

CHENIERE ENERGY INC
Form S-3/A
October 20, 2005
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As filed with the Securities and Exchange Commission on October 19, 2005

Registration No. 333-127269

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

CHENIERE ENERGY, INC.

(Exact Name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
717 Texas Avenue, Suite 3100
Houston, Texas 77002
(713) 659-1361

95-4352386
(I.R.S. Employer
Identification No.)
Zurab S. Kobiashvili
Senior Vice President
and General Counsel

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Cheniere Energy, Inc.

717 Texas Avenue, Suite 3100

Houston, Texas 77002

(713) 659-1361

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copy to:

Geoffrey K. Walker

Andrews Kurth LLP

600 Travis, Suite 4200

Houston, Texas 77002

(713) 220-4200

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement, as determined in light of market conditions and other factors.

If the only securities being registered on this Form are to be offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling security holders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated October 19, 2005

Prospectus

CHENIERE ENERGY, INC.

\$325,000,000

2.25% Convertible Senior Notes due 2012

and Shares of Common Stock Issuable Upon Conversion of the Notes

2,000,000 Shares of Common Stock, Par Value \$0.003 per Share

The securities to be offered and sold using this prospectus are:

our 2.25% Convertible Senior Notes due 2012, which we issued in a private placement in July 2005,

shares of our common stock, \$0.003 par value, or common stock, issuable upon conversion of the notes, and

shares of our common stock, or BPU Shares, that were issued in a private placement in February 2005 to BPU Associates, LLC, or BPU, in a private placement exempt from registration under the Securities Act of 1933, as amended, or the Securities Act.

These securities will be offered and sold by the selling security holders named in this prospectus or in any supplement to this prospectus. See Selling Security Holders beginning on page 24.

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The notes bear interest at the rate of 2.25% per year, accruing from July 27, 2005. We will pay interest on the notes on February 1 and August 1 of each year, beginning February 1, 2006. The notes will mature on August 1, 2012.

Your notes are convertible into shares of our common stock (or cash or a combination of cash and shares of common stock, if we so elect) at an initial conversion rate of 28.2326 shares of our common stock per \$1,000 principal amount of notes (which represents a conversion price of approximately \$35.42 per shares of common stock) subject to adjustments. In addition, at any time on or before the 11th trading day preceding the maturity date, we may irrevocably elect to satisfy our conversion obligation with respect to the principal amount of the notes to be converted in cash, with any remaining amount to be satisfied, at our option, in cash, common stock or a combination of both.

Your notes are redeemable by us on or before August 1, 2012, in whole or in part, at a redemption price equal to \$1,000 in cash per \$1,000 principal amount of notes to be redeemed, plus any accrued and unpaid interest (including additional interest, if any) and an additional coupon make-whole payment (as described in the indenture governing the notes) if (i) in the previous ten trading days ending on the trading day before the date of the mailing of the provisional redemption notice the volume weighted average price of our common stock exceeds 150% of the conversion price for at least five consecutive trading days, and (ii) the shelf registration statement covering resales of the notes and the common stock issuable upon conversion of the notes is effective and available for use for the 30 days following the provisional redemption date, unless registration is no longer required.

The notes are subject to repurchase by us for cash at the option of the holders upon the occurrence of a fundamental change (as described in the indenture governing the notes), at a repurchase price in cash equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest (including additional interest), if any, to, but not including, the repurchase date.

The notes will be our general unsubordinated unsecured obligations, ranking equally in right of payment to all of our existing and future unsubordinated unsecured indebtedness, and senior in right of payment to any of our future indebtedness that is expressly subordinated to the notes. The notes will be junior in right of payment to all of our secured indebtedness to the extent of the value of the collateral securing those obligations and structurally subordinated in right of payment to all indebtedness and liabilities of our subsidiaries, including trade credit.

We have entered into a registration rights agreement with the initial purchaser of the notes, pursuant to which we agreed to file a shelf registration statement, of which this prospectus is a part, with the U.S. Securities and Exchange Commission, or SEC, covering resales of the notes and the common stock issuable upon conversion of the notes. If we fail to comply with certain of our obligations under that registration rights agreement, additional interest will be payable on the notes and the common stock issuable upon conversion of the notes.

