

CHENIERE ENERGY INC  
Form 10-Q  
August 07, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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 as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

95-4352386  
(I.R.S. Employer Identification No.)

700 Milam Street, Suite 800  
Houston, Texas  
(Address of principal executive offices)

77002  
(Zip code)

(713) 375-5000  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

|  |   |
|--|---|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/>   | Smaller reporting company <input type="checkbox"/>    |

(Do not check if a 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  No

As of July 31, 2009, there were 56,517,784 shares of Cheniere Energy, Inc. common stock, \$0.003 par value, issued and outstanding.

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CHENIERE ENERGY, INC.  
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## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 (in thousands, except share data)

|   | June 30,<br>2009<br>(unaudited) | December<br>31,<br>2008<br>(As<br>adjusted) |
|---|---------------------------------|---|
| <b>ASSETS</b>   |                                 |   |
| <b>CURRENT ASSETS</b>   |                                 |   |
| Cash and cash equivalents   | \$88,946                        | \$102,192                                   |
| Restricted cash and cash equivalents  | 147,229                         | 301,550                                     |
| LNG inventory   | 10,699                          | —   |
| Accounts and interest receivable  | 9,424                           | 3,630                                       |
| Prepaid expenses and other  | 12,124                          | 9,220                                       |
| <b>TOTAL CURRENT ASSETS</b>   | <b>268,422</b>                  | <b>416,592</b>                              |
| <b>NON-CURRENT RESTRICTED CASH AND CASH EQUIVALENTS</b>   | <b>117,770</b>                  | <b>138,483</b>                              |
| <b>NON-CURRENT RESTRICTED U.S. TREASURY SECURITIES</b>  | <b>—</b>                        | <b>20,829</b>                               |
| <b>PROPERTY, PLANT AND EQUIPMENT, NET</b>   | <b>2,236,269</b>                | <b>2,170,158</b>                            |
| <b>DEBT ISSUANCE COSTS, NET</b>   | <b>50,840</b>                   | <b>55,688</b>                               |
| <b>GOODWILL</b>   | <b>76,844</b>                   | <b>76,844</b>                               |
| <b>INTANGIBLE LNG ASSETS</b>  | <b>6,106</b>                    | <b>6,106</b>                                |
| <b>LNG HELD FOR COMMISSIONING</b>   | <b>9,767</b>                    | <b>9,923</b>                                |
| <b>ADVANCES UNDER LONG-TERM CONTRACTS</b>   | <b>2,697</b>                    | <b>10,705</b>                               |
| <b>OTHER</b>  | <b>17,070</b>                   | <b>14,754</b>                               |
| <b>TOTAL ASSETS</b>   | <b>\$2,785,785</b>              | <b>\$2,920,082</b>                          |
| <b>LIABILITIES AND DEFICIT</b>  |                                 |   |
| <b>CURRENT LIABILITIES</b>  |                                 |   |
| Accounts payable  | \$1,319                         | \$1,220                                     |
| Accrued liabilities   | 56,044                          | 61,883                                      |
| Other   | 26,238                          | 3,030                                       |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>83,601</b>                   | <b>66,133</b>                               |
| <b>LONG-TERM DEBT, NET OF DISCOUNT</b>  | <b>2,667,567</b>                | <b>2,750,308</b>                            |
| <b>LONG-TERM DEBT—RELATED PARTIES, NET OF DISCOUNT</b>  | <b>348,753</b>                  | <b>332,054</b>                              |
| <b>DEFERRED REVENUE</b>   | <b>35,500</b>                   | <b>37,500</b>                               |
| <b>OTHER NON-CURRENT LIABILITIES</b>  | <b>14,599</b>                   | <b>8,141</b>                                |
| <b>COMMITMENTS AND CONTINGENCIES</b>  | <b>—</b>                        | <b>—</b>                                    |
| <b>DEFICIT</b>  |                                 |   |
| Stockholders' equity (deficit)  |                                 |   |
| Preferred stock, \$.0001 par value, 5,000,000 shares authorized, none issued                        | —                               | —   |
| Common stock, \$.003 par value  |                                 |   |
| Authorized: 240,000,000 and 120,000,000 shares at June 30, 2009 and December 31, 2008, respectively |                                 |   |

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|   |             |             |
|---|-------------|-------------|
| Issued and outstanding: 56,539,000 and 52,297,000 shares at June 30, 2009 and December 31, 2008, respectively | 170         | 157         |
| Treasury stock: 267,000 and 179,000 shares at June 30, 2009 and December 31, 2008, respectively, at cost      | (576 )      | (496 )      |
| Additional paid-in-capital  | 325,489     | 300,033     |
| Accumulated deficit   | (919,548 )  | (823,756 )  |
| Accumulated other comprehensive loss  | (112 )      | (154 )      |
| TOTAL STOCKHOLDERS' DEFICIT   | (594,577 )  | (524,216 )  |
| Non-controlling interest  | 230,342     | 250,162     |
| TOTAL DEFICIT   | (364,235 )  | (274,054 )  |
| TOTAL LIABILITIES AND DEFICIT   | \$2,785,785 | \$2,920,082 |

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share data)  
(unaudited)

|   | Three Months Ended<br>June 30, |                          | Six Months Ended<br>June 30, |                          |
|---|--------------------------------|--------------------------|------------------------------|--------------------------|
|   | 2009                           | 2008<br>(As<br>adjusted) | 2009                         | 2008<br>(As<br>adjusted) |
| <b>REVENUES</b>   |                                |                          |                              |                          |
| LNG receiving terminal revenues   | \$38,201                       | \$—                      | \$38,201                     | \$—                      |
| Oil and gas sales   | 839                            | 1,207                    | 1,573                        | 2,293                    |
| Marketing and trading   | (1,156 )                       | (293 )                   | (656 )                       | 98                       |
| Other   | 75                             | —                        | 75                           | —                        |
| <b>TOTAL REVENUES</b>   | <b>37,959</b>                  | <b>914</b>               | <b>39,193</b>                | <b>2,391</b>             |
| <b>OPERATING COSTS AND EXPENSES</b>                                       |                                |                          |                              |                          |
| LNG receiving terminal and pipeline development expense                   | 91                             | 2,566                    | —                            | 9,282                    |
| LNG receiving terminal and pipeline operating expense                     | 9,251                          | 416                      | 18,029                       | 416                      |
| Oil and gas production and exploration costs                              | 77                             | 138                      | 164                          | 300                      |
| Depreciation, depletion and amortization                                  | 12,795                         | 3,333                    | 24,857                       | 5,617                    |
| Restructuring charges   | —                              | 78,564                   | —                            | 78,564                   |
| General and administrative expense  | 15,422                         | 19,364                   | 33,219                       | 50,043                   |
| <b>TOTAL OPERATING COSTS AND EXPENSES</b>                                 | <b>37,636</b>                  | <b>104,381</b>           | <b>76,269</b>                | <b>144,222</b>           |
| <b>INCOME (LOSS) FROM OPERATIONS</b>                                      | <b>323</b>                     | <b>(103,467 )</b>        | <b>(37,076 )</b>             | <b>(141,831 )</b>        |
| Loss from equity method investments                                       | —                              | (3,000 )                 | —                            | (4,800 )                 |
| Derivative gain (loss), net   | 762                            | (11,536 )                | 3,324                        | (12,366 )                |
| Gain on early extinguishment of debt                                      | 45,363                         | —                        | 45,363                       | —                        |
| Interest expense, net   | (61,959 )                      | (25,612 )                | (115,209 )                   | (50,212 )                |
| Interest income   | 388                            | 4,801                    | 1,199                        | 14,405                   |
| Other income (loss)   | 46                             | (34 )                    | (17 )                        | (71 )                    |
| <b>LOSS BEFORE INCOME TAXES AND<br/>NON-CONTROLLING INTEREST</b>          | <b>(15,077 )</b>               | <b>(138,848 )</b>        | <b>(102,416 )</b>            | <b>(194,875 )</b>        |
| <b>INCOME TAX PROVISION</b>   | <b>—</b>                       | <b>—</b>                 | <b>—</b>                     | <b>—</b>                 |
| <b>LOSS BEFORE NON-CONTROLLING INTEREST<br/>NON-CONTROLLING INTEREST</b>  | <b>(15,077 )</b>               | <b>(138,848 )</b>        | <b>(102,416 )</b>            | <b>(194,875 )</b>        |
| <b>NET LOSS</b>   | <b>2,026</b>                   | <b>2,305</b>             | <b>6,624</b>                 | <b>3,670</b>             |
| <b>NET LOSS</b>   | <b>\$(13,051 )</b>             | <b>\$(136,543 )</b>      | <b>\$(95,792 )</b>           | <b>\$(191,205 )</b>      |
| Net loss per common share—basic and diluted                               | \$(0.25 )                      | \$(2.90 )                | \$(1.91 )                    | \$(4.06 )                |
| Weighted average number of common shares<br>outstanding—basic and diluted | 51,576                         | 47,129                   | 50,121                       | 47,053                   |

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)  
(in thousands)  
(unaudited)

Cheniere Energy, Inc. Common Stockholders

|   | 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, 2008                     | 52,297       | \$ 157 | 179            | \$(496) | \$ 181,289                 | \$(785,389)         | \$(154)                              | \$250,162                | \$(354,431)            |
| Cumulative effect of accounting change        | —            | —      | —              | —       | 118,744                    | (38,367)            | —                                    | —                        | 80,377                 |
| Balance—December 31, 2008 (as adjusted)       | 52,297       | \$ 157 | 179            | \$(496) | \$ 300,033                 | \$(823,756)         | \$(154)                              | \$250,162                | \$(274,054)            |
| Issuances of stock                            | 3,985        | 12     | —              | —       | 16,212                     | —                   | —                                    | —                        | 16,224                 |
| Issuances of restricted stock                 | 345          | 1      | —              | —       | (1)                        | —                   | —                                    | —                        | —                      |
| Forfeitures of restricted stock               | (65)         | —      | 65             | —       | —                          | —                   | —                                    | —                        | —                      |
| Stock-based compensation                      | —            | —      | —              | —       | 9,244                      | —                   | —                                    | —                        | 9,244                  |
| Treasury stock acquired                       | (23)         | —      | 23             | \$(80)  | 1                          | —                   | —                                    | —                        | (79)                   |
| Foreign currency translation                  | —            | —      | —              | —       | —                          | —                   | 42                                   | —                        | 42                     |
| Loss attributable to non-controlling interest | —            | —      | —              | —       | —                          | —                   | —                                    | (6,624)                  | (6,624)                |
| Distributions to non-controlling interest     | —            | —      | —              | —       | —                          | —                   | —                                    | (13,196)                 | (13,196)               |
| Net loss                                      | —            | —      | —              | —       | —                          | (95,792)            | —                                    | —                        | (95,792)               |
| Balance—June 30, 2009                         | 56,539       | \$ 170 | 267            | \$(576) | \$ 325,489                 | \$(919,548)         | \$(112)                              | \$230,342                | \$(364,235)            |

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

|   | Six Months Ended June 30, |                   |
|---|---------------------------|-------------------|
|   | 2009                      | 2008              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                           | (As adjusted)     |
| Net loss  | \$ (95,792 )              | \$ (191,205 )     |
| Adjustments to reconcile net loss to net cash used in operating activities:                             |                           |                   |
| Gain on early extinguishment of debt  | (45,363 )                 | —                 |
| Depreciation, depletion and amortization  | 24,857                    | 5,617             |
| Amortization of debt issuance and debt discount   | 14,896                    | 13,973            |
| Non-cash compensation   | 8,645                     | 15,905            |
| Non-cash restructuring charges  | —                         | 17,144            |
| Restricted interest income on restricted cash and cash equivalents                                      | (2,774 )                  | (13,105 )         |
| Non-cash derivative loss  | 223                       | 6,196             |
| Use of restricted cash and cash equivalents   | 49,158                    | 54,926            |
| Non-controlling interest  | (6,624 )                  | (3,670 )          |
| Other   | 15,447                    | (155 )            |
| Changes in operating assets and liabilities:  |                           |                   |
| Accounts and interest receivable  | 1,657                     | 16,716            |
| Prepaid expenses  | (3,128 )                  | (15,473 )         |
| Deferred revenue  | 21,738                    | —                 |
| LNG inventory   | (10,699 )                 | —                 |
| Accounts payable and accrued liabilities  | 116                       | (14,031 )         |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>  | <b>(27,643 )</b>          | <b>(107,162 )</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                           |                   |
| LNG terminal and pipeline construction-in-process, net  | (81,175 )                 | (440,782 )        |
| Use of restricted cash and cash equivalents   | 71,088                    | 410,457           |
| Use of (investment in) restricted treasury securities   | —                         | 21,717            |
| Purchases of LNG commissioning, net of amounts transferred to LNG terminal construction-in-process      | (14,184 )                 | (65,416 )         |
| Purchases of intangible and fixed assets, net of sales  | (140 )                    | (3,542 )          |
| Oil and gas property, net of sales  | (530 )                    | —                 |
| Advances under long-term contracts, net of amounts transferred to LNG terminal construction-in-progress | —                         | (5,118 )          |
| Other   | 4,286                     | (9,218 )          |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  | <b>(20,655 )</b>          | <b>(91,902 )</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                           |                   |
| Proceeds from the Bridge Loan   | —                         | 95,000            |
| Distributions to non-controlling interest   | (13,196 )                 | (13,196 )         |
| Debt issuance costs   | (33 )                     | (12,503 )         |
| Use of (investment in) restricted cash and cash equivalents   | 78,391                    | 13                |
| Debt repurchase   | (30,030 )                 | —                 |
| Purchase of treasury shares   | (80 )                     | (4,406 )          |



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|   |           |            |
|---|-----------|------------|
| Sale of common stock                          | —         | 241        |
| NET CASH PROVIDED BY FINANCING ACTIVITIES     | 35,052    | 65,149     |
| NET DECREASE IN CASH AND CASH EQUIVALENTS     | (13,246 ) | (133,915 ) |
| CASH AND CASH EQUIVALENTS—beginning of period | 102,192   | 296,530    |
| CASH AND CASH EQUIVALENTS—end of period       | \$ 88,946 | \$ 162,615 |

The accompanying notes are an integral part of these 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 the instructions to Form 10-Q and 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 and controlled subsidiaries, unless otherwise stated or indicated by context.

