

CHENIERE ENERGY INC  
Form 10-Q  
May 06, 2011

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 March 31, 2011  
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)

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

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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 April 25, 2011, there were 70,150,969 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)

	March 31, 2011 (unaudited)	December 31, 2010
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$24,473	\$74,161
Restricted cash and cash equivalents	105,439	73,062
Accounts and interest receivable	33,186	4,699
LNG inventory	9,601	1,212
Prepaid expenses and other	18,094	12,476
Total current assets	190,793	165,610
Non-current restricted cash and cash equivalents		
Property, plant and equipment, net	82,892	82,892
Debt issuance costs, net	2,144,810	2,157,597
Goodwill	39,676	41,656
Intangible assets	76,819	76,819
Other	6,067	6,067
Total assets	23,376	22,866
	\$2,564,433	\$2,553,507
<b>LIABILITIES AND DEFICIT</b>		
Current liabilities		
Accounts payable	\$3,468	\$1,283
Accrued liabilities	72,964	38,459
Deferred revenue	26,703	26,592
Other	215	—
Total current liabilities	103,350	66,334
Long-term debt, net of discount		
Long-term debt—related party, net of discount	2,930,929	2,918,579
Deferred revenue	9,192	8,930
Other non-current liabilities	28,500	29,994
	2,140	2,280
Commitments and contingencies		
	—	—
Stockholders' deficit		
Preferred stock, \$.0001 par value, 5.0 million shares authorized, none issued	—	—
Common stock, \$.003 par value		
Authorized: 240.0 million shares at March 31, 2011 and December 31, 2010		
Issued and outstanding: 70.1 million and 67.8 million shares at March 31, 2011 and December 31, 2010, respectively	210	204
Treasury stock: 1.5 million shares at March 31, 2011 and December 31, 2010, at cost	(4,340)	(4,338)
Additional paid-in-capital	412,130	404,125
Accumulated deficit	(1,101,287)	(1,061,449)

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Accumulated other comprehensive loss	(233	) (173	)
Total stockholders' deficit	(693,520	) (661,631	)
Non-controlling interest	183,842	189,021	
Total deficit	(509,678	) (472,610	)
Total liabilities and deficit	\$2,564,433	\$2,553,507	

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

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CHENIERE ENERGY, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended	
	March 31,	
	2011	2010
Revenues		
LNG terminal revenues	\$70,001	\$66,827
Marketing and trading	8,449	12,142
Oil and gas sales	768	537
Other	13	11
Total revenues	79,231	79,517
Operating costs and expenses		
General and administrative expense	21,510	19,217
Depreciation, depletion and amortization	15,386	15,624
LNG terminal and pipeline operating expense	10,194	12,813
LNG terminal and pipeline development expense	8,437	718
Oil and gas production and exploration costs	138	99
Total operating costs and expenses	55,665	48,471
Income from operations	23,566	31,046
Other income (expense)		
Interest expense, net	(64,154	) (67,194
Derivative gain, net	—	505
Other income (expense)	109	(6
Total other expense	(64,045	) (66,695
Loss before income taxes and non-controlling interest	(40,479	) (35,649
Income tax provision	—	—
Loss before non-controlling interest	(40,479	) (35,649
Non-controlling interest	641	482
Net loss	\$(39,838	) \$(35,167
Net loss per share attributable to common stockholders—basic and diluted	\$(0.60	) \$(0.64
Weighted average number of common shares outstanding—basic and diluted	66,950	54,870

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

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

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total Equity (Deficit)
Balance — December 31, 2010	67,761	\$ 204	1,463	\$(4,338)	\$404,125	\$(1,061,449)	\$( 173 )	\$ 189,021	\$(472,610)
Issuances of stock	120	—	—	—	—	—	—	—	—
Issuances of restricted stock	2,218	6	—	—	(6 )	—	—	—	—
Forfeitures of restricted stock	(21 )	—	20	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	8,011	—	—	—	8,011
Treasury stock acquired	—	—	—	(2 )	—	—	—	—	(2 )
Comprehensive income: Foreign currency translation	—	—	—	—	—	—	(60 )	—	(60 )
Loss attributable to non-controlling interest	—	—	—	—	—	—	—	(641 )	(641 )
Sale of common units to non-controlling interest	—	—	—	—	—	—	—	2,062	2,062
Distribution to non-controlling interest	—	—	—	—	—	—	—	(6,600 )	(6,600 )
Net loss	—	—	—	—	—	(39,838 )	—	—	(39,838 )
Balance — March 31, 2011	70,078	\$ 210	1,483	\$(4,340)	\$412,130	\$(1,101,287)	\$( 233 )	\$ 183,842	\$(509,678)



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

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CHENIERE ENERGY, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities		
Net loss attributable to common stockholders	\$(39,838)	\$(35,167)
Adjustments to reconcile net loss attributable to common stockholders to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	15,386	15,624
Amortization of debt issuance and debt discount	6,984	6,599
Non-cash compensation	8,011	6,311
Investment in restricted cash and cash equivalents	(39,725)	(48,621)
Non-cash derivative gain	123	(3,944)
Non-controlling interest	(641)	(482)
Non-cash interest expense	7,695	8,613
Other	(275)	(2,379)
Changes in operating assets and liabilities:		
Accounts payable and accrued liabilities	36,719	33,791
LNG inventory	(8,389)	21,462
Accounts and interest receivable	(28,289)	1,883
Deferred revenue	(1,384)	(1,101)
Prepaid expenses and other	(5,621)	1,301
Net cash provided by (used in) operating activities	(49,244)	3,890
Cash flows from investing activities		
Use of restricted cash and cash equivalents	2,263	3,430
LNG terminal and pipeline construction-in-process, net	(2,214)	(2,583)
Distributions from limited partnership investment	—	2,700
Other	(181)	(14)
Net cash provided by (used in) investing activities	(132)	3,533
Cash flows from financing activities		
Use of restricted cash and cash equivalents	5,085	7,401
Distributions to non-controlling interest	(6,600)	(6,598)
Sale of common units by restricted affiliate	1,515	—
Other	(312)	(1,492)
Net cash used in financing activities	(312)	(689)
Net increase (decrease) in cash and cash equivalents	(49,688)	6,734
Cash and cash equivalents—beginning of period	74,161	88,372
Cash and cash equivalents—end of period	\$24,473	\$95,106

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

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

NOTE 1—Basis of Presentation

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

Results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2011.

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

For further information, refer to the consolidated financial statements and accompanying notes included in our annual report on Form 10-K for the year ended December 31, 2010.

Liquidity

As of March 31, 2011, we had unrestricted cash and cash equivalents and accounts receivable from LNG and natural gas marketing activities of \$53.9 million that will be available to Cheniere, which excludes cash and cash equivalents and other working capital available to Cheniere Energy Partners, L.P. (“Cheniere Partners”), a publicly traded partnership in which we own a 90.5% interest, and Sabine Pass LNG, L.P. (“Sabine Pass LNG”), a wholly owned subsidiary of Cheniere Partners. In addition, we had restricted cash and cash equivalents of \$188.3 million, which were designated for the following purposes: \$137.3 million for interest payments related to the Senior Notes described below; \$5.0 million for Sabine Pass LNG's working capital; \$41.9 million for Cheniere Partners' working capital; and \$4.1 million for other restricted purposes. Although results are consolidated for financial reporting, Cheniere, Sabine Pass LNG and Cheniere Partners operate with independent capital structures.

We believe that Cheniere (excluding the sources and uses of capital by Sabine Pass LNG and Cheniere Partners) will have sufficient cash, other working capital and cash generated from its operations to fund its operating expenses and other cash requirements until at least the earliest date when principal payments may be required on its existing indebtedness, which will be in May 2012 (the maturity date of the 2007 Term Loan). Before that date, Cheniere expects to continue to restructure its finances and improve its capital structure, which will be accomplished by entering into long-term commercial agreements, refinancing its existing indebtedness, issuing equity or other securities, selling assets, or a combination of the foregoing.

Our ability to enhance near-term liquidity and improve our capital structure is dependent on numerous factors, including the availability of credit, the balance of worldwide and domestic supply and demand for natural gas and LNG, and the relative prices for natural gas in North America and international markets. We face numerous financial, market and operational risks in connection with improving our liquidity situation, many of which are beyond our control.



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

NOTE 2—Restricted Cash and Cash Equivalents

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

Senior Notes Debt Service Reserve

Sabine Pass LNG consummated private offerings of an aggregate principal amount of \$2,215.5 million of Senior Notes (See Note 8—“Long-Term Debt and Long-Term Debt—Related Parties”). Under the indenture governing the Senior Notes (the “Sabine Pass Indenture”), except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied, including that there must be on deposit in an interest payment account an amount equal to one-sixth of the semi-annual interest payment multiplied by the number of elapsed months since the last semi-annual interest payment, 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 and a fixed charge coverage ratio test of 2:1 must be satisfied.

