG Inventory Derivatives liability (1)	$ —	$28	$—	$ 28
Fuel Derivatives liability (2)	—	664	—	664

(1) LNG Inventory Derivatives liability is classified as other current liabilities on our Consolidated Balance Sheets. Changes in the fair value of LNG Inventory Derivatives are recorded in marketing and trading revenues on our Consolidated Statements of Operations. We recorded marketing and trading losses of $1.0 million and marketing and trading revenues of $0.9 million related to LNG Inventory Derivatives in the three and six months ended June 30, 2012, respectively. We recorded marketing and trading revenues of $0.2 million and marketing and trading losses of $0.5 million related to LNG Inventory Derivatives in the three and six months ended June 30, 2011, respectively.

(2) Fuel Derivatives liability is classified as other current liabilities on our Consolidated Balance Sheets. Changes in the fair value of Fuel Derivatives are classified as derivative gain (loss) on our Consolidated Statements of Operations. We recorded derivative gain of $0.3 million and derivative loss of $0.6 million related to Fuel Derivatives in the three and six months ended June 30, 2012 , respectively. We recorded derivative loss of $0.4 million related to Fuel Derivatives in the three and six months ended June 30, 2011.

Other Financial Instruments

The estimated fair value of financial instruments, including those financial instruments for which the fair value option was not elected are set forth in the table below. The carrying amounts reported on our Consolidated Balance Sheets for cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, interest receivable, and accounts payable approximate fair value due to their short-term nature.

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CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
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Financial instruments (in thousands):

	June 30, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
2013 Notes (1)	$550,000	$569,250	$550,000	$555,500
2016 Notes, net of discount (1)	1,644,765	1,722,892	1,642,418	1,650,630
Convertible Senior Unsecured Notes, net of discount (2)	203,176	200,637	194,724	186,740
2007 Term Loan (3)	—	—	298,000	292,728
2008 Loans (4)	—	—	282,293	282,293

(1) The Level 2 estimated fair value of the Senior Notes, net of discount, was based on quotations obtained from broker-dealers who make markets in these and similar instruments based on the closing trading prices on June 30, 2012 and December 31, 2011, as applicable.

(2) The Level 2 estimated fair value of our Convertible Senior Unsecured Notes was based on the closing trading prices on June 30, 2012 and December 31, 2011, as applicable.

(3) The 2007 Term Loan was closely held by few holders, and purchases and sales were infrequent and were conducted on a bilateral basis without price discovery by us. This loan was not rated and had unique covenants and collateral packages such that comparisons to other instruments were imprecise. Nonetheless, we provided an estimate of the fair value of this loan as of December 31, 2011 based on an index of the yield to maturity of CCC rated debt of other companies in the energy sector, resulting in Level 3 categorization. In January 2012, the 2007 Term Loan was paid in full.

(4) In December 2010, the 2008 Loans were amended to, among other things: eliminate the "put rights" which had allowed the lenders to demand repayment of the 2008 Loans on the third, fifth, and seventh anniversaries thereof; allow for the early prepayment of the 2008 Loans; allow Cheniere for a limited period to sell Cheniere Partners common units held as collateral and prepay the 2008 Loans with the proceeds; and release restrictions on prepayments of other indebtedness of Cheniere as certain conditions are met. In addition, 96.6% of the lenders agreed to terminate their rights to exchange the 2008 Loans for Series B Preferred Stock of Cheniere. Pursuant to an amendment to the 2008 Loans adopted in September 2011, the outstanding principal amount of the 2008 Loans held by Scorpion was exchangeable for shares of Cheniere common stock at a price of $5.00 per share. The Level 3 estimated fair value of the 2008 Loans as of December 31, 2011 was determined to be the same as the carrying amount due to our ability to call the debt (other than the debt held by Scorpion) at anytime without penalty or a make-whole payment for an early redemption. In June 2012, the 2008 Loans were paid in full. Upon such payment, the credit agreement and related agreements were terminated.

NOTE 10—Income Taxes

We are not presently a taxpayer for federal or state income tax purposes and have not recorded a net liability for federal or state income taxes in any of the periods included in the accompanying financial statements. However, we are presently an international taxpayer and have recorded a net liability of $0.1 million and $0.2 million for international income taxes for the three and six months ended June 30, 2012, respectively. Our Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011 include no income tax benefits.

During the fourth quarter of 2010, largely due to the increased level of trading activity in our shares, we experienced an ownership change within the provisions of Internal Revenue Code ("IRC") Section 382 that will subject approximately $881 million of our existing net operating loss ("NOL") carryforwards to the annual NOL utilization limitations. The applicable Section 382 limitation will not affect our ability to fully utilize our existing tax NOL carryforwards. We will continue to monitor trading activity in our shares which may cause an additional ownership change and ultimately affect our ability to fully utilize our existing tax NOL carryforwards.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
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NOTE 11—Net Loss Per Share Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders ("EPS") excludes dilution and is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects potential dilution and is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period increased by the number of additional common shares that would have been outstanding if the potential common shares had been issued.

The following table reconciles basic and diluted weighted average common shares outstanding for the three and six months ended June 30, 2012 and 2011 (in thousands except for loss per share):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Weighted average common shares outstanding:				
Basic	171,001	70,630	151,054	68,800
Dilutive common stock options (1)	—	—	—	—
Dilutive Convertible Senior Unsecured Notes (2)	—	—	—	—
Dilutive 2008 Loans (3)	—	—	—	—
Diluted	171,001	70,630	151,054	68,800
Basic and diluted net loss per share attributable to common stockholders	$(0.43)	$(0.67)	$(0.86)	$(1.26)

(1) Stock options, phantom stock and unvested stock of 2.0 million shares and 1.9 million shares representing securities that could potentially dilute basic EPS in the future were not included in the diluted net loss per share computations for the three and six months ended June 30, 2012, respectively, because they would have been anti-dilutive. Stock options, phantom stock and unvested stock of 8.1 million and 7.2 million shares representing securities that could potentially dilute basic EPS in the future were not included in the diluted net loss per share computations for the three and six months ended June 30, 2011, respectively, because they would have been anti-dilutive.

(2) Common shares of 5.8 million issuable upon conversion of the Convertible Senior Unsecured Notes for each of the three and six months ended June 30, 2012 and 2011 were not included in the diluted net loss per share computation because the computation of diluted net loss per share attributable to common stockholders utilizing the "if-converted" method would be anti-dilutive.

(3) Common shares of 1.7 million issuable upon exchange of the 2008 Loans for each of the three and six months ended June 30, 2011 were not included in the diluted computation because the computation of diluted net loss per share attributable to common stockholders utilizing the "if-converted" method would be anti-dilutive.

NOTE 12—Supplemental Cash Flow Information and Disclosures of Non-Cash Transactions

The following table provides supplemental disclosure of cash flow information (in thousands):

	Six Months Ended	
	June 30,	
	2012	2011

Cash paid during the period for interest, net of amounts capitalized	$120,130	$98,986

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
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NOTE 13—Commitments and Contingencies

Crest Royalty

Under a settlement agreement dated as of June 14, 2001, we agreed to pay or cause certain affiliates, successors and assigns to pay a royalty, which we refer to as the Crest Royalty. This Crest Royalty is calculated based on the volume of natural gas processed through covered LNG facilities, subject to a maximum of approximately $11.0 million and a minimum of $2.0 million per production year. In 2003, Freeport LNG contractually assumed the obligation to pay the Crest Royalty for natural gas processed at Freeport LNG’s receiving terminal. The calculation of the Crest Royalty, and the scope of Freeport LNG's assumed obligation to pay the Crest Royalty, are being litigated in a declaratory judgment and breach of contract action pending in Texas state court. In March 2012, Cheniere purchased all of the rights, title, and interest in the Crest Royalty for a purchase price of $27.5 million. The purchase of the Crest Royalty represents the acquisition of payments that would have been due in future periods. Therefore, we recorded the purchase as an other non-current asset on our Consolidated Balance Sheets that is being amortized over the remaining useful life of the Sabine Pass LNG and Freeport LNG terminals. We classified the portion that will be amortized over the next twelve months as an other current asset and the remaining portion as an other non-current asset on our Consolidated Balance Sheets.

NOTE 14—Business Segment Information

We have three operating business segments: LNG terminal business, natural gas pipeline business and LNG and natural gas marketing business. These operating segments reflect lines of business for which separate financial information is produced internally and are subject to evaluation by our chief operating decision makers in deciding how to allocate resources.