We have evaluated subsequent events through August 6, 2009.

For further information, refer to the consolidated financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2008.

## Recent Accounting Developments

We adopted Financial Accounting Standards Board (“FASB”) Staff Position (“FSP”) Accounting Principles Board (“APB”) No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (“FSP APB 14-1”), effective as of January 1, 2009, applying it retrospectively to all periods presented. FSP APB 14-1 clarifies that convertible debt instrument that may be settled in cash upon conversion (including partial cash settlement) do not fall within the scope of paragraph 12 of APB No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants, and specifies that issuers of such instruments should 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 cost is recognized in subsequent periods. Upon settlement, the entity shall allocate consideration transferred and transaction costs incurred to the extinguishment of the liability component and the reacquisition of the equity component.

Our 2¼% Convertible Senior Unsecured Notes due 2012 (“Convertible Senior Unsecured Notes”) are impacted by this change. The fair value of the embedded conversion option at the date of issuance 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. This debt discount will be amortized over the terms of the underlying Convertible Senior Unsecured Notes.

As a result of the adoption of FSP APB 14-1, adjustments have been made to the financial statements of prior periods as required by SFAS No. 154, Accounting Changes and Error Corrections. The following table summarized the incremental effect of the adoption of FSP APB 14-1 on our Consolidated Statements of Operations and per-share amounts for three and six months ended June 30, 2008 (in thousands, except per share amounts):

|                      | Three Months Ended June 30, 2008 |                    |             | Six Months Ended June 30, 2008 |                    |             |
|----------------------|----------------------------------|--------------------|-------------|--------------------------------|--------------------|-------------|
|                      | Prior to adoption                | Effect of adoption | As adjusted | Prior to adoption              | Effect of adoption | As adjusted |
| Increase/(decrease): |                                  |                    |             |                                |                    |             |
| Interest expense     | \$(21,402 )                      | \$(4,210 )         | \$(25,612 ) | \$(41,251 )                    | \$(8,961 )         | \$(50,212 ) |
| Net loss             | (132,333 )                       | (4,210 )           | (136,543 )  | (182,244 )                     | (8,961 )           | (191,205 )  |

Basic and diluted earnings per share                      \$(2.81      ) \$(0.09      ) \$(2.90      ) \$(3.87      ) \$(0.19      ) \$(4.06      )

The incremental effect of the adoption of FSP APB 14-1 on our Consolidated Balance Sheet as of December 31, 2008 is presented as follows (in thousands):

|                                 | December 31, 2008 |                    |             |
|---------------------------------|-------------------|--------------------|-------------|
|                                 | Prior to adoption | Effect of adoption | As adjusted |
| Increase/(decrease):            |                   |                    |             |
| Debt issuance costs             | \$57,676          | \$(1,988 )         | \$55,688    |
| Long-term debt, net of discount | 2,832,673         | (82,365 )          | 2,750,308   |
| Additional paid-in capital      | 181,289           | 118,744            | 300,033     |
| Accumulated deficit             | (785,389 )        | (38,367 )          | (823,756 )  |

Debt issuance costs decrease \$2.0 million, representing the cumulative adjustment caused by a portion of debt issuance costs being reclassified to additional paid-in capital pursuant to FSP APB 14-1.

The cumulative effect of the change in accounting principles was \$38.4 million, recorded as an adjustment to retained earnings as of January 1, 2009, from the retrospective increase in interest expense for the year ended December 31, 2008.

During the second quarter of 2009, we identified an error related to the January 1, 2009 adoption of FSP APB 14-1. Upon review, management determined that our Convertible Senior Unsecured Notes have an embedded conversion option that falls within the scope of FSP APB 14-1. Under the guidance of Staff Accounting Bulletin (“SAB”) No. 99, Materiality, we have determined that this error was not material to any of our prior reports on an annual or interim period.

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

## NOTE 2—Non-controlling Interest

As a result of adopting Statement of Financial Accounting Standards (“SFAS”) No. 160, Noncontrolling Interests in Consolidated Statements, an amendment of ARB No. 51, effective as of January 1, 2009, we present non-controlling interests (previously shown as minority interest) as a component of equity on our Consolidated Balance Sheets and Consolidated Statement of Equity (Deficit). The adoption of SFAS 160 did not have any other material impact on our financial position, results of operations or cash flow.

We have consolidated certain joint ventures and partnerships because we have a controlling interest in these ventures. Therefore, the entities’ financial statements are consolidated in our consolidated financial statements and the ownership interests of others in these entities’ equity is recorded as non-controlling interest. The following table sets forth the components of our non-controlling interest balance attributable to third-party investors’ interest (in thousands):

|  |           |
|--|-----------|
| Net proceeds from Cheniere Partners’ issuance of common units (1)      | \$98,442  |
| Net proceeds from Holdings’ sale of Cheniere Partners common units (2) | 203,946   |
| Distributions on Cheniere Partners’ non-controlling interest           | (53,220 ) |
| Non-controlling interest share of loss of Cheniere Partners            | (18,826 ) |
| Non-controlling interest at June 30, 2009                              | \$230,342 |

(1) In March and April 2007, we and Cheniere Energy Partners, L.P. (“Cheniere Partners”) completed a public offering of 15,525,000 Cheniere Partners common units (“Cheniere Partners Offering”). Through the Cheniere Partners Offering, Cheniere Partners received \$98.4 million in net proceeds from the issuance of its common units to the public. Securities and Exchange Commission (“SEC”) SAB No. 51, Accounting for Sales of Stock by a Subsidiary, provided guidance on accounting by the parent for issuances of a subsidiary’s common equity to unaffiliated parties. Under SAB No. 51, 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. SFAS No. 160 established new accounting and reporting standards for the non-controlling interest in a subsidiary.

(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 proceeds net of offering costs 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.

## NOTE 3—Restricted Cash, Cash Equivalents and U.S. Treasury Securities

Restricted cash and cash equivalents and U.S. Treasury securities are composed of cash that has been contractually restricted as to usage or withdrawal, as follows:

## Sabine Pass LNG Receiving Terminal Construction Reserve

In November 2006, Sabine Pass LNG, L.P. (“Sabine Pass LNG”) issued an aggregate principal amount of \$2,032.0 million of Senior Secured 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” and collectively with the 2013 Notes, the “Senior Notes”). In September 2008, Sabine Pass LNG completed an additional \$183.5 million, before

discount, of 2016 Notes whose terms were identical to the previously outstanding 2016 Notes. The additional issuance and the previously outstanding 2016 Notes are treated as a single series of notes under the indenture governing the Senior Notes (“Sabine Pass Indenture”) (See Note 9—“Long-Term Debt (including related parties)”). Under the terms and conditions of the Senior Notes, Sabine Pass LNG was required to fund a cash reserve account for approximately \$987 million to pay the remaining costs to complete the Sabine Pass LNG receiving terminal. The cash accounts are controlled by a collateral trustee, and therefore, are shown as restricted cash and cash equivalents on our Consolidated Balance Sheets. As of June 30, 2009, the Sabine Pass LNG receiving terminal construction reserve account balance was zero. As of December 31, 2008, the Sabine Pass LNG receiving terminal construction reserve account balance was \$71.1 million; of which \$27.4 million of the construction reserve account related to accrued construction costs had been classified as part of current restricted cash and cash equivalents and \$43.7 million of the construction reserve account related to remaining construction costs had been classified as a non-current asset on our Consolidated Balance Sheets.

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Senior Notes Debt Service Reserve

As described above, Sabine Pass LNG consummated private offerings of an aggregate principal amount of \$2,215.5 million Senior Notes (See Note 9—“Long-Term Debt (including related parties)”). Under the Sabine Pass Indenture governing the Senior Notes, 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. In addition, 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. As of June 30, 2009 and December 31, 2008, we classified \$13.7 million as current restricted cash and cash equivalents as these amounts related to the payment of interest due within twelve months. As of June 30, 2009 and December 31, 2008, 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.

Cheniere Partners Distribution Reserve

At the closing of the Cheniere Partners Offering, Cheniere Partners funded a distribution reserve of \$98.4 million, which was invested in U.S. Treasury securities (See Note 2—“Non-controlling Interest”). The distribution reserve, including interest earned thereon, is available to pay quarterly distributions of \$0.425 per common unit for all common units, as well as related distributions to Cheniere Partners’ general partner, through the distribution made in respect of the quarter ending September 30, 2009. The U.S. Treasury securities were acquired at a discount from their maturity values equal to an average of approximately 4.87% per year. As of June 30, 2009 and December 31, 2008, we classified \$34.9 million and \$12.0 million as non-current restricted cash that may be utilized to pay quarterly distributions, respectively. In addition, as of June 30, 2009 and December 31, 2008, we classified zero and \$20.8 million as non-current restricted U.S. Treasury securities on our Consolidated Balance Sheets that may be utilized to pay quarterly distributions, as these securities had original maturities greater than three months.

TUA Reserve

Under the terms and conditions of the 2008 Convertible Loans described below in Note 9—“Long-Term Debt (including related parties)”, we were required to fund a reserve account with \$135.0 million to pay Cheniere Marketing, LLC’s (“Cheniere Marketing”) obligations under its Terminal Use Agreement (“TUA”) with Sabine Pass LNG and as additional collateral for the 2008 Convertible Loans. We continue to fund this account using quarterly distributions received from Cheniere’s common, subordinated and general partner units in Cheniere Partners. The cash account is controlled by a collateral trustee, and therefore, is shown as restricted cash and cash equivalents on our Consolidated Balance Sheets. In June 2009, through an amendment of the 2008 Convertible Loans we moved \$65.2 million out of the TUA reserve account into unrestricted cash and cash equivalent account. In addition, we made Cheniere Marketing’s TUA payment to Sabine Pass LNG leaving the balance of the TUA reserve account at zero as of June 30, 2009, as part of current restricted cash and cash equivalents on our Consolidated Balance Sheets. As of December 31, 2008, we classified \$62.8 million as part of current restricted cash and cash equivalents on our Consolidated Balance Sheets.

Other Restricted Cash and Cash Equivalents

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As of June 30, 2009 and December 31, 2008, the \$133.5 million and \$197.1 million, respectively, of cash and cash equivalents is primarily related to cash and cash equivalents held by Sabine Pass LNG that is considered restricted to Cheniere. In addition, due to various other contractual restrictions \$0.5 million and \$1.0 million had been classified as non-current cash and cash equivalents on our Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008, respectively.

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## NOTE 4—LNG Held for Commissioning

Liquefied natural gas (“LNG”) purchased for commissioning activities is recorded at cost and classified as a non-current asset on our Consolidated Balance Sheets as LNG held for commissioning. As the LNG held for commissioning is used to cool down the LNG receiving terminal and establish LNG heel in the LNG receiving terminal, we capitalize the portion used. The LNG used in the commissioning process is capitalized net of amounts received from the sale of natural gas.

At June 30, 2009 and December 31, 2008, we had recorded \$9.8 million and \$9.9 million, respectively, as LNG held for commissioning on our Consolidated Balance Sheets.

## NOTE 5—LNG Inventory

LNG inventory is recorded at cost and is subject to the lower of cost or market adjustments at the end of each period. As of June 30, 2009 and December 31, 2008, we had recorded \$10.7 million and zero, respectively, as LNG inventory on our Consolidated Balance Sheets.

## NOTE 6—Property, Plant and Equipment

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

|  | June 30,<br>2009 | December<br>31,<br>2008 |
|--|------------------|-------------------------|
| <b>LNG TERMINAL COSTS</b>                                |                  |                         |
| LNG receiving terminal                                   | \$1,078,168      | \$927,298               |
| LNG terminal construction-in-process                     | 582,001          | 643,340                 |
| LNG site and related costs, net                          | 2,592            | 2,579                   |
| Accumulated depreciation                                 | (21,461 )        | (7,813 )                |
| Total LNG terminal costs                                 | 1,641,300        | 1,565,404               |
| <b>NATURAL GAS PIPELINE</b>                              |                  |                         |
| Natural gas pipeline plant                               | 563,475          | 562,893                 |
| Natural gas pipeline construction-in-process             | 8,060            | 7,937                   |
| Pipeline right-of-ways                                   | 18,415           | 18,221                  |
| Accumulated depreciation                                 | (15,699 )        | (8,454 )                |
| Total natural gas pipeline costs                         | 574,251          | 580,597                 |
| <b>OIL AND GAS PROPERTIES, successful efforts method</b> |                  |                         |
| Proved   | 3,620            | 3,439                   |
| Accumulated depreciation, depletion and amortization     | (1,480 )         | (1,043 )                |
| Total oil and gas properties, net                        | 2,140            | 2,396                   |
| <b>FIXED ASSETS</b>                                      |                  |                         |
| Computer and office equipment                            | 5,796            | 5,693                   |
| Furniture and fixtures                                   | 5,316            | 5,315                   |
| Computer software  | 12,211           | 12,128                  |



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|   |                    |                    |
|---|--------------------|--------------------|
| Leasehold improvements                    | 9,258              | 9,208              |
| Other                                     | 1,197              | 1,254              |
| Accumulated depreciation                  | (15,200 )          | (11,837 )          |
| Total fixed assets, net                   | 18,578             | 21,761             |
| <b>PROPERTY, PLANT AND EQUIPMENT, NET</b> | <b>\$2,236,269</b> | <b>\$2,170,158</b> |

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#### LNG Terminal Costs

Costs associated with the construction of the Sabine Pass LNG receiving terminal that have not been placed into service have been capitalized as construction-in-process since the date the project satisfied our criteria for capitalization. For the six months ended June 30, 2009 and 2008, we capitalized \$20.4 million and \$47.6 million of interest expense related to the construction of the Sabine Pass LNG receiving terminal, respectively. In March 2006, our Corpus Christi LNG receiving terminal satisfied the criteria for capitalization. Accordingly, costs associated with the initial site work for the Corpus Christi LNG receiving terminal have been capitalized. For the six months ended June 30, 2009 and 2008, we capitalized zero and \$0.6 million, respectively, of interest expense related to this construction project.