As of March 31, 2011 and December 31, 2010, we classified \$54.9 million and \$13.7 million, respectively, as current restricted cash and cash equivalents for the payment of interest due within twelve months. As of March 31, 2011 and December 31, 2010, 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 Sheet.

Other Restricted Cash and Cash Equivalents

As of March 31, 2011 and December 31, 2010, \$46.9 million and \$53.3 million, respectively, of current restricted cash and cash equivalents was primarily related to cash and cash equivalents held by Sabine Pass LNG and Cheniere Partners that were considered restricted to Cheniere. As of March 31, 2011 and December 31, 2010, due to various other contractual restrictions, \$3.6 million and \$6.1 million had been classified as current restricted cash and cash equivalents, respectively, and \$0.5 million had been classified as non-current restricted cash and cash equivalents on our Consolidated Balance Sheets.

NOTE 3—LNG Inventory

LNG inventory is recorded at cost and is subject to the lower of cost or market (“LCM”) adjustments at the end of each period. Inventory cost is determined using the average cost method. Recoveries of losses resulting from interim period LCM adjustments are recorded when market price recoveries occur on the same inventory in the same fiscal year. These recoveries are recognized as gains in later interim periods with such gains not exceeding previously recognized losses. As of March 31, 2011 we had 1,849,000 million British thermal units (“MMBtu”) of LNG inventory recorded at \$9.6 million, and at December 31, 2010, we had 326,000 MMBtu of LNG inventory recorded at \$1.2 million on our Consolidated Balance Sheets.

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

NOTE 4—Variable Interest Entity

In March 2010, Cheniere Marketing, LLC (“Cheniere Marketing”) entered into various agreements (the "LNGCo Agreements") with JPMorgan LNG Co. ("LNGCo"), an indirect subsidiary of JPMorgan Chase & Co., effective April 1, 2010, under which Cheniere Marketing has agreed to develop and maintain commercial and trading opportunities in the LNG industry and present any such opportunities exclusively to LNGCo. Cheniere Marketing also agreed to provide, or arrange for the provision of, all of the operations and administrative services required by LNGCo in connection with any LNG cargoes purchased by LNGCo, including negotiating agreements and arranging for transporting, receiving, storing, hedging and regasifying LNG cargoes. Cheniere Marketing does not have the authority to contractually bind LNGCo under the LNGCo Agreements. In the event LNGCo declines to purchase an LNG cargo presented to it by Cheniere Marketing under the LNGCo Agreements, Cheniere Marketing may pursue the opportunity on its own behalf or present it to third parties. The term of the LNGCo Agreements is two years; however, either party may terminate without penalty. In return for the services to be provided by Cheniere Marketing, LNGCo will pay a fixed fee to Cheniere Marketing and may pay additional fees depending upon the gross margins of each transaction and the aggregate gross margin earned during the term of the LNGCo Agreements.

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

During the three months ended March 31, 2011 and March 31, 2010, we recognized \$2.4 million and zero, respectively, of marketing and trading revenues from LNGCo. As of March 31, 2011, Cheniere Marketing's maximum exposure to loss relating to LNGCo was \$4.5 million. A portion of this \$4.5 million represents our fixed fee and gross margin receivable and is reported as Current Accounts and Interest Receivable, and the remaining portion represents our margin deposit receivable and is reported as Other Non-Current Assets and is to be paid to Cheniere Marketing upon the completion or termination of the LNGCo Agreements.

NOTE 5—Property, Plant and Equipment

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

	March 31, 2011	December 31, 2010
LNG terminal costs		
LNG terminal	\$1,639,152	\$1,638,811
LNG terminal construction-in-process	41,513	39,393
LNG site and related costs, net	3,360	3,362
Accumulated depreciation	(92,962	) (82,246 )
Total LNG terminal costs, net	1,591,063	1,599,320
Natural gas pipeline costs		
Natural gas pipeline	563,630	563,714
Natural gas pipeline construction-in-process	2,483	2,484
Pipeline right-of-ways	18,455	18,455
Accumulated depreciation	(41,658	) (37,939 )
Total natural gas pipeline costs, net	542,910	546,714
Oil and gas properties, successful efforts method		
Proved	3,917	3,872
Accumulated depreciation, depletion and amortization	(2,684	) (2,604 )
Total oil and gas properties, net	1,233	1,268
Fixed assets		
Computers and office equipment	5,518	5,472
Furniture and fixtures	4,509	4,509
Computer software	12,600	12,526
Leasehold improvements	7,318	7,318
Other	1,470	1,453
Accumulated depreciation	(21,811	) (20,983 )
Total fixed assets, net	9,604	10,295
Property, plant and equipment, net	\$2,144,810	\$2,157,597

LNG Terminal Costs

Depreciation expense related to the Sabine Pass LNG terminal totaled \$10.7 million and \$10.5 million for the three months ended March 31, 2011 and 2010, respectively.



Natural Gas Pipeline Costs

Depreciation expense related to our Creole Trail pipeline totaled \$3.7 million for each of the three months ended March 31, 2011 and 2010.

Fixed Assets

Depreciation expense related to our fixed assets totaled \$0.8 million and \$1.4 million for the three months ended March 31, 2011 and 2010, respectively.

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

## NOTE 6—Non-controlling Interest

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 entities' other equity is recorded as a non-controlling interest. The following table sets forth the components of our non-controlling interest balance since inception attributable to third-party investors' interest at March 31, 2011 (in thousands):

Net proceeds from Cheniere Partners' issuance of common units (1)	\$ 100,504	
Net proceeds from Holdings' sale of Cheniere Partners common units (2)	203,946	
Distributions to Cheniere Partners' non-controlling interest	(99,408	)
Non-controlling interest share of loss of Cheniere Partners	(21,200	)
Non-controlling interest at March 31, 2011	\$ 183,842	

In March and April 2007, we and Cheniere Partners completed a public offering of 15,525,000 Cheniere Partners common units (the "Cheniere Partners Offering"). Cheniere Partners received \$98.4 million in net proceeds from the issuance of its common units to the public. Prior to January 1, 2009, a company was able to elect an accounting policy of recording a gain or loss on the sale of common equity of a subsidiary equal to the amount of proceeds (1) received in excess of the carrying value of the parent's investment. Effective January 1, 2009, the sale of common equity of a subsidiary is accounted for as an equity transaction. In January 2011, Cheniere Partners initiated an at-the-market program to sell up to 1.0 million common units the proceeds from which would be used primarily to fund development costs associated with the liquefaction project. As of March 31, 2011, Cheniere Partners had sold 114,700 common units with net proceeds of \$2.1 million from this issuance.

In conjunction with the Cheniere Partners Offering, 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 (2) 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 7—Accrued Liabilities

As of March 31, 2011 and December 31, 2010, accrued liabilities consisted of the following (in thousands):

	March 31, 2011	December 31, 2010
Accrued interest expense and related debt fees	\$55,778	\$15,732
Payroll	3,650	11,466
LNG liquefaction costs	2,981	1,402
Debt issuance costs	4,000	4,101
LNG terminal costs	1,035	1,953
Other accrued liabilities	5,520	3,805
Total accrued liabilities	\$72,964	\$38,459

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

## NOTE 8—Long-Term Debt and Long-Term Debt—Related Parties

As of March 31, 2011 and December 31, 2010, our long-term debt consisted of the following (in thousands):

	March 31, 2011	December 31, 2010
Long-term debt (including related parties):		
Senior Notes	\$2,215,500	\$2,215,500
2007 Term Loan	298,000	298,000
2008 Loans (including related parties)	270,352	262,657
Convertible Senior Unsecured Notes	204,630	204,630
Total long-term debt	2,988,482	2,980,787
Debt discount:		
Senior Notes	(26,603	) (27,777
Convertible Senior Unsecured Notes	(21,758	) (25,501
Total debt discount	(48,361	) (53,278
Long-term debt (including related parties), net of discount	\$2,940,121	\$2,927,509

## Sabine Pass LNG Senior Notes

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

Under the Sabine Pass Indenture, except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied: there must be on deposit in an interest payment account an amount equal to one-sixth of the semi-annual interest payment multiplied by the number of elapsed months since the last semi-annual interest payment, and there must be on deposit in a permanent debt service reserve fund an amount equal to one semi-annual interest payment of approximately \$82.4 million. Distributions are permitted only after satisfying the foregoing funding requirements, a fixed charge coverage ratio test of 2:1 and other conditions specified in the Sabine Pass Indenture. During the three months ended March 31, 2011 and 2010, Sabine Pass LNG made distributions of \$75.2 million and \$106.7 million, respectively, after satisfying all the applicable conditions in the Sabine Pass Indenture.

