CHENIERE ENERGY INC
Form 10-Q
July 30, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
CHENIERE ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	001-16383	95-4352386
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

700 Milam Street, Suite 1900	
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 ¨
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 x 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 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 x	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 ¨ No x
As of July 21, 2015, the issuer had 236,573,788 shares of Common Stock outstanding.

CHENIERE ENERGY, INC.
TABLE OF CONTENTS

DEFINITIONS

As commonly used in the liquefied natural gas industry, to the extent applicable, and as used in this quarterly report, the following terms have the following meanings:

Common Industry and Other Terms

Bcf/d	billion cubic feet per day
Bcf/yr	billion cubic feet per year
Bcfe	billion cubic feet equivalent
DOE	U.S. Department of Energy
EPC	engineering, procurement and construction
FERC	Federal Energy Regulatory Commission
FTA countries	countries with which the United States has a free trade agreement providing for national treatment for trade in natural gas
GAAP	generally accepted accounting principles in the United States
Henry Hub	the final settlement price (in USD per MMBtu) for the New York Mercantile Exchange's Henry Hub natural gas futures contract for the month in which a relevant cargo's delivery window is scheduled to begin
LIBOR	London Interbank Offered Rate
LNG	liquefied natural gas, a product of natural gas consisting primarily of methane (CH_4) that is in liquid form at near atmospheric pressure
MMBtu	million British thermal units, an energy unit
mtpa	million tonnes per annum
non-FTA countries	countries without a free trade agreement providing for national treatment for trade in natural gas and with which trade is permitted
SEC	Securities and Exchange Commission
SPA	LNG sale and purchase agreement
Train	a refrigerant compressor train used in the industrial process to convert natural gas into LNG
TUA	terminal use agreement

Abbreviated Organizational Structure

The following diagram depicts our abbreviated organizational structure as of June 30, 2015, including our ownership of certain subsidiaries, and the references to these entities used in this quarterly report:
Unless the context requires otherwise, references to “Cheniere,” the “Company,” “we,” “us” and “our” refer to Cheniere Energ Inc. (NYSE MKT: LNG) and its consolidated subsidiaries, including our publicly traded subsidiaries, Cheniere Partners (NYSE MKT: CQP) and Cheniere Holdings (NYSE MKT: CQH).

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
CHENIERE ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$1,470,207	$1,747,583
Restricted cash	684,073	481,737
Accounts and interest receivable	6,746	4,419
LNG inventory	13,954	4,294
Other current assets	88,382	20,844
Total current assets	2,263,362	2,258,877
Non-current restricted cash	739,145	550,811
Property, plant and equipment, net	13,799,113	9,246,753
Debt issuance costs, net	637,301	242,323
Non-current derivative assets	21,363	11,744
Goodwill	76,819	76,819
Other non-current assets	222,399	186,356
Total assets	$17,759,502	$12,573,683
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$23,799	$13,426
Accrued liabilities	565,832	169,129
Deferred revenue	26,671	26,655
Derivative liabilities	23,937	23,247
Other current liabilities	600	18
Total current liabilities	640,839	232,475
Long-term debt, net	14,854,794	9,806,084
Non-current deferred revenue	11,500	13,500
Other non-current liabilities	37,013	20,107
Commitments and contingencies (see Footnote 11)		
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, 2015 and December 31, 2014		
Issued and outstanding: 236.6 million shares and 236.7 million shares at June 30, 2015 and December 31, 2014, respectively	711	712

Treasury stock: 10.7 million shares and 10.6 million shares at June 30, 2015 and December 31, 2014, respectively, at cost	(298,926)	(292,752)
Additional paid-in-capital	3,014,483	2,776,702
Accumulated deficit	(3,035,043)	(2,648,839)
Total stockholders’ deficit	(318,775)	(164,177)
Non-controlling interest	2,534,131	2,665,694
Total equity	2,215,356	2,501,517
Total liabilities and equity	$17,759,502	$12,573,683

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

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,	
	2015	2014	2015	2014
Revenues				
LNG terminal revenues	$67,905	$66,841	$135,486	$133,260
Marketing and trading revenues (losses)	(706)	324	(44)	981
Other	826	480	952	954
Total revenues	68,025	67,645	136,394	135,195
Operating costs and expenses				
General and administrative expense	107,856	67,720	165,873	141,528
Operating and maintenance expense	18,877	29,409	56,030	43,096
Depreciation expense	20,154	17,298	37,923	32,773
Development expense	16,609	15,263	32,705	27,375
Other	109	90	441	170
Total operating costs and expenses	163,605	129,780	292,972	244,942
Loss from operations	(95,580)	(62,135)	(156,578)	(109,747)
Other income (expense)				
Interest expense, net	(85,486)	(43,789)	(145,098)	(84,059)
Loss on early extinguishment of debt	(7,281)	(114,335)	(96,273)	(114,335)
Derivative gain (loss), net	45,755	(60,178)	(80,181)	(94,859)
Other income (expense)	283	(189)	655	121
Total other expense	(46,729)	(218,491)	(320,897)	(293,132)
Loss before income taxes and non-controlling interest	(142,309)	(280,626)	(477,475)	(402,879)
Income tax benefit (provision)	507	(84)	(171)	(176)
Net loss	(141,802)	(280,710)	(477,646)	(403,055)
Less: net loss attributable to non-controlling interest	(23,307)	(78,782)	(91,442)	(103,317)
Net loss attributable to common stockholders	$(118,495)	$(201,928)	$(386,204)	$(299,738)
Net loss per share attributable to common stockholders—basic and diluted	$(0.52)	$(0.90)	$(1.71)	$(1.34)
Weighted average number of common shares outstanding—basic and diluted	226,481	223,602	226,405	223,406

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES

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

	Total Stockholders' Equity							
	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Non-controlling Interest	Total Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2014	236,745	$712	10,596	$(292,752)	$2,776,702	$(2,648,839)	$ 2,665,694	$2,501,517
Exercise of stock options	57	—	—	—	1,914	—	—	1,914
Issuances of restricted stock	16	—	—	—	—	—	—	—
Forfeitures of restricted stock	(138)	(1)	14	—	1	—	—	—
Share-based compensation	—	—	—	—	37,411	—	—	37,411
Shares repurchased related to share-based compensation	(80)	—	80	(6,174)	—	—	—	(6,174)
Excess tax benefit from share-based compensation	—	—	—	—	129	—	—	129
Equity portion of issuance of convertible notes, net	—	—	—	—	198,326	—	—	198,326
Loss attributable to non-controlling interest	—	—	—	—	—	—	(91,442)	(91,442)
Distributions to non-controlling interest	—	—	—	—	—	—	(40,121)	(40,121)
Net loss	—	—	—	—	—	(386,204)	—	(386,204)
Balance at June 30, 2015	236,600	$711	10,690	$(298,926)	$3,014,483	$(3,035,043)	$ 2,534,131	$2,215,356

