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CHENIERE ENERGY INC
Form 10-Q/A
May 14, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

OR

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

For the transition period from _____ to _____

COMMISSION FILE NO. 1-16383

CHENIERE ENERGY, INC.

(Exact name as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

95-4352386

(I. R. S. Employer Identification No.)

333 Clay Street, Suite 3400 HOUSTON, TEXAS

(Address of executive offices)

77002-4102

(Zip Code)

(713) 659-1361

(Registrant's telephone number, including area code)

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

As of November 9, 2001, there were 13,297,393 shares of Cheniere Energy, Inc. Common Stock, \$.003 par value, issued and outstanding.

The Company is restating its consolidated financial statements for the three and nine months ended September 30, 2001, to remove the gain on sale of unconsolidated affiliate stock of \$425,678 related to the sale of a seismic license and unconsolidated affiliate stock and to adjust the fair value of the stock used in allocating sales proceeds between the investment account and oil and gas property costs.

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CHENIERE ENERGY, INC.

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CHENIERE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

| | September 30, 2001 ----- (Unaudited) | | Restated (See Note 8) |
|----------------------|---|----|--------------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash | \$ 927,644 | \$ | |
| Accounts Receivable | 994,274 | | |
| Prepaid Expenses | 224,765 | | |
| | ----- | | |
| Total Current Assets | 2,146,683 | | |

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| | | |
|---|---------------|---------------|
| OIL AND GAS PROPERTIES, full cost method | | |
| Proved Properties, net | | 2,074,934 |
| Unproved Properties, not subject to amortization | | 17,182,883 |
| | | ----- |
| Total Oil and Gas Properties | | 19,257,817 |
| LNG SITE COSTS | | 1,275,000 |
| FIXED ASSETS, net | | 416,868 |
| INVESTMENT IN UNCONSOLIDATED AFFILIATE | | 4,534,478 |
| | | ----- |
| Total Assets | | \$ 27,630,846 |
| | | ===== |
| | | \$ |
| | | == |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 2,222,509 | \$ |
| Accrued Liabilities | 365,191 | |
| | ----- | ----- |
| Total Current Liabilities | 2,587,700 | |
| STOCKHOLDERS' EQUITY | | |
| Preferred Stock, \$.0001 par value | | |
| Authorized: 5,000,000 shares | | |
| Issued and Outstanding: none | | - |
| Common Stock, \$.003 par value | | |
| Authorized: 40,000,000 shares at September 30, 2001 | | |
| and 120,000,000 shares at December 31, 2000 | | |
| Issued and Outstanding: 13,297,393 shares at September 30, 2001 | | |
| and 12,547,393 shares at December 31, 2000 | | 39,892 |
| Additional Paid-in-Capital | 41,116,868 | |
| Accumulated Deficit | (16,113,614) | |
| | ----- | ----- |
| Total Stockholders' Equity | 25,043,146 | |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$ 27,630,846 | \$ |
| | ===== | ===== |

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

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CHENIERE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

| Three Months Ended September 30, | |
|-------------------------------------|-------|
| 2001 | 2000 |
| ----- | ----- |
| Restated | |

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(See Note 8)

| | | |
|---|----------------|--------------|
| Revenues | | |
| Oil and Gas Sales | \$ 395,540 | \$ 1,198,052 |
| | ----- | ----- |
| Total Revenues | 395,540 | 1,198,052 |
| | ----- | ----- |
| Operating Costs and Expenses | | |
| Production Costs | 68,943 | 120,494 |
| Depreciation, Depletion and Amortization | 332,570 | 901,084 |
| Ceiling Test Write-down | 2,966,603 | - |
| General and Administrative Expenses | 1,157,574 | 262,510 |
| | ----- | ----- |
| Total Operating Costs and Expenses | 4,525,690 | 1,284,088 |
| | ----- | ----- |
| Loss from Operations Before Interest and Income Taxes and Equity in Net Loss of Unconsolidated Affiliate | (4,130,150) | (86,036) |
| Interest Income | 1,717 | 4,905 |
| Provision for Income Taxes | - | - |
| Equity in Net Loss of Unconsolidated Affiliate | (929,482) | - |
| | ----- | ----- |
| Net Loss | \$ (5,057,915) | \$ (81,131) |
| | ===== | ===== |
| Net Loss Per Share - Basic and Diluted | \$ (0.38) | \$ (0.01) |
| | ===== | ===== |
| Weighted Average Number of Shares Outstanding - Basic and Diluted | 13,297,393 | 10,763,697 |
| | ===== | ===== |