Our LNG terminal business segment consists of the operational Sabine Pass LNG terminal, approximately 89.3% owned (at June 30, 2012) in western Cameron Parish, Louisiana on the Sabine Pass Channel and the following two other LNG terminals that are in various stages of development: Corpus Christi LNG, 100% owned, located near Corpus Christi, Texas; and Creole Trail LNG, 100% owned, located at the mouth of the Calcasieu Channel in central Cameron Parish, Louisiana.

Our natural gas pipeline business segment consists of the Creole Trail Pipeline, consisting of 94 miles of natural gas pipeline connecting the Sabine Pass LNG terminal to numerous interconnections points with existing interstate natural gas pipelines in southwest Louisiana, and other natural gas pipelines in various stages of development to provide access to North American natural gas markets.

Our LNG and natural gas marketing business segment is seeking to enter into long-term commercial agreements for regasification capacity; develop a portfolio of long-term, short-term, and spot LNG purchase and sale agreements; assist Cheniere Partners in negotiations with potential customers for importing and exporting natural gas through the Sabine Pass LNG terminal; and enter into business relationships for the domestic marketing of natural gas imported by Cheniere Marketing as LNG to the Sabine Pass LNG terminal.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
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The following table summarizes revenues, net income (loss) from operations and total assets for each of our operating segments (in thousands):

	Segments				
	LNG Terminal	Natural Gas Pipeline	LNG & Natural Gas Marketing	Corporate and Other (1)	Total Consolidation
As of or for the Three Months Ended June 30, 2012					
Revenues	69,064	51	(4,341)	(2,446)	62,328
Intersegment revenues (losses) (2) (3)	629	27	1,096	(1,752)	—
Depreciation, depletion and amortization	10,692	4,164	256	366	15,478
Non-cash compensation	213	40	420	1,286	1,959
Income (loss) from operations	15,122	(5,970)	(8,580)	(6,693)	(6,121)
Interest expense, net	(43,458)	(11,518)	—	(888)	(55,864)
Goodwill	76,819	—	—	—	76,819
Total assets	2,009,386	531,667	67,625	419,652	3,028,330
Expenditures for additions to long-lived assets	46,694	5	965	260	47,924
As of or for the Three Months Ended June 30, 2011					
Revenues	67,302	18	4,606	884	72,810
Intersegment revenues (losses) (2) (3)	6,432	14	(6,063)	(383)	—
Depreciation, depletion and amortization	10,845	3,743	258	779	15,625
Non-cash compensation	634	165	2,124	3,417	6,340
Income (loss) from operations	35,928	(5,852)	(7,791)	(5,824)	16,461
Interest expense, net	(43,399)	(11,389)	—	(9,799)	(64,587)
Goodwill	76,819	—	—	—	76,819
Total assets	1,865,312	547,243	61,995	145,257	2,619,807
Expenditures for additions to long-lived assets	3,608	160	12	363	4,143
As of or for the Six Months Ended June 30, 2012					
Revenues	136,324	57	(1,684)	(1,896)	132,801
Intersegment revenues (losses) (2) (3)	2,993	51	(335)	(2,709)	—
Depreciation, depletion and amortization	21,400	7,844	1,558	966	31,768
Non-cash compensation	385	74	1,401	2,388	4,248
Income (loss) from operations	35,376	(11,693)	(15,326)	(13,756)	(5,399)
Interest expense, net	(86,916)	(23,002)	—	(4,297)	(114,215)
Expenditures for additions to long-lived assets	47,737	7	1,665	496	49,905
As of or for the Six Months Ended June 30, 2011					
Revenues	137,303	31	13,055	1,652	152,041
Intersegment revenues (losses) (2) (3)	11,214	25	(10,856)	(383)	—
Depreciation, depletion and amortization	21,685	7,497	519	1,310	31,011
Non-cash compensation	1,206	341	5,662	7,142	14,351
Income (loss) from operations	69,712	(11,348)	(7,030)	(11,309)	40,025

Interest expense, net	(86,634)	(22,618)	—	(19,489)	(128,741)
Expenditures for additions to long-lived assets	6,169	84	12	435	6,700

(1) Includes corporate activities, oil and gas exploration, development and exploitation activities and certain intercompany eliminations. Our oil and gas exploration, development and exploitation operating activities have been included in the corporate and other column due to the lack of a material impact that these activities have on our consolidated financial statements.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
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(2) Intersegment revenues related to our LNG terminal segment are primarily from tug revenues from Cheniere Marketing and the receipt of 80% of gross margins earned by Cheniere Marketing in monetizing the TUA capacity of Cheniere Energy Investments, LLC ("Cheniere Investments"), a wholly owned subsidiary of Cheniere Partners, at the Sabine Pass LNG terminal in the three and six months ended June 30, 2012 and 2011. These LNG terminal segment intersegment revenues are eliminated with intersegment expenses in our Consolidated Statements of Operations.

(3) Intersegment losses related to our LNG and natural gas marketing segment are primarily from Cheniere Marketing's tug costs and the payment of 80% of gross margins earned by Cheniere Marketing in monetizing the TUA capacity of Cheniere Investments at the Sabine Pass LNG terminal in the three and six months ended June 30, 2012 and 2011. These LNG terminal segment intersegment costs are eliminated with intersegment revenues in our Consolidated Statements of Operations.

NOTE 15—Share-Based Compensation

We have granted options to purchase common stock to employees, consultants and outside directors under the Cheniere Energy, Inc. Amended and Restated 1997 Stock Option Plan ("1997 Plan") and the Cheniere Energy, Inc. Amended and Restated 2003 Stock Incentive Plan ("2003 Plan"). We recognize our share-based payments to employees in the consolidated financial statements based on their fair values at the date of grant. The calculated fair value is recognized as expense (net of any capitalization) over the requisite service period, net of estimated forfeitures, using either the straight-line or accelerated recognition methods.

For the three months ended June 30, 2012 and 2011, the total share-based compensation expense recognized in our net loss was $1.9 million and $6.3 million, respectively. For the six months ended June 30, 2012 and 2011, the total share-based compensation expense recognized in our net loss was $4.2 million and $14.4 million, respectively. The effect of a change in estimated forfeitures is recognized through a cumulative adjustment included in share-based compensation cost in the period of change in estimate. We consider many factors when estimating expected forfeitures, including types of awards, employee class and historical experience.

The total unrecognized compensation cost at June 30, 2012 and December 31, 2011 relating to non-vested share-based compensation arrangements granted under the 1997 Plan and 2003 Plan was $7.4 million and $7.7 million, respectively. That cost is expected to be recognized over 4 years, with a weighted average period of 2.4 years.

We received no proceeds from the exercise of stock options in the three and six months ended June 30, 2012 and 2011.

NOTE 16—Subsequent Events

Offering of Common Stock

In July 2012, we sold 28.0 million shares of Cheniere common stock in an underwritten public offering for net cash proceeds of $380.3 million. We used a portion of the net proceeds from the offering, along with available cash, to repay our Convertible Senior Unsecured Notes due August 1, 2012, and will use the remaining amount for capital expenditures on the Creole Trail Pipeline and general corporate purposes.

Debt Repayment

On August 1, 2012, we paid in full the entire outstanding principal balance of the Convertible Senior Unsecured Notes using a portion of the net proceeds from the public offering of common stock in July 2012. The aggregate repayment amount was $206.9 million, including the outstanding principal amount and accrued interest through August 1, 2012.

Final Investment Decision

In July 2012, Cheniere Partners announced that its Board of Directors made a positive final investment decision on the development and construction of the first two LNG trains subject to the closing of the debt financing, funding of the initial equity investment by Blackstone CQP Holdco LP ("Blackstone"), and funding of the remaining equity investment by Cheniere.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(unaudited)

Liquefaction Project Debt and Equity Financing

In July 2012, Sabine Pass Liquefaction closed $3.6 billion of debt financing with a syndicate of lenders (the "Liquefaction Credit Facility") to fund the costs of developing, constructing and placing into service the first two LNG trains of the liquefaction facilities adjacent to the Sabine Pass LNG terminal. The Liquefaction Credit Facility has a seven-year maturity and an interest rate of LIBOR plus 350 basis points during construction, increasing to LIBOR plus 375 basis points during operations. In addition,
Cheniere purchased $333 million of its remaining Class B Units in July 2012 for an aggregate investment of $500 million.

Long-Term Commercial Bonus Pool
In July 2012, we met the criteria to determine the Long-Term Commercial Bonus Pool that was established by the Compensation Committee of the Board of Directors in March 2011 in relation to the first two LNG trains. We anticipate that the Long-Term Commercial Bonus Pool will consist of approximately $60 million in cash awards and 10 million restricted shares of common stock.
The cash award will vest and be paid to employees 20% per year, with the first installment vesting when Sabine Pass Liquefaction, LLC issues its full notice to proceed ("NTP") under the lump sum turnkey agreement with respect to the Sabine Pass liquefaction facility. Each of the four remaining 20% portions will vest and be paid upon each annual anniversary of NTP.

