CHENIERE ENERGY INC
Form 10-Q
August 02, 2013

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013
OR
£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File No. 001-16383
CHENIERE ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	95-4352386
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

700 Milam Street, Suite 800	
Houston, Texas	77002
(Address of principal executive offices)	(Zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

239,002,438 shares of the registrant’s Common Stock, $0.003 par value, were issued and outstanding as of July 17, 2013.

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CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$396,921	$201,711
Restricted cash and cash equivalents	899,468	520,263
Accounts and interest receivable	26,935	3,486
LNG inventory	11,730	7,045
Prepaid expenses and other	18,847	16,058
Total current assets	1,353,901	748,563
Non-current restricted cash and cash equivalents	1,778,248	272,924
Property, plant and equipment, net	4,893,605	3,282,305
Debt issuance costs, net	351,830	220,949
Non-current derivative assets	81,762	—
Goodwill	76,819	76,819
Intangible LNG assets	4,366	4,356
Other	41,699	33,169
Total assets	$8,582,230	$4,639,085
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$20,790	$74,360
Accrued liabilities	491,424	58,737
Deferred revenue	26,585	26,540
Other	9,496	126
Total current liabilities	548,295	159,763
Long-term debt, net of discount	5,572,008	2,167,113
Non-current derivative liabilities	—	26,424
Long-term deferred revenue	19,500	21,500
Other non-current liabilities	3,677	2,680
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.0001 par value, 5.0 million shares authorized, none issued	—	—
Common stock, $0.003 par value		
Authorized: 480.0 million shares at June 30, 2013 and December 31, 2012, respectively		

Issued and outstanding: 238.9 million shares and 223.4 million shares at June 30, 2013 and December 31, 2012, respectively	718	671
Treasury stock: 7.4 million shares and 4.7 million shares at June 30, 2013 and December 31, 2012, respectively, at cost	(117,709)	(39,115)
Additional paid-in-capital	2,352,741	2,168,781
Accumulated deficit	(1,864,853)	(1,592,985)
Accumulated other comprehensive loss	(135)	(27,351)
Total stockholders' equity	370,762	510,001
Non-controlling interest	2,067,988	1,751,604
Total equity	2,438,750	2,261,605
Total liabilities and equity	$8,582,230	$4,639,085

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

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CHENIERE ENERGY, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
LNG terminal revenues	$66,425	$66,071	$132,486	$133,331
Marketing and trading revenues	416	(4,007)	(149)	(1,349)
Other	336	264	746	819
Total revenues	67,177	62,328	133,083	132,801
Operating costs and expenses				
LNG terminal operating expense	31,068	10,993	46,327	22,550
LNG terminal development expense	22,081	21,088	39,168	42,907
Depreciation, depletion and amortization	15,173	15,478	30,286	31,768
General and administrative expense	135,076	20,816	220,875	40,809
Other	57	74	159	166
Total operating costs and expenses	203,455	68,449	336,815	138,200
Loss from operations	(136,278)	(6,121)	(203,732)	(5,399)
Other income (expense)				
Interest expense, net	(42,016)	(55,864)	(82,278)	(114,215)
Loss on early extinguishment of debt	(80,510)	(14,593)	(80,510)	(15,100)
Derivative gain (loss), net	95,509	261	78,041	(575)
Other income	413	458	889	583
Total other expense	(26,604)	(69,738)	(83,858)	(129,307)
Loss before income taxes and non-controlling interest	(162,882)	(75,859)	(287,590)	(134,706)
Income tax provision	(1,022)	(144)	(942)	(150)
Net loss	(163,904)	(76,003)	(288,532)	(134,856)
Non-controlling interest	9,140	2,963	16,664	5,401
Net loss attributable to common stockholders	$(154,764)	$(73,040)	$(271,868)	$(129,455)
Net loss per share attributable to common stockholders - basic and diluted	$(0.71)	$(0.43)	$(1.26)	$(0.86)
Weighted average number of common shares outstanding - basic and diluted	217,397	171,001	216,520	151,054