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, 2015	2014
Cash flows from operating activities		
Net loss	$(477,646)	$(403,055)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on early extinguishment of debt	96,273	114,335
Depreciation expense	37,923	32,773
Amortization of debt issuance costs and discount	24,900	5,639
Share-based compensation	66,378	62,013
Non-cash LNG inventory write-downs	17,366	14,978
Total losses on derivatives, net	80,198	94,859
Net cash used for settlement of derivative instruments	(88,934)	(17,437)
Other	29,133	(1,826)
Changes in restricted cash for certain operating activities	(55,410)	82,927
Changes in operating assets and liabilities:		
Accounts and interest receivable	(2,396)	461
Accounts payable and accrued liabilities	42,101	22,856
LNG inventory	(27,026)	(14,376)
Deferred revenue	(1,985)	(1,955)
Other, net	(35,830)	(3,533)
Net cash used in operating activities	(294,955)	(11,341)
Cash flows from investing activities		
Property, plant and equipment, net	(4,294,814)	(1,352,400)
Use of restricted cash for the acquisition of property, plant and equipment	4,183,620	1,303,011
Other	(101,836)	(5,894)
Net cash used in investing activities	(213,030)	(55,283)
Cash flows from financing activities		
Proceeds from issuances of long-term debt	5,205,000	2,584,500
Investment in restricted cash	(4,518,880)	(2,282,903)
Debt issuance and deferred financing costs	(411,149)	(85,367)
Distributions and dividends to non-controlling interest	(40,121)	(39,644)
Repayments of long-term debt	—	(177,000)
Payments related to tax withholdings for share-based compensation	(6,174)	(9,218)
Proceeds from exercise of stock options	1,914	6,265
Other	19	(964)
Net cash provided by (used in) financing activities	230,609	(4,331)
Net decrease in cash and cash equivalents	(277,376)	(70,955)
Cash and cash equivalents—beginning of period	1,747,583	960,842
Cash and cash equivalents—end of period	$1,470,207	$889,887

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

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

NOTE 1—BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements of Cheniere have been prepared in accordance with 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. Certain reclassifications have been made to conform prior period information to the current presentation. The reclassifications had no effect on our overall consolidated financial position, results of operations or cash flows.

Results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2015.

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, 2014.

NOTE 2—RESTRICTED CASH

Restricted cash consists of funds that are contractually restricted as to usage or withdrawal and have been presented separately from cash and cash equivalents on our Consolidated Balance Sheets. Restricted cash includes the following:

SPLNG Senior Notes Debt Service Reserve

SPLNG has consummated private offerings of an aggregate principal amount of $1,665.5 million, before discount, of 7.50% Senior Secured Notes due 2016 (the "2016 SPLNG Senior Notes") and $420.0 million of 6.50% Senior Secured Notes due 2020 (the "2020 SPLNG Senior Notes" and collectively with the 2016 SPLNG Senior Notes, the "SPLNG Senior Notes"). Under the indentures governing the SPLNG Senior Notes (the "SPLNG Indentures"), except for permitted tax distributions, SPLNG may not make distributions until certain conditions are satisfied, including: (1) 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 (2) 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 SPLNG Indentures.

As of both June 30, 2015 and December 31, 2014, we classified $15.0 million as current restricted cash for the payment of current interest due. As of both June 30, 2015 and December 31, 2014, we classified the permanent debt service reserve fund of $76.1 million as non-current restricted cash. These cash accounts are controlled by a collateral trustee; therefore, these amounts are shown as restricted cash on our Consolidated Balance Sheets.

SPL Reserve

During 2013, SPL entered into four credit facilities aggregating $5.9 billion (collectively, the "2013 SPL Credit Facilities"). In June 2015, SPL entered into four credit facilities aggregating $4.6 billion (collectively, the "2015 SPL Credit Facilities"), which replaced the 2013 SPL Credit Facilities. Under the terms and conditions of the 2015 SPL Credit Facilities, SPL is required to deposit all cash received into reserve accounts controlled by a collateral trustee.

The usage or withdrawal of such cash is restricted to the payment of liabilities related to the natural gas liquefaction facilities in Cameron Parish, Louisiana (the “SPL Project”); therefore, these amounts are shown as restricted cash on our Consolidated Balance Sheets.

During 2013, SPL issued an aggregate principal amount of $2.0 billion, before premium, of 5.625% Senior Secured Notes due 2021 (the “2021 SPL Senior Notes”), $1.0 billion of 6.25% Senior Secured Notes due 2022 (the “2022 SPL Senior Notes”) and $1.0 billion of 5.625% Senior Secured Notes due 2023 (the “Initial 2023 SPL Senior Notes”). During 2014, SPL issued an aggregate principal amount of $2.0 billion of 5.75% Senior Secured Notes due 2024 (the “2024 SPL Senior Notes”) and additional 5.625% Senior Secured Notes due 2023 (the “Additional 2023 SPL Senior Notes” and collectively with the Initial 2023 SPL Senior Notes, the “2023 SPL Senior Notes”) in an aggregate principal amount of $0.5 billion, before premium. In March 2015, SPL issued an aggregate principal amount of $2.0 billion of 5.625% Senior Secured Notes due 2025 (the “2025 SPL Senior Notes” and collectively with the 2021 SPL Senior Notes, the 2022 SPL Senior Notes, the 2023 SPL Senior Notes and the 2024 SPL Senior

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

Notes, the "SPL Senior Notes"). The use of cash proceeds from the SPL Senior Notes is restricted to the payment of liabilities related to the SPL Project; therefore, these amounts are shown as restricted cash on our Consolidated Balance Sheets. See Note 7—Long-Term Debt for additional details about our long-term debt.

As of June 30, 2015 and December 31, 2014, we classified $340.5 million and $155.8 million, respectively, as current restricted cash held by SPL for the payment of current liabilities, including interest payments, related to the SPL Project and $656.0 million and $457.1 million, respectively, as non-current restricted cash held by SPL for future SPL Project construction costs.

CTPL Reserve

In May 2013, CTPL entered into a $400.0 million term loan facility (the "CTPL Term Loan"). As of June 30, 2015 and December 31, 2014, we classified $19.0 million and $24.9 million, respectively, as current restricted cash held by CTPL for the payment of current liabilities and zero and $11.3 million, respectively, as non-current restricted cash held by CTPL because such funds may only be used for modifications of the 94-mile Creole Trail Pipeline, which interconnects the Sabine Pass LNG terminal with a number of large interstate pipelines, in order to enable bi-directional natural gas flow, and for the payment of interest during construction of such modifications. The restricted cash reserved to pay interest during construction is controlled by a collateral agent, and can only be released by the collateral agent upon satisfaction of certain terms and conditions. CTPL is required to pay annual fees to the administrative and collateral agents.

CCH Reserve

In May 2015, CCH entered into a credit facility agreement for an aggregate commitment of approximately $11.5 billion (the "2015 CCH Credit Facility"), comprising approximately $8.4 billion linked to the first stage ("Stage 1") of the natural gas liquefaction and export facility and pipeline facility near Corpus Christi, Texas (the "CCL Project"), which includes Trains 1 and 2, two LNG storage tanks, one complete marine berth and second partial berth and all of the project's necessary infrastructure facilities, and the Corpus Christi Pipeline, a 23-mile, 48" natural gas pipeline that will interconnect the Corpus Christi LNG terminal with several interstate and intrastate natural gas pipelines (the "Corpus Christi Pipeline") and approximately $3.1 billion linked to the second stage ("Stage 2") of the CCL Project, which includes Train 3, one LNG storage tank and the completion of the second partial berth. Under the terms and conditions of the 2015 CCH Credit Facility, all cash reserved to pay interest during construction is controlled by a collateral agent. These funds can only be released by the collateral agent upon satisfaction of certain terms and conditions and are classified as restricted on our Consolidated Balance Sheets. CCH is required to pay annual fees to the administrative and collateral agents. As of June 30, 2015, we classified $92.0 million and zero as current restricted cash and non-current restricted cash, respectively, held by CCH.

Other Restricted Cash

As of June 30, 2015 and December 31, 2014, $196.0 million and $250.1 million, respectively, of cash was held by SPLNG, Cheniere Partners and Cheniere Holdings that was restricted to Cheniere. In addition, as of June 30, 2015 and December 31, 2014, $21.6 million and $35.9 million, respectively, had been classified as current restricted cash, and as of June 30, 2015 and December 31, 2014, $7.0 million and $6.3 million, respectively, had been classified as non-current restricted cash on our Consolidated Balance Sheets due to various other contractual restrictions.