The restricted stock awards will vest in five installments as follows:
- 35% when NTP is issued
- 10% on the first anniversary of NTP
- 15% on the second anniversary of NTP
- 15% on the third anniversary of NTP
- 25% on the fourth anniversary of NTP

In general, employees must be employed at the time of each vesting to receive the award or will otherwise forfeit such awards. Vesting and payment would accelerate in full upon (i) termination of employment by the Company without "Cause" or, solely in the case of executive officers, termination of employment by the employee for "Good Reason" (each as defined in our 2003 Stock Incentive Plan, as amended), (ii) the employee's death or disability, or (iii) the occurrence of a change of control.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information Regarding Forward-Looking Statements

This quarterly report contains certain statements that are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical fact, included herein or incorporated herein by reference are "forward-looking statements." Included among "forward-looking statements" are, among other things:

- statements relating to the construction or operation of each of our proposed liquefied natural gas ("LNG") terminals or our proposed pipelines or liquefaction facilities or other projects, or expansions or extensions thereof, including statements concerning the completion or expansion thereof by certain dates or at all, the costs related thereto and certain characteristics, including amounts of regasification, transportation, liquefaction and storage capacity, the number of storage tanks, LNG trains, docks, pipeline deliverability and the number of pipeline interconnections, if any;
- statements regarding future levels of domestic natural gas production, supply or consumption; future levels of LNG imports into North America; sales of natural gas in North America or other markets; exports of LNG from North America; and the transportation, other infrastructure or prices related to natural gas, LNG or other energy sources or hydrocarbon products;
- statements regarding any financing or refinancing transactions or arrangements, or ability to enter into such transactions or arrangements, whether on the part of Cheniere or any subsidiary or at the project level;
- statements regarding any commercial arrangements presently contracted, optioned or marketed, or potential arrangements, to be performed substantially in the future, including any cash distributions and revenues anticipated to be received and the anticipated timing thereof, and statements regarding the amounts of total LNG regasification, liquefaction or storage capacity that are, or may become, subject to such commercial arrangements;
- statements regarding counterparties to our commercial contracts, construction contracts and other contracts;
- statements regarding any business strategy, any business plans or any other plans, forecasts, projections or objectives, including potential revenues and capital expenditures, any or all of which are subject to change;
- statements regarding legislative, governmental, regulatory, administrative or other public body actions, requirements, permits, investigations, proceedings or decisions;
- statements regarding our anticipated LNG and natural gas marketing activities; and
- any other statements that relate to non-historical or future information.

These forward-looking statements are often identified by the use of terms and phrases such as "achieve," "anticipate," "believe," "contemplate," "develop," "estimate," "expect," "forecast," "plan," "potential," "project," "propose," "strategy" and similar terms and phrases, or by the use of future tense. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. You should not place undue reliance on these forward-looking statements, which are made as of the date of and speak only as of the date of this quarterly report.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011, as amended by Amendment No. 1 on Form 10-K/A. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. Other than as required under the securities laws, we assume no obligation to update or revise these forward-looking statements or provide reasons why actual results may differ.

As used herein, the terms "Cheniere," "the Company," "we," "our" and "us" refer to Cheniere Energy, Inc. and its wholly owned or controlled subsidiaries.

Introduction

The following discussion and analysis presents management's view of our business, financial condition and overall performance and should be read in conjunction with our Consolidated Financial Statements and the accompanying notes in Item 1. "Consolidated Financial Statements". This information is intended to provide investors with an understanding of our past performance, current financial condition and outlook for the future. Our discussion and analysis include the following subjects:

- Overview of Business
- Overview of Significant Events
- Liquidity and Capital Resources
- Results of Operations
- Off-Balance Sheet Arrangements
- Summary of Critical Accounting Policies and Estimates
- Recent Accounting Standards

Overview of Business

We own and operate the Sabine Pass LNG terminal in Louisiana through our 89.3% ownership interest in and management agreements with Cheniere Energy Partners, L.P. ("Cheniere Partners") (NYSE Amex Equities: CQP), which is a publicly traded partnership that we created in 2007. We also own and operate the Creole Trail Pipeline, which interconnects the Sabine Pass LNG terminal with natural gas markets in North America. One of our subsidiaries, Cheniere Marketing, LLC ("Cheniere Marketing"), is marketing LNG and natural gas on its own behalf and on behalf of Cheniere Partners, and is working to monetize LNG storage and regasification capacity reserved by Cheniere Partners at the Sabine Pass LNG terminal. Cheniere Partners is developing a project to add liquefaction capabilities at the Sabine Pass LNG terminal. We are in various stages of developing other projects, including LNG terminal and pipeline related projects, each of which, among other things, will require acceptable commercial and financing arrangements before we make a final investment decision.

Overview of Significant Events

Our significant accomplishments since January 1, 2012 include the following:

- In January 2012, we repaid in full the entire outstanding principal balance of the 2007 Term Loan due May 31, 2012. We used a portion of the net proceeds from the public offering of common stock in December 2011 to repay the 2007 Term Loan.
- In January 2012, Sabine Pass Liquefaction, LLC ("Sabine Pass Liquefaction"), a wholly owned subsidiary of Cheniere Partners, entered into an amended and restated LNG Sale and Purchase Agreement ("SPA") with BG Gulf Coast LNG, LLC ("BG"), a subsidiary of BG Group plc, under which BG has agreed to purchase an additional 2.0 million tonnes per annum ("mtpa") of LNG, bringing BG's total annual contract quantity to 5.5 mtpa of LNG. BG will purchase 3.5 mtpa of LNG with the commencement of LNG train one operations and will purchase a portion of the additional 2.0 mtpa of LNG as each of LNG trains two, three and four commences operations.
- In January 2012, Sabine Pass Liquefaction entered into an LNG SPA with Korea Gas Corporation ("KOGAS"), under which KOGAS agreed to purchase 182.5 million MMBtu of LNG per year (approximately 3.5 million mtpa).
- In March 2012, we sold 24.2 million shares of Cheniere common stock in an underwritten public offering for net cash proceeds of approximately $351.9 million. The net proceeds from the offering have been used for general corporate purposes, including repayment of indebtedness.
- In April 2012, Sabine Pass Liquefaction and Sabine Pass LNG, L.P. ("Sabine Pass LNG"), a wholly owned subsidiary of Cheniere Partners, received authorization under Section 3 of the Natural Gas Act (the "Order") from the FERC to site, construct and operate facilities for the liquefaction and export of domestically produced natural gas at the Sabine Pass LNG terminal located in Cameron Parish, Louisiana. The Order authorizes the development of up to four modular LNG trains.
-

In April 2012, Scorpion Capital Partners, L.P. exchanged all $8.4 million of its portion of the 2008 Loans described below for 1.7 million shares of Cheniere common stock and $1.4 million.

- In May 2012, we entered into a stock purchase agreement with Havelock Fund Investments Pte Ltd (indirectly owned by Temasek Holdings (Private) Limited) and Greenwich Asset Holding Ltd (owned by RRJ Capital Master Fund I, L.P.), pursuant to which such purchasers purchased an aggregate of 31.0 million shares of our common stock at a price of $15.10 per share. The offering resulted in net proceeds to us of $468.1 million, which are to be used along with cash on hand to purchase the $500 million of Class B Units from Cheniere Partners as described above.
- In May 2012, we, Cheniere Partners and Blackstone CQP Holdco LP ("Blackstone") entered into a unit purchase agreement whereby Cheniere Partners agreed to sell to Blackstone in a private placement 100 million of Class B Units from Cheniere Partners at a price of $15.00 per Class B Unit. Subsequent to an initial funding of $500.0 million by Blackstone, Cheniere Partners can require, based on liquidity needs, that Blackstone make additional capital contributions until Blackstone has funded $1.5 billion in the aggregate. Cheniere Partners intends to use the net proceeds from the private placement to pay for a portion of the cost to construct its proposed liquefaction facilities, including the construction of two LNG trains and related facilities and equipment.
- In May 2012, we, through a wholly owned subsidiary, and Cheniere Partners entered into a unit purchase agreement ("CEI Unit Purchase Agreement") whereby we agreed to purchase from Cheniere Partners 33.3 million Class B Units at a price of $15.00 per unit, for total consideration of $500.0 million.
- In June 2012, we purchased $166.7 million of Class B Units from Cheniere Partners pursuant to the CEI Unit Purchase Agreement, and Cheniere Partners issued a limited notice to proceed to Bechtel.
- In June 2012, we repaid the 2008 Loans in full.
- In July 2012, we sold 28.0 million shares of Cheniere common stock in an underwritten public offering for net cash proceeds of $380.3 million. We used a portion of the net proceeds from the offering to repay our Convertible Senior Unsecured Notes due August 1, 2012, and will use the remaining amount for capital expenditures on the Creole Trail Pipeline and general corporate purposes.
- In July 2012, Cheniere Partners announced that its Board of Directors made a positive final investment decision on the development and construction of the first two LNG trains of the liquefaction facilities adjacent to the Sabine Pass LNG terminal subject to the closing of the debt financing, funding of the initial equity investment by Blackstone, and funding of the remaining equity investment by Cheniere.
- In July 2012, Cheniere purchased $333 million of its remaining Class B Units for an aggregate investment of $500 million.
- In July 2012, Sabine Pass Liquefaction closed $3.6 billion of debt financing with a syndicate of lenders to fund the costs of developing, constructing and placing into service the first two LNG trains of the liquefaction facilities adjacent to the Sabine Pass LNG terminal.
- In August 2012, we repaid the Convertible Senior Unsecured Notes in full.