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net loss	$(163,904)	$(76,003)	(288,532)	$(134,856)
Other comprehensive income (loss)				
Interest rate cash flow hedges				
Loss on settlements retained in other comprehensive income	—	—	(30)	—
Change in fair value of interest rate cash flow hedges	—	—	21,297	—
Losses reclassified into earnings as a result of discontinuance of cash flow hedge accounting	5,973	—	5,973	—
Foreign currency translation	16	(33)	(24)	(16)
Total other comprehensive income (loss)	5,989	(33)	27,216	(16)
Comprehensive loss	(157,915)	(76,036)	(261,316)	(134,872)
Comprehensive loss attributable to non-controlling interest	7,788	2,963	14,632	5,401
Comprehensive loss attributable to common stockholders	$(150,127)	$(73,073)	$(246,684)	$(129,471)

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES

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

	Total Stockholders' (Deficit) Equity								
	Common Stock		Treasury Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total (Deficit) Equity
Balance—December 31, 2012	223,397	$671	4,727	$(39,115)	$2,168,781	$(1,592,985)	$(27,351)	$1,751,604	$2,261,605
Issuances of stock	—	—	—	—	—	—	—	—	—
Issuances of restricted stock	18,230	55	—	—	(55)	—	—	—	—
Forfeitures of restricted stock	(117)	—	68	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	184,007	—	—	—	184,007
Treasury stock acquired	(2,645)	(8)	2,645	(78,594)	8	—	—	—	(78,594)
Foreign currency translation	—	—	—	—	—	—	(24)	—	(24)
Interest rate cash flow hedges	—	—	—	—	—	—	25,207	2,032	27,239
Loss attributable to non-controlling interest	—	—	—	—	—	—	—	(16,664)	(16,664)
Sale of common units to non-controlling interest	—	—	—	—	—	—	2,033	361,888	363,921
Distribution to non-controlling interest	—	—	—	—	—	—	—	(30,872)	(30,872)
Net loss	—	—	—	—	—	(271,868)	—	—	(271,868)
Balance—June 30, 2013	238,865	$718	7,440	$(117,709)	$2,352,741	$(1,864,853)	$(135)	$2,067,988	$2,438,750

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES

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

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities		
Net loss attributable to common stockholders	$(271,868)	$(129,455)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	30,286	31,768
Loss on early extinguishment of debt	80,510	15,097
Amortization of debt issuance and discount costs	4,943	14,287
Non-cash compensation	176,123	4,248
Non-cash derivative (gain) loss, net	(77,935)	1,227
Net loss attributable to non-controlling interest	(16,664)	(5,401)
Use of restricted cash and cash equivalents	55,842	21,978
Crest royalty	—	(25,664)
Other	(2,021)	(2,861)
Changes in operating assets and liabilities:		
Accounts and interest receivable	(23,250)	(1,681)
Accounts payable and accrued liabilities	25,173	(19,648)
LNG inventory, net	1,289	4,243
Deferred revenue	(1,955)	(3,480)
Prepaid expenses and other	(2,316)	405
Net cash used in operating activities	(21,843)	(94,937)
Cash flows from investing activities		
Investment in Cheniere Partners	(11,122)	(170,253)
LNG terminal and pipeline costs, net	(1,271,365)	(38,985)
Use of restricted cash and cash equivalents	1,580,268	214,174
Other	(8,815)	(8,381)
Net cash provided by (used in) investing activities	288,966	(3,445)
Cash flows from financing activities		
Proceeds from Sabine Pass Liquefaction Senior Notes, net	3,012,500	—
Proceeds from CTPL Credit Facility, net	391,978	—
Proceeds from sale of common units by Cheniere Partners	364,795	8,793
Proceeds from 2013 Liquefaction Credit Facilities	100,000	—
Proceeds from sale of common stock, net	—	819,686
Investment in restricted cash and cash equivalents	(3,520,638)	(455,033)
Repurchases and prepayments of debt	—	(571,884)
Debt issuance and deferred financing costs	(228,882)	(5,530)
Repayment of 2012 Liquefaction Credit Facility	(100,000)	—
Distributions to non-controlling interest	(30,872)	(16,330)
Purchase of treasury shares	(71,913)	(1,893)
Other	11,119	(702)
Net cash used in financing activities	(71,913)	(222,893)