We began depreciating equipment and facilities associated with the initial 2.6 Bcf/d of sendout capacity and 10.1 Bcf of storage capacity of the Sabine Pass LNG receiving terminal when they were ready for use in the third quarter of 2008. The Sabine Pass LNG receiving terminal is depreciated using the straight-line depreciation method applied to groups of LNG receiving terminal assets with varying useful lives. The identifiable components of the Sabine Pass LNG receiving terminal with similar estimated useful lives have a depreciable range between 10 and 50 years.

#### Natural Gas Pipeline Costs

Our natural gas pipeline business is subject to the jurisdiction of the Federal Energy Regulatory Commission (“FERC”) in accordance with the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978, and we have determined that our pipelines have met the criteria set forth in SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. For the six months ended June 30, 2009 and 2008, we capitalized zero and \$17.0 million, respectively, of Allowance for Funds Used During Construction (“AFUDC”) to our natural gas pipeline projects.

#### Fixed Assets

Our fixed assets are recorded at cost and are depreciated on a straight-line method based on the estimated lives of the individual assets or groups of assets. Depreciation expense related to our property, plant and equipment totaled \$24.9 million and \$5.6 million for the six months ended June 30, 2009 and 2008, respectively.

#### Asset Retirement Costs

Our asset retirement obligations relate primarily to the retirement of certain LNG receiving terminal and natural gas pipeline assets and obligations related to right-of-way agreements. In accordance with SFAS No. 143, Accounting for Asset Retirement Obligations, we determined that due to an indeterminate life of such assets, the fair value of the retirement obligation is not reasonably estimable. A liability for such asset retirement obligation will be recorded when a fair value is determinable.

#### NOTE 7—Investment in Limited Partnership

We account for our 30% limited partnership investment in Freeport LNG Development, L.P. (“Freeport LNG”) using the equity method of accounting. As of June 30, 2009 and December 31, 2008, we had unrecorded cumulative suspended losses of \$19.6 million and \$27.2 million, respectively, related to our investment in Freeport LNG as the basis in this investment had been reduced to zero.

In January 2009 and April 2009, Freeport LNG distributed \$3.9 million and \$2.7 million to us, respectively.

In March 2008 and May 2008, we received cash call notices from Freeport LNG requesting that we provide further financial support due to higher than expected commissioning and performance testing costs. During the six months ended June 30, 2008, we funded the cash calls and recorded \$4.8 million of additional suspended losses in Freeport LNG. In addition, Freeport LNG distributed \$4.8 million to us in October 2008.

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The financial position of Freeport LNG at June 30, 2009 and December 31, 2008 and the results of Freeport LNG's operations for the six months ended June 30, 2009 and 2008 are summarized as follows (in thousands):

|   | June<br>30, 2009 | December<br>31, 2008 |
|---|------------------|----------------------|
| Current assets                              | \$67,507         | \$72,834             |
| Construction-in-process                     | 75,109           | 62,768               |
| Property, plant and equipment, net          | 867,034          | 887,388              |
| Other assets                                | 30,759           | 31,608               |
| Total assets                                | 1,040,409        | 1,054,598            |
| Current liabilities                         | 15,832           | 61,317               |
| Notes payable                               | 1,119,793        | 1,090,086            |
| Deferred revenue and other deferred credits | 13,540           | 15,401               |
| Partners' capital                           | (108,756 )       | (112,206 )           |
| Total liabilities and partners' capital     | \$1,040,409      | \$1,054,598          |

|   | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|---|--------------------------------|-------------|------------------------------|-------------|
|   | 2009                           | 2008        | 2009                         | 2008        |
| Income (loss) from continuing operations                                | \$32,971                       | \$(27,180 ) | \$65,541                     | \$(33,157 ) |
| Net income (loss)   | 12,792                         | (27,459 )   | 25,450                       | (33,684 )   |
| Cheniere's 30% equity in net income (loss) from limited partnership (1) | 3,838                          | (8,238 )    | 7,635                        | (10,105 )   |

(1) During the three month periods ended June 30, 2009 and 2008, we did not record \$3.8 million and (\$8.2) million, respectively, and during the six months ended June 30, 2009 and 2008, we did not record \$7.6 million and (\$10.1) million of the net income (losses) for such periods, respectively, as the basis in this investment had been reduced to zero and because we did not guarantee any obligations and had not been committed to provide any further financial support.

NOTE 8—Accrued Liabilities

As of June 30, 2009 and December 31, 2008, accrued liabilities consisted of the following (in thousands):

|   | June 30,<br>2009 | December<br>31,<br>2008 |
|---|------------------|-------------------------|
| LNG terminal construction costs           | \$26,657         | \$26,768                |
| Accrued interest expense and related fees | 16,179           | 17,305                  |
| Pipeline construction costs               | 3,274            | 5,102                   |
| Payroll                                   | 5,581            | 8,717                   |

|                           |          |          |
|---------------------------|----------|----------|
| Other accrued liabilities | 4,353    | 3,991    |
| Accrued liabilities       | \$56,044 | \$61,883 |

## NOTE 9—Long-Term Debt (including related parties)

As of June 30, 2009 and December 31, 2008, our long-term debt, including related party debt, consisted of the following (in thousands):

|   | June 30,<br>2009 | December<br>31,<br>2008<br>(As<br>adjusted) |
|---|------------------|---|
| Long-term debt (including related parties):                 |                  |   |
| Senior Notes (including related parties)                    | \$2,215,500      | \$2,215,500                                 |
| 2007 Term Loan  | 400,000          | 400,000                                     |
| 2008 Convertible Loans (including related parties)          | 276,959          | 261,393                                     |
| Convertible Senior Unsecured Notes                          | 204,630          | 325,000                                     |
| Total long-term debt  | 3,097,089        | 3,201,893                                   |
| Debt discount:  |                  |   |
| Senior Notes (including related parties)                    | (34,819 )        | (37,166 )                                   |
| Convertible Senior Unsecured Notes                          | (45,950 )        | (82,365 )                                   |
| Total debt discount   | (80,769 )        | (119,531 )                                  |
| Long-term debt (including related parties), net of discount | \$3,016,320      | \$3,082,362                                 |

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Sabine Pass LNG Senior Notes

In November 2006, Sabine Pass LNG issued an aggregate principal amount of \$2,032.0 million of Senior Notes, consisting of \$550.0 million of the 2013 Notes and \$1,482.0 million of 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. The net proceeds from the additional issuance of the 2016 Notes were \$145.0 million. One of the lenders making the additional issuance of the 2016 Notes was GSO Capital Partners, L.P. (“GSO”), an affiliate of two members of Cheniere’s board of directors. GSO, a related party, did not receive any fees in connection with the additional issuance of 2016 Notes. The additional issuance and the previously outstanding 2016 Notes are treated as a single series of notes under the Sabine Pass Indenture. Sabine Pass LNG placed \$100.0 million of the \$145.0 million of net proceeds from the additional issuance of the 2016 Notes into a construction account to pay construction expenses of cost overruns related to the construction, cool down, commissioning and completion of the Sabine Pass LNG receiving terminal. In addition, Sabine Pass LNG placed \$40.8 million of the remaining net proceeds into an account in accordance with the cash waterfall requirements of the security deposit agreement Sabine Pass LNG entered into in connection with the Senior Notes, which are used by Sabine Pass LNG for working capital and other general business purposes.

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. 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. In addition, 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, 2009, Sabine Pass LNG made distributions of \$149.3 million after satisfying all the applicable conditions in the Sabine Pass Indenture.

As of June 30, 2009 and December 31, 2008, we have presented \$71.8 million and \$70.7 million, respectively, as part of Long-Term Debt—Related Party on our Consolidated Balance Sheets because we have related parties holding a portion of this debt.

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 (“Securities Act”). The notes bear interest at a rate of 2¼% per year. The notes are 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 is equal to a conversion price of approximately \$35.42 per share. As of June 30, 2009, no holders had elected to convert their notes at the conversion rate.

We may 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 exceeds \$53.13, subject to adjustment, for at least five consecutive trading days. In the event of such

redemption, we will make 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 contains customary reporting requirements.

As discussed in Note 1—Basis of Presentation, we adopted FSP APB 14-1 on January 1, 2009. The following table summarizes the liability component of the Convertible Senior Unsecured Notes as follows (in thousands):

|                      | June 30,<br>2009 | December<br>31,<br>2008<br>(As<br>adjusted) |
|----------------------|------------------|---|
| Principal amount     | \$204,630        | \$325,000                                   |
| Unamortized discount | (45,950 )        | (82,365 )                                   |
| Net carry amount     | \$158,680        | \$242,635                                   |

The unamortized discount will be amortized through the maturity of the Convertible Senior Unsecured Notes. The Convertible Senior Unsecured Notes have a maturity of August 2012. Interest expense for the Convertible Senior Unsecured Notes, including the debt discount amortization for the six months ended June 30, 2009 and 2008 was \$12.3 million and \$13.3 million, respectively. The effective interest rate as of June 30, 2009 was 10.9% for the Convertible Senior Unsecured Notes.

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 common shares, reducing our principal amount due in 2012 to \$204.6 million at June 30, 2009. As a result of the exchange, we recognized a gain of \$45.4 million that we have reported as gain on early extinguishment of debt in our Consolidated Statements of Operations for the three and six months ended June 30, 2009.

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2007 Term Loan

In May 2007, Cheniere Subsidiary Holdings, LLC (“Cheniere Subsidiary”), a wholly-owned subsidiary of Cheniere, entered into a \$400.0 million credit agreement (“2007 Term Loan”). Borrowings under the 2007 Term Loan generally bear interest at a fixed rate of 9¾% per annum. Interest is calculated on the unpaid principal amount of the 2007 Term Loan outstanding and is payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The 2007 Term Loan will mature on May 31, 2012. The 2007 Term Loan is secured by a pledge of our 135,383,831 subordinated units in Cheniere Partners and our equity interests in the entities that own our 30% interest in Freeport LNG.

2008 Convertible Loans

In August 2008, we entered into a credit agreement pursuant to which we obtained \$250.0 million in convertible term loans (“2008 Convertible Loans”). The 2008 Convertible Loans will mature in 2018, but the lenders can require prepayment of the loan for 30 days following August 15, 2011, 2013 and 2015, and upon a change of control. The 2008 Convertible Loans bear 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 will be 14% per annum. Interest is due semi-annually on the last business day of January and July. At our option, until August 15, 2011, accrued interest may be added to the principal on each semi-annual interest date. The aggregate amount of all accrued interest to August 15, 2011 will be payable upon the maturity date. The 2008 Convertible Loans are secured by Cheniere’s rights and fees payable under management services agreements with Sabine Pass LNG and Cheniere Partners, by Cheniere’s common units in Cheniere Partners, by the equity and non-real property assets of Cheniere’s pipeline entities, by the equity of various other subsidiaries and certain other assets and subsidiary guarantees. The principal amount of \$250.0 million may be exchanged for newly-created Series B Convertible Preferred Stock, par value \$0.0001 per share (“Series B Preferred Stock”), with voting rights limited to the equivalent of 10,125,000 shares of common stock. The exchange ratio is one share of Series B Preferred Stock for each \$5,000 of outstanding borrowings, subject to adjustment. The aggregate preferred stock is exchangeable into 50 million shares of common stock at a price of \$5.00 per share pursuant to a broadly syndicated offering. No portion of any accrued interest is eligible for conversion into Series B Preferred Stock. We placed \$135.0 million of the borrowings under the 2008 Convertible Loans into a TUA reserve account to pay a reservation fee and operating fee under Cheniere Marketing’s TUA. We utilized \$95.0 million of the borrowings under the 2008 Convertible Loans to repay a bridge loan. The remaining borrowings were utilized to pay for interest on the bridge loan, to pay expenses incurred in connection with the issuance of the 2008 Convertible Loans and consideration of other strategic alternatives and to fund working capital and general corporate needs of Cheniere and its subsidiaries.

As long as the 2008 Convertible Loans are exchangeable for shares of Series B Preferred Stock or shares of Series B Preferred Stock remain outstanding, the holders of a majority of the 2008 Convertible Loans and Series B Preferred Stock, acting together, shall have the right to nominate two individuals to the Company’s Board of Directors, and together with the Board of Directors, a third nominee, who shall be an independent director. In addition, one of the lenders is Scorpion Capital Partners LP (“Scorpion”), an affiliate of one of the Company’s directors. As of June 30, 2009 and December 31, 2008, we have presented \$277.0 million and \$261.4 million, respectively, as part of Long-term Debt—Related Party on our Consolidated Balance Sheets.

NOTE 10—Financial Instruments



We entered into financial derivatives to hedge the exposure to variability in expected future cash flows attributable to the future sale of natural gas from our LNG commissioning cargoes ("LNG commissioning cargo derivatives") and for the future sale of natural gas that is imported by Cheniere Marketing for domestic marketing ("commercial LNG derivatives"). Commercial LNG is recorded at cost as LNG Inventory and is subject to the lower of cost or market adjustments at the end of each period. The net cost of our LNG commissioning cargoes (LNG commissioning cargo purchase price less natural gas sales proceeds) is capitalized on our Consolidated Balance Sheets as it is directly related to the LNG receiving terminal construction and is incurred to place the LNG receiving terminal in usable condition. However, changes in the fair value of our commercial LNG and LNG commissioning cargoes derivatives are reported in earnings because they are not able to be designated as a qualifying hedge in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.