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

NOTE 3—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of LNG terminal costs and fixed assets and other, as follows (in thousands):

	June 30, 2015	December 31, 2014
LNG terminal costs		
LNG terminal	$2,466,559	$2,269,429
LNG terminal construction-in-process	11,495,832	7,155,046
LNG site and related costs, net	9,391	9,395
Accumulated depreciation	(381,285)	(350,497)
Total LNG terminal costs, net	13,590,497	9,083,373
Fixed assets and other		
Computer and office equipment	10,145	7,464
Furniture and fixtures	16,620	10,733
Computer software	64,320	46,882
Leasehold improvements	38,047	36,067
Land	59,087	55,522
Other	53,624	36,881
Accumulated depreciation	(33,227)	(30,169)
Total fixed assets and other, net	208,616	163,380
Property, plant and equipment, net	$13,799,113	$9,246,753

NOTE 4—DERIVATIVE INSTRUMENTS

We have entered into the following derivative instruments that are reported at fair value:

- commodity derivatives to hedge the exposure to price risk attributable to future: (1) sales of our LNG inventory and (2) purchases of natural gas to operate the Sabine Pass LNG terminal ("Natural Gas Derivatives");
- commodity derivatives consisting of natural gas purchase agreements and associated economic hedges to secure natural gas feedstock for the SPL Project ("Liquefaction Supply Derivatives");
- interest rate swaps to hedge the exposure to volatility in a portion of the floating-rate interest payments under the 2015 SPL Credit Facilities ("SPL Interest Rate Derivatives"); and
- interest rate swaps to hedge the exposure to volatility in a portion of the floating-rate interest payments under the 2015 CCH Credit Facility ("CCH Interest Rate Derivatives").

None of our derivative instruments are designated as cash flow hedging instruments, and changes in fair value are recorded within our Consolidated Statements of Operations.

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

The following table (in thousands) shows the fair value of our derivative instruments that are required to be measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014, which are classified as other current assets, non-current derivative assets, derivative liabilities and other non-current liabilities in our Consolidated Balance Sheets.

	Fair Value Measurements as of June 30, 2015				December 31, 2014			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Natural Gas Derivatives asset (liability)	$—	$ (315)	$ —	$(315)	$—	$ 219	$ —	$219
Liquefaction Supply Derivatives asset (liability)	—	(27)	440	413	—	—	342	342
SPL Interest Rate Derivatives liability	—	(8,172)	—	(8,172)	—	(12,036)	—	(12,036)
CCH Interest Rate Derivatives asset	—	5,335	—	5,335	—	—	—	—

The estimated fair values of our Natural Gas Derivatives and the economic hedges related to the Liquefaction Supply Derivatives are the amounts at which the instruments could be exchanged currently between willing parties. We value these derivatives using observable commodity price curves and other relevant data. We value our interest rate derivatives using valuations based on the initial trade prices. Using an income-based approach, subsequent valuations are based on observable inputs to the valuation model including interest rate curves, risk adjusted discount rates, credit spreads and other relevant data.

The fair value of substantially all of the Liquefaction Supply Derivatives is developed through the use of internal models which are impacted by inputs that are unobservable in the marketplace. As a result, the fair value of the Liquefaction Supply Derivatives is designated as Level 3 within the valuation hierarchy. The curves used to generate the fair value of the Liquefaction Supply Derivatives are based on basis adjustments applied to forward curves for a liquid trading point. In addition, there may be observable liquid market basis information in the near term, but terms of a particular Liquefaction Supply Derivatives contract may exceed the period for which such information is available, resulting in a Level 3 classification. In these instances, fair value of the contract incorporates extrapolation assumptions made in the determination of the market basis price for future delivery periods in which applicable commodity basis prices were either not observable or lacked corroborative market data. Internal fair value models that include contractual pricing with a fixed basis include fixed basis amounts for delivery at locations for which no market currently exists. Internal fair value models also include conditions precedent to the respective long-term natural gas purchase agreements. As of June 30, 2015 and December 31, 2014, the majority of the Liquefaction Supply Derivatives existed within markets for which the pipeline infrastructure has not been developed to accommodate marketable physical gas flow. Therefore, our internal fair value models were based on a market price that equated to our own contractual pricing due to: (1) the inactive and unobservable market and (2) conditions precedent and their impact on the uncertainty in the timing of our actual receipt of the physical volumes associated with each forward. The fair value of the Liquefaction Supply Derivatives is predominantly driven by market commodity basis prices and our assessment of the associated conditions precedent, including evaluating whether the respective market is available as pipeline infrastructure is developed.

There were no transfers into or out of Level 3 Liquefaction Supply Derivatives for the three and six months ended June 30, 2015 and 2014. As all of the physical Liquefaction Supply Derivatives are either purely index-priced or index-priced with a fixed basis, we do not believe that a significant change in market commodity prices would have a material impact on our Level 3 fair value measurements. The following table (in thousands, except natural gas basis spread) includes quantitative information for the unobservable inputs for the Level 3 Liquefaction Supply Derivatives as of June 30, 2015:

	Net Fair Value Asset	Valuation Technique	Significant Unobservable Input	Significant Unobservable Inputs Range
Liquefaction Supply Derivatives	$440	Income Approach	Basis Spread	$ (0.350) - $0.020

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

Derivative assets and liabilities arising from our derivative contracts with the same counterparty are reported on a net basis, as all counterparty derivative contracts provide for net settlement.

Commodity Derivatives

We recognize all commodity derivative instruments, including our Natural Gas Derivatives and the Liquefaction Supply Derivatives (collectively, "Commodity Derivatives"), as either assets or liabilities and measure those instruments at fair value. Changes in the fair value of our Commodity Derivatives are reported in earnings.

The following table (in thousands) shows the fair value and location of our Commodity Derivatives on our Consolidated Balance Sheets:

	June 30, 2015			December 31, 2014		
	Natural Gas Derivatives (1)	Liquefaction Supply Derivatives	Total	Natural Gas Derivatives (1)	Liquefaction Supply Derivatives	Total
Balance Sheet Location						
Other current assets	$181	$307	$488	$219	$76	$295
Non-current derivative assets	—	426	426	—	586	586
Total derivative assets	181	733	914	219	662	881
Derivative liabilities	(496)	(222)	(718)	—	(53)	(53)
Other non-current liabilities	—	(98)	(98)	—	(267)	(267)
Total derivative liabilities	(496)	(320)	(816)	—	(320)	(320)
Derivative asset (liability), net	$(315)	$413	$98	$219	$342	$561

(1) Does not include collateral of $6.3 million and $5.7 million deposited for such contracts, which is included in other current assets in our Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014, respectively.

The following table (in thousands) shows the changes in the fair value and settlements and location of our Commodity Derivatives recorded on our Consolidated Statements of Operations during the three and six months ended June 30, 2015 and 2014:

		Three Months Ended June 30,		Six Months Ended June 30,	
	Statement of Operations Location	2015	2014	2015	2014
Natural Gas Derivatives gain (loss)	Marketing and trading revenues (losses)	$67	$21	$(98)	$370
Natural Gas Derivatives gain (loss)	Derivative gain (loss), net	(294)	(56)	460	(258)
Natural Gas Derivatives gain	Operating and maintenance expense	—	—	—	44
	Operating and maintenance expense	81	—	81	—

Liquefaction Supply
Derivatives gain (1)

(1) There were no physical settlements during the reporting period.

The use of Commodity Derivatives exposes us to counterparty credit risk, or the risk that a counterparty will be unable to meet its commitments in instances when our Commodity Derivatives are in an asset position.

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

Natural Gas Derivatives

Our Natural Gas Derivatives are executed through over-the-counter contracts which are subject to nominal credit risk as these transactions are settled on a daily margin basis with investment grade financial institutions. We are required by these financial institutions to use margin deposits as credit support for our Natural Gas Derivatives activities.