Net increase (decrease) in cash and cash equivalents	195,210	(321,275)
Cash and cash equivalents—beginning of period	201,711	459,160
Cash and cash equivalents—end of period	$396,921	$137,885

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

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

NOTE 1—ORGANIZATION AND NATURE OF OPERATIONS

Cheniere Energy, Inc., a Delaware corporation, is a Houston-based energy company primarily engaged in liquefied natural gas ("LNG") related businesses. We own and operate the Sabine Pass liquefied natural gas ("LNG") terminal in Louisiana through our 57.9% ownership interest in and management agreements with Cheniere Energy Partners, L.P. ("Cheniere Partners") (NYSE MKT: CQP), which is a publicly traded partnership that we created in 2007. The Sabine Pass LNG terminal is located on the Sabine Pass deep water shipping channel less than four miles from the Gulf Coast. The Sabine Pass LNG terminal has regasification facilities owned by Cheniere Partners' wholly owned subsidiary, Sabine Pass LNG, L.P. ("Sabine Pass LNG") that includes existing infrastructure of five LNG storage tanks with capacity of approximately 16.9 Bcfe, two docks that can accommodate vessels of up to 265,000 cubic meters and vaporizers with regasification capacity of approximately 4.0 Bcf/d.

Cheniere Partners is developing natural gas liquefaction facilities (the "Liquefaction Project") at the Sabine Pass LNG terminal adjacent to the existing regasification facilities through a wholly owned subsidiary, Sabine Pass Liquefaction, LLC ("Sabine Pass Liquefaction"). We plan to construct up to six Trains (each in sequence, "Train 1", "Train 2", "Train 3", "Train 4", "Train 5" and "Train 6"), which are in various stages of development. Each Train is expected to have nominal production capacity of approximately 4.5 million tonnes per annum ("mtpa").

In May 2013, we sold our ownership interests in Cheniere Creole Trail Pipeline, L.P. ("CTPL") and Cheniere Pipeline GP Interests, LLC (collectively, "the Creole Trail Pipeline Business") to Cheniere Partners for $480.0 million and were reimbursed $13.9 million for certain expenditures incurred prior to the closing date. Concurrent with the Creole Trail Pipeline Business sale closing, we acquired 12.0 million Class B units from Cheniere Partners for aggregate consideration of $180.0 million pursuant to a unit purchase agreement between Cheniere Partners and Cheniere Class B Units Holdings, LLC, our wholly owned subsidiary. As a result of the two transactions, we received net cash of $313.9 million.

Approximately one-half of the receiving capacity at the Sabine Pass LNG terminal is contracted to two multinational energy companies. The other half is held by Sabine Pass Liquefaction for use in connection with the Liquefaction Project. One of our wholly owned subsidiaries, Cheniere Marketing, LLC ("Cheniere Marketing"), markets LNG on its own behalf, and through a series of agreements, has the right to utilize the regasification capacity held by Sabine Pass Liquefaction during the construction phase of the Liquefaction Project. Cheniere Marketing also holds a 104 million MMBtu per year LNG sale and purchase agreement ("SPA") with Sabine Pass Liquefaction under which it has the right to purchase LNG from Sabine Pass Liquefaction for a tiered incentive-based fee.

We are also in various stages of developing other projects, including LNG facilities and associated pipelines, each of which, among other things, will require acceptable commercial and financing arrangements before we make a final investment decision.

Unless the context requires otherwise, references to the "Company", "Cheniere", "we", "us" and "our" refer to Cheniere Energy, Inc. and its subsidiaries, including our publicly traded subsidiary partnership, Cheniere Partners.

NOTE 2—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.

Results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2013.

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.

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

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, 2012, as amended by Amendment No. 1 on Form 10-K/A.