Effective January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements, and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115. As a result of the adoption, we elected not to measure any additional financial assets or liabilities at fair value, other than those which were recorded at fair value prior to adoption.

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The estimated fair value of financial instruments is the amount at which the instrument could be exchanged currently between willing parties. The fair value of our commodity futures contracts are based on inputs that are quoted prices in active markets for identical assets or liabilities, resulting in Level 1 categorization of such measurements. The following table (in thousands) sets forth, by level within the fair value hierarchy, the fair value of our financial assets and liabilities at June 30, 2009:

|                   | Quoted Prices in<br>Active Markets for<br>Identical Instruments<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total Carrying<br>Value |
|-------------------|--|--|--|-------------------------|
| Derivative assets | \$ 1,006   | \$ —   | \$ —   | \$ 1,006                |

Derivative assets reflect natural gas swaps entered into to hedge the cash flows from the sale of commercial LNG and excess LNG purchased for commissioning.

SFAS No. 107, Disclosures about Fair Value of Financial Instruments, requires the disclosure of the estimated fair value of financial instruments including those financial instruments for which the SFAS No. 159 fair value option was not elected. The carrying amounts reported on our Consolidated Balance Sheets for cash and cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. The carrying amounts of the fair values of financial instruments for which SFAS No. 159 was not elected are as follows:

Financial Instruments (in thousands):

|   | June 30, 2009      |                         | December 31, 2008                      |   |
|---|--------------------|-------------------------|--|---|
|   | Carrying<br>Amount | Estimated<br>Fair Value | Carrying<br>Amount<br>(As<br>adjusted) | Estimated<br>Fair Value<br>(As<br>adjusted) |
| 2013 Notes (1)  | \$550,000          | \$471,625               | \$550,000                              | \$412,500                                   |
| 2016 Notes, net of discount (1)                         | 1,630,681          | 1,341,236               | 1,628,334                              | 1,204,967                                   |
| Convertible Senior Unsecured Notes, net of discount (2) | 158,680            | 47,604                  | 242,635                                | 37,608                                      |
| 2007 Term Loan (3)                                      | 400,000            | 400,000                 | 400,000                                | 400,000                                     |
| 2008 Convertible Loans (4)                              | 276,958            | 276,958                 | 261,393                                | 261,393                                     |
| Restricted U.S. Treasury securities (5)                 | —                  | —                       | 20,829                                 | 22,901                                      |

(1) The fair value of the Senior Notes, net of discount, is based on quotations obtained from broker-dealers who made markets in these and similar instruments as of June 30, 2009 and December 31, 2008, as applicable.

(2) The fair value of our Convertible Senior Unsecured Notes is based on the closing trading prices on June 30, 2009 and December 31, 2008, as applicable.

(3) The 2007 Term Loan bears interest at a fixed rate; therefore, the estimated fair value is expected to vary with changes in market interest rates. At June 30, 2009 and December 31, 2008, the fair value of the debt instrument was stated at its carrying amount due to it being a non-trading instrument with no liquid market.

(4) The 2008 Convertible Loans bear interest at a fixed rate; therefore, the estimated fair value is expected to vary with changes in market interest rates. At June 30, 2009 and December 31, 2008, the fair value of the debt instrument was stated at its carrying amount due to it being a non-trading instrument with no liquid market.

(5) The fair value of our restricted U.S. Treasury securities is based on quotations obtained from broker-dealers who made markets in these and similar instruments as of December 31, 2008.

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## NOTE 11—Income Taxes

From our inception, we have reported a net operating loss (“NOL”) for both financial reporting purposes and for international, federal and state income tax reporting purposes. Accordingly, we are not presently a taxpayer and have not recorded a net liability for international, federal or state income taxes in any of the periods included in the accompanying financial statements. Our Consolidated Statements of Operations for the six months ended June 30, 2009 and 2008 include no income tax benefits.

Our NOL carryforwards for financial and tax reporting purposes are subject to expiration between 2011 and 2029. During the fourth quarter of 2008, largely due to the increased level of trading activity in our shares, we experienced an ownership change described in Internal Revenue Code Section 382 that will subject a significant portion of our existing tax NOL carryforwards to annual utilization limitations. However, we do not believe that the utilization limitations provided for in Section 382 will significantly affect our ability to ultimately utilize our tax NOL carryforwards. As provided for in SFAS No. 109, Accounting for Income Taxes, at December 31, 2008 a valuation allowance was established due to the uncertainty associated with our ability to fully realize the tax benefits related to our NOL carryforwards and our other deferred tax assets.

## NOTE 12—Net Loss Per Share

Net loss per share (“EPS”) is computed in accordance with the requirements of SFAS No. 128, Earnings Per Share. Basic EPS excludes dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted EPS reflects potential dilution and is computed by dividing net income 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. Basic and diluted EPS for all periods presented are the same since the effect of our options, warrants and unvested stock is anti-dilutive to our net loss per share under SFAS No. 128.

The following table reconciles basic and diluted weighted average common shares outstanding for the three months ended June 30, 2009 and 2008 (in thousands except for loss per share):

|   | Three Months Ended<br>June 30, |                          | Six Months Ended<br>June 30, |                          |
|---|--------------------------------|--------------------------|------------------------------|--------------------------|
|   | 2009                           | 2008<br>(As<br>adjusted) | 2009                         | 2008<br>(As<br>adjusted) |
| Weighted average common shares outstanding:     |                                |                          |                              |                          |
| Basic   | 51,576                         | 47,129                   | 50,121                       | 47,053                   |
| Dilutive common stock options (1)               | —                              | —                        | —                            | —                        |
| Dilutive Convertible Senior Unsecured Notes (2) | —                              | —                        | —                            | —                        |
| Dilutive 2008 Convertible Loans (3)             | —                              | —                        | —                            | —                        |
| Diluted   | 51,576                         | 47,129                   | 50,121                       | 47,053                   |
| Basic loss per share                            | \$(0.25 )                      | \$(2.90 )                | \$(1.91 )                    | \$(4.06 )                |
| Diluted loss per share                          | \$(0.25 )                      | \$(2.90 )                | \$(1.91 )                    | \$(4.06 )                |

(1)

Stock options, phantom stock and unvested stock representing securities that could potentially dilute basic EPS in the future that were not included in the diluted computation because they would have been anti-dilutive for the three and six months ended June 30, 2009 and 2008, were 10.7 million and 8.3 million, respectively.

- (2) Common shares of 5.8 million and 9.2 million issuable upon conversion of the Convertible Senior Unsecured Notes for the three-month periods ended June 30, 2009 and 2008, respectively, were not included in the computation of diluted because the computation of diluted net loss per share utilizing the “if-converted” method would be anti-dilutive.
- (3) Common shares of 50.0 million issuable upon conversion of the 2008 Convertible Loans were not included in the computation of diluted because the computation of diluted net loss per share utilizing the “if-converted” method would be anti-dilutive.

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## NOTE 13—Comprehensive Loss

The following table is a reconciliation of our net loss to our comprehensive loss for the three months ended June 30, 2009 and 2008 (in thousands):

|                                 | Three Months Ended<br>June 30, |                          | Six Months Ended<br>June 30, |                          |
|---------------------------------|--------------------------------|--------------------------|------------------------------|--------------------------|
|                                 | 2009                           | 2008<br>(As<br>adjusted) | 2009                         | 2008<br>(As<br>adjusted) |
| Net loss                        | \$(13,051 )                    | \$(136,543 )             | \$(95,792 )                  | \$(191,205 )             |
| Other comprehensive loss items: |                                |                          |                              |                          |
| Foreign currency translation    | 104                            | (53 )                    | 42                           | (63 )                    |
| Comprehensive loss              | \$(12,947 )                    | \$(136,596 )             | \$(95,750 )                  | \$(191,268 )             |

## NOTE 14—Supplemental Cash Flow Information and Disclosures of Non-Cash Transactions

The following table provides supplemental disclosure of cash flow information for the six months ended June 30, 2009 and 2008 (in thousands):

|   | Six Months Ended June 30, |          |
|---|---------------------------|----------|
|   | 2009                      | 2008     |
| Cash paid during the period for interest, net of amounts capitalized                | \$89,378                  | \$36,968 |
| Construction-in-process and debt issuance additions funded with accrued liabilities | 20,989                    | 103,135  |

## NOTE 15—Business Segment Information

We have three operating business segments: LNG receiving 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 receiving terminal business segment is in various stages of developing three LNG receiving terminal projects along the U.S. Gulf Coast at the following locations: Sabine Pass LNG, approximately 90.6% owned, in western Cameron Parish, Louisiana on the Sabine Pass Channel; Corpus Christi LNG, 100% owned, near Corpus Christi, Texas; and Creole Trail LNG, 100% owned, at the mouth of the Calcasieu Channel in central Cameron Parish, Louisiana. In addition, we own a 30% limited partner interest in a fourth project, Freeport LNG, located on Quintana Island near Freeport, Texas.

Our natural gas pipeline business segment is in various stages of developing natural gas pipelines to provide access to North American natural gas markets.

Our LNG and natural gas marketing business segment is seeking to develop a portfolio of long-term, short-term, and spot LNG purchase agreements, and will focus on entering into business relationships for the domestic marketing of natural gas that is imported by Cheniere Marketing as LNG to the Sabine Pass LNG receiving terminal.



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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):

|   | Three Months Ended<br>June 30, |                          | Six Months Ended<br>June 30, |   |
|---|--------------------------------|--------------------------|------------------------------|---|
|   | 2009                           | 2008<br>(As<br>adjusted) | 2009                         | 2008<br>(As<br>adjusted)                    |
| <b>Revenues:</b>  |                                |                          |                              |   |
| LNG receiving terminal                                  | \$95,655                       | \$—                      | \$158,068                    | \$—   |
| Natural gas pipeline                                    | 236                            | 352                      | 506                          | 352   |
| LNG & natural gas marketing                             | (58,346 )                      | (607 )                   | (122,163 )                   | (226 )                                      |
| Corporate and other (1)                                 | 414                            | 1,169                    | 2,782                        | 2,265                                       |
| <b>Total consolidated</b>                               | <b>\$37,959</b>                | <b>\$914</b>             | <b>\$39,193</b>              | <b>\$2,391</b>                              |
| <b>Net income (loss):</b>                               |                                |                          |                              |   |
| LNG receiving terminal                                  | \$41,316                       | \$(26,585 )              | \$56,281                     | \$(40,167 )                                 |
| Natural gas pipeline                                    | (16,015 )                      | (3,694 )                 | (33,255 )                    | (4,063 )                                    |
| LNG & natural gas marketing                             | (63,057 )                      | (58,003 )                | (131,234 )                   | (68,165 )                                   |
| Corporate and other (1)                                 | 24,705                         | (48,261 )                | 12,416                       | (78,810 )                                   |
| <b>Total consolidated</b>                               | <b>\$(13,051 )</b>             | <b>\$(136,543 )</b>      | <b>\$(95,792 )</b>           | <b>\$(191,205 )</b>                         |
| <b>Expenditures for additions to long-lived assets:</b> |                                |                          |                              |   |
| LNG receiving terminal                                  | \$35,471                       | \$150,643                | \$89,583                     | \$293,120                                   |
| Natural gas pipeline                                    | 841                            | 227,646                  | 910                          | 142,243                                     |
| LNG & natural gas marketing                             | 69                             | 2,112                    | 69                           | 540   |
| Corporate and other (1)                                 | 203                            | 5,759                    | 241                          | 5,058                                       |
| <b>Total consolidated</b>                               | <b>\$36,584</b>                | <b>\$386,160</b>         | <b>\$90,803</b>              | <b>\$440,961</b>                            |
| <b>Total assets:</b>                                    |                                |                          |                              |   |
| LNG receiving terminal                                  |                                |                          | June 30,<br>2009             | December<br>31,<br>2008<br>(As<br>adjusted) |
| LNG receiving terminal                                  |                                |                          | \$2,074,757                  | \$2,191,671                                 |
| Natural gas pipeline                                    |                                |                          | 584,630                      | 590,995                                     |
| LNG & natural gas marketing                             |                                |                          | 144,835                      | 136,138                                     |
| Corporate and other (1)                                 |                                |                          | (18,437 )                    | 1,278                                       |
| <b>Total consolidated</b>                               |                                |                          | <b>\$2,785,785</b>           | <b>\$2,920,082</b>                          |

(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 financial statements. Amounts were restated to include oil and gas exploration, development and exploitation activities within the corporate and other segment as of December 31, 2008 and for the three and six month periods ended June 30, 2008.

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NOTE 16—Share-Based Compensation

We have granted options, restricted stock, restricted stock units and phantom 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, as amended (“2003 Plan”). We account for our share-based compensation pursuant to SFAS No. 123R which requires that all share-based payments to employees be recognized in the 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 the straight-line method under SFAS No. 123R. We consider many factors when estimating expected forfeitures, including types of awards, employee class and historical experience.

For the three and six months ended June 30 2009, the total share-based compensation expense recognized in our net loss was \$4.7 and \$8.6 million (net of \$0.3 million and \$0.6 million capitalized), respectively. For the three and six months ended June 30, 2008, the total share-based compensation expense recognized in our net loss was \$3.1 and \$15.9 million (net of \$0.3 million and \$0.8 million capitalized), respectively.

The total unrecognized compensation cost at June 30, 2009 relating to non-vested share-based compensation arrangements granted under the 1997 Plan and 2003 Plan, before any capitalization, was \$32.3 million and is expected to be recognized over 3.75 years, with a weighted average period of 1.15 years.

We received total proceeds from the exercise of stock options of zero and \$0.2 million in the six months ended June 30, 2009 and 2008, respectively.