## 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 March 31, 2011, 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.

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

We adopted, on January 1, 2009, an accounting standard that requires issuers of certain convertible debt instruments to separately account for the liability component and the equity component represented by the embedded conversion option in a manner that will reflect that entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The following table summarizes the liability component of the Convertible Senior Unsecured Notes (in thousands):

	March 31, 2011	December 31, 2010
Principal amount	\$204,630	\$204,630
Unamortized discount	(21,758	) (25,501
Net carry amount	\$182,872	\$179,129

The unamortized discount is being amortized through the August 2012 maturity of the Convertible Senior Unsecured Notes. Interest expense for the Convertible Senior Unsecured Notes, including the debt discount amortization, for the three months ended March 31, 2011 and 2010 was \$4.9 million and \$4.6 million, respectively. The effective interest rate as of March 31, 2011 was 10.9% for the Convertible Senior Unsecured Notes.

#### 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.

In May 2010, we sold our 30% interest in Freeport LNG, which was pledged as security of the 2007 Term Loan, to institutional investors for net proceeds of \$104.3 million. The net proceeds from the sale were used to prepay \$102.0 million of the 2007 Term Loan in May 2010. As of March 31, 2011 and December 31, 2010, \$298.0 million was outstanding under the 2007 Term Loan and were included in long-term debt on our Consolidated Balance Sheets.

#### 2008 Loans

In August 2008, we entered into a credit agreement pursuant to which we obtained \$250.0 million in convertible term loans ("2008 Loans"). The 2008 Loans have a maturity date in 2018. The 2008 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 Loans are secured by Cheniere's rights and fees payable under management services agreements with Sabine Pass LNG and Cheniere Partners, by Cheniere's 10.9 million common units in Cheniere Partners, by the equity and assets of Cheniere's pipeline entities, by the equity of various other subsidiaries and certain other assets and subsidiary guarantees.

In June 2010, the 2008 Loans were amended to permit all funds on deposit in the TUA Reserve Account to be applied to the prepayment of the accrued interest on the loans outstanding under the 2008 Loans, with any remainder to be applied to the prepayment of the principal balance of such 2008 Loans. As a result, \$63.6 million from the TUA Reserve Account was used to prepay \$60.9 million of accrued interest and \$2.7 million of principal of the 2008 Loans.

The outstanding principal amount for Scorpion Capital Partners, LP, the holder of 3.4% of the 2008 Loans, is exchangeable for Cheniere's Series B Convertible Preferred Stock, par value \$0.0001 per share ("Series B Preferred Stock"), with voting rights limited to the equivalent of approximately 1.7 million shares of Cheniere common stock at March 31, 2011. 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 shares of Cheniere 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. The portion of outstanding principal amount for Scorpion Capital Partners is classified as related party long-term debt because it is an affiliate of one of Cheniere's directors.

As of March 31, 2011 and December 31, 2010, we classified \$9.2 million and \$8.9 million, respectively, as part of Long-Term Debt—Related Parties on our Consolidated Balance Sheets because a related party then held these portions of this debt.

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

We entered into financial derivatives to hedge the exposure to variability in expected future cash flows attributable to the future sale of LNG inventory. Changes in the fair value of our derivatives are reported in earnings because they do not meet the criteria to be designated as a hedging instrument that is required to qualify for cash flow hedge accounting.

The estimated fair value of financial instruments is the amount at which the instrument could be exchanged currently between willing parties. The fair 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 sets forth, by level within the fair value hierarchy, the fair value of our financial assets and liabilities at March 31, 2011 (in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
Derivatives liability	\$ 123	—	—	\$ 123

Derivatives liability reflects the fair value of natural gas swaps associated with the marketing of LNG and natural gas.

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

## Financial Instruments (in thousands):

	March 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
2013 Notes (1)	\$550,000	\$563,750	\$550,000	\$541,750
2016 Notes, net of discount (1)	1,638,897	1,686,015	1,637,723	1,523,082
Convertible Senior Unsecured Notes, net of discount (2)	182,872	149,955	179,129	131,660
2007 Term Loan (3)	298,000	299,432	298,000	297,464
2008 Convertible Loans (4)	270,352	270,352	262,657	262,657

(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 March 31, 2011 and December 31, 2010, as applicable.

(2) The fair value of our Convertible Senior Unsecured Notes is based on the closing trading prices on March 31, 2011 and December 31, 2010, as applicable.

The 2007 Term Loan is closely held by few holders, and purchases and sales are infrequent and are conducted on a bilateral basis without price discovery by us. This loan is not rated and has unique covenants and collateral

(3) packages such that comparisons to other instruments would be imprecise. Nonetheless, we have provided an estimate of the fair value of this loan as of March 31, 2011 and December 31, 2010 based on an index of the yield to maturity of CCC rated debt of other companies in the energy sector.

In December 2010, the 2008 Loans were amended to, among other things, eliminate the Lenders' Put Rights, allow for the early prepayment of the 2008 Loans, allow Cheniere to sell Cheniere Partners common units held as collateral and prepay the 2008 Loans with the proceeds and release restrictions on prepayments of other (4) indebtedness at Cheniere as certain conditions are met. In addition, 96.6% of the lenders agreed to terminate their rights to convert the 2008 Loans into Series B Preferred Stock of Cheniere. The fair value of the 2008 Loans as of March 31, 2011 and December 31, 2010 was determined to be the same as the carrying amount due to our ability to call the debt at anytime without penalty or a make-whole payment for an early redemption.



CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued  
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## NOTE 10—Income Taxes

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 three months ended March 31, 2011 and 2010 include no income tax benefits.

During the third quarter of 2010, largely due to the increased level of trading activity in our shares, we experienced an ownership change within the provisions of Internal Revenue Code ("IRC") Section 382 ("Section 382") that will subject approximately \$855 million of our existing net operating loss ("NOL") carryforwards to the annual NOL utilization limitations. The applicable Section 382 limitation may have affected our ability to fully utilize our existing tax NOL carryforwards. Our ability to fully utilize our existing tax NOL carryforwards is dependent on increasing the recognition of built-in gains in the five-year period following the above-referenced ownership change. We will continue to monitor trading activity in our shares which may cause an additional ownership change which may ultimately affect our ability to fully utilize our existing tax NOL carryforwards.

## NOTE 11—Net Loss Per Share Attributable to Common Stockholders

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

The following table reconciles basic and diluted weighted average common shares outstanding for the three months ended March 31, 2011 and 2010 (in thousands except for loss per share):

	Three Months Ended March 31,	
	2011	2010
Weighted average common shares outstanding:		
Basic	66,950	54,870
Dilutive common stock options (1)	—	—
Dilutive Convertible Senior Unsecured Notes (2)	—	—
Dilutive 2008 Convertible Loans (3)	—	—
Diluted	66,950	54,870
Basic net loss per share attributable to common stockholders	\$ (0.60	) \$ (0.64
Diluted net loss per share attributable to common stockholders	\$ (0.60	) \$ (0.64

Stock options, phantom stock and unvested stock of 8.5 million and 8.7 million shares representing securities that (1) could potentially dilute basic EPS in the future, were not included in the diluted net loss per share computations for the three months ended March 31, 2011 and 2010, respectively, because they would have been anti-dilutive. (2) Common shares of 5.8 million issuable upon conversion of the Convertible Senior Unsecured Notes for each of the three months ended March 31, 2011 and 2010 were not included in the diluted computation because the computation of diluted net loss per share attributable to common stockholders utilizing the "if-converted" method

would be anti-dilutive.

(3) Common shares of 1.7 million and 50.0 million issuable upon conversion of the 2008 Convertible Loans were not included in the computations of diluted net loss per share for the three months ended March 31, 2011 and 2010, respectively, because the computations of diluted net loss per share attributable to common stockholders utilizing the “if-converted” method would be anti-dilutive.