Liquidity and Capital Resources

Although consolidated for financial reporting, Cheniere, Sabine Pass LNG and Cheniere Partners operate with independent capital structures. We expect the cash needs for Sabine Pass LNG's operating activities for at least the next twelve months will be met through operating cash flows and existing unrestricted cash. We expect the cash needs for Cheniere Partners' operating activities and capital expenditures for at least the next twelve months will be met through operating cash flows from Sabine Pass LNG and existing unrestricted cash, project debt and equity financings. We expect the cash needs of Cheniere's operating activities and capital expenditures for at least the next twelve months will be met by utilizing existing unrestricted cash, management fees from Cheniere Partners, distributions from our investment in Cheniere Partners and operating cash flows from our pipeline and LNG and natural gas marketing businesses.

The following table presents (in thousands) Cheniere's restricted and unrestricted cash and cash equivalents for each portion of our capital structure as of June 30, 2012. All restricted and unrestricted cash and cash equivalents held by Cheniere Partners and Sabine Pass LNG are considered restricted as to usage or withdrawal by Cheniere:

	Sabine Pass LNG		Cheniere Partners		Other Cheniere	Consolidated Cheniere
Cash and cash equivalents	$—		$—		$137,885	$137,885
Restricted cash and cash equivalents	98,630	(1)	168,448	(2)	307,113	574,191
Total	$98,630		$168,448		$444,998	$712,076

(1) All cash and cash equivalents presented above for Sabine Pass LNG are considered restricted to us, but $2.5 million is considered unrestricted for Sabine Pass LNG.

(2) All cash and cash equivalents presented above for Cheniere Partners are considered restricted to us, but $168.4 million is considered unrestricted for Cheniere Partners, including the $2.5 million considered unrestricted for Sabine Pass LNG.

As of June 30, 2012, we had unrestricted cash and cash equivalents of $137.9 million available to Cheniere. In addition, we had consolidated restricted cash and cash equivalents of $574.2 million (which included cash and cash equivalents and other working capital available to Cheniere Energy Partners, L.P. ("Cheniere Partners"), in which we own an 89.3% interest, and Sabine Pass LNG, L.P. ("Sabine Pass LNG")) designated for the following purposes: $301.4 million to purchase Class B Units from Cheniere Partners; $96.1 million for interest payments related to the Senior Notes described below; $2.5 million for Sabine Pass LNG's working capital; $168.4 million for Cheniere Partners' working capital; and $5.8 million for other restricted purposes.

LNG Terminal Business

Cheniere Partners

Our ownership interest in the Sabine Pass LNG terminal is held through Cheniere Partners. We own approximately 89.3% of Cheniere Partners in the form of 12.0 million common units, 11.1 million Class B Units, 135.4 million subordinated units and a 2% general partner interest. Cheniere Partners owns a 100% interest in Sabine Pass LNG, which is operating the Sabine Pass LNG terminal, and a 100% interest in Sabine Pass Liquefaction, which is developing a liquefaction project at the Sabine Pass LNG terminal.

We receive quarterly equity distributions from Cheniere Partners, and we receive management fees for managing Sabine Pass LNG and Cheniere Partners. For the six months ended June 30, 2012, we received $10.2 million in distributions on our common units, no distributions on our subordinated units and $0.5 million in distributions on our general partner interest. During the six months ended June 30, 2012, we received fees of $2.7 million and $4.1 million under our management agreements with Cheniere Partners and Sabine Pass LNG, respectively.

Cheniere Partners' common unit and general partner distributions are being funded from cash flows generated by Sabine Pass LNG's two third-party terminal use agreement ("TUA") customers. We have not received distributions on our subordinated units since the distribution made with respect to the quarter ended March 31, 2010. Cheniere Partners will not make distributions on our subordinated units unless it generates additional cash flow from Sabine Pass LNG's excess capacity or new business. Therefore, distributions to us on our subordinated units and conversion of the subordinated units into common units will depend upon the future business development of Cheniere Partners. We expect that additional cash flows generated by Cheniere Partners' proposed liquefaction project or other new Cheniere Partners' business would be used to make quarterly distributions on our subordinated units before any increase in distributions to the common unitholders.

We and Cheniere Partners amended, effective as of July 1, 2010, the fee structure for the various general and administrative services provided by us for Cheniere Partners' benefit and changed it from a fixed fee to a variable fee. The amended and restated services agreement provides that fees will be paid quarterly from Cheniere Partners' unrestricted cash and cash equivalents remaining after making distributions to the common unitholders and the general partner in respect of each quarter and retaining certain reserves. Our ability to receive management fees from Cheniere Partners is dependent on our ability to, among other things, manage Cheniere Partners' and Sabine Pass LNG's operating and administrative expenses, monetize the 2.0 Bcf/d of regasification capacity under the Cheniere Investments TUA (as discussed below) and develop new projects through either internal development or acquisition to increase cash flow. The fixed management fees payable by Sabine Pass LNG remain unchanged.

In January 2011, Cheniere Partners initiated an at-the-market program to sell up to 1.0 million common units, the proceeds from which are used primarily to fund development costs associated with its proposed liquefaction project at the Sabine Pass LNG terminal. As of December 31, 2011, Cheniere Partners had sold 0.5 million common units with net proceeds of $9.0 million. During the six months ended June 30, 2012, Cheniere Partners sold 0.4 million common units with net proceeds of $8.8 million related to this at-the-market program.

In September 2011, Cheniere Partners sold 3.0 million common units in an underwritten public offering and 1.1 million common units to Cheniere Common Units Holding, LLC at a price of $15.25 per common unit. Cheniere Partners received net proceeds of $43.3 million and $16.4 million from the public offering and Cheniere Common Units Holding, LLC sale, respectively, that it is using for general business purposes, including development costs associated with its proposed liquefaction project at the Sabine Pass LNG terminal.

Sabine Pass LNG Terminal

Regasification Facilities

Approximately 2.0 Bcf/d of the regasification capacity at the Sabine Pass LNG terminal has been reserved under two long-term third-party TUAs, under which Sabine Pass LNG’s customers are required to pay fixed monthly fees, whether or not they use the LNG terminal. Capacity reservation fee TUA payments are made by Sabine Pass LNG's third-party TUA customers as follows:

- Total Gas and Power North America, Inc. ("Total") has reserved approximately 1.0 Bcf/d of regasification capacity and is obligated to make monthly capacity payments to Sabine Pass LNG aggregating approximately $125 million per year for 20 years that commenced April 1, 2009. Total S.A. has guaranteed Total’s obligations under its TUA up to $2.5 billion, subject to certain exceptions; and
- Chevron U.S.A. Inc. ("Chevron") has reserved approximately 1.0 Bcf/d of regasification capacity and is obligated to make monthly capacity payments to Sabine Pass LNG aggregating approximately $125 million per year for 20 years that commenced July 1, 2009. Chevron Corporation has guaranteed Chevron’s obligations under its TUA up to 80% of the fees payable by Chevron.

Each of Total and Chevron previously paid Sabine Pass LNG $20.0 million in nonrefundable advance capacity reservation fees, which are being amortized over a 10-year period as a reduction of each customer's regasification capacity reservation fees payable under its respective TUA.