Phantom Stock

On February 19, 2009, the Compensation Committee of our Board of Directors (“the Compensation Committee”) cancelled the 2008–2010 Phantom Incentive Compensation Plan (the “Incentive Plan”) originally approved by the committee on May 25, 2007. The Incentive Plan provided an incentive compensation vehicle for named executive officers and certain key employees based on the achievement of earnings and stock price appreciation goals. It allowed for cash and equity compensation components. Prior to the February cancellation of the Incentive Plan, all participants agreed to the forfeiture and cancellation of shares of phantom stock awards granted to them.

On February 25, 2009, the Compensation Committee made phantom stock grants of 5,545,000 shares pursuant to our 2003 Plan to all Cheniere executives, designated employees and one consultant. On June 12, 2009, the Compensation Committee made additional phantom stock grants of 800,000 shares to our Chief Executive Officer pursuant to the approval from our stockholders to increase the maximum number of shares granted to any one individual under our 2003 Plan during a calendar year from 1.0 million shares to 3.0 million shares. The shares were awarded under a time based plan and a performance based plan. The time based plan includes 1,565,000 shares and provides for a three year graded vesting schedule. One-third of the compensation vests on each of December 15, 2009, December 15, 2010 and December 15, 2011. The performance based plan includes 4,780,000 shares and divides each grant into three equal parts providing incentive compensation based on separate vesting terms. Vested shares of phantom stock will be settled in cash or in shares of common stock, as determined by the Compensation Committee. In June 2009, we obtained approval from our shareholders to increase the number of shares of common stock available for issuance under our 2003 Plan from 11.0 million common shares to 21.0 million common shares, which provided the required number of common shares needed to satisfy vested phantom stock. In accordance with SFAS No. 123R, we

transferred the fair valued compensation liability associated with these phantom grants into additional paid-in capital. Using a Monte Carlo simulation, fair values were calculated as of June 12, 2009 for the time and performance based plans. For the six months ended June 30, 2009, a total of \$2.2 million was recognized as compensation expense relating to time and performance based phantom stock grants. We will account for these phantom grants similar to restricted stock as we intend to settle and historically have settled these types of instruments with common shares. The total unrecognized compensation cost at June 30, 2009 relating to non-vested phantom stock, before any capitalization, was \$17.3 million and is expected to be recognized over 2.5 years, with a weighted average period of 1.36 years.

#### Stock Options

We estimate the fair value of stock options under SFAS No. 123R at the date of grant using a Black-Scholes valuation model, which is consistent with the valuation technique we previously utilized to value stock options for the footnote disclosures required under SFAS No. 123. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected term (estimated period of time outstanding) of stock options granted is based on the “simplified” method of estimating the expected term for “plain vanilla” stock options allowed by SAB No. 107, Valuation of Share-based Payment Agreements for Public Companies, and varies based on the vesting period and contractual term of the stock options. Expected volatility for stock options granted is based on an equally weighted average of the implied volatility of exchange traded stock options on our common stock expiring more than one year from the measurement date, and historical volatility of our common stock for a period equal to the stock option’s expected life. We have not declared dividends on our common stock. We did not issue any options to purchase shares of our common stock during the six months ended June 30, 2009.

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
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The table below provides a summary of option activity under the combined plans as of the six months ended June 30, 2009:

|                                | Option<br>(in thousands) | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value<br>(in thousands) |
|--------------------------------|--------------------------|--|---|---|
| Outstanding at January 1, 2009 | 1,206                    | \$28.96                                  |   |   |
| Granted                        | —                        | —  |   |   |
| Exercised                      | —                        | —  |   |   |
| Forfeited or Expired           | (313 )                   | 36.02                                    |   |   |
| Outstanding at June 30, 2009   | 893                      | \$26.48                                  | 5.6   | —   |
| Exercisable at June 30, 2009   | 839                      | \$25.72                                  | 5.5   | —   |

#### Stock and Non-Vested Stock

We have granted stock and non-vested (restricted) stock to employees, executive officers, outside directors and consultants under the 2003 Plan. Under SFAS No. 123R, grants of non-vested stock are accounted for on an intrinsic value basis. The amortization of the calculated value of non-vested stock grants is accounted for as a charge to compensation and an increase in additional paid-in-capital over the requisite service period. During the six months ended June 30, 2009, 314,000 shares having a four-year graded vesting were issued to our employees in the form of non-vested restricted stock awards.

The table below provides a summary of the status of our non-vested shares under the 2003 Plan as of the six months ended June 30, 2009:

|                               | Non-Vested<br>Shares<br>(in thousands) | Weighted<br>Average<br>Grant Date<br>Fair Value<br>Per Share |
|-------------------------------|--|--|
| Non-vested at January 1, 2009 | 3,724                                  | \$3.46   |
| Granted                       | 314                                    | —  |
| Vested                        | (481 )                                 | 8.86   |
| Forfeited                     | (66 )                                  | 5.68   |
| Non-vested at June 30, 2009   | 3,491                                  | \$2.37   |

#### Share-based Plan Descriptions and Information

Our 1997 Plan provides for the issuance of stock options to purchase up to 5.0 million shares of our common stock, all of which have been granted. Non-qualified stock options were granted to employees, contract service providers and

outside directors.

In June 2009, we obtained approval from our stockholders to increase the number of shares of common stock available for issuance under our 2003 plan from 11.0 million shares to 21.0 million shares. These awards may be in the form of non-qualified stock options, incentive stock options, purchased stock, restricted (non-vested) stock, bonus (unrestricted) stock, stock appreciation rights, phantom stock and other share-based performance awards deemed by the Compensation Committee to be consistent with the purposes of the 2003 Plan. To date, the only awards made by the Compensation Committee have been in the form of non-qualified stock options, restricted stock, restricted stock units and phantom shares.

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## 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 and operation of each of our existing or proposed liquefied natural gas ("LNG") receiving terminals or our existing or proposed pipelines, 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 and storage capacity, the number of storage tanks and 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 production or LNG imports into North America; sales of natural gas in 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 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 terminal use agreement ("TUA") or other 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 LNG regasification capacity that are, or may become subject to, TUAs or other contracts;

- statements regarding counterparties to our TUAs, construction contracts and other contracts;

• statements regarding any business strategies, any business plans or any other plans, forecasts, projections or objectives, including potential revenues, capital expenditures, cost savings and strategic options, 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," "estimate," "expect," "forecast," "plan," "potential," "project," "propose," "strategy" and similar terms and phrases. 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 speak only as of the date of this quarterly report.

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

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, 2008. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. These forward-looking statements are made as of the date of this quarterly report.

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.

## Overview

We are engaged primarily in the business of developing and constructing, and then owning and operating, a network of up to three onshore LNG receiving terminals and related natural gas pipelines. In addition, we are engaged to a limited extent in LNG and natural gas marketing activities, and also to a limited extent in oil and natural gas exploration and development activities in the Gulf of Mexico.

## Overview of Significant 2009 Events

In the first six months of 2009, we continued to execute our strategy to complete construction of the Sabine Pass LNG, L.P. (“Sabine Pass LNG”) receiving terminal and to generate steady and reliable revenues under long-term TUAs of Sabine Pass LNG. The major events for the first six months of 2009 include the following:

• the receipt of capacity reservation fee payments from Cheniere Marketing, LLC (“Cheniere Marketing”), a wholly owned subsidiary of Cheniere, Total Gas & Power North America, Inc. (formally known as Total LNG USA, Inc.) (“Total”) and Chevron U.S.A., Inc. (“Chevron”);

• the purchase, transportation and successful unloading of an additional LNG commissioning cargo for the Sabine Pass LNG receiving terminal;

- the receipt of limited partner distributions from Freeport LNG Development, L.P. (“Freeport LNG”);

- the purchase of our first commercial cargo; and

• the reduction of debt by exchanging \$120.4 million aggregate principal amount of our 2¼% Convertible Senior Unsecured Notes due 2012 (“Convertible Senior Unsecured Notes”) for a combination of \$30.0 million cash and cash equivalents and 4.0 million shares of our common stock, reducing our principal amount due in 2012 to \$204.6 million, at June 30, 2009. As a result of the exchange, we recognized a gain of \$45.4 million that we have reported as gain on early extinguishment of debt in our Consolidated Statements of Operations for the three and six months ended June 30, 2009.

## Liquidity and Capital Resources

| (in thousands)                       | Sabine<br>Pass LNG,<br>L.P. | Cheniere<br>Energy<br>Partners,<br>L.P. | Other<br>Cheniere<br>Energy,<br>Inc. | Consolidated<br>Cheniere<br>Energy,<br>Inc. |
|--------------------------------------|-----------------------------|---|--------------------------------------|---|
| Cash and cash equivalents            | \$—                         | \$—                                     | \$88,946                             | \$ 88,946                                   |
| Restricted cash and cash equivalents | 224,856                     | 34,878                                  | 5,265                                | 264,999                                     |
| <b>Total</b>                         | <b>\$224,856</b>            | <b>\$34,878</b>                         | <b>\$94,211</b>                      | <b>\$ 353, 945</b>                          |

As of June 30, 2009, we had unrestricted cash and cash equivalents of \$89.0 million. In addition, we had restricted cash and cash equivalents of \$265.0 million, which were designated for the following purposes: \$128.8 million for Sabine Pass LNG’s working capital; \$96.1 million for interest payments related to the Senior Notes described below; \$34.9 million for potential cash distributions by Cheniere Energy Partners, L.P. (“Cheniere Partners”); and, \$5.3 million for other restricted purposes.

We amended the 2008 Convertible Loans, as described below, which amendment allowed us to transfer \$65.2 million from the TUA reserve account early in order to utilize the funds for commercial opportunities. As a result of this



amendment, we reclassified approximately \$65.2 million from restricted cash and cash equivalents to unrestricted cash and cash equivalents as of June 30, 2009.

As described below in further detail by business segment and for corporate and other activities, we believe that we will have sufficient cash and cash equivalents to operate our business and pursue our business strategies over the next several years.

## LNG Receiving Terminal Business

### Cheniere Partners

Our ownership interest in the Sabine Pass LNG receiving terminal is held through Cheniere Partners. In 2007, Cheniere Partners completed a public offering of 15,525,000 Cheniere Partners common units. As a result of this public offering, our combined general partner and limited partner ownership interests in Cheniere Partners was reduced to approximately 90.6%. Cheniere Partners owns a 100% interest in Sabine Pass LNG, which is constructing and operating the Sabine Pass LNG receiving terminal.

For each calendar year, Cheniere Partners is expected to make annual distributions of \$1.70 per unit on all outstanding common units, subordinated units and related distributions to its general partner. We anticipate receiving \$18.5 million per year out of the total \$44.9 million of annual common unit distributions. We anticipate receiving \$235.8 million per year from distributions to the subordinated and general partner units, of which we own 100%.

Cheniere Partners relies on the receipt of operating revenues from Sabine Pass LNG's TUAs to fund quarterly cash distributions to us and other unitholders. Sabine Pass LNG is not permitted under the Sabine Pass Indenture to make cash distributions to Cheniere Partners if it does not satisfy a fixed charge coverage ratio test of 2:1, calculated as required in the Sabine Pass Indenture as well as other conditions. If the coverage test is not met, we may not receive distributions. The fixed charge coverage ratio test was met for the periods through June 30, 2009 and distributions in the amount of \$149.3 million have been made during the first six months of 2009, from Sabine Pass LNG to Cheniere Partners. Cheniere Partners utilized the cash received from Sabine Pass LNG to pay expenses and make distributions. Cheniere Partners has made distributions of \$140.3 million in the aggregate to us and its other unitholders during the first six months of 2009.

A distribution reserve account was established from proceeds of Cheniere Partners' initial public offering to pay distributions to the common unitholders and general partner to the extent needed for Cheniere Partners to make such distributions with funds other than unrestricted cash through the distributions for the second quarter of 2009, after which the funds remaining in the account are to be returned to us. Sabine Pass LNG began making distributions from unrestricted cash in February 2009 and Cheniere Partners expects to continue making its distributions from its unrestricted cash balances rather than from the distribution reserve account.

As of July 15, 2009, there was \$34.9 million in the distribution reserve account. We expect that, after accounting for interest earned in the account, approximately \$35 million of remaining funds will be distributed to us in August 2009 pursuant to the terms of Cheniere Partners' partnership agreement.

We also expect to receive approximately \$19 million of annual management and service fees from Sabine Pass LNG and Cheniere Partners pursuant to existing agreements.

### Sabine Pass LNG Receiving Terminal

Our estimated aggregate construction, commissioning and operating cost budget through the achievement of full operability of the Sabine Pass LNG receiving terminal (with approximately 4.0 Bcf/d of total sendout capacity and five LNG storage tanks with approximately 16.8 Bcf of aggregate storage capacity) is approximately \$1,559 million, excluding financing costs. Of this amount, approximately \$1,499 million of construction and commissioning costs had been incurred as of June 30, 2009. Our remaining construction, commissioning and operating costs are anticipated to be funded from Sabine Pass LNG's available cash.

The entire approximately 4.0 Bcf/d of regasification capacity that will be available at the Sabine Pass LNG receiving terminal upon completion of construction has been fully reserved under three long-term TUAs, under which Sabine Pass LNG's customers are required to pay fixed monthly fees, whether or not they use the terminal. Because we achieved commercial operability of the Sabine Pass LNG receiving terminal in September 2008, capacity reservation fee TUA payments will be made by our third-party customers as follows:

• Total has reserved approximately 1.0 Bcf/d of regasification capacity and has agreed 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 has reserved approximately 1.0 Bcf/d of regasification capacity and has agreed 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.

Our wholly-owned subsidiary, Cheniere Marketing, has reserved the remaining 2.0 Bcf/d of regasification capacity, and is entitled to use any capacity not utilized by Total and Chevron. Cheniere Marketing has agreed to make capacity payments aggregating approximately \$250 million per year for the period from January 2009 through at least the third quarter of 2028. Cheniere has guaranteed Cheniere Marketing's obligations under its TUA.