NOTE 3—RESTRICTED CASH AND CASH EQUIVALENTS

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

Sabine Pass LNG Senior Notes Debt Service Reserve

Sabine Pass LNG, L.P. ("Sabine Pass LNG") has consummated private offerings of an aggregate principal amount of $1,665.5 million, before discount, of Senior Secured Notes due 2016 (the "2016 Notes") and $420.0 million of Senior Secured Notes due 2020 (the "2020 Notes") (See Note 8—"Long-Term Debt"). Collectively, the 2016 Notes and the 2020 Notes are referred to as the "Sabine Pass LNG Senior Notes." Under the indentures governing the Sabine Pass LNG Senior Notes (the "Sabine Pass LNG Indentures"), except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied, including that there must be on deposit in an interest payment account an amount equal to one-sixth of the semi-annual interest payment multiplied by the number of elapsed months since the last semi-annual interest payment and there must be on deposit in a permanent debt service reserve fund an amount equal to one semi-annual interest payment. 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 LNG Indentures.

As of June 30, 2013 and December 31, 2012, we classified $15.0 million and $17.4 million, respectively, as current restricted cash and cash equivalents for the payment of interest due within twelve months. As of June 30, 2013 and December 31, 2012, we classified the permanent debt service reserve fund of $76.1 million as non-current restricted cash and cash equivalents. These cash accounts are controlled by a collateral trustee, and, therefore, are shown as restricted cash and cash equivalents on our Consolidated Balance Sheets.

Liquefaction Reserve

In July 2012, Sabine Pass Liquefaction closed on a $3.6 billion senior secured credit facility (the "2012 Liquefaction Credit Facility"). In February and April 2013, Sabine Pass Liquefaction entered into $2.0 billion, before premium, of Senior Secured Notes due in 2021 (the "2021 Sabine Pass Liquefaction Senior Notes") and $1.0 billion of Senior Secured Notes due in 2023 (the "2023 Sabine Pass Liquefaction Senior Notes" and collectively with the 2021 Sabine Pass Liquefaction Senior Notes, the "Sabine Pass Liquefaction Senior Notes"). In May 2013, Sabine Pass Liquefaction closed four credit facilities aggregating $5.9 billion (collectively the "2013 Liquefaction Credit Facilities"), that amended and restated the 2012 Liquefaction Credit Facility. See Note 8—"Long-Term Debt". Under the terms and conditions of the 2012 Liquefaction Credit Facility and the 2013 Liquefaction Credit Facilities, Sabine Pass Liquefaction is required to deposit all cash received into collateral accounts controlled by a collateral trustee. Therefore, all of Sabine Pass Liquefaction's cash and cash equivalents are shown as restricted cash and cash equivalents on our Consolidated Balance Sheets. As of June 30, 2013 and December 31, 2012, we classified $498.7 million and $75.1 million, respectively, as current restricted cash and cash equivalents held by Sabine Pass Liquefaction, and $1,591.1 million and $196.3 million, respectively, as non-current restricted cash and cash equivalents held by Sabine Pass Liquefaction.

CTPL Reserve

As of June 30, 2013, we classified $19.4 million and $110.5 million as current and non-current restricted cash and cash equivalents, respectively, held by CTPL as such funds are to be used to pay for modifications to the Creole Trail Pipeline in order to enable bi-directional natural gas flow and interest during the construction.

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

Other Restricted Cash and Cash Equivalents

As of June 30, 2013 and December 31, 2012, $355.3 million and $419.3 million, respectively, of current restricted cash and cash equivalents were held by Sabine Pass LNG and Cheniere Partners that are considered restricted to Cheniere. As of June 30, 2013 and December 31, 2012, $11.1 million and $8.5 million, respectively, had been classified as current restricted cash and cash equivalents on our Consolidated Balance Sheets due to various other contractual restrictions. As of both June 30, 2013 and December 31, 2012, $0.5 million had been classified as non-current restricted cash and cash equivalents due to various other contractual restrictions on our Consolidated Balance Sheets.