The remaining approximately 2.0 Bcf/d of regasification capacity has been reserved by Cheniere Partners through a TUA between Sabine Pass Liquefaction and Sabine Pass LNG. Sabine Pass Liquefaction is obligated to make monthly capacity payments to Sabine Pass LNG aggregating approximately $250 million per year through at least September 30, 2028. Sabine Pass Liquefaction obtained this reserved capacity as a result of Cheniere Investments' assignment of its rights, obligations and duties under its TUA to Sabine Pass Liquefaction in July 2012. In connection with the assignment, Sabine Pass Liquefaction and Cheniere Investments entered into a terminal use rights assignment and agreement (“TURA”) pursuant to which Cheniere Investments has the right to use Sabine Pass Liquefaction's reserved capacity under the TUA and has the obligation to make the monthly capacity payments required by the TUA to Sabine Pass LNG. The revenue earned by Sabine Pass LNG from the capacity payments made under the TUA and the revenue earned by Cheniere Investments under the TURA are eliminated upon consolidation of our financial statements. Cheniere Partners has guaranteed the obligations of Sabine Pass Liquefaction under its TUA and the obligations of Cheniere Investments under the TURA.

Under each of these TUAs, Sabine Pass LNG is entitled to retain 2% of the LNG delivered for the customer's account.

Liquefaction Facilities

In June 2010, Cheniere Partners formed Sabine Pass Liquefaction to own, develop and operate liquefaction facilities adjacent to the Sabine Pass LNG terminal. In constructing the proposed liquefaction facilities, Cheniere Partners proposes to take advantage of the existing marine and storage facilities that were constructed for the LNG receiving terminal, thereby saving a substantial amount of capital cost compared to the cost of constructing a greenfield facility. We anticipate that LNG exports could commence as early as 2015 with each LNG train commencing operations approximately six to nine months after the previous LNG train.

The Department of Energy ("DOE") has granted Sabine Pass Liquefaction an order authorizing the export of up to the equivalent of 16 mtpa (approximately 800 Bcf) per year of domestically produced LNG by vessel from the Sabine Pass LNG terminal to Free Trade Agreement ("FTA") countries for a 30-year term, beginning on the earlier of the date of first export or September 7, 2020, and another order authorizing the export of up to the equivalent of 803 Bcf per year (approximately 16 mtpa) of domestically produced LNG by vessel from the Sabine Pass LNG terminal to non-FTA countries for a 20-year term, beginning on the earlier of the date of first export or May 20, 2016.

In April 2012, Sabine Pass Liquefaction received authorization from the Federal Energy Regulatory Commission ("FERC") to site, construct and operate liquefaction and export facilities at the Sabine Pass LNG terminal. The order, which authorizes the development of up to four modular LNG trains, is currently pending a rehearing consideration.

Sabine Pass Liquefaction has entered into four third-party SPAs, under which customers have committed to purchase, in aggregate, 834.0 million MMBtu of LNG per year (approximately 16 mtpa) as follows:

- BG Gulf Coast LNG, LLC ("BG") has agreed to purchase 286.5 million MMBtu of LNG per year (approximately 5.5 mtpa);
- Gas Natural Aprovisionamientos SDG S.A. ("Gas Natural Fenosa"), an affiliate of Gas Natural SDG S.A., has agreed to purchase 182.5 million MMBtu of LNG per year (approximately 3.5 mtpa);
- Korea Gas Corporation ("KOGAS") has agreed to purchase 182.5 million MMBtu of LNG per year (approximately 3.5 mtpa); and
- GAIL (India) Limited ("GAIL") has agreed to purchase 182.5 million MMBtu of LNG per year (approximately 3.5 mtpa).

In aggregate, these customers have agreed to pay Sabine Pass Liquefaction approximately $2.3 billion annually, plus an amount per MMBtu of LNG equal to 115% of the final settlement price for the New York Mercantile Exchange natural gas futures contract for the month in which the relevant cargo is scheduled.

In addition, Cheniere Marketing, LLC, a wholly owned subsidiary of Cheniere, has entered into an SPA to purchase certain excess LNG produced that is not committed to non-affiliate parties, up to a maximum of 104.0 million MMBtu of LNG per year (approximately 2.0 mtpa). The sales price to be paid by Cheniere Marketing will be 115% of the then-current Henry Hub price per MMBtu plus a profit sharing equal to 100% of profits up to $3.00/MMBtu for the first 36 million MMBtu of the most profitable cargoes sold each year to Cheniere Marketing and 20% of profits for the subsequent 68 million MMBtu sold each year to Cheniere Marketing.

In November 2011, Sabine Pass Liquefaction entered into a lump sum turnkey agreement with Bechtel Oil, Gas and Chemicals, Inc. ("Bechtel") for procurement, engineering, design, installation, training, commissioning and placing into service of the first two LNG trains and related facilities adjacent to the Sabine Pass LNG terminal. Cheniere Partners issued a limited notice to proceed and commenced construction of LNG trains 1 and 2 during the second quarter of 2012 and expects to begin operations of the first LNG train in late 2015, with the second LNG train commencing operations approximately six to nine months after the first LNG train. We expect to complete our construction plan and cost estimates for LNG trains 3 and 4 by the end of 2012 and begin working on our financing plan.

The cost to construct LNG trains 1 and 2 is currently estimated to be approximately $4 billion to $5 billion, before financing costs. Our cost estimates are subject to change due to such items as change orders, delays in construction, increased component and material costs, escalation of labor costs and increased spending to maintain our construction schedule.

Cheniere Partners Financing

In May 2012, we, Cheniere Partners and Blackstone entered into a unit purchase agreement whereby Cheniere Partners agreed to sell to Blackstone in a private placement 100 million Class B Units of Cheniere Partners at a price of $15.00 per Class B Unit. Subsequent to an initial funding of $500 million by Blackstone, Cheniere Partners can require, based on liquidity needs, that Blackstone make additional capital contributions until Blackstone has funded $1.5 billion in the aggregate. In addition, we, through a wholly owned subsidiary, and Cheniere Partners entered into a unit purchase agreement whereby we agreed to purchase from Cheniere Partners 33.3 million Class B Units at a price of $15.00 per unit, for total consideration of $500 million, of which $166.7 million was purchased in June 2012 so that Cheniere Partners could issue a limited notice to proceed to Bechtel. In July 2012, Cheniere purchased $333 million of its remaining Class B Units for an aggregate investment of $500 million. Cheniere Partners will use the net proceeds from the private placements to pay for a portion of the cost to construct the first two LNG trains and related facilities and equipment.

In July 2012, Sabine Pass Liquefaction closed $3.6 billion of debt financing with a syndicate of lenders to fund the costs of developing, constructing and placing into service the first two LNG trains of the liquefaction facilities adjacent to the Sabine Pass LNG terminal. The definitive loan documents were executed in July 2012, with the credit facility having a seven-year maturity and an interest rate of LIBOR plus 350 basis points during construction, increasing to LIBOR plus 375 basis points during operations. Sabine Pass Liquefaction will maintain interest rate protection agreements with respect to at least 75% of this debt financing.

Other LNG terminals

We will contemplate making final investment decisions to construct our proposed Corpus Christi LNG terminal and any other LNG terminal project upon, among other things, entering into acceptable commercial and financing arrangements for the applicable project.

Natural Gas Pipeline Business

We formed Cheniere Pipeline Company, a wholly owned subsidiary, to develop natural gas pipelines to provide access to North American natural gas markets for customers of our LNG terminals. We are also developing other pipeline projects not primarily related to our LNG terminals. Our pipeline systems developed in conjunction with our LNG terminals will interconnect with multiple interstate pipelines, providing a means of transporting natural gas between trading points in the Gulf Coast and our LNG terminals. Our other projects are market-focused, seeking to connect natural gas supplies to growing markets. Our ultimate decisions regarding further development of new pipeline projects will depend upon future events, including, in particular, customer preferences and general market demand for pipeline transportation of natural gas from or to a particular LNG terminal.

The Creole Trail Pipeline is a permitted 153-mile natural gas pipeline. We have constructed, placed in-service and are operating the first 94 miles, which connect the Sabine Pass LNG terminal to numerous interconnection points with existing interstate and intrastate natural gas pipelines in southwest Louisiana.

In connection with Cheniere Partners' liquefaction project, we are developing a project for the Creole Trail Pipeline to be able to transport natural gas to the Sabine Pass LNG terminal for fuel and for Sabine Pass Liquefaction to satisfy its LNG delivery obligations under its SPAs. We estimate the capital costs to modify the Creole Trail Pipeline will be approximately $90 million.