Under each of these TUAs, Sabine Pass LNG is entitled to retain 2% of the LNG delivered for the customer's account, which Sabine Pass LNG will use primarily as fuel for revaporation and self-generated power at the Sabine Pass LNG receiving terminal.

Each of Total and Chevron previously paid us \$20.0 million in nonrefundable advance capacity reservation fees, which will be amortized over a 10-year period as a reduction of each customer's regasification capacity fees payable under its TUA.

#### Other LNG Receiving Terminals

We have a 30% limited partner interest in Freeport LNG. In October 2008, January 2009 and April 2009, Freeport LNG made distributions to us of \$4.8 million, \$3.9 million and \$2.7 million, respectively. We expect to continue to receive distributions from Freeport LNG as they are approved by the board of directors of Freeport LNG's general partner.

We will contemplate making final investment decisions to complete construction of our Corpus Christi LNG receiving terminal project and to commence construction of our Creole Trail LNG receiving terminal project upon, among other things, entering into acceptable commercial arrangements and entering into acceptable financing arrangements for the applicable project. We do not expect to spend significant funds on these projects until we have entered into acceptable commercial arrangements and acceptable financing arrangements.

#### Natural Gas Pipeline Business

As of June 30, 2009, Phase 1 of the Creole Trail Pipeline, consisting of 94 miles of natural gas pipeline, had been constructed and placed into commercial operations. Expenditures incurred for the construction of the Creole Trail Pipeline through June 30, 2009 were approximately \$554 million, including accrued liabilities. We believe we will have sufficient cash and cash equivalents to operate Phase 1 of our Creole Trail Pipeline for the next several years.

We will contemplate making a final investment decision to construct Phase 2 of the Creole Trail Pipeline, the Corpus Christi Pipeline, the Cheniere Southern Trail Pipeline and the Burgos Hub Project upon, among other things, receiving all required authorizations to construct and operate the applicable pipeline (and storage facility in the case of Burgos Hub), to the extent not already obtained, and entering into acceptable commercial arrangements and acceptable financing arrangements for the applicable project. We do not expect to spend significant funds on these projects until we have entered into acceptable commercial arrangements and acceptable financing arrangements.

#### LNG and Natural Gas Marketing Business

Our wholly-owned subsidiary, Cheniere Marketing, is developing an LNG and natural gas marketing business. Its principal asset is a TUA at the Sabine Pass LNG receiving terminal. Our LNG and natural gas marketing business segment is seeking to develop a portfolio of long-term, short-term, and spot LNG purchase agreements.

Cheniere Marketing will utilize the funds in the TUA reserve account, distributions from Cheniere Partners and operating cash flows to pay its TUA obligation. We believe that we have sufficient cash and cash equivalents to fund our LNG and natural gas marketing business for the next several years.

### Corporate and Other Activities

We are required to maintain corporate general and administrative functions to serve our business activities described above. We believe that we will have sufficient cash and cash equivalents to fund these functions over the next several years.

Although our focus is primarily on the development of LNG-related businesses, we continue to be involved to a limited extent in oil and gas exploration, development and exploration activities in the shallow waters of the Gulf of Mexico. We do not anticipate significant cash expenditures related to these activities and expect our cash inflows from oil and natural gas production to decrease as reserves are produced.

## Sources and Uses of Cash

The following table (in thousands) and the explanatory paragraphs following the table summarize the sources and uses of our cash and cash equivalents for the six months ended June 30, 2009 and 2008. 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 document.

|  | Six Months Ended June<br>30, |                          |
|--|------------------------------|--------------------------|
|  | 2009                         | 2008<br>(As<br>adjusted) |
| <b>SOURCES OF CASH AND CASH EQUIVALENTS</b>  |                              |                          |
| Use of restricted cash and cash equivalents  | \$ 149,479                   | \$ 410,470               |
| Use of restricted treasury securities  | —                            | 21,717                   |
| Proceeds from debt   | —                            | 95,000                   |
| Other  | 4,286                        | 241                      |
| Total sources of cash and cash equivalents   | 153,765                      | 527,428                  |
| <b>USES OF CASH AND CASH EQUIVALENTS</b>   |                              |                          |
| LNG terminal and pipeline construction-in-process  | (81,175 )                    | (440,782 )               |
| Debt repurchases   | (30,030 )                    | —                        |
| Operating cash flow  | (27,643 )                    | (107,162 )               |
| Purchase of LNG for commissioning, net of amounts transferred to LNG terminal construction-in- process | (14,184 )                    | (65,416 )                |
| Advances under long-term contracts, net of transfers to construction-in-process                        | —                            | (5,118 )                 |
| Debt issuance costs  | (33 )                        | (12,503 )                |
| Distributions to non-controlling interest holders  | (13,196 )                    | (13,196 )                |
| Purchase of treasury shares  | (80 )                        | (4,406 )                 |
| Purchases of intangible and fixed assets, net of sales   | (140 )                       | (3,542 )                 |
| Other  | (530 )                       | (9,218 )                 |
| Total uses of cash and cash equivalents  | (167,011 )                   | (661,343 )               |
| NET DECREASE IN CASH AND CASH EQUIVALENTS  | (13,246 )                    | (133,915 )               |
| CASH AND CASH EQUIVALENTS—beginning of period  | 102,192                      | 296,530                  |
| CASH AND CASH EQUIVALENTS—end of period  | \$ 88,946                    | \$ 162,615               |

## Use of restricted cash and cash equivalents

In November 2006, Sabine Pass LNG issued an aggregate principal amount of \$2,032.0 million of Senior Secured 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” and collectively with the 2013 Notes, the “Senior Notes”). Under the indenture governing the Senior Notes, a portion of the proceeds from the Senior Notes is required to be used for scheduled interest payments and to fund the cost to complete construction of the Sabine Pass LNG receiving terminal. Due to these restrictions imposed by the indenture, the proceeds are not presented as cash and cash equivalents, and therefore, when proceeds from the Senior Notes are used they are presented as a source of cash and cash equivalents. For the six months ended June 30, 2009, the \$149.5 million use of restricted cash and cash equivalents was the result of obtaining access to use the \$65.2 million of restricted cash and cash equivalents in the TUA reserve account and using restricted cash and cash equivalents to pay for scheduled interest payments and construction activities at the

Sabine Pass LNG receiving terminal. For the six months ended June 30, 2008, the \$410.5 million of restricted cash and cash equivalents were used primarily to pay for scheduled interest payments and construction activities at the Sabine Pass LNG receiving terminal.

LNG terminal and pipeline construction-in-process

Capital expenditures for our LNG receiving terminals and pipeline projects were \$81.2 million and \$440.8 million in the six months ended June 30, 2009 and 2008, respectively. The 81.6% decrease of LNG terminal and pipeline construction-in-process in the six months ended June 30, 2009 as compared to the six months ended June 30, 2008, resulted primarily from our completing construction of the initial phase of the Sabine Pass LNG receiving terminal, which commenced construction in the first quarter of 2005, and the Creole Trail Pipeline, which commenced initial construction in the second quarter of 2007.

## Debt repurchases

Net cash used in debt repurchase was \$30.0 million and zero in the six months ended June 30, 2009 and 2008, respectively. During the second quarter of 2009, we reduced long-term debt by exchanging a combination of \$30.0 million cash and cash equivalents and 4.0 million common shares for \$120.4 million aggregate principal amount of our Convertible Senior Unsecured Notes.

## Operating cash flow

Net cash used in operations was \$27.6 million and \$107.2 million in the six months ended June 30, 2009 and 2008, respectively. Net cash used in operations in the six months ended June 30, 2009 and 2008 related primarily to the continued development of our LNG receiving terminals, natural gas pipelines and LNG and natural gas marketing business, offset by TUA payments received from Total and Chevron during the six months ended June 30, 2009.

## Purchase of LNG for commissioning, net of amounts transferred to LNG terminal construction-in- process

In the six months ended June 30, 2009, we acquired and successfully unloaded an additional LNG commissioning cargo for the Sabine Pass LNG receiving terminal. As of June 30, 2008, we acquired LNG commissioning cargoes for the Sabine Pass LNG receiving terminal and successfully unloaded the LNG into the Sabine Pass LNG receiving terminal.

## Distributions to non-controlling interest holders

During the six months ended June 30, 2009 and 2008 we made distributions of \$13.2 million to non-controlling interest holders of Cheniere Partners.

## Debt Agreements

The following table (in thousands) and the explanatory paragraphs following the table summarize our various debt agreements as of June 30, 2009.

|  | Sabine<br>Pass LNG,<br>L.P. | Cheniere<br>Energy<br>Partners,<br>L.P. | Other<br>Cheniere<br>Energy,<br>Inc. | Consolidated<br>Cheniere<br>Energy,<br>Inc. |
|--|-----------------------------|---|--------------------------------------|---|
| <b>Long-term debt</b>                  |                             |   |                                      |   |
| Senior Notes                           | \$2,215,500                 | \$—                                     | \$—                                  | \$ 2,215,500                                |
| 2007 Term Loan                         | —                           | —                                       | 400,000                              | 400,000                                     |
| 2008 Convertible Loans                 | —                           | —                                       | 276,959                              | 276,959                                     |
| Convertible Senior Unsecured Notes     | —                           | —                                       | 204,630                              | 204,630                                     |
| <b>Total long-term debt</b>            | <b>2,215,500</b>            | <b>—</b>                                | <b>881,589</b>                       | <b>3,097,089</b>                            |
| <b>Debt discount</b>                   |                             |   |                                      |   |
| Senior Notes (1)                       | (34,819 )                   | —                                       | —                                    | (34,819 )                                   |
| Convertible Senior Unsecured Notes (2) | —                           | —                                       | (45,950 )                            | (45,950 )                                   |
| <b>Total debt discount</b>             | <b>(34,819 )</b>            | <b>—</b>                                | <b>(45,950 )</b>                     | <b>(80,769 )</b>                            |
| <b>Long-term debt, net of discount</b> | <b>\$2,180,681</b>          | <b>\$—</b>                              | <b>\$835,639</b>                     | <b>\$ 3,016,320</b>                         |



- (1) In September 2008, Sabine Pass LNG issued an additional \$183.5 million, par value, of 2016 Notes. 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.
- (2) We adopted FSP APB 14-1, effective as of January 1, 2009, which required us to record a debt discount on our Convertible Senior Unsecured Notes. The unamortized discount will be amortized through the maturity of the Convertible Senior Unsecured 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 of 1933, as amended (the "Securities Act"). The notes bear interest at a rate of 2¼% per year. Interest on the notes is payable semi-annually in arrears February 1 and August 1 of each year. The notes are convertible at any time into our common stock under certain circumstances at an initial conversion rate of 28.2326 per \$1,000 principal amount of the notes, which is equal to a conversion price of approximately \$35.42 per share. As of June 30, 2009, no holders had elected to convert their notes. We may 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 exceeds \$53.13, subject to adjustment, for at least five consecutive trading days. In the event of such redemption, we will make 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 contains 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 common shares, reducing our principal amount due in 2012 to \$204.6 million, at June 30, 2009. As a result of the exchange, we will recognize a gain of \$45.4 million that we have reported as gain on early extinguishment of debt in our Consolidated Statements of Operations for the three and six months ended June 30, 2009.

### Sabine Pass LNG Senior Notes

Sabine Pass LNG has issued an aggregate principal amount of \$2,215.5 million of Senior Notes consisting of \$550.0 million of 7¼% Senior Secured Notes due 2013 and \$1,665.5 million of 7½% Senior Secured Notes due 2016. 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. Under the Sabine Pass Indenture governing the Senior Notes, 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. In addition, 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.

### 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 bear interest at a fixed rate of 9¾% per annum. Interest is calculated on the unpaid principal amount of the 2007 Term Loan outstanding and is payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The 2007 Term Loan will mature on May 31, 2012. The 2007 Term Loan is secured by a pledge of our 135,383,831 subordinated units in Cheniere Partners and our equity interests in the entities that own our 30% interest in Freeport LNG.

### 2008 Convertible Loans

In August 2008, we entered into a credit agreement pursuant to which we obtained \$250.0 million in convertible term loans ("2008 Convertible Loans"). The 2008 Convertible Loans will mature in 2018, but the lenders can require prepayment of the loans for thirty days following August 15, 2011, 2013 and 2015, and upon a change of control. The 2008 Convertible Loans bear 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 will be 14% per annum. Interest is due semi-annually on the last business day of January and July. At our option, until August 15, 2011, accrued interest may be added to the principal on each semi-annual interest date. The aggregate amount of all accrued interest to August 15, 2011 will be payable on the maturity date. The 2008 Convertible Loans are secured by Cheniere's rights and fees payable under management services agreements with Sabine Pass LNG and Cheniere Partners, by Cheniere's common units in Cheniere Partners, by the equity and non-real property assets of Cheniere's pipeline entities, by the equity of various other subsidiaries and certain other assets and subsidiary guarantees. The principal amount of \$250.0 million may be exchanged for newly-created Series B Convertible Preferred Stock, par value \$0.0001 per share ("Series B Preferred Stock"), with voting rights limited to the equivalent of 10,125,000 shares of common stock. The exchange ratio is one share of Series B Preferred Stock for each \$5,000 of outstanding borrowings, subject to adjustment. The exchange ratio will be adjusted in the event we make certain distributions of cash, shares or property on our shares of common stock. The aggregate Series B Preferred Stock is exchangeable into 50 million shares of common stock at a price of \$5.00 per share pursuant to a broadly syndicated offering. We are required to file a registration statement to register the Series B Preferred Stock upon demand by the majority of the holders of the Series B Preferred Stock. Such holders also have the right to demand registration of the shares of common stock into which the Series B Preferred Stock is convertible. No portion of any accrued interest is eligible for conversion into Series B Preferred Stock. We placed \$135.0 million of the borrowings under the 2008 Convertible Loans into a TUA reserve account to pay the reservation fee and operating fee as defined under Cheniere Marketing's TUA. We utilized \$95.0 million of the borrowings under the 2008 Convertible Loans to repay a bridge loan. The remaining borrowings were utilized to pay for interest on the bridge loan, to pay expenses incurred in connection with the issuance of the 2008 Convertible Loans and consideration of

other strategic alternatives, and to fund working capital and general corporate needs of Cheniere and its subsidiaries.