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CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued  
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NOTE 12—Comprehensive Loss

The following table is a reconciliation of our net loss attributable to common stockholders to our comprehensive loss for the three months ended March 31, 2011 and 2010 (in thousands):

	Three Months Ended March 31,	
	2011	2010
Net loss attributable to common stockholders	\$(39,838	) \$(35,167
Other comprehensive income (loss) items:		
Foreign currency translation	(60	) 12
Comprehensive loss attributable to common stockholders	\$(39,898	) \$(35,155

NOTE 13—Supplemental Cash Flow Information and Disclosures of Non-Cash Transactions

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

	Three Months Ended March 31,	
	2011	2010
Cash paid for interest, net of amounts capitalized	\$9,412	\$11,919

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued  
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NOTE 14—Business Segment Information

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

Our LNG terminal business segment consists of the operational Sabine Pass LNG terminal, approximately 90.5% owned (at March 31, 2011) in western Cameron Parish, Louisiana on the Sabine Pass Channel and two other LNG terminals that are in various stages of development at the following locations: 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.

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

Our LNG and natural gas marketing business segment is seeking to monetize the 2.0 Bcf/d of regasification capacity at the Sabine Pass LNG terminal held by a subsidiary of Cheniere Partners; develop a portfolio of long-term,

short-term, and spot LNG purchase and sale agreements; assist Cheniere Partners' subsidiary in negotiations with potential customers for bi-directional service at the Sabine Pass LNG terminal; and enter into business relationships for the domestic marketing of natural gas imported by Cheniere Marketing as LNG to the Sabine Pass LNG terminal.

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

	Segments				Total Consolidation
	LNG Terminal	Natural Gas Pipeline	LNG & Natural Gas Marketing	Corporate and Other (1)	
As of or for the Three Months Ended March 31, 2011					
Revenues	70,001	13	8,449	768	\$79,231
Intersegment revenues (losses) (2) (3)	4,782	11	(4,793)	—	—
Depreciation, depletion and amortization	10,840	3,754	261	531	15,386
Non-cash compensation	572	176	3,538	3,725	8,011
Income (loss) from operations	33,784	(5,496)	761	(5,483)	23,566
Interest expense, net	(43,235)	(11,229)	—	(9,690)	(64,154)
Interest income	61	—	21	2	84
Goodwill	76,819	—	—	—	76,819
Total assets	1,928,351	550,991	72,092	12,999	2,564,433
Expenditures for additions to long-lived assets	2,561	(76)	—	72	2,557
As of or for the Three Months Ended March 31, 2010					
Revenues	\$66,827	\$11	\$12,142	\$537	\$79,517
Intersegment revenues (losses) (4) (5) (6) (7)	63,951	231	(63,678)	(504)	—
Depreciation, depletion and amortization	10,689	3,768	308	859	15,624
Non-cash compensation	468	133	2,561	3,188	6,350
Income (loss) from operations	98,683	(5,351)	(58,188)	(4,098)	31,046
Interest expense, net	(46,438)	(11,134)	—	(9,622)	(67,194)
Interest income	66	—	14	17	97
Goodwill	76,819	—	—	—	76,819
Total assets	2,036,078	565,583	93,159	41,823	2,736,643
Expenditures for additions to long-lived assets	1,020	(164)	—	(65)	791

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

(2) Intersegment revenues related to our LNG terminal segment are primarily from tug revenues from Cheniere Marketing and the receipt of 80% of gross margins earned by Cheniere Marketing in monetizing the TUA capacity of Cheniere Energy Investments, LLC ("Cheniere Investments") at the Sabine Pass LNG terminal in the three months ended March 31, 2011. These LNG terminal segment intersegment revenues are eliminated with intersegment expenses in our Consolidated Statement of Operations.

(3) Intersegment losses related to our LNG and natural gas marketing segment are primarily from Cheniere Marketing's tug costs and the payment of 80% of gross margins earned by Cheniere Marketing in monetizing the TUA capacity of Cheniere Investments at the Sabine Pass LNG terminal in the three months ended March 31,

2011. These LNG terminal segment intersegment costs are eliminated with intersegment revenues in our Consolidated Statement of Operations.

(4) Intersegment revenues related to our LNG terminal segment are primarily from TUA capacity reservation fee revenues and tug revenues of \$64.0 million that were received from our LNG and natural gas marketing segment for the three months ended March 31, 2010. These LNG terminal segment intersegment revenues are eliminated with intersegment expenses in our Consolidated Statement of Operations.

(5) Intersegment revenues related to our natural gas pipeline segment are primarily from transportation fees charged by our natural gas pipeline segment to our LNG terminal and LNG and natural gas marketing segments to transport natural gas that was regasified at the Sabine Pass LNG terminal. These natural gas pipeline segment intersegment revenues are eliminated with intersegment expenses in our Consolidated Statement of Operations.

(6) Intersegment losses related to our LNG and natural gas marketing segment are primarily from TUA capacity reservation

CHENIERE ENERGY, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued  
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fee expenses and tug costs of \$64.0 million that were incurred from our LNG terminal segment for the three months ended March 31, 2010. These costs and expenses are classified as marketing trading gains (losses) as they are considered capacity contracts related to our energy trading and risk management activities. These LNG and natural gas marketing segment intersegment costs and expenses are eliminated with intersegment revenues in our Consolidated Statement of Operations.

Intersegment losses related to corporate and other are from various transactions between our LNG terminal, natural (7) gas pipeline and LNG and natural gas marketing segments in which revenue recorded by one operating segment is eliminated with a non-revenue line item (i.e., operating expense or is capitalized) by the other operating segment.

NOTE 15—Share-Based Compensation

We have granted options to purchase common stock to employees, consultants and outside directors under the Cheniere Energy, Inc. Amended and Restated 1997 Stock Option Plan (“1997 Plan”) and the Cheniere Energy, Inc. Amended and Restated 2003 Stock Incentive Plan (“2003 Plan”). We recognize our share-based payments to employees and outside directors in the consolidated financial statements based on their fair values at the date of grant. We recognize our share-based payments to consultants in the consolidated financial statements based on their fair values at the end of each period. 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.

For the three months ended March 31, 2011 and 2010, the total share-based compensation expense recognized in our net loss attributable to common stockholders, net of capitalization, was \$8.0 million and \$6.3 million, respectively.

The total unrecognized compensation cost at March 31, 2011 relating to non-vested share-based compensation arrangements granted under the 1997 Plan and 2003 Plan, before any capitalization, was \$18.8 million. The total unrecognized compensation cost at March 31, 2011 is expected to be recognized over 4.0 years, with a weighted average period of 0.8 years.

We received no proceeds from the exercise of stock options in the three months ended March 31, 2011 and 2010.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed under "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2010. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. Other than as required under the securities laws, we assume no



obligation to update or revise these forward-looking statements or provide reasons why actual results may differ.

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

## Introduction

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

- Overview of Business
- Overview of Significant 2011 Events
- Liquidity and Capital Resources
- Results of Operations
- Off-Balance Sheet Arrangements
- Summary of Critical Accounting Policies and Estimates

### Overview of Business

We own and operate the Sabine Pass LNG terminal in Louisiana through our 90.5% ownership interest in and management agreements with Cheniere Energy Partners, L.P. ("Cheniere Partners") (NYSE Amex Equities: CQP), which is a publicly traded partnership we created in 2007. We also own and operate the Creole Trail Pipeline, which interconnects the Sabine Pass LNG terminal with markets in North America. One of our subsidiaries, Cheniere Marketing, LLC ("Cheniere Marketing"), is marketing LNG and natural gas on its own behalf and on behalf of Cheniere Partners, and is working to monetize LNG storage and regasification capacity reserved by Cheniere Partners at the Sabine Pass LNG terminal. Cheniere Partners is developing a liquefaction project to provide bi-directional LNG import and export service at the Sabine Pass LNG terminal. We are in various stages of developing other LNG terminal and pipeline related projects, each of which, among other things, will require acceptable commercial and financing arrangements before we make a final investment decision.

### Overview of Significant 2011 Events

Our significant accomplishments during 2011 include the following:

In January 2011, Sabine Pass Liquefaction, LLC ("Sabine Liquefaction") and Sabine Pass LNG, L.P. ("Sabine Pass LNG"), both wholly owned subsidiaries of Cheniere Partners, submitted an application to the FERC requesting authorization to site, construct and operate liquefaction and export facilities at the Sabine Pass LNG terminal; and In January and February 2011, Sabine Liquefaction signed MOUs with several potential customers for bi-directional service at the Sabine Pass LNG terminal.

### Liquidity and Capital Resources

Although consolidated for financial reporting, Cheniere, Sabine Pass LNG and Cheniere Partners operate with independent capital structures. We expect the cash needs for Sabine Pass LNG will be met through operating cash flows and existing unrestricted cash. We expect the cash needs for Cheniere Partners will be met through operating cash flows from Sabine Pass LNG, existing unrestricted cash and the issuance of Cheniere Partners common units. We expect the cash needs of Cheniere will be met by utilizing existing unrestricted cash, management fees from Sabine Pass LNG and Cheniere Partners, distributions from our investment in Cheniere Partners and operating cash flows from our pipeline and LNG and natural gas marketing businesses.