We have also entered into a piggy-back registration rights agreement with BPU covering resales of the BPU Shares, pursuant to which we agreed to provide prompt notice to BPU of our intention to register any of our common stock (other than pursuant to a registration on Form S-4 or Form S-8). Consistent with that agreement, we gave written notice to BPU of our intention to register the common stock issuable upon conversion of the notes in a shelf registration statement, of which this prospectus is a part, with the SEC. As permitted by the piggy-back registration rights agreement, BPU requested that we include the BPU Shares in the proposed registration statement.

There is no established market for the notes. The selling security holders may sell the securities offered by this prospectus from time to time on any exchange on which the securities are listed on terms to be negotiated with buyers. They may also sell the securities in private sales or through dealers or agents. The selling security holders may sell the securities at prevailing market prices or at prices negotiated with buyers. The selling security holders will be responsible for any commissions due to brokers, dealers or agents. We will not receive any of the proceeds from the sale by the selling security holders of the securities offered by this prospectus.

Our common stock is listed on the American Stock Exchange under the symbol LNG.

The principal executive offices of Cheniere are located at 717 Texas Avenue, Suite 3100, Houston, Texas 77002.

You should carefully review and consider the information under the heading Risk Factors beginning on page 5 and Cautionary Statement Regarding Forward-Looking Statements referred to on page iii of the prospectus.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

The date of this prospectus is _____, 2005.

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You should rely only on the information contained in this prospectus, any prospectus supplement and the documents we have incorporated by reference. We have not authorized anyone else to give you different information. These securities are not being offered in any state or other jurisdiction that does not permit the offer. We will disclose any material changes in our affairs in an amendment to this prospectus, a prospectus supplement or a future filing with the SEC incorporated by reference in this prospectus.

As used in this prospectus, the terms Cheniere, we, us and our refer to Cheniere Energy, Inc. and its subsidiaries unless otherwise indicated.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC using a shelf registration process. This means the securities described in this prospectus may be offered and sold using this prospectus from time to time as described in the Plan of Distribution. You should carefully read this prospectus and the information described under the heading Where You Can Find More Information and Incorporation of Certain Documents by Reference. Under no circumstances should the delivery to you of this prospectus or any offering or sales made pursuant to this prospectus create any implication that the information contained in this prospectus is correct as of any time after the date of this prospectus.

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**WHERE YOU CAN FIND MORE INFORMATION AND
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

We file annual, quarterly and current reports, proxy statements and other information with the SEC pursuant to the Exchange Act of 1934, as amended, or the Exchange Act. You may read and copy any of these documents at the public reference room of the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings are also available to the public from commercial documents retrieval services and at the Internet website maintained by the SEC at <http://www.sec.gov>. In addition, you may read our reports, proxy and information statements and other information at the American Stock Exchange, or AMEX, at 86 Trinity Place, New York, New York 10006.

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose in this prospectus important information to you by referring you to other documents that have been or will be filed with the SEC. The information below is incorporated in this prospectus by reference and is an important part of this prospectus, except where any of the information has been modified or superseded by the information in this prospectus or in information incorporated by reference in this prospectus. In addition, information that we file on or after the date of this prospectus with the SEC will automatically be incorporated in this prospectus and update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC (File No. 001-16383) under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until all of the securities offered by this prospectus are sold:

Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed on March 10, 2005, as amended by Amendment No. 1 thereto, filed on March 16, 2005.

Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2005, filed on May 6, 2005.

Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2005, filed on August 5, 2005.

Current Reports on Form 8-K filed on January 12, 2005, January 24, 2005, February 8, 2005 (two), February 28, 2005, March 2, 2005, March 10, 2005, March 14, 2005, March 18, 2005, April 4, 2005, April 7, 2005, April 13, 2005, April 25, 2005, May 25, 2005, June 30, 2005, July 22, 2005, July 25, 2005, July 27, 2005, July 29, 2005, August 2, 2005, August 11, 2005, September 1, 2005 (two), September 6, 2005, September 7, 2005 and October 7, 2005.

We will provide you, including any beneficial owner, without charge, a copy of the documents incorporated by reference in this prospectus. We will not provide a copy of the exhibits to documents incorporated by reference, unless those exhibits are specifically incorporated by reference into those documents. You may obtain a copy of the documents incorporated by reference in this prospectus by requesting them in writing or by telephone from:

Cheniere Energy, Inc.

717 Texas Avenue, Suite 3100

Houston, Texas 77002

Attn: Don A. Turkleson, Chief Financial Officer

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(713) 659-1361

If you have any other questions regarding us, please contact our Vice-President Investor Relations in writing at Cheniere Energy, Inc., 717 Texas Avenue, Suite 3100, Houston, Texas 77002, Contact: David E. Castaneda, or by telephone at (713) 265-0202 or e-mail at Info@Cheniere.com.