As long as the 2008 are exchangeable for shares of Series B Preferred Stock or shares of Series B Preferred Stock remain outstanding, the holders of a majority of the 2008 Convertible Loans and Series B Preferred Stock, acting together, shall have the right to nominate two individuals to the Company's Board of Directors, and together with Board of Directors, a third nominee, who shall be an independent director. In addition, one of the lenders is Scorpion Capital Partners LP ("Scorpion"), an affiliate of one of the Company's directors. As of June 30, 2009 and December 31, 2008, we have presented \$277.0 million and \$261.4 million, respectively, as Long-term Debt—Related Party on our Consolidated Balance Sheets.

## Issuances of Common Stock

During the first six months of 2009, no shares of our common stock were issued pursuant to the exercise of stock options. We issued 314,000 shares of non-vested restricted stock to new and existing employees during the first six months of 2009. We issued 4.0 million shares of our common stock as part of the consideration used to repurchase a portion of the Convertible Senior Unsecured Notes.

During the first six months of 2008, a total of 45,000 shares of our common stock were issued pursuant to the exercise of stock options, resulting in net cash proceeds of \$0.2 million. In addition, in January 2008, 480,000 shares of our common stock were issued to our employees in the form of non-vested restricted stock awards, and 537,000 shares of vested common stock were issued to our executive officers related to our performance in 2007. During the first six months of 2008, we issued an additional 21,000 shares of non-vested restricted stock to new and existing employees.

## Results of Operations

Three Months Ended June 30, 2009 vs. Three Months Ended June 30, 2008 (As adjusted)

### Overall Operations

Our consolidated net loss was \$13.1 million (\$0.25 net loss per common share—basic and diluted) in the three months ended June 30, 2009, a 91.0% decrease over our \$136.5 million (\$2.90 net loss per common share—basic and diluted) in the three months ended June 30, 2008 consolidated net loss. The decrease in net loss was primarily due to an increase in LNG terminal revenue related to the start of our TUA fee from Total, the gain associated with the repurchase of a portion of our Convertible Senior Unsecured Notes at a discount, the absence of restructuring charges and a decrease of general and administrative expenses (“G&A”); partially offset by increases in interest expense and depreciation expense. As a result of our repurchase of a portion of our Convertible Senior Unsecured Notes at a discount, we recognized a one-time \$45.4 million gain on early extinguishment of debt in the three months ended June 30, 2009 compared to zero gain in the three months ended June 30, 2008. Not including the impact of this gain on early extinguishment of debt in the three months ended June 30, 2009, our net loss would have been \$58.5 million, or \$1.13 net loss per common share—basic and diluted.

### Revenues

Revenues increased \$37.0 million in the three months ended June 30, 2009 compared to the three months ended June 30, 2008. The increase in revenues was primarily caused by the commencement of Total’s TUA payments effective April 1, 2009. Total has reserved approximately 1.0 Bcf/d of regasification capacity at our Sabine Pass LNG receiving terminal for 20 years paying approximately \$125 million per year. Revenues in the three months ended June 30, 2009, did not include payments under Chevron’s TUA, which commenced effective July 1, 2009.

### LNG receiving terminal and pipeline operating expense

LNG receiving terminal and pipeline operating expense increased \$8.8 million in the three months ended June 30, 2009 compared to the three months ended June 30, 2008. This increase in operating expense is a result of the Sabine Pass LNG receiving terminal’s initial 2.6 Bcf/d of regasification capacity and 10.2 Bcf/d of storage capacity achieving commercial operability in the third quarter of 2008.

### Depreciation, Depletion and Amortization Expense

Depreciation, depletion and amortization expense increased \$9.5 million in the three months ended June 30, 2009 compared to the three months ended June 30, 2008. This increase resulted from our having begun depreciating the Sabine Pass LNG receiving terminal's initial 2.6 Bcf/d of regassification capacity and 10.1 Bcf of storage capacity in the third quarter of 2008 when it was ready for use and placed in service, and our having begun depreciating the Creole Trail Pipeline during the second quarter of 2008 when it was ready for use and placed in service.

#### Restructuring Charges

Restructuring charges decreased \$78.6 million in the three months ended June 30, 2009 compared to the three months ended June 30, 2008. During the three months ended June 30, 2008, we recognized \$78.6 million in restructuring charges as a result of our 2008 cost savings program in connection with the downsizing of our natural gas marketing business activities, wrapping up of significant construction activities for both Sabine Pass LNG receiving terminal and Creole Trail Pipeline and seeking alternative arrangements for our time charter interest in two LNG vessels. In the three months ended June 20, 2009 we did not record any restructuring charges and do not expect to record any material amounts in the future as it relates to the 2008 cost savings program mentioned.

### General and Administrative Expenses

G&A expenses decreased \$3.9 million in the three months ended June 30, 2009 compared to the three months ended June 30, 2008. This decrease in G&A expense primarily resulted from a reduction in a tax accrual and a reduction in salaries and benefits incurred in 2009 associated with our 2008 cost savings program and the allocation of salaries and benefits to operating costs as a result of the achievement of commercial operability of the Sabine Pass LNG receiving terminal in September 2008. Included in G&A expenses in the three months ended June 30, 2009 and 2008 were non-cash compensation of \$5.0 million and \$2.8 million, respectively. Excluding the impact of non-cash compensation, G&A for the three months ended June 30, 2009 and 2008 would have been \$10.4 million and \$16.6 million, respectively.

### Interest Expense, net

Interest expense, net of amounts capitalized, increased \$36.3 million in the three months ended June 30, 2009 compared to the three months ended June 30, 2008. The increase in interest expense was caused by additional debt issuances during the third quarter of 2008, and a decrease in capitalized interest as a result of placing in service the initial phase of the Sabine Pass LNG receiving terminal and Creole Trail Pipeline in the third quarter of 2008 and second quarter of 2008, respectively.

### Derivative Gain (Loss)

Derivative gain (loss) in the three months ended June 30, 2009 was a gain of \$0.8 million compared to a loss of \$11.5 million in the three months ended June 30, 2008. The change in derivative gain (loss) is a function of natural gas commodity prices and the resultant general decrease in natural gas prices for the comparative periods that increase the value of our natural gas derivative instruments that we use to hedge exposure to decreasing natural gas prices.

### Interest Income

Interest income decreased \$4.4 million in the three months ended June 30, 2009 compared to the three months ended June 30, 2008, due to lower average invested cash balances resulting from the use of cash to pay construction costs and interest payments and lower interest rates.

### Six Months Ended June 30, 2009 vs. Six Months Ended June 30, 2008 (As adjusted)

### Overall Operations

Our consolidated net loss was \$95.8 million (\$1.91 net loss per common share—basic and diluted) in the six months ended June 30, 2009, a 49.9% decrease over our \$191.2 million (\$4.06 net loss per common share—basic and diluted) in the six months ended June 30, 2008 consolidated net loss. The decrease in net loss was primarily due to an increase in LNG terminal revenue related to the start of our TUA fee from Total, the gain associated with the repurchase of a portion of our Convertible Senior Unsecured Notes at a discount, the absence of restructuring charges and a decrease of G&A; partially offset by increases in interest expense and depreciation expense. As a result of our repurchase of a portion of our Convertible Senior Unsecured Notes at a discount, we recognized a one-time \$45.4 million gain on early extinguishment of debt in the six months ended June 30, 2009 compared to zero gain in the six months ended June 30, 2008. Not including the impact of this gain on early extinguishment of debt in the six months ended June 30, 2009, our net loss would have been \$141.2 million, or \$2.81 net loss per common share—basic and diluted.

### Revenues

Revenues increased \$36.8 million in the six months ended June 30, 2009 compared to the six months ended June 30, 2008. The increase in revenues was primarily caused by the commencement of Total's TUA payments effective April 1, 2009. Total has reserved approximately 1.0 Bcf/d of regasification capacity at our Sabine Pass LNG receiving terminal for 20 years paying approximately \$125 million per year. Revenues in the three months ended June 30, 2009, did not include payments under Chevron's TUA, which commenced effective July 1, 2009.

#### LNG receiving terminal and pipeline operating expense

LNG receiving terminal and pipeline operating expense increased \$17.6 million in the six months ended June 30, 2009 compared to the six months ended June 30, 2008. This increase in operating expense is a result of the Sabine Pass LNG receiving terminal's initial 2.6 Bcf/d of regasification capacity and 10.2 Bcf/d of storage capacity achieving commercial operability in the third quarter of 2008, and Phase 1 of the Creole Trail Pipeline achieving commercial operability in the second quarter of 2008.

#### Depreciation, Depletion and Amortization Expense

Depreciation, depletion and amortization expense increased \$19.2 million in the six months ended June 30, 2009 compared to the six months ended June 30, 2008. This increase resulted from our having begun depreciating the Sabine Pass LNG receiving terminal's initial 2.6 Bcf/d of regasification capacity and 10.1 Bcf of storage capacity in the third quarter of 2008 when it was ready for use and placed in service, and our having begun depreciating the Creole Trail Pipeline during the second quarter of 2008 when it was ready for use and placed in service.

### Restructuring Charges

Restructuring charges decreased \$78.6 million in the six months ended June 30, 2009 compared to the six months ended June 30, 2008. During the six months ended June 30, 2008, we recognized \$78.6 million in restructuring charges as a result of our 2008 cost savings program in connection with the downsizing of our natural gas marketing business activities, wrapping up of significant construction activities for both Sabine Pass LNG receiving terminal and Creole Trail Pipeline and seeking alternative arrangements for our time charter interest in two LNG vessels. In the six months ended June 20, 2009, we did not record any restructuring charges and do not expect to record any material amounts in the future as it relates to the 2008 cost savings program mentioned.

### General and Administrative Expenses

G&A expenses decreased \$16.8 million in the six months ended June 30, 2009 compared to the six months ended June 30, 2008. This decrease in G&A expense primarily resulted from a reduction in a tax accrual and a reduction in salaries and benefits incurred in 2009 associated with our 2008 cost savings program and the allocation of salaries and benefits to operating costs as a result of the achievement of commercial operability of the Sabine Pass LNG receiving terminal in September 2008. Included in G&A expenses in the six months ended June 30, 2009 and 2008 were non-cash compensation of \$9.2 million and \$14.0 million, respectively. Excluding the impact of non-cash compensation, G&A for the six months ended June 30, 2009 and 2008 would have been \$23.9 million and \$36.0 million, respectively.

### Interest Expense, net

Interest expense, net of amounts capitalized, increased \$65.0 million in the six months ended June 30, 2009 compared to the six months ended June 30, 2008. The increase in interest expense was caused by additional debt issuances during the third quarter of 2008, and a decrease in capitalized interest as a result of placing in service the initial phase of the Sabine Pass LNG receiving terminal and Creole Trail Pipeline in the third quarter of 2008 and second quarter of 2008, respectively. In addition, the increase in interest expense was a result of additional debt issuances during the third quarter of 2008.

### Derivative Gain (Loss)

Derivative gain (loss) in the six months ended June 30, 2009 was a gain of \$3.3 million compared to a loss of \$12.4 million in the six months ended June 30, 2008. The change in derivative gain (loss) is a function of natural gas commodity prices and the resultant general decrease in natural gas prices for the comparative periods that increase the value of our natural gas derivative instruments that we use to hedge exposure to decreasing natural gas prices.

### Interest Income

Interest income decreased \$13.2 million in the six months ended June 30, 2009 compared to the six months ended June 30, 2008, due to lower average invested cash balances resulting from the use of cash to pay construction costs and interest payments and lower interest rates.

### Off-Balance Sheet Arrangements

As of June 30, 2009, we had no "off-balance sheet arrangements" that may have a current or future material affect on our consolidated financial position or results of operations.





## 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 financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”), we endeavor to comply properly 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.

### Accounting for LNG Activities

Generally, we begin capitalizing the costs of our LNG receiving terminals and related pipelines once the individual project meets the following criteria: (i) regulatory approval has been received, (ii) financing for the project is available and (iii) management has committed to commence construction. Prior to meeting these criteria, most of the costs associated with a project are expensed as incurred. These costs primarily include professional fees associated with front-end engineering and design work, costs of securing necessary regulatory approvals, and other preliminary investigation and development activities related to our LNG receiving terminals and related pipelines.

Generally, costs that are capitalized prior to a project meeting the criteria otherwise necessary for capitalization include: land costs, costs of lease options and the costs of certain permits, which are capitalized as intangible LNG assets. The costs of lease options are amortized over the life of the lease once obtained. If no lease is obtained, the costs are expensed. Site rental costs and related amortization of capitalized options were capitalized during the construction period through the end of 2005. Beginning in 2006, such costs have been expensed as required by the Financial Accounting Standards Board (“FASB”) Staff Position (“FSP”) 13-1, Accounting for Rental Cost Incurred During a Construction Period.

During the construction periods of our LNG receiving terminals, we capitalize interest and other related debt costs in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 34, Capitalization of Interest Cost, as amended by SFAS No. 58, Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method—an Amendment of FASB Statement No. 34. Upon commencement of operations, capitalized interest, as a component of the total cost, will be amortized over the estimated useful life of the asset.

### Revenue Recognition

LNG regasification capacity fees are recognized as revenue over the term of the respective TUAs. Advance capacity reservation fees are initially deferred.

### Regulated Natural Gas Pipelines

Our developing natural gas pipeline business is subject to the jurisdiction of the FERC in accordance with the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978, and we have determined that certain of our pipeline systems to be constructed have met the criteria set forth in SFAS No. 71, Accounting for the Effects of Certain Types of Regulations. Accordingly, we have applied the provisions of SFAS No. 71 to the affected pipeline subsidiaries beginning in the second quarter of 2006.