Liquefaction Supply Derivatives

SPL has entered into index-based physical natural gas supply contracts and associated economic hedges to secure natural gas feedstock for the SPL Project. The terms of the physical contracts range from approximately one to seven years and commence upon the occurrence of conditions precedent, including the date of first commercial operation of specified Trains of the SPL Project. We recognize the Liquefaction Supply Derivatives as either assets or liabilities and measure those instruments at fair value. Changes in the fair value of the Liquefaction Supply Derivatives are reported in earnings. As of June 30, 2015, SPL has secured up to approximately 2,162.8 million MMBtu of natural gas feedstock through long-term natural gas purchase agreements, of which the forward notional natural gas buy position of the Liquefaction Supply Derivatives was approximately 1,250.3 million MMBtu, which were recorded as derivatives due to minimum purchase requirements.

Interest Rate Derivatives

SPL Interest Rate Derivatives

SPL has entered into SPL Interest Rate Derivatives to protect against volatility of future cash flows and hedge a portion of the variable interest payments on the 2015 SPL Credit Facilities. The SPL Interest Rate Derivatives hedge a portion of the expected outstanding borrowings over the term of the 2015 SPL Credit Facilities.

In March 2015, SPL settled a portion of the SPL Interest Rate Derivatives and recognized a derivative loss of $34.7 million within our Consolidated Statements of Operations in conjunction with the termination of approximately $1.8 billion of commitments under the 2013 SPL Credit Facilities as discussed in Note 7—Long-Term Debt. In May 2014, SPL settled a portion of its interest rate derivatives related to the 2013 SPL Credit Facilities and recognized a derivative loss of $9.3 million within our Consolidated Statements of Operations in conjunction with the early termination of approximately $2.1 billion of commitments under the 2013 SPL Credit Facilities.

CCH Interest Rate Derivatives

In February 2015, CCH entered into CCH Interest Rate Derivatives to protect against volatility of future cash flows and hedge a portion of the variable interest payments on the 2015 CCH Credit Facility. The CCH Interest Rate Derivatives hedge a portion of the expected outstanding borrowings over the term of the 2015 CCH Credit Facility. The CCH Interest Rate Derivatives have a seven-year term and were contingent upon reaching a final investment decision with respect to the CCL Project, which was reached in May 2015. Upon meeting the contingency related to the CCH Interest Rate Derivatives in May 2015, we paid $50.1 million related to contingency and syndication premiums, which is included in derivative gain (loss), net on our Consolidated Statements of Operations.

As of June 30, 2015, we had the following interest rate derivatives outstanding:

	Effective Date	Maturity Date

	Initial Notional Amount	Maximum Notional Amount			Weighted Average Fixed Interest Rate Paid	Variable Interest Rate Received
SPL Interest Rate Derivatives	$20.0 million	$690.8 million	August 14, 2012	July 31, 2019	1.98%	One-month LIBOR
CCH Interest Rate Derivatives	28.8 million	$5.5 billion	May 20, 2015	May 31, 2022	2.29%	One-month LIBOR

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

The following table (in thousands) shows the fair value of our interest rate derivatives:

	June 30, 2015			December 31, 2014		
	SPL Interest Rate Derivatives	CCH Interest Rate Derivatives	Total	SPL Interest Rate Derivatives	CCH Interest Rate Derivatives	Total
Balance Sheet Location						
Other current assets	$—	$—	$—	$—	$—	$—
Non-current derivative assets	—	20,937	20,937	11,158	—	11,158
Total derivative assets	—	20,937	20,937	11,158	—	11,158
Derivative liabilities	(7,617)	(15,602)	(23,219)	(23,194)	—	(23,194)
Other non-current liabilities	(555)	—	(555)	—	—	—
Total derivative liabilities	(8,172)	(15,602)	(23,774)	(23,194)	—	(23,194)
Derivative asset (liability), net	$(8,172)	$5,335	$(2,837)	$(12,036)	$—	$(12,036)

The following table (in thousands) shows the changes in the fair value and settlements of our interest rate derivatives, including contingency and syndication premiums related to the CCH Interest Rate Derivatives, recorded in derivative gain (loss), net on our Consolidated Statements of Operations during the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
SPL Interest Rate Derivatives gain (loss)	$1,469	$(60,122)	$(35,669)	$(94,601)
CCH Interest Rate Derivatives gain (loss)	44,580	—	(44,972)	—

Balance Sheet Presentation

Our Commodity Derivatives and interest rate derivatives are presented on a net basis on our Consolidated Balance Sheets as described above. The following table (in thousands) shows the fair value of our derivatives outstanding on a gross and net basis:

Offsetting Derivative Assets (Liabilities)	Gross Amounts Recognized	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets
As of June 30, 2015			
Natural Gas Derivatives	$(595)	$280	$(315)
Liquefaction Supply Derivatives	733	—	733
Liquefaction Supply Derivatives	(320)	—	(320)
SPL Interest Rate Derivatives	(8,172)	—	(8,172)
CCH Interest Rate Derivatives	20,937	—	20,937
CCH Interest Rate Derivatives	(15,602)	—	(15,602)
As of December 31, 2014			
Natural Gas Derivatives	223	(4)	219
Liquefaction Supply Derivatives	662	—	662
Liquefaction Supply Derivatives	(320)	—	(320)

SPL Interest Rate Derivatives	11,158	—	11,158
SPL Interest Rate Derivatives	(23,194)	—	(23,194)

NOTE 5—NON-CONTROLLING INTEREST

Cheniere Holdings was formed by us to hold our limited partner interest in Cheniere Partners and in December 2013, completed its initial public offering. Additionally, in November 2014, Cheniere Holdings sold 10.1 million common shares at $22.76 per common share to redeem from us the same number of common shares. As of both June 30, 2015 and December 31, 2014, our ownership interest in Cheniere Holdings was 80.1%, with the remaining non-controlling interest held by the public. Cheniere Holdings owns a 55.9% limited partner interest in Cheniere Partners in the form of 12.0 million common units, 45.3 million Class B units and 135.4 million subordinated units, with the remaining non-controlling interest held by Blackstone CQP

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

Holdco LP and the public. We also own 100% of the general partner interest and the incentive distribution rights in Cheniere Partners.

NOTE 6—ACCRUED LIABILITIES

As of June 30, 2015 and December 31, 2014, accrued liabilities consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Interest expense and related debt fees	$235,996	$112,858
Employee-related costs	78,908	6,425
LNG liquefaction costs	229,375	22,014
LNG terminal costs	6,477	1,077
Other accrued liabilities	15,076	26,755
Total accrued liabilities	$565,832	$169,129

NOTE 7—LONG-TERM DEBT

As of June 30, 2015 and December 31, 2014, our long-term debt consisted of the following (in thousands):

	Interest Rate	June 30, 2015	December 31, 2014
Long-term debt			
2016 SPLNG Senior Notes	7.500%	$1,665,500	$1,665,500
2020 SPLNG Senior Notes	6.500%	420,000	420,000
2021 SPL Senior Notes	5.625%	2,000,000	2,000,000
2022 SPL Senior Notes	6.250%	1,000,000	1,000,000
2023 SPL Senior Notes	5.625%	1,500,000	1,500,000
2024 SPL Senior Notes	5.750%	2,000,000	2,000,000
2025 SPL Senior Notes	5.625%	2,000,000	—
2015 SPL Credit Facilities (1)	(2)	—	—
2021 Cheniere Convertible Unsecured Notes	4.875%	1,028,953	1,004,469
2025 CCH Holdco II Convertible Senior Notes	11.000%	1,003,667	—
2045 Cheniere Convertible Senior Notes	4.250%	625,000	—
CTPL Term Loan	(3)	400,000	400,000
2015 CCH Credit Facility (4)	(5)	1,705,000	—
Total long-term debt		15,348,120	9,989,969
Long-term debt premium (discount)			
2016 SPLNG Senior Notes		(6,651)	(8,998)
2021 SPL Senior Notes		9,457	10,177
2023 SPL Senior Notes		6,745	7,088
2021 Cheniere Convertible Unsecured Notes		(180,862)	(189,717)
2045 Cheniere Convertible Senior Notes		(320,083)	—
CTPL Term Loan		(1,932)	(2,435)
Total long-term debt, net		$14,854,794	$9,806,084

(1) Matures on the earlier of December 31, 2020 or the second anniversary of the completion date of Trains 1 through 5 of the SPL Project.