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The following table presents (in thousands) Cheniere's restricted and unrestricted cash and cash equivalents for each portion of our capital structure as of March 31, 2011. All restricted and unrestricted cash and cash equivalents held by Cheniere Partners and Sabine Pass LNG are restricted by Cheniere as to usage or withdrawal:

	Sabine Pass LNG, L.P.	Cheniere Energy Partners, L.P.	Other Cheniere Energy, Inc.	Consolidated Cheniere Energy, Inc.
Cash and cash equivalents	\$—	\$—	\$24,473	\$24,473
Restricted cash and cash equivalents	142,278	41,937	4,116	188,331
Total	\$142,278	\$41,937	\$28,589	\$212,804

As of March 31, 2011, we had unrestricted cash and cash equivalents and accounts receivable from LNG and natural gas marketing activities of \$53.9 million that will be available to Cheniere, which excludes cash and cash equivalents and other working capital available to Cheniere Partners and Sabine Pass LNG. In addition, we had restricted cash and cash equivalents of \$188.3 million, which were designated for the following purposes: \$137.3 million for interest payments related to the Senior Notes described below; \$5.0 million for Sabine Pass LNG's working capital; \$41.9 million for Cheniere Partners' working capital; and \$4.1 million for other restricted purposes.

We believe that Cheniere (excluding the sources and uses of capital by Sabine Pass LNG and Cheniere Partners) will have sufficient cash, other working capital and cash generated from its operations to fund its operating expenses and other cash requirements until at least the earliest date when principal payments may be required on its existing indebtedness, which will be in May 2012 (the maturity date of the 2007 Term Loan). Before that date, Cheniere expects to continue to restructure its finances and improve its capital structure, which will be accomplished by entering into long-term commercial agreements, refinancing its existing indebtedness, issuing equity or other securities, selling assets, or a combination of the foregoing.

#### LNG Terminal Business

##### Cheniere Partners

Our ownership interest in the Sabine Pass LNG terminal is held through Cheniere Partners. We own approximately 90.5% of Cheniere Partners in the form of 10,891,357 common units, 135,383,831 subordinated units and a 2% general partner interest. Cheniere Partners owns a 100% interest in Sabine Pass LNG, which is operating the Sabine Pass LNG terminal.

We receive quarterly equity distributions from Cheniere Partners, and we receive management fees for managing Sabine Pass LNG and Cheniere Partners. For the three months ended March 31, 2011, we received \$4.6 million in distributions on our common units, no distributions on our subordinated units and \$0.2 million in distributions on our general partner interest. We also received fees of \$2.7 million under our management agreements with Cheniere Partners and fees of \$2.0 million under our management agreements with Sabine Pass LNG during the three months ended March 31, 2011.

The common unit and general partner distributions are being funded from cash flows generated by Sabine Pass LNG's third-party TUA customers. The subordinated unit distributions we received in 2010 were funded from cash flows generated by Sabine Pass LNG's TUA with Cheniere Marketing. As a result of Cheniere Marketing's assignment of its TUA to Cheniere Investments, we have not received distributions on our subordinated units since the distribution made with respect to the quarter ended March 31, 2010.

During the subordination period, the common units have the right to receive distributions of available cash from operating surplus in an amount equal to the initial quarterly distributions of \$0.425 per quarter, plus any arrearages in the payment of the initial quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units that we own. We expect that additional cash flows generated by future business development by subsidiaries of Cheniere Partners would be used to make quarterly distributions on our subordinated units before any increase in distributions to the common unitholders and general partner.

We and Cheniere Partners amended, effective as of July 1, 2010, the fee structure for the various general and administrative services provided by us for Cheniere Partners' benefit and changed it from a fixed fee to a variable fee. The amended and restated services agreement provides that fees will be paid quarterly from Cheniere Partners' unrestricted cash and cash equivalents remaining after making distributions to the common unitholders and the general partner in respect of each quarter and retaining certain reserves. Our ability to receive management fees from Cheniere

Partners is dependent on our ability to, among other things, manage Cheniere Partners' and Sabine Pass LNG's operating and administrative expenses, monetize the 2.0 Bcf/d regasification capacity under the Cheniere Investments TUA (as discussed below) and develop new projects through either internal development or acquisition to increase cash flow. The fixed management fees payable by Sabine Pass LNG remain unchanged.

In June 2010, Cheniere Marketing assigned its TUA with Sabine Pass LNG for 2.0 Bcf/d of regasification capacity at the Sabine Pass LNG terminal to Cheniere Energy Investments, LLC ("Cheniere Investments"), a wholly owned subsidiary of Cheniere Partners, effective July 1, 2010. Pursuant to Cheniere Marketing's assignment of its TUA to Cheniere Investments, Cheniere Marketing will no longer make the approximately \$250 million per year of payments to Sabine Pass LNG, and Cheniere Partners will not make distributions on our subordinated units unless it generates additional cash flow for Sabine Pass LNG's excess capacity or new business. Therefore, distributions to us on our subordinated units and conversion of the subordinated units into common units will depend upon the future business development of Cheniere Partners.

Concurrently with the TUA assignment, Cheniere Investments entered into the VCRA with Cheniere Marketing. Under the terms of the VCRA, Cheniere Marketing will be responsible for monetizing Cheniere Investments' TUA capacity at the Sabine Pass LNG terminal and is obligated to pay Cheniere Investments 80% of the expected gross margin of each cargo of LNG it arranges for delivery to the Sabine Pass LNG terminal. To the extent payments from Cheniere Marketing to Cheniere Investments under the VCRA or new Cheniere Partners' business increase Cheniere Partners' available cash in excess of the common unit and general partner distributions and certain reserves, the cash would be distributed to us in the form of distributions on our subordinated units and related general partner distributions. During the term of the VCRA, Cheniere Marketing is responsible for the payment of taxes and new regulatory costs under the TUA. Cheniere has guaranteed all of Cheniere Marketing's payment obligations under the VCRA.

In January 2011, Cheniere Partners initiated an at-the-market program to sell up to 1.0 million common units the proceeds from which would be used primarily to fund development costs associated with the liquefaction project. As of March 31, 2011, Cheniere Partners had sold \$2.1 million of common units.

#### Sabine Pass LNG Terminal

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

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

Chevron U.S.A., Inc. ("Chevron") has reserved approximately 1.0 Bcf/d of regasification capacity and is obligated to make monthly capacity payments to Sabine Pass LNG aggregating approximately \$125 million per year for 20 years that commenced July 1, 2009. Chevron Corporation has guaranteed Chevron's obligations under its TUA up to 80% of the fees payable by Chevron.

The remaining approximately 2.0 Bcf/d of regasification capacity has been reserved by Cheniere Partners through a TUA between Cheniere Investments and Sabine Pass LNG. Cheniere Investments is required to make approximately \$250 million per year of capacity payments to Sabine Pass LNG through at least September 30, 2028; however, the revenue earned by Sabine Pass LNG and the capacity payments under the TUA are eliminated upon consolidation of our financial statements.

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

#### Liquefaction Project

In June 2010, Cheniere Partners initiated a project to add liquefaction services at the Sabine Pass LNG terminal that would transform the terminal into a bi-directional facility capable of liquefying natural gas and exporting LNG in addition to importing and regasifying foreign-sourced LNG. As currently contemplated, the liquefaction project would be designed and permitted for up to four LNG Trains, each with a nominal production capacity of approximately 4.0 mtpa. We anticipate LNG export from the Sabine Pass LNG terminal could commence as early as 2015, and may be constructed in phases, with each LNG Train commencing operations approximately six to nine months after the previous LNG Train.

We intend for Sabine Pass Liquefaction, LLC ("Sabine Liquefaction"), a wholly owned subsidiary of Cheniere Partners, to enter into long-term, fixed-fee contracts for at least 3.5 mtpa (approximately 0.5 Bcf/d) of bi-directional

LNG processing capacity per LNG Train, for a fee between \$1.40 and \$1.75 per MMBtu, before reaching a final investment decision regarding the development of the LNG Trains. Through the date of this filing, Sabine Liquefaction had entered into eight non-binding memoranda of understanding (“MOU”) with potential customers for the proposed bi-directional facility representing a total of up to 9.8 mtpa of capacity. Each MOU is subject to negotiation and execution of definitive agreements and certain other customary conditions and does not represent a final and binding agreement with respect to its subject matter. We are negotiating definitive agreements with these and other potential customers.