Our application of SFAS No. 71 is based on the current regulatory environment, our current projected tariff rates, and our ability to collect those rates. Future regulatory developments and rate cases could impact this accounting. Although discounting of our maximum tariff rates may occur, we believe that the standards required by SFAS No. 71 for its application are met and the use of regulatory accounting under SFAS No. 71 best reflects the results of future operations in the economic environment in which we will operate. Regulatory accounting requires us to record assets and liabilities that result from the rate-making process that would not be recorded under generally accepted accounting principles for non-regulated entities. We will continue to evaluate the application of regulatory accounting principles based on on-going changes in the regulatory and economic environment. Items that may influence our assessment are:

- inability to recover cost increases due to rate caps and rate case moratoriums;
- inability to recover capitalized costs, including an adequate return on those costs through the rate-making process and the FERC proceedings;
- excess capacity;
- increased competition and discounting in the markets we serve; and
- impacts of ongoing regulatory initiatives in the natural gas industry.

Natural gas pipeline costs include amounts capitalized as an Allowance for Funds Used During Construction (“AFUDC”). The rates used in the calculation of AFUDC are determined in accordance with guidelines established by the FERC. AFUDC represents the cost of debt and equity funds used to finance our natural gas pipeline additions during construction. AFUDC is capitalized as a part of the cost of our natural gas pipelines. Under regulatory rate practices, we generally are permitted to recover AFUDC, and a fair return thereon, through our rate base after our natural gas pipelines are placed in service.

## Cash Flow Hedges

We have used, and may in the future use, derivative instruments to limit our exposure to variability in expected future cash flows. As defined in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, cash flow hedge transactions hedge the exposure to variability in expected future cash flows. In the case of cash flow hedges, the hedged item (the underlying risk) is generally unrecognized (i.e., not recorded on the balance sheet prior to settlement), and any changes in the fair value, therefore, will not be recorded within earnings. Conceptually, if a cash flow hedge is effective, this means that a variable, such as a movement in interest rates, has been effectively fixed so that any fluctuations will have no net result on either cash flows or earnings. Therefore, if the changes in fair value of the hedged item are not recorded in earnings, then the changes in fair value of the hedging instrument (the derivative) must also be excluded from the income statement or else a one-sided net impact on earnings will be reported, despite the fact that the establishment of the effective hedge results in no net economic impact. To prevent such a scenario from occurring, SFAS No. 133 requires that the fair value of a derivative instrument designated as a cash flow hedge to be recorded as an asset or liability on the balance sheet, but with the offset reported as part of other comprehensive income, to the extent that the hedge is effective. We assess both at the inception of each hedge and on an on-going basis, whether the derivatives that are used in our hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. On an on-going basis, we monitor the actual dollar offset of the hedges' market values compared to hypothetical cash flow hedges. Any ineffective portion of the cash flow hedges will be reflected in earnings. Ineffectiveness is the amount of gains or losses from derivative instruments that are not offset by corresponding and opposite gains or losses on the expected future transaction.

## Goodwill

Goodwill is accounted for in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. We perform an annual goodwill impairment review in the fourth quarter of each year; although we may perform a goodwill impairment review more frequently whenever events or circumstances indicate that the carrying value may not be recoverable.

## Share-Based Compensation Expense

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payments, using the modified prospective transition method, and therefore have not restated the results of prior periods. Under this method, we recognize compensation expense for all share-based payments granted after January 1, 2006 and prior to, but not yet vested as of, January 1, 2006, in accordance with SFAS No. 123R using the Black-Scholes-Merton option valuation model. Under the fair value recognition provisions of SFAS No. 123R, we recognize share-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest on a straight-line basis over the requisite service period of the award. Prior to the adoption of SFAS No. 123R, we accounted for share-based payments under Accounting Principles Board ("APB") Opinion 25, Accounting for Stock Issued to Employees, and accordingly, did not recognize compensation expense for options granted that had an exercise price greater than or equal to the market value of the underlying common stock on the date of grant.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the use of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. We believe that implied volatility, calculated based on traded options of our common stock, combined with historical volatility is an appropriate indicator of expected volatility and future stock price trends. Therefore, the expected volatility for the year ended December 31, 2008 used in our fair value model was based on a combination of implied and historical volatilities. The assumptions used in calculating the fair value of share-based payment awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management

judgment. As a result, if factors change and we use different assumptions, our share-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, future share-based compensation expense could be significantly different from what we have recorded in the current period (See Note 16—"Share-Based Compensation" of our Notes to Consolidated Financial Statements).

#### New Accounting Standards and Recently Issued Accounting Standards Not Yet Adopted

In April 2009, the FASB issued FSP SFAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, which provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased. This FSP re-emphasizes that regardless of market conditions the fair value measurement is an exit price concept as defined in SFAS No. 157. This FSP clarifies and includes additional factors to consider in determining whether there has been a significant decrease in market activity for an asset or liability and provides additional clarification on estimating fair value when the market activity for an asset or liability has declined significantly. The scope of this FSP does not include assets and liabilities measured under level 1 inputs. We adopted FSP SFAS 157-4 on June 30, 2009 and will apply it prospectively to all fair value measurements where appropriate. The adoption of FSP SFAS 157-4 did not have a material impact on our financial position, results of operations or cash flow.

On June 30, 2009, we adopted FSP SFAS 107-1 and Accounting Principles Board (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP, which amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, requires publicly-traded companies, as defined in APB Opinion No. 28, Interim Financial Reporting, to provide disclosures on the fair value of financial instruments in interim financial statements. The adoption of FSP SFAS 107-1 did not have a material impact on our financial position, results of operations or cash flow.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although there is new terminology, the standard is based on the same principles as those that currently exist. This statement, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. We adopted the statement for the period ending June 30, 2009. The adoption of this statement did not have a material impact on our financial position, results of operations or cash flow.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) Consolidation of Variable Interest Entities. This statement clarifies the characteristics that identify a variable interest entity (VIE) and changes how a reporting entity identifies a primary beneficiary that would consolidate the VIE from a quantitative risk and rewards calculation to a qualitative approach based on which variable interest holder has a controlling financial interest and the ability to direct the most significant activities that impact the VIE's economic performance. This statement requires the primary beneficiary assessment to be performed on a continuous basis. It also requires additional disclosures about an entity's involvement with VIE, restrictions on the VIE's assets and liabilities that are included in the reporting entity's consolidated balance sheet, significant risk exposures due to the entity's involvement with the VIE, and how its involvement with a VIE impacts the reporting entity's consolidated financial statements. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009. We do not expect the adoption of SFAS No. 167, effective as of January 1, 2010, to have a material impact on our financial position, results of operations or cash flow.

In June 2009, the FASB issued SFAS No. 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. SFAS No. 168 establishes the FASB Accounting Standards Codification (the "Codification") as the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. We adopted SFAS No. 168 on July 1, 2009, and we do not anticipate this adoption to have an impact on our financial position, results of operations or cash flow.

### 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

Through Cheniere Marketing, we from time to time will enter into natural gas derivatives to hedge the exposure of future cash flows associated with the LNG that we hold. We use value at risk ("VaR") and other methodologies for market risk measurement and control purposes. At June 30, 2009, the one-day VaR with a 95% confidence interval of our derivative positions was less than \$0.1 million. At December 31, 2008, the one-day VaR with a 95% confidence interval of our derivative positions was less than \$0.1 million.

Our derivative positions as of June 30, 2009 primarily consisted of exchange cleared NYMEX natural gas swaps entered into to hedge the exposure to variability in expected future cash flows related to the sale of commercial LNG and of excess LNG purchased for commissioning the Sabine Pass LNG receiving terminal. As of June 30, 2009, we

had entered into a total of 5,150,000 MMBtu of NYMEX natural gas swaps through January 31, 2010 for which we will receive fixed prices of \$3.844 to \$6.101 per MMBtu. At June 30, 2009, the value of the derivatives was an asset of \$1.0 million.

Item 4.

#### Disclosure Controls and Procedures

Based on their evaluation as of the end of the quarter ended June 30, 2009, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act are (i) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

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.

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## 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, 2009, there were no threatened or pending legal matters that would have a material impact on our consolidated results of operations, financial position or cash flows.

## Item 4. Submission of Matters to a Vote of Security Holders

We held an annual meeting of our stockholders on June 12, 2009. The following individuals were elected to serve as Class II directors on the Board of Directors and each such individual will hold office until our 2012 annual meeting or until his successor is duly elected and qualified: Nuno Brandolini, John M. Deutch and Paul J. Hoenmans. In addition to the election of directors, the following matters were submitted to a vote and approved by our stockholders: approval of an amendment to our Restated Certification of Incorporation, approval of Amendment No. 4 to our Amended and Restated 2003 Stock Incentive Plan and the ratification of the appointment of Ernst & Young LLP as independent accountants for the fiscal year ending December 31, 2009 by the Audit Committee of our Board of Directors. We sought approval of an amendment to our Amended and Restated Certificate of Incorporation in order to increase the number of shares of authorized common stock from 120,000,000 to 240,000,000. We sought approval of Amendment No. 4 to our Amended and Restated 2003 Stock Incentive Plan to provide as follows:

• to increase the number of shares of common stock available for issuance under the plan from 11,000,000 to 21,000,000;

• to increase the maximum number of shares that can be granted to any one individual during a calendar year from 1,000,000 to 3,000,000;

• to increase the aggregate cash awards that may be payable to an individual during any calendar year from \$10 million to \$25 million ; and

• to add an additional permissible business criterion pursuant to which performance awards may be granted under the plan.

There were 52,225,573 shares of common stock outstanding and eligible to vote as of the record date of April 13, 2009. Approximately 85% of the outstanding voting shares, or 44,904,531 shares of common stock, were present, either in person or by proxy, and were voted at the 2009 annual meeting. The following table summarizes the results of the voting:

## ITEM 1: ELECTION OF DIRECTORS

| Director         | Number of<br>Votes<br>For | Number of<br>Votes<br>Withheld |
|------------------|---------------------------|--------------------------------|
| Nuno Brandolini  | 43,650,566                | 1,253,965                      |
| John M. Deutch   | 42,716,196                | 2,188,335                      |
| Paul J. Hoenmans | 43,997,924                | 906,607                        |



ITEM 2: APPROVAL OF THE AMENDMENT TO THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION

| Number of<br>Votes For | Percent of<br>Outstanding<br>Shares | Number of<br>Votes<br>Against | Percent of<br>Outstanding<br>Shares | Number of<br>Votes<br>Abstained | Percent of<br>Outstanding<br>Shares | Non-<br>Votes | Percent of<br>Outstanding<br>Shares |
|------------------------|-------------------------------------|-------------------------------|-------------------------------------|---------------------------------|-------------------------------------|---------------|-------------------------------------|
| 29,730,584             | 56.93 %                             | 3,663,165                     | 7.01 %                              | 92,757                          | 0.18 %                              | 11,418,025    | 21.86 %                             |

ITEM APPROVAL OF AMENDMENT NO. 4 TO THE CHENIERE ENERGY, INC AMENDED AND  
3: RETATED 2003 STOCK INCENTIVE PLAN

| Number of<br>Votes For | Percent of<br>Votes Cast | Number of<br>Votes<br>Against | Percent of<br>Votes Cast | Number of<br>Votes<br>Abstained | Percent of<br>Votes Cast | Non-<br>Votes | Percent of<br>Votes Cast |
|------------------------|--------------------------|-------------------------------|--------------------------|---------------------------------|--------------------------|---------------|--------------------------|
| 26,555,163             | 59.14 %                  | 6,790,806                     | 15.12 %                  | 140,537                         | 0.31 %                   | 11,418,025    | 25.43 %                  |

ITEM 4: RATIFICATION OF THE AUDIT COMMITTEE'S APPOINTMENT OF ERNST & YOUNG LLP

| Number of<br>Votes For | Percent of<br>Votes Cast | Number of<br>Votes<br>Against | Percent of<br>Votes Cast | Number of<br>Votes<br>Abstained | Percent of<br>VotesCast | Non-<br>Votes | Percent of<br>Votes Cast |
|------------------------|--------------------------|-------------------------------|--------------------------|---------------------------------|-------------------------|---------------|--------------------------|
| 44,315,525             | 98.69 %                  | 400,106                       | 0.89 %                   | 188,900                         | 0.42 %                  | 0             | 0.0 %                    |

Item 6. Exhibits

(a) Each of the following exhibits is filed herewith:

10.1 Change Order 11 to Agreement for Engineering, Procurement, Construction and Management of Construction Services for the Sabine Pass 2 Receiving, Storage and Regasification Terminal expansion, dated July 21, 2006, between Sabine Pass LNG, L.P. and Bechtel Corporation

10.2 Change Orders 9, 10, 11 and 12 to Engineer, Procure and Construct (EPC) LNG Unit Rate Soil Contract, dated July 21, 2006, between Sabine Pass LNG, L.P. and Remedial Construction Services, L.P.

10.3 Amendment No. Four-C to Credit Agreement, dated June 23, 2009, among Cheniere Common Units Holdings, LLC, the other Loan Parties (as defined therein), the Lenders (as defined therein) and The Bank of New York Mellon, as administrative agent and collateral agent

10.4 Amendment No. Four-D to Credit Agreement, dated June 29, 2009, among Cheniere Common Units Holdings, LLC, the other Loan Parties (as defined therein), the Lenders (as defined therein) and The Bank of New York Mellon, as administrative agent and collateral agent

10.5 First Amendment to Security Deposit Agreement, dated June 19, 2009, by and between Cheniere LNG Holdings, LLC and The Bank of New York Mellon as collateral agent and depositary agent

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



SIGNATURES

Pursuant to the requirements of the Securities and 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 6, 2009