(2) Variable interest rate, at SPL’s election, is LIBOR or the base rate plus the applicable margin. The applicable margins for LIBOR loans range from 1.30% to 1.75%, depending on the applicable 2015 SPL Credit Facility, and the applicable margin for base rate loans is 1.75%. Interest on LIBOR loans is due and payable at the end of each LIBOR period, and interest on base rate loans is due and payable at the end of each quarter.

(3) Variable interest rate, at CTPL’s election, is LIBOR or the base rate plus the applicable margin. CTPL has historically elected LIBOR loans, for which the applicable margin is 3.25% and is due and payable at the end of each LIBOR period.

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

(4) Matures on the earlier of May 13, 2022 or the second anniversary of the completion date of the first two Trains of the CCL Project.

(5) Variable interest rate, at CCH’s election, is LIBOR or the base rate plus the applicable margin. The applicable margins for LIBOR loans are 2.25% prior to completion of the first two Trains of the CCL Project and 2.50% on completion and thereafter. The applicable margins for base rate loans are 1.25% prior to completion of the first two Trains of the CCL Project and 1.50% on completion and thereafter. Interest on LIBOR loans is due and payable at the end of each applicable interest period, and interest on base rate loans is due and payable at the end of each quarter.

For the three months ended June 30, 2015 and 2014, we incurred $241.2 million and $140.4 million of total interest cost, respectively, of which we capitalized and deferred $155.7 million and $96.6 million, respectively, of interest cost, including amortization of debt issuance costs, primarily related to the construction of the first four Trains of the SPL Project. For the six months ended June 30, 2015 and 2014, we incurred $421.9 million and $269.0 million of total interest cost, respectively, of which we capitalized and deferred $276.8 million and $184.9 million, respectively, of interest cost, including amortization of debt issuance costs, primarily related to this construction.

SPLNG Senior Notes

Under the SPLNG Indentures, except for permitted tax distributions, SPLNG may not make distributions until certain conditions are satisfied as described in Note 2—Restricted Cash. During the six months ended June 30, 2015 and 2014, SPLNG made distributions of $199.6 million and $173.0 million, respectively, after satisfying all the applicable conditions in the SPLNG Indentures.

SPL Senior Notes

In March 2015, SPL issued an aggregate principal amount of $2.0 billion of the 2025 SPL Senior Notes, for which borrowings accrue interest at a fixed rate of 5.625%. The terms of the 2025 SPL Senior Notes are governed by the same common indenture with the other SPL Senior Notes. In connection with the closing of the sale of the 2025 SPL Senior Notes, SPL entered into a Registration Rights Agreement dated March 3, 2015 (the “2025 SPL Registration Rights Agreement”). Under the terms of the 2025 SPL Registration Rights Agreement, SPL has agreed, and any future guarantors of the 2025 SPL Senior Notes will agree, to use commercially reasonable efforts to file with the SEC and cause to become effective a registration statement within 360 days after March 3, 2015 with respect to an offer to exchange any and all of the 2025 SPL Senior Notes for a like aggregate principal amount of debt securities of SPL with terms identical in all material respects to the respective 2025 SPL Senior Notes sought to be exchanged (other than with respect to restrictions on transfer or to any increase in annual interest rate), and that are registered under the Securities Act of 1933, as amended (the “Securities Act”). Under specified circumstances, SPL has also agreed, and any future guarantors will also agree, to use commercially reasonable efforts to cause to become effective a shelf registration statement relating to resales of the 2025 SPL Senior Notes. SPL will be obligated to pay additional interest if it fails to comply with its obligations to register the 2025 SPL Senior Notes within the specified time periods.

2015 SPL Credit Facilities

In June 2015, SPL entered into the 2015 SPL Credit Facilities with commitments aggregating $4.6 billion. The 2015 SPL Credit Facilities are being used to fund a portion of the costs of developing, constructing and placing into operation Trains 1 through 5 of the SPL Project. Borrowings under the 2015 SPL Credit Facilities may be refinanced, in whole or in part, at any time without premium or penalty; however, interest rate hedging and interest rate breakage costs may be incurred. As of June 30, 2015, SPL had $4.6 billion of available commitments and no outstanding borrowings under the 2015 SPL Credit Facilities.

SPL incurred $89.9 million of debt issuance costs in connection with the 2015 SPL Credit Facilities. In addition to interest, SPL is required to pay insurance/guarantee premiums of 0.45% per annum on any drawn amounts under the covered tranches of the 2015 SPL Credit Facilities. The 2015 SPL Credit Facilities also require SPL to pay a quarterly commitment fee calculated at either: (1) a rate per annum equal to 40% of the applicable margin, multiplied by the average daily amount of the undrawn commitment, or (2) 0.70% of the undrawn commitment, depending on the applicable 2015 SPL Credit Facility. The principal of the loans made under the 2015 SPL Credit Facilities must be repaid in quarterly installments, commencing with the earlier of June 30, 2020 and the last day of the first full calendar quarter after the completion date of Trains 1 through 5 of the SPL Project. Scheduled repayments are based upon an 18-year amortization profile, with the remaining balance due upon the maturity of the 2015 SPL Credit Facilities.

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

The 2015 SPL Credit Facilities contain conditions precedent for borrowings, as well as customary affirmative and negative covenants. The obligations of SPL under the 2015 SPL Credit Facilities are secured by substantially all of the assets of SPL as well as all of the membership interests in SPL on a pari passu basis with the SPL Senior Notes.

Under the terms of the 2015 SPL Credit Facilities, within 90 days of the closing date, SPL is required to hedge not less than 65% of the variable interest rate exposure of its projected outstanding borrowings, calculated on a weighted average basis in comparison to its anticipated draw of principal.

2013 SPL Credit Facilities

In May 2013, SPL entered into the 2013 SPL Credit Facilities to fund a portion of the costs of developing, constructing and placing into operation Trains 1 through 4 of the SPL Project. As of December 31, 2014, SPL had no outstanding borrowings under the 2013 SPL Credit Facilities. In June 2015, the 2013 SPL Credit Facilities were replaced with the 2015 SPL Credit Facilities.

In March 2015, in conjunction with SPL's issuance of the 2025 SPL Senior Notes, SPL terminated approximately $1.8 billion of commitments under the 2013 SPL Credit Facilities. This termination and the replacement of the 2013 SPL Credit Facilities with the 2015 SPL Credit Facilities in June 2015 resulted in a write-off of debt issuance costs and deferred commitment fees associated with the 2013 SPL Credit Facilities of $7.3 million and $96.3 million for the three and six months ended June 30, 2015, respectively.