You can access electronic copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and all amendments to those reports, free of charge, on our website at <http://www.cheniere.com>. Access to those electronic filings is available as soon as reasonably practicable after filing with, or furnishing to, the SEC. We make our website content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference in this prospectus.

You should rely only on the information provided or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of the shares in any state or other jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus, in any prospectus supplement or in any document incorporated by reference herein is accurate as of any date other than the date on the front of those documents. We will disclose any material changes in our affairs in an amendment to this prospectus, a prospectus supplement or a future filing with the SEC incorporated by reference in this prospectus.

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CAUTIONARY STATEMENT

REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains certain statements that are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act and the Exchange Act. All statements, other than statements of historical facts, included herein or incorporated herein by reference are forward-looking statements. Included among forward-looking statements are, among other things:

statements that we expect to commence or complete construction of each of our proposed liquefied natural gas, or LNG, receiving terminals by certain dates, or at all;

statements that we expect to receive Draft Environmental Impact Statements or Final Environmental Impact Statements from the Federal Energy Regulatory Commission, or FERC, by certain dates, or at all, or that we expect to receive an order from FERC authorizing us to construct and operate proposed LNG receiving terminals by a certain date, or at all;

statements regarding future levels of domestic natural gas production or consumption or the future levels of LNG imports into North America, regardless of the source of such information, or the transportation or other infrastructure or prices related to natural gas, LNG or other hydrocarbon products;

statements regarding any financing transactions or arrangements, or ability to enter into such transactions, whether on the part of Cheniere or at the project level, including financing arrangements for which we may have received commitment letters;

statements relating to the construction of our proposed LNG receiving terminals, including statements concerning the engagement of any engineering, procurement and construction, or EPC, contractor and the anticipated terms and provisions of any agreement with an EPC contractor, and anticipated costs related thereto;

statements regarding any terminal use agreement, or TUA, or other agreement 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 our total regasification capacity that is, or may become subject to, TUAs;

statements regarding possible equity or asset purchases or sales, including of interests in current or future projects;

statements that our proposed LNG receiving terminals and pipelines, when completed, will have certain characteristics, including amounts of regasification and storage capacities, a number of storage tanks and docks, pipeline deliverability and the number of pipeline interconnections, if any;

statements regarding possible expansions of the currently projected size of any of our proposed LNG receiving terminals;

statements regarding our business strategy, our business plans or any other plans, forecasts or objectives any or all of which are subject to change;

statements regarding any SEC or other governmental or regulatory inquiry or investigation;

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statements regarding anticipated legislative, governmental, regulatory, administrative or other public body actions, requirements, permits or decisions; and

any other statements that relate to nonhistorical or future information.

These forward-looking statements are often identified by the use of terms and phrases such as achieve, anticipate, believe, estimate, expect, forecast, plan, project, propose, strategy and similar terms and phrases. Although we believe that the expectations reflected in these forward-looking statements are

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reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus.

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 the heading **Risk Factors** beginning on page 5 of this prospectus and those risks discussed in our Annual Report on Form 10-K for the year ended December 31, 2004, as amended by Amendment No. 1 thereto, which is incorporated by reference into this prospectus. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. These forward-looking statements are made as of the date of this prospectus. We assume no obligation to update or revise these forward-looking statements or provide reasons why actual results may differ.

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SUMMARY

The following summary may not contain all the information that may be important to you and is qualified in its entirety by the more detailed information appearing elsewhere or incorporated by reference in this prospectus. You should read the entire prospectus, especially the risks set forth under the heading Risk Factors, as well as the information to which we refer you and the information incorporated by reference, before making an investment decision.

CHENIERE ENERGY, INC.

We are a Houston-based company engaged primarily in the development of an LNG receiving terminal business and related LNG business opportunities centered on the U.S. Gulf Coast. We are also engaged in oil and gas exploration, development and exploitation activities in the Gulf of Mexico.