In August 2010, Sabine Liquefaction received approval from the FERC to begin the pre-filing process required to seek authorization to commence construction of the liquefaction project. In January 2011, the pre-filing period was completed and therefore Sabine Liquefaction submitted an application to the FERC requesting authorization to site, construct and operate liquefaction and export facilities at the Sabine Pass LNG terminal. In September 2010, the DOE granted Sabine Liquefaction an order authorizing Sabine Liquefaction to export up to 16 mtpa (approximately 800 Bcf per year) of domestically produced LNG from the Sabine Pass LNG terminal to Free Trade Agreement ("FTA") countries for a 30-year term, beginning on the earlier of the date of first export or September 7, 2020. In September 2010, Sabine Liquefaction filed a second application requesting expansion of the order to include countries with which the U.S. does not have an FTA. This order is pending.

Sabine Liquefaction has engaged Bechtel Corporation ("Bechtel") to complete front-end engineering and design work and will negotiate a lump-sum, turnkey contract based on an open book cost estimate. We currently estimate that total construction costs will be consistent with other recent liquefaction expansion projects constructed by Bechtel, or approximately \$400 per metric ton, before financing costs. We have additional work to complete with Bechtel to be able to make an estimate specific to our site and project. Our cost estimates are subject to change due to factors such as changes in design, increased component and material costs, escalation of labor costs, cost overruns and increased spending to maintain a construction schedule.

In December 2010, Sabine Liquefaction engaged SG Americas Securities, LLC, the U.S. broker-dealer subsidiary of Societe Generale Corporate & Investment Banking ("SG CIB") for general financial strategy and planning in connection with the development and financing of liquefaction facilities at the Sabine Pass LNG terminal.

Cheniere Partners will contemplate making a final investment decision to commence construction of the liquefaction project upon, among other things, entering into acceptable commercial arrangements, receiving regulatory authorization to construct and operate the liquefaction assets and obtaining adequate financing.

#### Other LNG terminals

We will contemplate making final investment decisions to construct our Corpus Christi and Creole Trail LNG terminal projects upon, among other things, entering into acceptable commercial and financing arrangements for the applicable project. We do not expect to spend significant funds on these projects in the near-term.

#### Natural Gas Pipeline Business

The Creole Trail Pipeline, consisting of 94 miles of natural gas pipeline, is currently in-service and operating. We will contemplate making a final investment decision to construct the remaining 59 miles 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 the Burgos Hub Project), to the extent not already obtained, and entering into acceptable commercial and financing arrangements for the applicable project. We do not expect to spend significant funds on these projects in the near-term.

#### LNG and Natural Gas Marketing Business

The accounting treatment for LNG inventory differs from the treatment for derivative positions such that the economics of Cheniere Marketing's activities are not transparent in the consolidated financial statements until all LNG inventory is sold and all derivative positions are settled. Our LNG inventory is recorded as an asset at cost and is subject to lower of cost or market ("LCM") adjustments at the end of each reporting period. The LCM adjustment market price is based on period-end natural gas spot prices, and any gain or loss from an LCM adjustment is recorded in our earnings at the end of each period. Revenue and cost of goods sold are not recognized in our earnings until the LNG is sold. Generally,



our unrealized derivatives positions at the end of each period extend into the future to hedge the cash flow from future sales of our LNG inventory or to take market positions and hedge exposure associated with LNG and natural gas. These positions are measured at fair value, and we record the gains and losses from the change in their fair value currently in earnings. Thus, earnings from changes in the fair value of our derivatives may not be offset by losses from LCM adjustments to our LNG inventory because the LCM adjustments that may be made to LNG inventory are based on period-end spot prices that are different from the time periods of the prices used to fair value our derivatives. Any losses from changes in the fair value of our derivatives will not be offset by gains until the LNG is actually sold.

## LNGCo Agreements

In March 2010, Cheniere Marketing entered into the LNGCo Agreements with LNGCo, effective April 1, 2010, under which Cheniere Marketing has agreed to develop and maintain commercial and trading opportunities in the LNG industry and present any such opportunities exclusively to LNGCo. Cheniere Marketing also agreed to provide, or arrange for the provision of, all of the operations and administrative services required by LNGCo in connection with any LNG cargoes purchased by LNGCo, including negotiating agreements and arranging for transporting, receiving, storing, hedging and regasifying LNG cargoes. Cheniere Marketing does not have the authority to contractually bind LNGCo under the LNGCo Agreements. In the event LNGCo declines to purchase an LNG cargo presented to it by Cheniere Marketing under the LNGCo Agreements, Cheniere Marketing may pursue the opportunity on its own behalf or present it to third parties. The term of the LNGCo Agreements is two years; however, either party may terminate without penalty. In return for the services to be provided by Cheniere Marketing, LNGCo will pay a fixed fee to Cheniere Marketing and may pay additional fees depending upon the gross margins of each transaction and the aggregate gross margin earned during the term of the LNGCo Agreements.

During the three months ended March 31, 2011 and March 31, 2010, we recognized \$2.4 million and zero, respectively, of marketing and trading revenues from LNGCo. As of March 31, 2011, Cheniere Marketing's maximum exposure to loss relating to LNGCo was \$4.5 million. A portion of this \$4.5 million represents our fixed fee and gross margin receivable and is reported as Current Accounts and Interest Receivable, and the remaining portion represents our margin deposit receivable and is reported as Other Non-Current Assets and is to be paid to Cheniere Marketing upon the completion or termination of the LNGCo Agreements.

## 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 have sufficient cash, other working capital and cash generated from our operations to fund our operating expenses and other cash requirements until at least the earliest date when principal payments on our outstanding indebtedness may be required. The earliest date that principal payments will be required is May 31, 2012, the maturity date of the 2007 Term Loan.

## Sources and Uses of Cash

The following table summarizes (in thousands) the sources and uses of our cash and cash equivalents for the three months ended March 31, 2011 and 2010. The table presents capital expenditures on a cash basis; therefore, these amounts differ from the amounts of capital expenditures, including accruals, that are referred to elsewhere in this report. Additional discussion of these items follows the table.

	Three Months Ended March 31,	
	2011	2010
Sources of cash and cash equivalents		
Use of restricted cash and cash equivalents	\$7,348	\$10,831
Distribution from limited partner investment in Freeport LNG Development, L.P.	—	2,700
Sale of common units by restricted affiliate	1,515	—
Operating cash flow	—	3,890
Total sources of cash and cash equivalents	8,863	17,421
Uses of cash and cash equivalents		
Operating cash flow	(49,244	) —
Distributions to non-controlling interest	(6,600	) (6,598
LNG terminal and pipeline construction-in-process, net	(2,214	) (2,583
Other	(493	) (1,506

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Total uses of cash and cash equivalents	(58,551	) (10,687	)
Net increase (decrease) in cash and cash equivalents	(49,688	) 6,734	
Cash and cash equivalents—beginning of period	74,161	88,372	
Cash and cash equivalents—end of period	\$24,473	\$95,106	

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## Use of Restricted Cash and Cash Equivalents

In the three months ended March 31, 2011 and 2010, the \$7.3 million and \$10.8 million, respectively, of restricted cash and cash equivalents were used primarily to pay for construction activity at the Sabine Pass LNG terminal and to pay distributions to non-controlling interest owners of Cheniere Partners.

## Sale of Common Units by Restricted Affiliate

In January 2011, Cheniere Partners initiated an at-the-market program to sell up to 1.0 million common units, the proceeds from which would be used primarily to fund development costs associated with the liquefaction project. As of March 31, 2011, Cheniere Partners had received \$1.5 million in net proceeds from its sale of common units.

## Operating Cash Flow

Operating cash flow decreased from a \$3.9 million source of cash in the three months ended March 31, 2010 to a \$49.2 million use of cash in the three months ended March 31, 2011. This increased use of cash in operating activities is primarily a result of Cheniere Marketing's use of cash for the purchase of a LNG cargo in February 2011, but Cheniere Marketing not having received the cash proceeds from its inventory sales as of March 31, 2011. Cheniere Marketing received \$26.6 million in cash proceeds from its inventory sales in April 2011.

## Distributions to Non-Controlling Interest

In each of the three months ended March 31, 2011 and 2010, Cheniere Partners distributed \$6.6 million to its non-affiliated common unitholders.