NOTE 4—PROPERTY, PLANT AND EQUIPMENT

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

	June 30, 2013	December 31, 2012
LNG terminal costs		
LNG terminal	$2,233,776	$2,233,595
LNG terminal construction-in-process	2,909,974	1,269,798
LNG site and related costs, net	5,394	5,398
Accumulated depreciation	(263,977)	(235,275)
Total LNG terminal costs, net	$4,885,167	$3,273,516
Oil and gas properties, successful efforts method		
Proved	$3,933	$3,917
Accumulated depreciation, depletion and amortization	(3,279)	(3,209)
Total oil and gas properties, net	$654	$708
Fixed assets		
Computer and office equipment	$7,563	$7,014
Furniture and fixtures	4,163	4,057
Computer software	13,012	13,012
Leasehold improvements	7,239	6,989
Other	3,362	2,927
Accumulated depreciation	(27,555)	(25,918)
Total fixed assets, net	$7,784	$8,081
Property, plant and equipment, net	$4,893,605	$3,282,305

LNG Terminal Costs

Depreciation expense related to the Sabine Pass LNG terminal totaled $14.3 million for each of the three months ended June 30, 2013 and 2012. Depreciation expense related to the Sabine Pass LNG terminal totaled $28.6 million and $28.5 million for the six months ended June 30, 2013 and 2012, respectively.

In June 2012, we satisfied the criteria for capitalizing costs associated with Trains 1 and 2 of the Liquefaction Project, and in May 2013, we satisfied the criteria for capitalizing costs associated with Trains 3 and 4 of the Liquefaction Project. For the three months ended June 30, 2013, we capitalized $59.4 million of interest expense related to the construction of the Liquefaction Project. For the six months ended June 30, 2013, we capitalized $94.7 million of interest expense related to the construction of the Liquefaction Project.

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

Fixed Assets

Depreciation expense related to our fixed assets totaled $0.8 million and $0.7 million for the three months ended June 30, 2013 and 2012, respectively. Depreciation expense related to our fixed assets totaled $1.6 million and $2.7 million for the six months ended June 30, 2013 and 2012, respectively.

NOTE 5—NON-CONTROLLING INTEREST

We have consolidated Cheniere Partners because we have a controlling interest in the partnership. Therefore, the partnerships' financial statements are consolidated in our consolidated financial statements and we record the partnerships' other partners' equity as a non-controlling interest. The following table sets forth the components of our non-controlling interest balance since inception attributable to third-party investors' interests at June 30, 2013 (in thousands):

Net proceeds from Cheniere Partners' issuance of common units (1)	$719,591
Net proceeds from CLNGH's sale of Cheniere Partners common units (2)	203,946
Distributions to Cheniere Partners' non-controlling interest	(188,222)
Net proceeds from Cheniere Partners' issuance of Class B units (3)	1,387,339
Non-controlling interest share of loss of Cheniere Partners	(54,666)
Non-controlling interest at June 30, 2013	$2,067,988

(1) In March and April 2007, we and Cheniere Partners completed a public offering of 15.5 million Cheniere Partners common units (the "Cheniere Partners IPO"). Cheniere Partners received $98.4 million in net proceeds from the issuance of its common units to the public.

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 December 31, 2011, Cheniere Partners had sold 0.5 million common units with net proceeds of $9.0 million. During the year ended December 31, 2012, Cheniere Partners sold 0.5 million common units with net proceeds of $11.1 million.

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

In September 2012, Cheniere Partners sold 8.0 million common units in an underwritten public offering at a price of $25.07 per common unit for net cash proceeds of $194.0 million.

In March 2013, Cheniere Partners sold 17.6 million common units in a registered direct offering to institutional investors at a price of $20.75 per common unit for net proceeds of $364.8 million.

(2) In conjunction with the Cheniere Partners IPO, Cheniere LNG Holdings, LLC ("CLNGH") sold a portion of the Cheniere Partners common units held by it to the public, realizing net proceeds of $203.9 million, which included $39.4 million of net proceeds realized once the underwriters exercised their option to purchase an additional 2.0 million common units from Holdings.