Our LNG receiving terminal projects include facilities to receive deliveries of LNG from LNG ships, to store LNG temporarily, to process LNG to return it to a gaseous state and to deliver gas to pipelines for transportation to purchasers. We own interests in four limited partnerships that are developing LNG receiving terminals:

Freeport LNG Development, L.P., or Freeport LNG, in which we own a 30% interest, is developing an LNG receiving terminal on Quintana Island, near Freeport, Texas;

Sabine Pass LNG, L.P., or Sabine Pass LNG, in which we own a 100% interest, is developing an LNG receiving terminal near Sabine Pass in Cameron Parish, Louisiana;

Corpus Christi LNG, L.P., or Corpus Christi LNG, in which we own a 100% interest, is developing an LNG receiving terminal near Corpus Christi, Texas; and

Creole Trail LNG, L.P. or Creole Trail LNG, in which we own a 100% interest, is developing an LNG receiving terminal at the mouth of the Calcasieu Channel in Cameron Parish, Louisiana.

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The Offering

This prospectus covers the resale of up to \$325,000,000 aggregate principal amount of the notes, the shares of our common stock issuable upon conversion of the notes and the BPU Shares. We issued and sold a total of \$325,000,000 aggregate principal amount of the notes on July 27, 2005 in a private placement to Credit Suisse First Boston LLC, which we refer to as the initial purchaser. We issued the BPU Shares to BPU on February 8, 2005 in a private placement. The summary below describes the principal terms of the notes, the common stock issuable upon conversion of the notes and the BPU Shares. Certain of the terms and conditions described below are subject to important limitations and exceptions. The Description of the Notes section of this prospectus contains a more detailed description of the terms of the notes.

Issuer	Cheniere Energy, Inc.
Selling Security Holders	The securities to be offered and sold using this prospectus will be offered and sold by the selling security holders named in this prospectus or in any supplement to this prospectus. See the section entitled Selling Security Holders for more information.
Notes Offered	\$325,000,000 aggregate principal amount of 2.25% convertible senior notes due 2012.
Common Stock Offered	The BPU Shares and the shares of our common stock, par value \$0.003 per share, issuable upon conversion of the notes.
Maturity Date	August 1, 2012.
Interest Payment Dates	February 1 and August 1 of each year, beginning February 1, 2006.
Interest	2.25% per annum, payable semiannually in arrears. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months.
Guarantees	The notes are not guaranteed. If, however, we issue debt securities, and any of our subsidiaries guarantee such debt securities, such subsidiaries will also be required to guarantee the notes.
Ranking	The notes are our unsubordinated unsecured obligations and: <ul style="list-style-type: none"> rank equal in right of payment with all of our other existing and future unsubordinated unsecured obligations; rank junior in right of payment to any of our future secured obligations to the extent of the value of the collateral securing such obligations; and are structurally subordinate in right of payment to all existing and future obligations of our subsidiaries, except those subsidiaries that may in the future guarantee the notes.

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The notes are effectively subordinated to a substantial portion (if not all) of the indebtedness incurred to finance construction and other costs of our LNG terminals and other projects.

Right to Convert

The notes are convertible into shares of our common stock at any time prior to the close of business on the business day immediately preceding the maturity date, redemption or repurchase at an initial conversion rate of 28.2326 shares of our common stock per \$1,000 principal amount of notes (which represents a conversion price of approximately \$35.42 per

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share of common stock) subject to such adjustments as described under Description of the Notes Conversion of Notes.

Upon conversion, we will have the right to deliver, in lieu of shares of our common stock, cash or a combination of cash and shares of our common stock, in each case calculated as described under Description of the Notes Conversion of Notes Settlement Upon Conversion. At any time on or prior to the 11th trading day preceding the maturity date, we may irrevocably elect to satisfy our conversion obligation with respect to the principal amount of the notes to be converted in cash, with any remaining amount to be satisfied, at our option, in cash, common stock or a combination of both. See Description of the Notes Conversion of Notes Right to Irrevocably Elect Net Share Settlement Upon Conversion.

Except as described in Description of the Notes Conversion of Notes, upon any conversion, holders will not receive any separate cash payment representing accrued and unpaid interest, or additional interest, if any.

If holders convert their notes in connection with a fundamental change, as described in this prospectus, they may also receive a make-whole premium on the notes that they convert. See Description of the Notes Conversion of Notes Payment Upon Conversion Upon a Fundamental Change and Description of the Notes Determination of the Make-Whole Premium.

Provisional Redemption

We may redeem the notes, in whole or in part, at any time on or before August 1, 2012, at a redemption price equal to \$1,000 in cash per \$1,000 principal amount of notes to be redeemed, plus any accrued and unpaid interest (including additional interest, if any) and the additional coupon make-whole payment described below if:

in the previous ten trading days ending on the trading day before the date of the mailing of the provisional redemption notice the volume weighted average price of our common stock exceeds 150% of the conversion price for at least five consecutive trading days, and

the shelf registration statement covering resales of the notes and the common stock issuable upon conversion of the notes is effective and available for use and is expected to remain effective and available for use for the 30 days following the provisional redemption date, unless registration is no longer required.