LNG and Natural Gas Marketing Business

Our wholly owned subsidiary, Cheniere Marketing, is engaged in the LNG and natural gas marketing business and is seeking to develop a portfolio of long-term, short-term and spot LNG purchase and sale agreements, assist Cheniere Investments in negotiating with potential customers to monetize 2.0 Bcf/d of regasification capacity at the Sabine Pass LNG terminal to which it has access, and enter into business relationships for the domestic marketing of natural gas imported by Cheniere Marketing as LNG to the Sabine Pass LNG terminal.

Cheniere Marketing has been purchasing, transporting and unloading commercial LNG cargoes into the Sabine Pass LNG terminal and has used trading strategies intended to maximize margins on these cargoes. In addition, Cheniere Marketing has continued to enter into various business relationships to facilitate purchasing and selling commercial LNG cargoes.

The accounting treatment for LNG inventory differs from the treatment for derivative positions such that the economics of Cheniere Marketing's activities are not transparent in our consolidated financial statements until all LNG inventory is sold and all derivative positions are settled. Our LNG inventory is recorded as an asset at cost and is subject to lower of cost or market ("LCM") adjustments at the end of each reporting period. The LCM adjustment market price is based on period-end natural gas spot prices, and any gain or loss from an LCM adjustment is recorded in our earnings at the end of each period. Revenue and cost of goods sold are not recognized in our earnings until the LNG is sold. Generally, our unrealized derivatives positions at the end of each period extend into the future to hedge the cash flow from future sales of our LNG inventory or to take market positions and hedge exposure associated with LNG and natural gas. These positions are measured at fair value, and we record the gains and losses from the change in their fair value currently in earnings. Thus, earnings from changes in the fair value of our derivatives may not be offset by losses from LCM adjustments to our LNG inventory because the LCM adjustments that may be made to LNG inventory are based on period-end spot prices that are different from the time periods of the prices used to determine the fair value of our derivatives. Any losses from changes in the fair value of our derivatives will not be offset by gains until the LNG is actually sold.

LNGCo Agreements

In 2010, Cheniere Marketing entered into various agreements ("LNGCo Agreements") with JPMorgan LNG Co. ("LNGCo") under which Cheniere Marketing agreed to develop and maintain commercial and trading opportunities in the LNG industry and present any such opportunities exclusively to LNGCo. Cheniere Marketing also agreed to provide, or arrange for the provision of, all of the operations and administrative services required by LNGCo in connection with any LNG cargoes purchased by LNGCo, including negotiating agreements and arranging for transporting, receiving, storing, hedging and regasifying LNG cargoes. In return for the services provided by Cheniere Marketing, LNGCo paid a fixed fee to Cheniere Marketing and additional fees depending upon the gross margin of each transaction. In June 2012, Cheniere Marketing and LNGCo terminated the LNGCo Agreements.

During the three and six months ended June 30, 2012, we recognized $1.5 million and $4.0 million, respectively, of marketing and trading revenues from LNGCo. During the three and six months ended June 30, 2011, we recognized $4.9 million and $7.3 million, respectively, of marketing and trading revenues from LNGCo. As of June 30, 2012, the carrying amount of Cheniere Marketing's assets relating to LNGCo, which is equivalent to Cheniere Marketing's maximum exposure to loss, was $2.6 million. The $2.6 million represents our fixed fee receivable, gross margin receivable and margin deposit receivable that are reported as accounts and interest receivable on our consolidated financial statements.

Corporate and Other Activities

We are required to maintain corporate general and administrative functions to serve our business activities described above.

Sources and Uses of Cash

The following table summarizes (in thousands) the sources and uses of our cash and cash equivalents for the six months ended June 30, 2012 and 2011. The table presents capital expenditures on a cash basis; therefore, these amounts differ from the amounts of capital expenditures, including accruals, that are referred to elsewhere in this report. Additional discussion of these items follows the table.

	Six Months Ended June 30,	
	2012	2011
Sources of cash and cash equivalents		
Sale of common stock, net	$819,686	$123,305
Sale of common units by Cheniere Partners	8,793	8,978
Use of restricted cash and cash equivalents	—	9,627
Total sources of cash and cash equivalents	828,479	141,910
Uses of cash and cash equivalents		
Repurchases and prepayments of debt	(571,884)	—
Investment in restricted cash and cash equivalents	(240,859)	—
Investment in Cheniere Partners	(170,253)	—
Operating cash flow	(94,937)	(29,522)
LNG terminal and pipeline construction-in-process, net	(38,985)	(5,480)
Distributions to non-controlling interest	(16,330)	(13,306)
Deferred financing costs	(5,530)	—
Purchase of treasury shares	(1,893)	(2)
Other	(9,083)	(5,200)
Total uses of cash and cash equivalents	(1,149,754)	(53,510)

Net increase (decrease) in cash and cash equivalents	(321,275)	88,400
Cash and cash equivalents—beginning of period	459,160	74,161
Cash and cash equivalents—end of period	$137,885	$162,561

Sale of Common Stock, net

In March 2012, we sold 24.2 million shares of Cheniere common stock in an underwritten public offering for net cash proceeds of approximately $351.9 million. We used a portion of the net proceeds from this offering to repay the 2008 Loans in full in June 2012. In May 2012, we sold 31.0 million shares of Cheniere common stock pursuant to a stock purchase agreement for net proceeds of $468.1 million, which has been used, along with cash on hand, to purchase the $500 million of Class B Units from Cheniere Partners as described above.

During the six months ended June 30, 2012, we did not sell any shares of Cheniere common stock and paid zero in commissions to Miller Tabak + Co., Inc., as sales agent, in connection with our at-the-market program.

Sale of Common Units by Cheniere Partners

In January 2011, Cheniere Partners initiated an at-the-market program to sell up to 1.0 million common units, the proceeds from which have primarily been used to fund development costs associated with Cheniere Partners' proposed liquefaction project at the Sabine Pass LNG terminal. During the six months ended June 30, 2012 and 2011, Cheniere Partners received $8.8 million and $9.0 million, respectively, in net proceeds from its sale of common units related to this at-the-market program.

Use of (Investment in) Restricted Cash and Cash Equivalent

In the six months ended June 30, 2012, we invested in $240.9 million of restricted cash and cash equivalents. This investment in restricted cash and cash equivalents is a result of the $468.1 million investment in restricted cash and cash equivalents related to the net proceeds from a June 2012 sale of common stock in which the proceeds are restricted for the purchase of Class B Units from Cheniere Partners. This investment in restricted cash and cash equivalents in the six months ended June 30, 2012 was partially offset by the use of restricted cash and cash equivalents for the purchase of Class B Units, which will be used by Cheniere Partners for construction of the liquefaction facilities adjacent to the Sabine Pass LNG terminal.

In the six months ended June 30, 2011, $9.6 million of restricted cash and cash equivalents were used primarily to pay for construction activity at the Sabine Pass LNG terminal and to pay distributions to non-controlling interest owners of Cheniere Partners.

Repurchases and Prepayments of Debt

In January 2012, we used a portion of the net proceeds from the public offering of Cheniere common stock in December 2011 to repay in full the 2007 Term Loan. In June 2012, we used a portion of the net proceeds from the public offering of Cheniere common stock in March 2012 to repay in full the 2008 Loans.

Investment in Cheniere Partners

In the six months ended June 30, 2012, we invested $170.3 million in Cheniere Partners related to the purchase of Class B Units and general partner units.

Operating Cash Flow

Net cash used in operations was $94.9 million and $29.5 million during the six months ended June 30, 2012 and 2011, respectively. Net cash used in operations related primarily to the general administrative overhead costs, pipeline operations costs and LNG and natural gas marketing overhead, offset by earnings from our LNG and natural gas marketing business. The increase in cash used in operations in the six months ended June 30, 2012 is primarily a result of the purchase of the Crest Royalty in March 2012 and the payment of interest on the 2008 Loans in six months ended June 30, 2012.

LNG Terminal and Pipeline Construction-in-Process, net

Capital expenditures for the Sabine Pass LNG terminal were $39.0 million and $5.5 million in the six months ended June 30, 2012, and 2011, respectively. We began capitalizing costs associated with construction of the liquefaction facilities adjacent to the Sabine Pass LNG terminal as construction-in-process during the second quarter of 2012.

Deferred Financing Costs

In the six months ended June 30, 2012, we paid $5.5 million in fees directly related to project financing and debt and equity offerings to finance the construction costs of the liquefaction facilities adjacent to the Sabine Pass LNG terminal.