## Debt Agreements

The following table (in thousands) and the explanatory paragraphs following the table summarize our various debt agreements as of March 31, 2011:

	Sabine Pass LNG, L.P.	Cheniere Energy Partners, L.P.	Other Cheniere Energy, Inc.	Consolidated Cheniere Energy, Inc.
Long-term debt (including related party)				
Senior Notes	\$2,215,500	\$—	\$—	\$2,215,500
2007 Term Loan	—	—	298,000	298,000
2008 Loans (including related party)	—	—	270,352	270,352
Convertible Senior Unsecured Notes	—	—	204,630	204,630
Total long-term debt	2,215,500	—	772,982	2,988,482
Debt discount				
Senior Notes (1)	(26,603 )	—	—	(26,603 )
Convertible Senior Unsecured Notes (2)	—	—	(21,758 )	(21,758 )
Total debt discount	(26,603 )	—	(21,758 )	(48,361 )
Long-term debt (including related party), net of discount	\$2,188,897	\$—	\$751,224	\$2,940,121

In September 2008, Sabine Pass LNG issued an additional \$183.5 million, par value, of 2016 Notes. The net (1)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)Effective as of January 1, 2009, we are required 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.

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### 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 March 31, 2011, 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 8—“Long-Term Debt and Long-Term Debt—Related Parties” of our Notes to Consolidated Financial Statements, we adopted on January 1, 2009 an accounting standard that requires issuers of certain convertible debt instruments to separately account for the liability component and the equity component represented by the embedded conversion option in a manner that will reflect that entity's nonconvertible debt borrowing rate when interest costs are recognized in subsequent periods. The fair value of the embedded conversion option at the date of issuance of the Convertible Senior Unsecured Notes was determined to be \$134.0 million and has been recorded as a debt discount to the Convertible Senior Unsecured Notes, with a corresponding adjustment to additional paid-in capital. At March 31, 2011, the unamortized debt discount to the Convertible Senior Unsecured Notes was \$21.8 million.

### Sabine Pass LNG Senior Notes

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

Under the Sabine Pass Indenture, except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied: there must be on deposit in an interest payment account an amount equal to one-sixth of the semi-annual interest payment multiplied by the number of elapsed months since the last semi-annual interest payment, and there must be on deposit in a permanent debt service reserve fund an amount equal to one semi-annual interest payment of approximately \$82.4 million. Distributions are permitted only after satisfying the foregoing funding requirements, a fixed charge coverage ratio test of 2:1 and other conditions specified in the Sabine Pass Indenture. During the three months ended March 31, 2011 and 2010, Sabine Pass LNG made distributions of \$75.2 million and \$106.7 million, respectively, after satisfying all the applicable conditions 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.

In May 2010, we sold our 30% interest in Freeport LNG to institutional investors for net proceeds of \$104.3 million. The net proceeds from the sale were used to prepay \$102.0 million of the 2007 Term Loan in May 2010. As of March 31, 2011 and December 31, 2010, \$298.0 million was outstanding under the 2007 Term Loan and were included in long-term debt on our Consolidated Balance Sheet.

## 2008 Loans

In August 2008, we entered into a credit agreement pursuant to which we obtained \$250.0 million in convertible term loans (“2008 Loans”). The 2008 Loans have a maturity date in 2018. The 2008 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 Loans are secured by Cheniere's rights and fees payable under management services agreements with Sabine Pass LNG and Cheniere Partners, by Cheniere's 10.9 million common units in Cheniere Partners, by the equity and assets of Cheniere's pipeline entities, by the equity of various other subsidiaries and certain other assets and subsidiary guarantees.

In June 2010, the 2008 Loans were amended to permit all funds on deposit in the TUA Reserve Account to be applied to the prepayment of the accrued interest on the loans outstanding under the 2008 Loans, with any remainder to be applied to the prepayment of the principal balance of such 2008 Loans. As a result, \$63.6 million from the TUA Reserve Account was used to prepay \$60.9 million of accrued interest and \$2.7 million of principal of the 2008 Loans.

The outstanding principal amount for Scorpion Capital Partners, LP, the holder of 3.4% of the 2008 Loans, is exchangeable for Cheniere's Series B Convertible Preferred Stock, par value \$0.0001 per share (“Series B Preferred Stock”), with voting rights limited to the equivalent of approximately 1.7 million shares of Cheniere common stock at March 31, 2011. 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 shares of Cheniere 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. The portion of outstanding principal amount for Scorpion Capital Partners is classified as related party long-term debt because it is an affiliate of one of Cheniere's directors.

As of March 31, 2011 and December 31, 2010, we classified \$9.2 million and \$8.9 million, respectively, as part of Long-Term Debt—Related Parties on our Consolidated Balance Sheets because a related party then held these portions of this debt.

## Issuances of Common Stock

During the three months ended March 31, 2011 and 2010, zero shares of our common stock were issued pursuant to the exercise of stock options. During the three months ended March 31, 2011 and 2010, we issued 2.2 million and 0.8 million shares of restricted stock to new and existing employees.

## Results of Operations

### Three Months Ended March 31, 2011 vs. Three Months Ended March 31, 2010

#### Overall Operations

Our consolidated net loss attributable to common stockholders increased \$4.6 million, from a net loss of \$35.2 million, or \$0.64 per share (basic and diluted), in the three months ended March 31, 2010 to a net loss of \$39.8 million, or \$0.60 per share basic and diluted, in the three months ended March 31, 2011. This increase in net loss was primarily due to increased development expense and decreased marketing and trading revenue, which were partially offset by decreased LNG terminal and pipeline operating expenses and decreased interest expense, net.

#### LNG Terminal and Pipeline Development Expense



LNG terminal and pipeline development expense increased \$7.7 million, from \$0.7 million in the three months ended March 31, 2010, to \$8.4 million in the three months ended March 31, 2011. This increase resulted from costs incurred to develop the liquefaction project at the Sabine Pass LNG terminal.

## Marketing and Trading Revenue

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

	Three Month Period Ended		
	March 31,		
	2011	2010	
Physical natural gas sales, net of costs	\$6,700	\$5,791	
Gain (loss) from derivatives	(606	) 6,361	
Other energy trading activities	2,355	(10	)
Total LNG and natural gas marketing gain	\$8,449	\$12,142	

Marketing and trading revenues decreased \$3.7 million, from \$12.1 million in the three months ended March 31, 2010 to \$8.4 million in the three months ended March 31, 2011. The \$3.7 million decrease in marketing and trading revenue is primarily a result of increased gain in the first quarter of 2010 on our derivative positions used to hedge the exposure to variability in expected future cash flows attributable to the future sale of LNG inventory. This increased derivative gain in 2010 was primarily a result of the change in market index prices and increased LNG inventory and the resulting increased derivative position in 2010 as compared to 2011. The decrease in marketing and trading revenue was partially offset by increased other energy trading revenue in the first quarter of 2011 resulting from from LNGCo revenue.

## LNG Terminal and Pipeline Operating Expense

Our LNG terminal and pipeline operating expenses include costs incurred to operate the Sabine Pass LNG terminal and the Creole Trail Pipeline.

Operating and maintenance expense decreased \$2.6 million, from \$12.8 million in the three months ended March 31, 2010, to \$10.2 million in the three months ended March 31, 2011. This decrease primarily resulted from decreased fuel costs in 2011. The Sabine Pass LNG terminal utilized less fuel in exporting its customers' LNG in 2011 as compared to the increased amount of fuel required by the Sabine Pass LNG terminal to re-gassify its customers' LNG and to send out their natural gas in 2010.

## Interest Expense, net

Interest expense, net of amounts capitalized, decreased \$3.0 million, from \$67.2 million in the three months ended March 31, 2010, to \$64.2 million in the three months ended March 31, 2011. This decrease in interest expense resulted from the reduction of our indebtedness during the second quarter of 2010.

## Off-Balance Sheet Arrangements

We entered into agreements with LNGCo to provide Cheniere Marketing with financial support to source more cargoes of LNG than it could source on a stand-alone basis. See [Note 4—“Variable Interest Entity”](#) of our Notes to Consolidated Financial Statements and [“Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—LNG and Natural Gas Marketing Business”](#) for further information related to our variable interest in LNGCo. As of March 31, 2011, Cheniere Marketing’s maximum exposure to loss relating to LNGCo was \$4.5 million. A portion of this \$4.5 million represents our fixed fee and gross margin receivable and is reported as Current Accounts and Interest Receivable, and the remaining portion represents our margin deposit

receivable and is reported as Other Non-Current Assets and is to be paid to Cheniere Marketing upon the completion or termination of the LNGCo Agreements.

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## Summary of Critical Accounting Policies and Estimates

The selection and application of accounting policies is an important process that has developed as our business activities have evolved and as the accounting rules have developed. Accounting rules generally do not involve a selection among alternatives but involve an implementation and interpretation of existing rules, and the use of judgment, to apply the accounting rules to the specific set of circumstances existing in our business. In preparing our consolidated financial statements in conformity with generally accepted accounting principles in the United States (“GAAP”), we endeavor to comply 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 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 terminals and related pipelines.