Upon any provisional redemption, we will make an additional coupon make-whole payment in cash with respect to the notes called for redemption. The coupon make-whole amount per \$1,000 principal amount of notes will be equal to the present value of all remaining scheduled payments of interest on the notes to be redeemed through August 1, 2012. See Description of the Notes Provisional Redemption.

Fundamental Change

If a fundamental change occurs, each holder of the notes may require us to repurchase for cash all or a portion of such holder's notes at a

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price equal to 100% of their principal amount, plus accrued and unpaid interest (including additional interest), if any, up to, but not including, the date of repurchase.

Make-Whole Premium Upon a Fundamental Change In the event of a fundamental change, we may be required to pay a make-whole premium on notes converted in connection with the fundamental change. The make-whole premium will be payable in shares of our common stock, or the consideration into which our common stock has been converted or exchanged in connection with such fundamental change, on the repurchase date for the notes after the fundamental change.

The amount of the make-whole premium, if any, will be based on the stock price (as described in this prospectus) and the effective date of the fundamental change. A description of how the make-whole premium will be determined and a table showing the make-whole premium that would apply at various stock prices and fundamental change effective dates is set forth under Description of the Notes Determination of the Make-Whole Premium.

Sinking Fund None.

No Proceeds We will not receive any proceeds from the sale by any selling security holder of the notes, our common stock issuable upon conversion of the notes or the BPU Shares.

Registration Rights Under a registration rights agreement that we entered into with the initial purchaser in connection with the initial placement of the notes, we have filed a shelf registration statement, of which this prospectus is a part, with the SEC. If we fail to comply with certain of our obligations under the registration rights agreement, additional interest will be payable on the notes. We have also filed the shelf registration statement, of which this prospectus is a part, pursuant to a piggy-back registration rights agreement that we entered into with BPU.

Trustee and Paying Agent The Bank of New York

Book-Entry Form The notes were issued in book-entry form and are represented by global certificate on behalf of The Depository Trust Company, or DTC. Any notes sold pursuant to this prospectus will be represented by another such global certificate. Beneficial interests in any of the notes are shown on, and transfers are effected only through, records maintained by DTC or its nominee, and any such interest may not be exchanged for certificated securities, except in limited circumstances.

Listing and Trading Our common stock is listed on the AMEX under the trading symbol LNG. The notes will not be listed on any securities exchange or included in any automated quotation system.

Governing Law The indenture and the notes are governed by, and construed in accordance with, the laws of the State of New York.

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RISK FACTORS

Investing in the notes and our common stock involves numerous risks. Before deciding to invest in the notes or our common stock, you should carefully consider the following risk factors and those risks discussed in our Annual Report on Form 10-K for the year ended December 31, 2004 and our Current Report on Form 8-K filed with the SEC on July 22, 2005, which are incorporated by reference into this prospectus. We may encounter risks in addition to those described below. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may also impair or adversely affect our business, results of operation, financial condition and prospects. In such case, you may lose all or part of your original investment in the notes or our common stock.

Risks Relating to Our Financial Matters

We have not been profitable historically, and we are currently experiencing negative operating cash flow. Our ability to achieve profitability and generate positive operating cash flow in the future is subject to significant uncertainty.

From our inception, we have incurred losses, and we will likely continue to incur operating losses and experience negative operating cash flow during the next several years. We have not yet started the construction of two of our planned LNG receiving terminals. We do not anticipate that our LNG receiving operations will generate positive operating cash flow until at least one of our planned facilities is built, which we expect will not be until 2008 at the earliest. Although we may commence operations, revenues under any particular TUA may not commence for up to one year or more after operations at the related facility commence. We will continue to incur significant capital and operating expenditures while we develop our planned LNG receiving terminals. We do not anticipate that our current oil and gas exploration activities, which are limited in scope, or advance sales of regasification capacity at our planned LNG receiving terminals will generate sufficient funds to cover these expenditures. As a result, we expect to continue to have operating losses and negative operating cash flow on a quarterly and an annual basis over the next several years. Any delays beyond the expected development periods for our planned LNG receiving terminals would prolong, and could increase the level of, our operating losses and negative operating cash flow. Our future liquidity may also be affected by (i) the timing of construction financing availability in relation to the incurrence of construction costs and other outflows and (ii) the anticipated timing of receipt of cash flow under TUAs and other sales of capacity in relation to the incurrence of projected project operating expenses. However, many factors (including factors beyond our control) could result in a disparity between liquidity sources and cash needs, including factors such as construction delays and breaches of agreements. Our ability to generate positive operating cash flow and achieve profitability in the future is dependent on our ability to successfully complete our LNG development projects and market their capacity, and our ability to do so is subject to a number of risks, including those discussed below.