Debt Agreements

The following table (in thousands) and the explanatory paragraphs following the table summarize our various debt agreements as of June 30, 2012:

	Sabine Pass LNG, L.P.	Cheniere Energy Partners, L.P.	Other Cheniere Energy, Inc.	Consolidated Cheniere Energy, Inc.
Current debt				
Convertible Senior Unsecured Notes	$—	$—	$204,630	$204,630
Convertible Senior Unsecured Notes discount (1)	—	—	(1,454)	(1,454)
Current debt, net of discount	$—	$—	$203,176	$203,176
Long-term debt				
Senior Notes	$2,215,500	$—	$—	$2,215,500
Senior Notes discount (2)	(20,735)	—	—	(20,735)
Long-term debt, net of discount	$2,194,765	$—	$—	$2,194,765

(1) Effective as of January 1, 2009, we are required to record a debt discount on our Convertible Senior Unsecured Notes. The unamortized discount has been amortized through the maturity of the Convertible Senior Unsecured Notes.

(2) In September 2008, Sabine Pass LNG issued an additional $183.5 million, par value, of 2016 Notes described below. The net proceeds from the additional issuance of the 2016 Notes were $145.0 million. The difference between the par value and the net proceeds is the debt discount, which will be amortized through the maturity of the 2016 Notes.

Convertible Senior Unsecured Notes

In July 2005, we consummated a private offering of $325.0 million aggregate principal amount of convertible senior unsecured notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act (the "Convertible Senior Unsecured Notes"). The notes bore interest at a rate of 2¼% per year. The notes were convertible at any time into our common stock under certain circumstances at an initial conversion rate of 28.2326 shares per $1,000 principal amount of the notes, which was equal to a conversion price of approximately $35.42 per share. As of June 30, 2012, no holders had elected to convert their notes at the conversion rate.

During the third quarter of 2011, we reclassified $190.7 million of debt, net of discount, from a long-term liability to a current liability because our Convertible Senior Unsecured Notes were due within 12 months as of August 1, 2011.

As discussed in Note 8—"Debt and Debt—Related Parties" of our Notes to Consolidated Financial Statements, we adopted on January 1, 2009 an accounting standard that requires issuers of certain convertible debt instruments to separately account for the liability component and the equity component represented by the embedded conversion option in a manner that will reflect that entity's nonconvertible debt borrowing rate when interest costs are recognized in subsequent periods. The fair value of the embedded conversion option at the date of issuance of the Convertible Senior Unsecured Notes was determined to be $134.0 million and has been recorded as a debt discount to the Convertible Senior Unsecured Notes, with a corresponding adjustment to additional paid-in capital. At June 30, 2012, the unamortized debt discount to the Convertible Senior Unsecured Notes was $1.5 million.

On August 1, 2012, we paid in full the entire outstanding principal balance of the Convertible Senior Unsecured Notes that were due with a portion of the net proceeds from the public offering of our common stock in July 2012 and available cash. The aggregate repayment amount was $206.9 million, including the outstanding principal amount and accrued interest through August 1, 2012.

Senior Notes

In November 2006, Sabine Pass LNG issued an aggregate principal amount of $2,032.0 million of Senior Notes (the "Senior Notes"), consisting of $550.0 million of 7¼% Senior Secured Notes due 2013 (the "2013 Notes") and $1,482.0 million of 7½% Senior Secured Notes due 2016 (the "2016 Notes"). In September 2008, Sabine Pass LNG issued an additional $183.5 million, before discount, of 2016 Notes whose terms were identical to the previously outstanding 2016 Notes. Interest on the Senior Notes is payable semi-annually in arrears on May 30 and November 30 of each year. The Senior Notes are secured on a first-priority basis by a security interest in all of Sabine Pass LNG's equity interests and substantially all of its operating assets.

Sabine Pass LNG may redeem some or all of the Senior Notes at any time, and from time to time, at a redemption price equal to 100% of the principal plus any accrued and unpaid interest plus the greater of:

- 1.0% of the principal amount of the Senior Notes; or
- the excess of: a) the present value at such redemption date of (i) the redemption price of the Senior Notes plus (ii) all required interest payments due on the Senior Notes (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over b) the principal amount of the Senior Notes, if greater.

Under the Sabine Pass Indenture, except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied: there must be on deposit in an interest payment account an amount equal to one-sixth of the semi-annual interest payment multiplied by the number of elapsed months since the last semi-annual interest payment, and there must be on deposit in a permanent debt service reserve fund an amount equal to one semi-annual interest payment of approximately $82.4 million. Distributions are permitted only after satisfying the foregoing funding requirements, a fixed charge coverage ratio test of 2:1 and other conditions specified in the Sabine Pass Indenture. During the six months ended June 30, 2012 and June 30, 2011, Sabine Pass LNG made distributions to Cheniere Partners of $146.7 million and $155.6 million, respectively, after satisfying all of the applicable conditions in the Sabine Pass Indenture.

Liquefaction Credit Facility

In July 2012, Sabine Pass Liquefaction closed $3.6 billion of debt financing to fund the costs of developing, constructing and placing into service the first two LNG trains of the liquefaction facilities adjacent to the Sabine Pass LNG terminal. The credit facility has a seven-year maturity and an interest rate of LIBOR plus 350 basis points during construction, increasing to LIBOR plus 375 basis points during operations.

Issuances of Common Stock

During the six months ended June 30, 2012 and 2011, no shares of our common stock were issued pursuant to the exercise of stock options. During three months ended June 30, 2012 and 2011, we issued 0.1 million and 0.2 million shares, respectively, of restricted stock to new and existing employees. During the six months ended June 30, 2012 and 2011, we issued 0.3 million and 2.5 million shares, respectively, of restricted stock to new and existing employees.

Results of Operations

Three Months Ended June 30, 2012 vs. Three Months Ended June 30, 2011

Overall Operations

Our consolidated net loss was $73.0 million, or $0.43 per share (basic and diluted), in the three months ended June 30, 2012, compared to a net loss of $47.2 million, or $0.67 per share (basic and diluted), in the three months ended June 30, 2011. This increase in net loss was primarily a result of loss on early extinguishment of debt, increased LNG terminal and pipeline development expense, decreased LNG and natural gas marketing and trading revenues and increased LNG terminal and pipeline operating expense, which was partially offset by decreased interest expense.

Loss on Early Extinguishment of Debt

During the three months ended June 30, 2012, we recorded a $14.6 million loss on early extinguishment of debt related to the June 2012 repayment of the 2008 Loans in full.

LNG Terminal and Pipeline Development Expense

Our LNG terminal and pipeline development expense primarily includes professional costs associated with front-end engineering and design work, obtaining regulatory approvals authorizing construction of our facilities and other required permitting for our planned LNG terminals and natural gas pipelines.

LNG terminal and pipeline development expense increased $7.7 million, from $13.4 million in the three months ended June 30, 2011 to $21.1 million in the three months ended June 30, 2012. This increase primarily resulted from costs incurred to develop the liquefaction facilities.

LNG and Natural Gas Marketing and Trading Revenues

Operating results from marketing and trading activities are presented on a net basis on our Consolidated Statements of Operations. Marketing and trading revenues represent the margin earned on the purchase and transportation costs of LNG and subsequent sales of natural gas to third parties. Our marketing and trading revenues also include pretax derivative gains/losses and inventory lower-of-cost-or-market adjustments, if any. See the table below (in thousands) for an itemized comparison of each major type of energy trading and risk management activity:

	Three Months Ended June 30,	
	2012	2011
Physical LNG and natural gas sales, net of costs	$(3)	$(473)
Provision of loss on LNG inventory purchase commitment	(4,850)	—
Loss from derivatives	(995)	153
Other energy trading activities	1,841	4,926
Total LNG and natural gas marketing revenues (losses)	$(4,007)	$4,606

LNG and natural gas marketing and trading revenues (losses) decreased $8.6 million, from $4.6 million of marketing and trading revenues in the three months ended June 30, 2011 to $4.0 million of marketing and trading losses in the three months ended June 30, 2012. The $8.6 million decrease in marketing and trading revenues (losses) is primarily a result of a $4.9 million provision for loss on a firm purchase commitment for LNG inventory that will be used to restore the heating value of vaporized LNG to conform to natural gas pipeline specifications.

LNG Terminal and Pipeline Operating Expense

Our LNG terminal and pipeline operating expense includes costs incurred to operate the Sabine Pass LNG terminal and the Creole Trail Pipeline. LNG terminal and pipeline operating expense increased $3.1 million, from $7.9 million in the three months ended June 30, 2011 to $11.0 million in the three months ended June 30, 2012. This increase is primarily a result of increased dredging services in the three months ended June 30, 2012 and decreased fuel costs in the three months ended June 30, 2011 as a result of efficiencies in our LNG inventory management.