Convertible Notes

2021 Cheniere Convertible Unsecured Notes

In November 2014, we issued an aggregate principal amount of $1.0 billion Convertible Unsecured Notes due 2021 (the "2021 Cheniere Convertible Unsecured Notes") on a private placement basis in reliance on the exemption from registration provided for under section 4(a)(2) of the Securities Act and Regulation S promulgated thereunder. The 2021 Cheniere Convertible Unsecured Notes accrue interest at a rate of 4.875% per annum, which is payable in kind semi-annually in arrears by increasing the principal amount of the 2021 Cheniere Convertible Unsecured Notes outstanding. One year after the closing date, the 2021 Cheniere Convertible Unsecured Notes will be convertible at the option of the holder into our common stock at the then-applicable conversion rate, provided that the closing price of our common stock is greater than or equal to the conversion price on the conversion date. The initial conversion price was $93.64 and is subject to adjustment upon the occurrence of certain specified events. We have the option to satisfy the conversion obligation with cash, common stock or a combination thereof.

Under GAAP, certain convertible debt instruments that may be settled in cash upon conversion are required to be separately accounted for as liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. We determined that the fair value of the debt component was $808.8 million and the residual value of the equity component was $191.2 million as of the issuance date. As of June 30, 2015 and December 31, 2014, the carrying value of the equity component was $195.7 million and $191.5 million, respectively. The debt component is accreted to the total principal amount due at maturity by amortizing the debt discount. The effective rate of interest to amortize the debt discount was approximately 9.1% and 9.2% as of June 30, 2015 and December 31, 2014, respectively, and the remaining period over which the debt discount will be amortized was 5.9 years as of June 30, 2015. As of June 30, 2015, the if-converted value of the 2021 Cheniere Convertible Unsecured Notes did not exceed the principal balance.

2025 CCH Holdco II Convertible Senior Notes

In May 2015, CCH HoldCo II issued $1.0 billion aggregate principal amount of 11% Senior Secured Notes due 2025 (the “2025 CCH Holdco II Convertible Senior Notes”) on a private placement basis in reliance on the exemption from registration provided for under section 4(a)(2) of the Securities Act. The 2025 CCH Holdco II Convertible Senior Notes were issued pursuant to the amended and restated note purchase agreement entered into among CCH HoldCo II, EIG Management Company, LLC, The Bank of New York Mellon, the Company and the note purchasers. The $1.0 billion principal of the 2025 CCH Holdco II Convertible Senior Notes will be used to partially fund costs associated with Stage 1 of the CCL Project and the Corpus Christi Pipeline. The purchasers have made commitments, which will expire on May 1, 2016, to acquire an additional $500 million of 2025 CCH Holdco

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

II Convertible Senior Notes (the "Second Phase Funding") upon satisfaction of incremental customary conditions precedent related to the construction of Stage 2 of the CCL Project. The 2025 CCH Holdco II Convertible Senior Notes bear interest at a rate of 11.0% per annum, which is payable quarterly in arrears. Prior to the substantial completion of Train 2 of the CCL Project if the Second Phase Funding has not occurred, and to the substantial completion of Train 3 of the CCL Project following the occurrence of the Second Phase Funding, interest on the 2025 CCH Holdco II Convertible Senior Notes will be paid entirely in kind. Following this date, the interest generally must be paid in cash; however, a portion of the interest may be paid in kind under certain specified circumstances. The 2025 Convertible Notes are secured by a pledge by us of 100% of the equity interests in CCH HoldCo II, and a pledge by CCH HoldCo II of 100% of the equity interests in Cheniere CCH HoldCo I.

At our option, the outstanding 2025 CCH Holdco II Convertible Senior Notes are convertible into our common stock on or after the later of (1) 58 months from May 1, 2015, and (2) the substantial completion of Train 2 of the CCL Project and any 2025 CCH Holdco II Convertible Senior Notes issued in connection with the Second Phase Funding will be convertible on or after the substantial completion of Train 3 of the CCL Project (in each case, the "Eligible Conversion Date"). The conversion price for 2025 CCH Holdco II Convertible Senior Notes converted at our option is the lower of (1) a 10% discount to the average of the daily volume-weighted average price ("VWAP") of our common stock for the 90 trading day period prior to the date on which notice of conversion is provided, and (2) a 10% discount to the closing price of our common stock on the trading day preceding the date on which notice of conversion is provided. At the option of the holders, the 2025 CCH Holdco II Convertible Senior Notes are convertible on or after the six-month anniversary of the applicable Eligible Conversion Date at a conversion price equal to the average of the daily VWAP of our common stock for the 90 trading day period prior to the date on which notice of conversion is provided. Conversions are also subject to various limitations and conditions. As of June 30, 2015, the value of the 2025 CCH Holdco II Convertible Senior Notes if converted at the holders' option did not exceed the principal balance.

2045 Cheniere Convertible Senior Notes

In March 2015, we issued $625.0 million aggregate principal amount of 4.25% Convertible Senior Notes due 2045 (the "2045 Cheniere Convertible Senior Notes") to certain investors through a registered direct offering. The 2045 Cheniere Convertible Senior Notes were issued with an original issue discount of 20% and accrue interest at a rate of 4.25% per annum, which is payable semi-annually in arrears. We have the right, at our option, at any time after March 15, 2020, to redeem all or any part of the 2045 Cheniere Convertible Senior Notes at a redemption price payable in cash equal to the accreted amount of the 2045 Cheniere Convertible Senior Notes to be redeemed, plus accrued and unpaid interest, if any, to such redemption date. The conversion rate will initially equal 7.2265 shares of our common stock per $1,000 principal amount of the 2045 Cheniere Convertible Senior Notes, which corresponds to an initial conversion price of approximately $138.38 per share of our common stock. The conversion rate is subject to adjustment upon the occurrence of certain specified events. We have the option to satisfy the conversion obligation with cash, common stock or a combination thereof.

We determined that the fair value of the debt component of the 2045 Cheniere Convertible Senior Notes was $304.3 million and the residual value of the equity component was $195.7 million as of the issuance date, excluding debt issuance costs. As of June 30, 2015, the carrying value of the equity component was $194.1 million. The debt component is accreted to the total principal amount due at maturity by amortizing the debt discount. The effective rate of interest to amortize the debt discount was approximately 9.4% as of June 30, 2015, and the remaining period over which the debt discount will be amortized was 29.7 years. As of June 30, 2015, the if-converted value of the 2045 Cheniere Convertible Senior Notes did not exceed the principal balance.

Interest expense, before capitalization, related to the 2021 Cheniere Convertible Unsecured Notes, the 2025 CCH Holdco II Convertible Senior Notes and the 2045 Cheniere Convertible Senior Notes (together, the “Convertible Notes”) consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest per contractual rate	$33,603	$—	$47,542	$—
Amortization of debt discount	7,116	—	13,714	—
Amortization of debt issuance costs	601	—	615	—
Total interest expense related to the Convertible Notes	$41,320	$—	$61,871	$—

17

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

CTPL Term Loan

As of June 30, 2015, CTPL had borrowed the full amount of $400.0 million available under the CTPL Term Loan. The CTPL Term Loan matures in 2017 when the full amount of the outstanding principal obligations must be repaid. The outstanding balance may be repaid, in whole or in part, at any time without premium or penalty.

2015 CCH Credit Facility

In May 2015, CCH entered into the 2015 CCH Credit Facility, which is being used to fund a portion of the costs associated with the development, construction, operation and maintenance of the CCL Project. The total commitment under the 2015 CCH Credit Facility is approximately $11.5 billion, comprising approximately $8.4 billion linked to Stage 1 of the CCL Project and the Corpus Christi Pipeline and approximately $3.1 billion linked to Stage 2 of the CCL Project. Borrowings under the 2015 CCH Credit Facility may be refinanced, in whole or in part, at any time without premium or penalty; however, interest rate hedging and interest rate breakage costs may be incurred. As of June 30, 2015, CCH had $6.7 billion of available commitments and $1.7 billion of outstanding borrowings under the 2015 CCH Credit Facility.