We may need additional funds which, if available, could result in increased interest expense or additional dilution to our stockholders. If additional funds are needed and are not available, our business could be negatively impacted.

As of June 30, 2005, we had \$171.8 million in cash and cash equivalents, exclusive of \$136,000 in restricted cash. We plan to raise additional capital either through public or private equity or debt financing primarily to finance the execution of our anticipated strategic initiatives. Other than the Sabine Pass Credit Facility, we currently do not have any bank credit facility or other working capital credit line under which we may borrow funds for working capital or other general corporate purposes.

If funds are raised through the issuance of equity securities, the percentage ownership of our then-current stockholders will be reduced and the holders of new equity securities may have rights, preferences or privileges senior to those of the holders of our common stock. If additional funds are raised through a bank credit facility or the issuance of debt securities, the holder of such indebtedness would have rights senior to the

rights of common stockholders, and the terms of such indebtedness could impose restrictions on our operations. If we need to raise additional funds, we may not be able to do so on terms favorable to us, or at all. If we cannot successfully

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execute our operating plan or raise adequate funds on acceptable terms, we may not be able to continue to fund our operations, which would cause our business to be unsuccessful.

Our ability to develop our planned LNG receiving terminals is contingent on our ability to obtain financing. If we are unable to do so, we may be unable to implement or complete our business plan and our business may ultimately be unsuccessful.

We currently estimate that the cost of completing the four LNG development projects will exceed \$3 billion, before financing costs. Our cost estimate is subject to change due to such items as cost overruns, change orders under existing or future EPC agreements and changes in commodity prices (particularly steel). To fund these development projects, we will have to pursue a variety of sources of financing, including most, if not all, of the following:

debt and/or equity financing at the project level;

debt and/or equity financing by Cheniere; and

asset sales, to the extent permitted, and joint venture arrangements by Cheniere and/or our subsidiaries and partnerships.

Our ability to obtain these types of financing will depend, in part, on factors beyond our control, such as the status of various capital and industry markets at the time financing is sought and such markets' view at such time of our industry and prospects. Accordingly, we may not be able to obtain financing on terms that are acceptable to us, if at all, even if our development projects are otherwise proceeding on schedule. In addition, our ability to obtain some types of financing may be dependent upon our ability to obtain other types of financing. For example, project-level debt financing is typically contingent upon a significant equity capital contribution from the project sponsor. As a result, even if we are able to identify potential project-level lenders, we may still have to obtain another form of external financing for us to fund an equity capital contribution to the project subsidiary. Any project-level debt financing will also typically be conditioned upon our prior receipt of commitments for a portion of projected regasification capacity under long-term TUAs, and our ability to fund the projects will likely be subject to the achievement of additional milestones in our project financing. A failure to obtain financing at any point in the development process could cause us to delay or fail to complete our business plan, which could cause our business to be unsuccessful.

Even if we are able to obtain financing, the terms required may adversely affect our business.

In order to obtain many types of financing, we may have to accept terms that are disadvantageous to us or that may have an adverse impact on our current or future business, operations or financial condition. For example:

borrowings or debt issuances may subject us to certain restrictive covenants, including covenants restricting our ability to raise additional capital or cross-defaults to our other indebtedness;

borrowings or debt issuances at the project level may subject the project entity to certain restrictive covenants, including covenants restricting its ability to make distributions to us or limiting our ability to sell our interests in such entity;

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additional sales of interests in our LNG projects would reduce our interest in future revenues once the LNG receiving terminals commence operations;

the prepayment of terminal use fees by, or a business development loan from, prospective customers would reduce future revenues once the LNG receiving terminals commence operations;

offerings of our equity securities would cause dilution of our common stock;

sales of oil and gas exploration prospects would reduce potential future revenues from our exploration and production activities;

our ability to borrow funds under some project financing arrangements will likely be subject to our satisfying the conditions and covenants in the financing and the construction schedule agreed to at the

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time such arrangement is entered into. If circumstances change, we may need to seek waivers of conditions or covenants under our financing arrangements to prevent defaults thereunder and acceleration thereof, which we might not be able to obtain on a timely basis, or at all; and

we may be required to make equity contributions before we can borrow under certain financing arrangements, such as the \$822 million credit facility, or Sabine Pass Credit Facility, entered into in February 2005 by Sabine Pass LNG with an initial syndicate of 47 financial institutions.