(3) In May 2012, Cheniere Partners, Cheniere and Blackstone CQP Holdco LP ("Blackstone") entered into a unit purchase agreement (the "Blackstone Unit Purchase Agreement") whereby Cheniere Partners agreed to sell to Blackstone in a private placement 100.0 million Class B units of Cheniere Partners ("Class B units") at a price of $15.00 per Class B unit. Cheniere Partners had issued and sold all 100.0 million Class B units to Blackstone as of December 31, 2012. See Note 6—"Variable Interest Entity".

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

NOTE 6—VARIABLE INTEREST ENTITY

Cheniere Energy Partners

Cheniere Partners is a master limited partnership formed by us to own and operate the Sabine Pass LNG terminal and related assets. As of June 30, 2013, we owned 57.9% of Cheniere Partners in the form of 12.0 million common units, 45.3 million Class B units, 135.4 million subordinated units and a 2% general partner interest. Cheniere Energy Partners GP, LLC ("Cheniere Partners GP"), our wholly owned subsidiary, is the general partner of Cheniere Partners. In May 2012, Cheniere Partners, Cheniere and Blackstone entered into the Blackstone Unit Purchase Agreement whereby Cheniere Partners agreed to sell to Blackstone in a private placement 100.0 million Class B units at a price of $15.00 per Class B unit. In August 2012, all conditions to funding were met and Blackstone purchased its initial 33.3 million Class B units, and as of December 31, 2012, Blackstone had purchased the remaining 66.7 million Class B units. At initial funding, the board of directors of Cheniere Partners GP was modified to include three directors appointed by Blackstone, four directors appointed by us and four independent directors mutually agreed by Blackstone and us and appointed by us. In addition, we have provided Blackstone with a right to maintain one board seat on our board of directors. A quorum consists of a majority of all directors, including at least two directors appointed by Blackstone, two directors appointed by us and two independent directors. Blackstone will no longer be entitled to appoint directors in the event that Blackstone's ownership in Cheniere Partners is less than: (i) 20% of outstanding common units, subordinated units and Class B units, and (ii) 50.0 million Class B units.

As a result of contractual changes in the governance of Cheniere Partners GP in connection with the Blackstone Unit Purchase Agreement, we have determined that Cheniere Partners GP is a variable interest entity and that we, as the holder of the equity at risk, do not have a controlling financial interest due to the rights held by Blackstone. However, we continue to consolidate Cheniere Partners as a result of Blackstone's right to maintain one board seat on our board of directors which creates a de facto agency relationship between Blackstone and us. GAAP requires that when a de facto agency relationship exists, one of the members of the de facto agency relationship must consolidate the variable interest entity based on certain criteria. As a result, we consolidate Cheniere Partners in our consolidated financial statements.

NOTE 7—ACCRUED LIABILITIES

As of June 30, 2013 and December 31, 2012, accrued liabilities consisted of the following (in thousands):

	June 30, 2013	December 31, 2012
Accrued interest expense and related fees	$73,919	$16,327
Payroll	26,830	6,369
LNG liquefaction costs	375,143	27,919
LNG terminal costs	1,047	977
Other LNG terminal sites and facilities	2,383	—
Other accrued liabilities	12,102	7,145
Accrued liabilities	$491,424	$58,737

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
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NOTE 8—LONG-TERM DEBT

As of June 30, 2013 and December 31, 2012, our long-term debt consisted of the following (in thousands):

	June 30, 2013	December 31, 2012
Long-term debt		
2016 Notes	$1,665,500	$1,665,500
2020 Notes	420,000	420,000
2021 Sabine Pass Liquefaction Senior Notes	2,000,000	—
2023 Sabine Pass Liquefaction Senior Notes	1,000,000	—
2012 Liquefaction Credit Facility	—	100,000
2013 Liquefaction Credit Facilities	100,000	—
CTPL Credit Facility	400,000	—
Total long-term debt	5,585,500	2,185,500
Long-term debt premium (discount)		
2016 Notes	(16,040)	(18,387