CCH incurred $289.8 million of debt issuance costs in connection with the 2015 CCH Credit Facility. In addition to interest, CCH will incur a commitment fee at a rate per annum equal to 40% of the margin for LIBOR loans, multiplied by the outstanding undrawn debt commitments. The principal of the loans made under the 2015 CCH Credit Facility must be repaid in quarterly installments, commencing on the earlier of (1) the first quarterly payment date occurring more than three calendar months following project completion and (2) a set date determined by reference to the date under which a certain LNG buyer linked to the last Train to become operational is entitled to terminate its SPA for failure to achieve the date of first commercial delivery for that agreement. Scheduled repayments will be based upon a 19-year tailored amortization, commencing the first full quarter after the project completion and designed to achieve a minimum projected fixed debt service coverage ratio of 1.55x.

The 2015 CCH Credit Facility contains conditions precedent for borrowings, as well as customary affirmative and negative covenants. The obligations of CCH under the 2015 CCH Credit Facility are secured by a first priority lien on substantially all of the assets of CCH and its subsidiaries and by a pledge by CCH HoldCo I of its limited liability company interests in CCH.

Under the terms of the 2015 CCH Credit Facility, within 90 days of the closing date, CCH is required to hedge not less than 65% of the variable interest rate exposure of its senior secured debt.

SPL LC Agreement

In April 2014, SPL entered into a $325.0 million senior letter of credit and reimbursement agreement (the "SPL LC Agreement") that it uses for the issuance of letters of credit for certain working capital requirements related to the SPL Project. SPL pays (1) a commitment fee in an amount equal to an annual rate of 0.75% of an amount equal to the unissued portion of letters of credit available pursuant to the SPL LC Agreement and (2) a letter of credit fee equal to an annual rate of 2.5% of the undrawn portion of all letters of credit issued under the SPL LC Agreement. If draws are made upon any letters of credit issued under the SPL LC Agreement, the amount of the draw will be deemed a loan issued to SPL. SPL is required to pay the full amount of this loan on or prior to the business day immediately succeeding the deemed issuance of the loan. These loans accrue interest at a rate of 2.0% plus the base rate as defined in the SPL LC Agreement. As of June 30, 2015 and December 31, 2014, SPL had issued letters of credit in an aggregate amount of $72.9 million and $9.5 million, respectively, and as of both June 30, 2015 and December 31, 2014, no draws had been made upon any letters of credit issued under the SPL LC Agreement.

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

Fair Value Disclosures

The following table (in thousands) shows the carrying amount and estimated fair value of our long-term debt:

	June 30, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
2016 SPLNG Senior Notes, net of discount (1)	$1,658,849	$1,745,939	$1,656,502	$1,718,621
2020 SPLNG Senior Notes (1)	420,000	435,750	420,000	428,400
2021 SPL Senior Notes, net of premium (1)	2,009,457	2,049,646	2,010,177	1,985,050
2022 SPL Senior Notes (1)	1,000,000	1,027,500	1,000,000	1,020,000
2023 SPL Senior Notes, net of premium (1)	1,506,745	1,493,561	1,507,089	1,476,947
2024 SPL Senior Notes (1)	2,000,000	1,982,500	2,000,000	1,970,000
2025 SPL Senior Notes (1)	2,000,000	1,960,000	—	—
2015 SPL Credit Facilities (2)	—	—	—	—
2021 Cheniere Convertible Unsecured Notes, net of discount (3)	848,091	1,054,059	814,751	1,025,563
2025 CCH Holdco II Convertible Senior Notes (3)	1,003,667	928,591	—	—
2045 Cheniere Convertible Senior Notes, net of discount (4)	304,917	470,706	—	—
CTPL Term Loan, net of discount (2)	398,068	400,000	397,565	400,000
2015 CCH Credit Facility (2)	1,705,000	1,705,000	—	—

(1) The Level 2 estimated fair value was based on quotations obtained from broker-dealers who make markets in these and similar instruments based on the closing trading prices on June 30, 2015 and December 31, 2014, as applicable.

(2) The Level 3 estimated fair value approximates the principal amount because the interest rates are variable and reflective of market rates and the debt may be repaid, in full or in part, at any time without penalty.

(3) The Level 3 estimated fair value was calculated based on inputs that are observable in the market or that could be derived from, or corroborated with, observable market data, including our stock price and interest rates based on debt issued by parties with comparable credit ratings to us and inputs that are not observable in the market.

(4) The Level 1 estimated fair value was based on unadjusted quoted prices in active markets for identical liabilities that we had the ability to access at the measurement date.

NOTE 8—INCOME TAXES

We are not presently a taxpayer for federal or state income tax purposes and have not recorded a net liability for federal or state income taxes in any of the periods included in the accompanying Consolidated Financial Statements. However, we are presently an international taxpayer and have recorded a net benefit (expense) of $0.5 million and $(0.1) million for the three months ended June 30, 2015 and 2014, respectively, and a net expense of $0.2 million for each of the six months ended June 30, 2015 and 2014 for international income taxes.

We experienced an ownership change within the provisions of Internal Revenue Code ("IRC") Section 382 in 2008, 2010 and 2012. An analysis of the annual limitation on the utilization of our net operating losses ("NOLs") was performed in accordance with IRC Section 382. It was determined that IRC Section 382 will not limit the use of our NOLs in full over the carryover period. We will continue to monitor trading activity in our shares which may cause an additional ownership change which could ultimately affect our ability to fully utilize our existing tax NOL carryforwards.

NOTE 9—SHARE-BASED COMPENSATION

We have granted stock, restricted stock, phantom units and options to purchase common stock to employees, outside directors, and a consultant under the Cheniere Energy, Inc. Amended and Restated 1997 Stock Option Plan (the “1997 Plan”), Amended and Restated 2003 Stock Incentive Plan, as amended (the “2003 Plan”), 2011 Incentive Plan, as amended (the “2011 Plan”) and the 2014-2018 Long-Term Cash Incentive Program (the “2014-2018 LTIP”).

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

The 1997 Plan provides for the issuance of stock options to purchase up to 5.0 million shares of our common stock, all of which have been granted. Non-qualified stock options were granted to employees, contract service providers and outside directors. The 2003 Plan and 2011 Plan provide for the issuance of 21.0 million shares and 35.0 million shares, respectively, of our common stock that may be in the form of non-qualified stock options, incentive stock options, purchased stock, restricted (non-vested) stock, bonus (unrestricted) stock, stock appreciation rights, phantom units and other share-based performance awards deemed by the Compensation Committee of our Board of Directors (the "Compensation Committee") to be consistent with the purposes of the 2003 Plan and 2011 Plan. As of June 30, 2015, all of the shares under the 2003 Plan have been granted and 26.9 million shares, net of cancellations, have been granted under the 2011 Plan.

In April 2015, the Compensation Committee recommended and the Board of Directors approved the 2014-2018 LTIP, which is a sub-plan of the Company's 2015 Long-Term Cash Incentive Plan. The 2014-2018 LTIP consists of phantom units settled in cash with five consecutive annual performance periods commencing on November 1 and ending on October 31 of each year through October 31, 2018. Awards under the 2014-2018 LTIP will be subject to a three-year vesting schedule, with one third of the phantom units vesting and becoming payable on each of the first, second and third anniversaries of the date of the grant (with the exception of the initial grant for the 2014 performance period, which will vest and become payable on each of February 1, 2016, February 1, 2017 and February 1, 2018). The 2014-2018 LTIP is 100% performance-based and will reward long-term performance measured against growth in the Company's market capitalization, referred to in the plan documents as total shareholder value ("TSV"), above certain thresholds. Under the 2014-2018 LTIP, the general pool is awarded generally between 2% and 4% of the growth in TSV and the senior executive pool is capped at 2% of the growth in TSV, with the Chief Executive Officer's compensation targeted at 50% of the senior executive pool, subject to adjustment at the discretion of the Compensation Committee. The number of phantom units comprising the senior executive pool has also been capped, and cannot exceed an amount equal to 1.5% of the shares of our common stock outstanding in any one year.