We may not be able to refinance the Sabine Pass Credit Facility when it becomes due.

We may not be able to refinance the Sabine Pass Credit Facility at maturity because of a variety of factors, including changes in our financial condition, changes in the financial condition of Sabine Pass LNG or its affiliates, or changes in the capital markets or in the LNG market. If we are unable to refinance the Sabine Pass Credit Facility, we may be unable to pay the principal of and interest on the Sabine Pass Credit Facility, and the lenders under the Sabine Pass Credit Facility may have to attempt to obtain such payment through foreclosure on their collateral.

Risks Relating to Our LNG Receiving Terminal Development Business

The construction of our planned LNG receiving terminals is subject to a number of development risks, which could cause cost overruns and delays or prevent completion of one or more of our LNG development projects.

Key factors that may affect the timing of, and our ability to complete, our LNG development projects include, but are not limited to:

the issuance and/or continued availability of necessary permits, licenses and approvals from FERC, other governmental agencies and third parties as are required to construct and operate the facilities;

the availability of sufficient debt financing and equity financing, both on the part of Cheniere and at the project level;

our ability to obtain satisfactory long-term TUAs with anchor tenant customers for a portion of the capacity at each proposed LNG receiving terminal and for these customers to perform under those TUAs during the terms thereof and to maintain their creditworthiness;

our ability to enter into a satisfactory agreement with an EPC contractor for each facility and to maintain good relationships with these contractors, and the ability of those EPC contractors to perform their obligations under EPC agreements, including those related to scheduling, technical specifications and warranties, and to maintain their creditworthiness;

site development difficulties, including change orders, cost overruns, construction delays and changes in commodity prices (particularly steel);

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unanticipated changes in domestic and international market demand for natural gas or the supply of LNG, which will depend, in part, on supplies of, and prices for, alternative energy sources;

competition with other domestic and international LNG receiving terminals;

commercial arrangements for pipelines and related equipment to transport natural gas from each LNG receiving terminal;

local and general economic conditions;

catastrophes, such as explosions, fires and product spills;

resistance in the local community to the development of LNG receiving terminals;

labor disputes; and

weather conditions.

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Delays in the construction of an LNG receiving terminal beyond the estimated development periods, as well as cost overruns, could increase the cost of completion beyond the amounts currently estimated in our capital budget, which could require us to obtain additional sources of financing to fund our operations until the LNG receiving terminal is developed (which could cause further delays). Any delay in completion of the LNG receiving terminals may also cause a delay in the receipt of revenues projected from operation of the facilities or cause a loss of our TUA customers in the event of significant delays. Delays could also erode our competitive advantage of being one of the first companies to develop new LNG receiving terminals. As a result, any significant construction delay, whatever the cause, could have a material adverse effect on our business, results of operations, financial condition and prospects.

Failure to obtain and maintain approvals and permits from governmental and regulatory agencies with respect to the development of our LNG receiving terminal business would have a detrimental effect on us and our LNG projects.

The design, construction and operation of LNG receiving terminals and the transportation of LNG and natural gas are all highly regulated activities. FERC approval under Section 3 of the Natural Gas Act, or NGA, as well as several other material governmental and regulatory approvals and permits, is required in order to construct and operate our proposed LNG receiving terminals. Although we have obtained NGA Section 3 authorization to construct and operate the Freeport, Sabine Pass and Corpus Christi LNG receiving terminals, we have not yet received an NGA Section 3 FERC order authorizing construction of our Creole Trail project. We also have not obtained several other material governmental and regulatory approvals and permits required in order to construct and operate our proposed LNG receiving terminals. We have no control over the outcome of the review and approval process. We do not know whether or when any such approvals or permits can be obtained, or whether or not any third parties will attempt to interfere with our ability to obtain and maintain such permits or approvals. If we are unable to obtain and maintain the necessary approvals and permits, we may not be able to recover our investment in the projects. Failure to obtain and maintain any of these approvals and permits could have a material adverse effect on our business, results of operations, financial condition and prospects.

We face competition in the LNG receiving terminal development business from competitors with far greater resources and the potential for overcapacity in the LNG receiving terminal marketplace.