Interest Expense, net

Interest expense, net of amounts capitalized, decreased $8.7 million, from $64.6 million in the three months ended June 30, 2011 to $55.9 million in the three months ended June 30, 2012. This decrease in interest expense resulted from the reduced amount of indebtedness in the three months ended of June 30, 2012 compared to the three months ended June 30, 2011.

Six Months Ended June 30, 2012 vs. Six Months Ended June 30, 2011

Overall Operations

Our consolidated net loss was $129.5 million, or $0.86 per share (basic and diluted), in the six months ended June 30, 2012, compared to a net loss of $87.0 million, or $1.26 per share (basic and diluted), in the six months ended June 30, 2011. This increase in net loss was primarily a result of increased LNG terminal and pipeline development expense, loss on early extinguishment of debt, decreased LNG and natural gas marketing and trading revenues and increased LNG terminal and pipeline operating expense, which was partially offset by decreased interest expense.

LNG Terminal and Pipeline Development Expense

LNG terminal and pipeline development expenses increased $21.1 million, from $21.8 million in the six months ended June 30, 2011 to $42.9 million in the six months ended June 30, 2012. This increase primarily resulted from costs incurred to develop the liquefaction project at the Sabine Pass LNG terminal.

Loss on Early Extinguishment of Debt

During the six months ended June 30, 2012, we recorded a $15.1 million loss on early extinguishment of debt related to the January 2012 repayment of the 2007 Term Loan in full and the June 2012 repayment of the 2008 Loans in full.

LNG and Natural Gas Marketing and Trading Revenues

See the table below (in thousands) for an itemized comparison of each major type of energy trading and risk management activity:

	Six Months Ended June 30,	
	2012	2011
Physical LNG and natural gas sales, net of costs	$(599)	$6,227
Provision of loss on LNG inventory purchase commitment	(4,850)	—
Loss from derivatives	864	(453)
Other energy trading activities	3,236	7,280
Total LNG and natural gas marketing revenues (losses)	$(1,349)	$13,054

LNG and natural gas marketing and trading revenues (losses) decreased $14.4 million, from $13.1 million of marketing and trading revenues in the six months ended June 30, 2011 to $1.3 million of marketing and trading losses in the six months ended June 30, 2012. The $14.4 million decrease in marketing and trading revenues is primarily a result of less LNG export activity and a $4.8 million provision for loss on a firm purchase commitment for LNG inventory that will be used to restore the heating value of vaporized LNG to conform to natural gas pipeline specifications.

LNG Terminal and Pipeline Operating Expense

LNG terminal and pipeline operating expense increased $4.5 million, from $18.0 million in the six months ended June 30, 2011 to $22.5 million in the six months ended June 30, 2012. This increase is primarily a result of increased dredging services in the six months ended June 30, 2012 and decreased fuel costs in the six months ended June 30, 2011 as a result of efficiencies in our LNG inventory management.

Interest Expense, net

Interest expense, net of amounts capitalized, decreased $14.5 million, from $128.7 million in the six months ended June 30, 2011 to $114.2 million in the six months ended June 30, 2012. This decrease in interest expense resulted from the reduced amount of indebtedness in the six months ended of June 30, 2012 compared to the six months ended June 30, 2011.

Off-Balance Sheet Arrangements

As of June 30, 2012, we had no "off-balance sheet arrangements" that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Summary of Critical Accounting Policies and Estimates

The selection and application of accounting policies is an important process that has developed as our business activities have evolved and as the accounting rules have developed. Accounting rules generally do not involve a selection among alternatives but involve an implementation and interpretation of existing rules, and the use of judgment, to apply the accounting rules to the specific set of circumstances existing in our business. In preparing our consolidated financial statements in conformity with generally accepted accounting principles in the United States ("GAAP"), we endeavor to comply with all applicable rules on or before their adoption, and we believe that the proper implementation and consistent application of the accounting rules are critical. However, not all situations are specifically addressed in the accounting literature. In these cases, we must use our best judgment to adopt a policy for accounting for these situations. We accomplish this by analogizing to similar situations and the accounting guidance governing them. There have been no significant changes to our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011, as amended by Amendment No. 1 on Form 10-K/A.

Recent Accounting Standards

In May 2011, the Financial Accounting Standards Board ("FASB") issued guidance that further addresses fair value measurement accounting and related disclosure requirements. The guidance clarifies the FASB's intent regarding the application of existing fair value measurement and disclosure requirements, changes the fair value measurement requirements for certain financial instruments, and sets forth additional disclosure requirements for other fair value measurements. The guidance is to be applied prospectively and is effective for periods beginning after December 15, 2011. We adopted this guidance effective January 1, 2012. The adoption of this guidance did not have an impact on our consolidated financial position, results of operations or cash flows, as it only expanded disclosures.

In June 2011, the FASB amended current comprehensive income guidance. The amended guidance eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, we must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. Also, in December 2011, FASB issued an accounting standard update to abrogate the requirement for presentation in the income statement of the effect on net income of reclassification adjustments out of AOCI as required in FASB's June 2011 amendment. We adopted this guidance effective January 1, 2012. The adoption of this guidance did not have an impact on our consolidated financial position, results of operations or cash flows as it only required a change in the format of the current presentation.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Cash Investments

We have cash investments that we manage based on internal investment guidelines that emphasize liquidity and preservation of capital. Such cash investments are stated at historical cost, which approximates fair market value on our Consolidated Balance Sheets.

Marketing and Trading Commodity Price Risk

We have entered into certain derivative instruments to economically hedge the price risk attributable to future purchases of natural gas to be utilized as fuel to operate the Sabine Pass LNG terminal ("Fuel Derivatives") and to hedge the exposure to variability in expected future cash flows attributable to the future sale of our LNG inventory ("LNG Inventory Derivatives"). We use one-day value at risk ("VaR") with a 95% confidence interval and other methodologies for market risk measurement and control purposes. The VaR is calculated using the Monte Carlo simulation method. The table below provides information about our derivative financial instruments that are sensitive to changes in natural gas prices as of June 30, 2012 (in thousands, except for volume and price range data).

Hedge Description	Hedge Instrument	Contract Volumes (MMBtu)	Price Range ($/MMBtu)	Final Hedge Maturity Date	Fair Value ($)	VaR ($)
LNG Inventory Derivatives	Fixed price natural gas swaps	1,242,500	$2.700 - $3.324	December 2012	$(28)	$46
Fuel Derivatives	Fixed price natural gas swaps	1,078,000	$3.243 - $4.714	August 2013	(664)	2

Item 4. Controls and Procedures

We maintain a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports filed by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective.

During the most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

We may in the future be involved as a party to various legal proceedings, which are incidental to the ordinary course of business. We regularly analyze current information and, as necessary, provide accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management, as of June 30, 2012, there were no pending legal matters that could reasonably be expected to have a material adverse impact on our consolidated results of operations, financial position or cash flows.

Item 6. Exhibits

Exhibit No.	Description
10.1	Change orders to the Lump Sum Turnkey Agreement for the Engineering, Procurement and Construction of the Sabine Pass LNG Liquefaction Facility, dated as of November 11, 2011, between the Borrower and Bechtel Oil, Gas and Chemicals, Inc.: (i) the Change Order CO-0001 EPC Terms and Conditions, dated May 1, 2012, (ii) the Change Order CO-0002 Heavies Removal Unit, dated May 23, 2012, (iii) the Change Order CO-0003 LNTP, dated June 6, 2012, (iv) the Change Order CO-0004 Addition of Inlet Air Humidification, dated July 10, 2012, (v) the Change Order CO-0005 Replace Natural Gas Generators with Diesel Generators, dated July 10, 2012, (vi) the Change Order CO-0006 Flange Reduction and Valve Positioners, dated July 12, 2012, and (vii) the Change Order CO-0007 Relocation of Temporary Facilities, Power Poles Relocation Reimbursement, and Duck Blind Road Improvement Reimbursement, dated July 13, 2012 (incorporated by reference to Exhibit 10.1 to Cheniere Energy Partners, L.P.'s Quarterly Report on Form 10-Q (SEC File No. 001-33366), filed on August 3, 2012)
31.1*	Certification by Chief Executive Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
31.2*	Certification by Chief Financial Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
32.1**	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS+	XBRL Instance Document
101.SCH+	XBRL Taxonomy Extension Schema Document
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB+	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Furnished herewith.

\+ Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHENIERE ENERGY, INC.

/s/ Jerry D. Smith
Jerry D. Smith
Vice President and Chief Accounting Officer
(on behalf of the registrant and
as principal accounting officer)

Date: August 3, 2012