Phantom units are share-based awards issued to employees over a vesting period that entitle the grantee to receive the cash equivalent to the value of a share of our common stock upon each vesting. Phantom units are not eligible to receive quarterly distributions. The Company initially records compensation cost based on the Company's stock price on the grant date, which is included in accrued liabilities on our Consolidated Balance Sheets, and is adjusted quarterly for any changes in the Company's stock price. During the three and six months ended June 30, 2015, we granted 5.5 million and 5.6 million phantom units, respectively, to employees, including units awarded under the 2014-2018 LTIP. We did not grant any phantom units to employees during the three and six months ended June 30, 2014.

For the three months ended June 30, 2015 and 2014, the total share-based compensation expense, net of capitalization, recognized in our net loss was $50.3 million and $26.1 million, respectively, and for the same periods we capitalized as part of the cost of capital assets $18.4 million and $2.5 million, respectively. For the six months ended June 30, 2015 and 2014, the total share-based compensation expense, net of capitalization, recognized in our net loss was $66.4 million and $62.0 million, respectively, and for the same periods we capitalized as part of the cost of capital assets $20.3 million and $4.3 million, respectively. We did not recognize any cumulative adjustments in our compensation expense for the six months ended June 30, 2015 and 2014.

The total unrecognized compensation cost at June 30, 2015 relating to non-vested share-based compensation arrangements was $462.2 million, which is expected to be recognized over a weighted average period of 2.5 years.

We received $0.9 million and $2.6 million in the three months ended June 30, 2015 and 2014, respectively, and $1.9 million and $6.3 million in the six months ended June 30, 2015 and 2014, respectively, of proceeds from the exercise of stock options.

During the three and six months ended June 30, 2014, we recognized zero and $10.8 million, respectively, of share-based compensation expense related to the modification of long-term commercial bonus awards resulting from an employee termination. We did not recognize any share-based compensation expense related to such modifications in the three and six months ended June 30, 2015.

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

NOTE 10—NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS

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

The following table reconciles basic and diluted weighted average common shares outstanding for the three and six months ended June 30, 2015 and 2014 (in thousands, except for loss per share):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Weighted average common shares outstanding:				
Basic	226,481	223,602	226,405	223,406
Dilutive common stock options (1)	—	—	—	—
Diluted	226,481	223,602	226,405	223,406
Basic and diluted net loss per share attributable to common stockholders	$(0.52)	$(0.90)	$(1.71)	$(1.34)

(1) Stock options and unvested stock of 10.1 million shares and 14.5 million shares for the three months ended June 30, 2015 and 2014, respectively, and 10.1 million shares and 14.4 million shares for the six months ended June 30, 2015 and 2014, respectively, representing securities that could potentially dilute basic EPS in the future were not included in the diluted net loss per share computations because their effect would have been anti-dilutive. In addition, 38.6 million shares in aggregate, issuable upon conversion of the 2021 Cheniere Convertible Unsecured Notes, the 2025 CCH Holdco II Convertible Senior Notes and the 2045 Cheniere Convertible Senior Notes, as described in Note 7—Long-Term Debt, were not included in the computation of diluted net loss per share for the three and six months ended June 30, 2015 because the computation of diluted net loss per share utilizing the "if-converted" method would be anti-dilutive.

NOTE 11—COMMITMENTS AND CONTINGENCIES

Legal Proceedings

During the second quarter of 2014, four lawsuits were filed in the Court of Chancery of the State of Delaware (the "Court") against us and/or certain of our present and former officers and directors that challenged the manner in which abstentions were treated in connection with the stockholder vote on Amendment No. 1 to the 2011 Incentive Plan ("Amendment No. 1"), pursuant to which, among other things, the number of shares of common stock available for issuance under the 2011 Plan was increased from 10.0 million to 35.0 million shares. The lawsuits contended that abstentions should have been counted as "no" votes in tabulating the outcome of the vote and that the stockholders did not approve Amendment No. 1 when abstentions are counted as such. The lawsuits further contended that portions of the Amended and Restated Bylaws of Cheniere Energy, Inc. adopted on April 3, 2014 were invalid and that certain disclosures relating to these matters made by us were misleading. The lawsuits asserted claims for breach of contract and breach of fiduciary duty (both on a class and a derivative basis) and claims for unjust enrichment (on a derivative basis). The lawsuits sought, among other things, a declaration that the February 1, 2013 stockholder vote on Amendment No. 1 was void, disgorgement of all compensation distributed as a result of Amendment No. 1, voiding the awards made from the shares reserved pursuant to Amendment No. 1 and monetary damages. On June 16, 2014, we filed a verified application with the Court pursuant to 8 Del. C. § 205 (the “Section 205 Action”) in which we asked the Court to declare valid the issuance, pursuant to the 2011 Plan, of the 25.0 million additional shares of our common stock covered by Amendment No. 1, whether occurring in the past or the future.

The parties to the above-referenced lawsuits and the Section 205 Action entered into a Stipulation and Agreement of Compromise, Settlement and Release dated December 12, 2014, subject to its terms and conditions, including receipt, among other things, of Court approval, to resolve the litigation. On March 16, 2015, the Court approved the settlement of the litigation and awarded plaintiffs’ counsel fees, which were paid by our insurers in April 2015.

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

NOTE 12—BUSINESS SEGMENT INFORMATION

We have two reportable segments: LNG terminal segment and LNG and natural gas marketing segment. We determine our reportable segments by identifying each segment that engaged in business activities from which it may earn revenues and incur expenses, had operating results regularly reviewed by the entities' chief operating decision maker for purposes of resource allocation and performance assessment, and had discrete financial information. Substantially all of our revenues from external customers are attributed to the United States. Substantially all of our long-lived assets are located in the United States.

Our LNG terminal segment consists of the Sabine Pass and Corpus Christi LNG terminals. We own and operate the Sabine Pass LNG terminal located on the Sabine Pass shipping channel in Louisiana through our ownership interest in and management agreements with Cheniere Partners. We own 100% of the general partner interest in Cheniere Partners and 80.1% of the common shares of Cheniere Holdings, which owns a 55.9% limited partner interest in Cheniere Partners. We are also developing and constructing a natural gas liquefaction facility near Corpus Christi, Texas.

Our LNG and natural gas marketing segment consists of LNG and natural gas marketing activities by Cheniere Marketing. Cheniere Marketing is developing a platform for LNG sales to international markets with professional staff based in the United States, United Kingdom, Singapore and Chile.

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

The following table summarizes revenues (losses), loss from operations and total assets for each of our reporting segments (in thousands):

	Segments			
	LNG Terminal	LNG & Natural Gas Marketing	Corporate and Other (1)	Total Consolidation
As of or for the Three Months Ended June 30, 2015				
Revenues (losses) from external customers (2)	$68,532	$(706)	$199	$ 68,025
Intersegment revenues (losses) (3)	491	6,354	(6,845)	—
Depreciation expense	16,071	244	3,839	20,154
Loss from operations	(17,767)	(26,367)	(51,446)	(95,580)
Interest expense, net	(59,465)	—	(26,021)	(85,486)
Loss before income taxes and non-controlling interest (4)	(33,403)	(26,816)	(82,090)	(142,309)
Share-based compensation	25,778	6,052	36,835	68,665
Goodwill	76,819	—	—	76,819
Total assets	15,964,158	567,541	1,227,803	17,759,502
Expenditures for additions to long-lived assets	3,944,191	1,400	20,874	3,966,465