Many companies are considering the development of infrastructure in the domestic LNG market, including, without limitation, major oil and gas companies such as ExxonMobil, ConocoPhillips Company, or ConocoPhillips, Royal Dutch/Shell and Chevron Corporation, or Chevron. Other energy companies such as Sempra, Tractebel, McMoRan Exploration, AES, Excelerate Energy and other public and private companies have also proposed developing LNG receiving facilities, both onshore and offshore. Almost all of our competitors have longer operating histories, more development experience, greater name recognition, larger staffs and substantially greater financial, technical and marketing resources than we do. The superior resources that these competitors have available to deploy could allow them to surpass us in terms of the status of their LNG receiving terminal development projects. Among other things, these competitors may not have to rely on external financing.

Industry analysts have predicted that if all of the proposed LNG receiving terminals in North America that have been announced by developers were actually built, there would likely be substantial excess capacity for such terminals in the future. Accordingly, there is a substantial risk that slower-paced LNG receiving terminal development projects may never be completed. Any perception in the LNG receiving terminal marketplace that we may be unable to complete our proposed LNG receiving terminals, because competing projects are further along in their development or otherwise, could have a material adverse effect on our business, results of operations, financial condition and prospects.

In addition, our proposed LNG receiving terminals will likely continue to face competition when and if they are completed, including competition from North American sources of natural gas and onshore, offshore and shipboard LNG regasification facilities. Our proposed Sabine Pass, Corpus Christi and Creole Trail LNG

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receiving terminals will also compete with the Freeport LNG receiving terminal in which we own a minority interest. If the number of LNG receiving terminals built outstrips demand for natural gas from those terminals, the excess capacity will likely lead to a decrease in the prices that we will be able to obtain for uncommitted amounts of our regasification services. Because of the substantial likelihood that we will have significant debt service obligations, any such price decreases would impact us more severely than our competitors with greater financial resources. Accordingly, potential overcapacity in the LNG receiving terminal marketplace, or a significant decline in natural gas prices, could have a material adverse effect on our business, results of operations, financial condition and prospects.

Cyclical changes in the demand for LNG regasification capacity may result in reduced operating revenues and may cause operating losses in the future.

The economics of LNG terminal operations could be subject to cyclical swings, reflecting alternating periods of under-supply and over-supply of LNG importation capacity and available natural gas, principally due to the combined impact of several factors, including:

significant additions in regasification capacity, whether through LNG receiving terminal construction or expansion, take several years to become operational and are therefore necessarily based upon estimates of future demand for natural gas;

when demand for natural gas increases, competition to build new LNG regasification capacity may heighten because new capacity may be more profitable, with a lower marginal cost of production;

when LNG regasification capacity significantly increases, the competition for the receipt and regasification of LNG increases;

under-supplies at the foreign supply source of LNG also increase competition among LNG terminals and may cause LNG receiving terminal operators to compete aggressively on price in order to maximize capacity utilization;

when demand for LNG receiving capacity decreases, the high fixed cost structure of capital-intensive LNG receiving terminals causes producers and transporters of natural gas to compete aggressively on price in order to maximize capacity utilization;

substantial increases in the receiving capacity of LNG receiving terminals will substantially increase the potential supply of natural gas to U.S. markets, which could substantially amplify the downswings related to the over-supply of available natural gas;

supplies of, and prices for, alternative energy sources such as coal, oil, nuclear, hydroelectric, wind and solar energy cause changes in the demand for natural gas;

as competition in natural gas is focused on price, being a low-cost supplier is critical to profitability. This would favor the construction of larger LNG receiving facilities, which maximize economies of scale, but also could cause an increase in capacity that can outstrip the existing growth in demand for natural gas; and

cyclical trends in general business and economic conditions cause changes in the demand for natural gas.

The increases and decreases in the available supply of natural gas as a result of changes in available LNG receiving capacity available could materially adversely affect our business, results of operations, financial condition and prospects.

Failure of imported LNG to become a competitive source of energy in the United States could have a detrimental effect on our ability to implement and complete our business plan.

In the United States, due mainly to an abundant supply of natural gas, imported LNG has not historically been a major energy source. Our business plan is based on the belief that LNG can be produced and delivered to the United States at a lower cost than the cost to produce some domestic supplies of natural gas, or other

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alternative energy sources. Through the use of improved exploration technologies, additional sources of natural gas may be discovered in North America, which would further increase the available supply of natural gas at a lower cost than LNG. In addition to natural gas, LNG also competes with other sources of energy,