Generally, costs that are capitalized prior to a project meeting the criteria otherwise necessary for capitalization include: land and lease option costs that are capitalized as property, plant and equipment and certain permits that 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.

We capitalize interest and other related debt costs during the construction period of our LNG terminal. 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 reservation fees are recognized as revenue over the term of the respective TUAs. Advance capacity reservation fees are initially deferred and amortized over a 10-year period as a reduction of a customer’s regasification capacity reservation fees payable under its TUA. The retained 2% of LNG delivered for each customer’s account at the Sabine Pass LNG terminal is recognized as revenues as Sabine Pass LNG performs the services set forth in each customer’s TUA.

### Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ from the estimates and assumptions used.

Estimates used in the assessment of impairment of our long-lived assets, including goodwill, are the most significant of our estimates. There are numerous uncertainties inherent in estimating future cash flows of assets or business segments. The accuracy of any cash flow estimate is a function of judgment used in determining the amount of cash flows generated. As a result, cash flows may be different from the cash flows that we use to assess impairment of our assets. Management reviews its estimates of cash flows on an ongoing basis using historical experience and other

factors, including the current economic and commodity price environment. Significant negative industry or economic trends, including a significant decline in the market price of our common stock, reduced estimates of future cash flows for our business segments or disruptions to our business could lead to an impairment charge of our long-lived assets, including goodwill and other intangible assets. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. Projections of future operating results and cash flows may vary significantly from results. In addition, if our analysis results in an impairment of our long-lived assets, including goodwill, we may be required to record a charge to earnings in our consolidated financial statements during a period in which such impairment is determined to exist, which may negatively impact our results of operations.

Other items subject to estimates and assumptions include asset retirement obligations, valuation allowances for net deferred tax assets, valuations of derivative instruments, valuations of noncash compensation and collectability of accounts receivable and other assets.

As future events and their effects cannot be determined accurately, actual results could differ significantly from our estimates.

### LNG and Natural Gas Marketing

We have determined that our LNG and natural gas marketing business activities are energy trading and risk management activities for trading purposes and have elected to present these activities on a net basis on our Consolidated Statements of Operations. Marketing and trading revenues represent the margin earned on the purchase and transportation of LNG purchases and subsequent sales of natural gas to third parties. These energy trading and risk management activities include, but are not limited to: purchase of LNG and natural gas, transportation contracts, and derivatives. Below is a brief description of our accounting treatment of each type of energy trading and risk management activity and how we account for it:

#### Purchase of LNG and natural gas

The purchase value of LNG or natural gas inventory is recorded as an asset on our Consolidated Balance Sheets at the cost to acquire the product. Our inventory is subject to lower of cost or market adjustment each quarter. Recoveries of losses resulting from interim period lower of cost or market adjustments are made due to market price recoveries on the same inventory in the same fiscal year and are recognized as gains in later interim periods with such gains not exceeding previously recognized losses. Any adjustment to our inventory is recorded on a net basis as LNG and natural gas marketing revenue on our Consolidated Statements of Operations.

#### Transportation contracts

We enter into transportation contracts with respect to the transport of LNG or natural gas to a specific location for storage or sale. Transportation costs that are incurred during the purchase of LNG or natural gas are capitalized as part of the acquisition costs of the product. Transportation costs incurred to sell LNG or natural gas are recorded on a net basis as LNG and natural gas marketing revenue on our Consolidated Statements of Operations.

#### Derivatives

We use derivative instruments from time to time to hedge the cash flow variability of our commodity trading activities. We have disclosed certain information regarding these derivative positions, including the fair value of our derivative positions, in Note 9—“Financial Instruments” of our Notes to Consolidated Financial Statements. We record changes in the fair value of our derivative positions in our LNG and natural gas marketing revenue on our Consolidated Statements of Operations based on the value for which the derivative instrument could be exchanged between willing parties. To date, all of our derivative positions fair value determinations have been made by management using quoted prices in active markets for identical instruments. The ultimate fair value of our derivative instruments is uncertain, and we believe that it is possible that a change in the estimated fair value will occur in the near future as commodity prices change.

#### Regulated Natural Gas Pipelines

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. The economic effects of regulation can result in a regulated company recording as assets those costs that have been or are expected to be approved for recovery from customers, or recording as liabilities those amounts that are expected to be required to be

returned to customers, in a rate-setting process in a period different from the period in which the amounts would be recorded by an unregulated enterprise. Accordingly, we record assets and liabilities that result from the regulated rate-making process that may not be recorded under GAAP for non-regulated entities. We continually assess whether regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes and recent rate orders applicable to other regulated entities. Based on this continual assessment, we believe the existing regulatory assets are probable of recovery. These regulatory assets and liabilities are primarily classified in the Consolidated Balance Sheets as Other Assets and Other Liabilities. We periodically evaluate their applicability under GAAP, and consider factors such as regulatory changes and the effect of competition. If cost-based regulation ends or competition increases, we may have to reduce our asset balances to reflect a market basis less than cost and write-off the associated regulatory assets and liabilities.

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.

### Goodwill

Goodwill represents the excess of cost over fair value of the assets of businesses acquired. It is evaluated annually for impairment by first comparing our management’s estimate of the fair value of a reporting unit with its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, a computation of the implied fair value of the goodwill is compared with its related carrying value. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in the amount of the excess. We had goodwill of \$76.8 million at March 31, 2011 and December 31, 2010, attributable to our LNG terminal segment.

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. As discussed above regarding our use of estimates, our judgments and assumptions are inherent in our management’s estimate of future cash flows used to determine the estimate of the reporting unit’s fair value. The use of alternate judgments and/or assumptions could result in the recognition of different levels of impairment charges in the consolidated financial statements.

### Share-Based Compensation Expense

We recognize compensation expense for all share-based payments using the Black-Scholes-Merton option valuation model. 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.

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 three months ended March 31, 2011 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 15—“Share-Based Compensation” of our Notes to Consolidated Financial Statements).





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, from time to time we will enter into natural gas and foreign currency 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. The VaR is calculated using the Monte Carlo simulation method. At March 31, 2011 and December 31, 2010, the one-day VaR with a 95% confidence interval on our derivative positions were less than \$0.1 million and zero, respectively.

Our derivative positions as of March 31, 2011 primarily consisted of financial derivatives to take market positions associated with LNG and natural gas. As of March 31, 2011, we had entered into a total equivalent of 1.2 million British thermal units (“MMBtu”) of natural gas swaps through July 31, 2011, for which we will receive fixed prices of \$3.943 to \$4.562 per MMBtu. At March 31, 2011, the value of the natural gas swaps was a liability of \$0.1 million.

Item 4. Disclosure Controls and Procedures

We maintain a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports filed by us under the Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We may in the future be involved as a party to various legal proceedings, which are incidental to the ordinary course of business. We regularly analyze current information and, as necessary, provide accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management, as of March 31, 2011, there were no known threatened or pending legal matters that could reasonably be expected to have a material adverse impact on our consolidated results of operations, financial position or cash flows.

On March 7, 2011, Sabine Pass LNG, as well as Cheniere and other direct and indirect owners of Sabine Pass LNG, filed suit against Centerbridge Partners, L.P. and Centerbridge Holdings Partners, LLC (collectively, "Centerbridge"), asserting claims for defamation, business disparagement, and tortious interference with existing contracts. The case is currently pending in the 113th District Court of Harris County, Texas. Centerbridge describes itself as a significant holder of the Senior Notes. Sabine Pass LNG and its owners allege in the lawsuit that Centerbridge has published defamatory and disparaging statements about Sabine Pass LNG and its owners to third parties, including but not limited to Sabine Pass LNG's auditor and the trustee under the Senior Notes indenture. Sabine Pass LNG and its owners seek monetary damages from Centerbridge in an amount yet to be determined. Centerbridge has generally denied the claims made by Sabine Pass and its owners.

Item 6. Exhibits

- 10.1\* Amendment No. 2 to Amended and Restated Capacity Rights Agreement, dated April 1, 2011, by and between Sabine Pass LNG, L.P. and JPMorgan LNG Co.
  
- 10.2\* Amendment No. 3 to LNG Services Agreement, dated February 15, 2011, by and between Cheniere Marketing, LLC and JPMorgan LNG Co.
  
- 10.3\* Amendment No. 4 to LNG Services Agreement, dated April 1, 2011, by and between Cheniere Marketing, LLC and JPMorgan LNG Co.
  
- 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

\* Filed herewith.

\*\* Furnished herewith.

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: May 6, 2011