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

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CHENIERE ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

| | Common Stock | | Additional Paid-In Capital | Accumulat Deficit |
|--|--------------|-----------|----------------------------------|----------------------|
| | Shares | Amount | | |
| | ----- | ----- | ----- | ----- |
| Balance - December 31, 1999 | 10,053,118 | \$ 30,159 | \$ 33,293,822 | \$ (5,578, |
| Equity Issuances | 944,275 | 2,833 | 2,603,667 | |
| Issuance of Warrants to Purchase Common Stock | - | - | 528,000 | |
| Expenses Related to Offerings | - | - | (189,546) | |
| Net Loss | - | - | - | (25, |
| | ----- | ----- | ----- | ----- |
| Balance - September 30, 2000 | 10,997,393 | \$ 32,992 | \$ 36,235,943 | \$ (5,603, |
| | ===== | ===== | ===== | ===== |
| Balance - December 31, 2000 | 12,547,393 | \$ 37,642 | \$ 39,382,789 | \$ (6,359, |
| Equity Issuances | 750,000 | 2,250 | 1,647,750 | |
| Issuance of Warrants to | | | | |

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| | | | | |
|----------------------------------|------------|-----------|---------------|-----------------|
| Purchase Common Stock | - | - | 93,000 | |
| Expenses Related to Offerings | - | - | (6,671) | |
| Net Loss (Restated - See Note 8) | - | - | - | (9,754,391) |
| | ----- | ----- | ----- | ----- |
| Balance - September 30, 2001 | 13,297,393 | \$ 39,892 | \$ 41,116,868 | \$ (16,113,391) |
| (Restated - See Note 8) | ===== | ===== | ===== | ===== |

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

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CHENIERE ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

| | Nine Months En September 3 | |
|---|--|-------|
| | ----- 2001 ----- Restated (See Note 8) | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Loss | \$ (9,754,391) | \$ |
| Adjustment to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities: | | |
| Depreciation, Depletion and Amortization | 1,093,202 | |
| Ceiling Test Write-down | 5,126,248 | |
| Non-Cash Expense | 273,000 | |
| Equity in Net Loss of Unconsolidated Affiliate | 1,936,912 | |
| | ----- | ----- |
| | (1,325,029) | |
| Changes in Operating Assets and Liabilities | | |
| Accounts Receivable | 608,313 | |
| Prepaid Expenses | (135,833) | |
| Accounts Payable and Accrued Liabilities | (240,471) | |
| | ----- | ----- |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (1,093,020) | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of Fixed Assets | (355,338) | |
| Oil and Gas Property Additions | (2,734,086) | |
| Advance Proceeds from Sale of Oil and Gas Properties | - | |
| Sale of Oil and Gas Seismic Data | 2,853,197 | |
| LNG Site Costs | (125,000) | |
| | ----- | ----- |
| NET CASH USED IN INVESTING ACTIVITIES | (361,227) | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from Issuance of Notes Payable | - | |
| Repayment of Notes Payable | - | |
| Sale of Common Stock | 500,000 | |
| Offering Costs | (6,671) | |
| Debt Issuance Costs | - | |

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| | | |
|---|------------|----|
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 493,329 | |
| NET INCREASE/(DECREASE) IN CASH | (960,918) | |
| CASH - BEGINNING OF PERIOD | 1,888,562 | |
| CASH - END OF PERIOD | \$ 927,644 | \$ |

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

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

NOTE 1 - BASIS OF PRESENTATION

The unaudited consolidated financial statements of Cheniere Energy, Inc. (Cheniere or the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation, have been included.

For further information, refer to the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as amended. Interim results are not necessarily indicative of results to be expected for the full fiscal year ended December 31, 2001. Certain reclassifications have been made to conform prior period amounts to the current period presentation. These reclassifications have no effect on net income/(loss) or stockholders' equity.

In early July, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. The standards revise accounting for business combinations by:

- . prohibiting the pooling of interest method of accounting and requiring the purchase method of accounting to be used on all business combinations initiated after June 30, 2001;
- . requiring that separately identifiable intangible assets, other than goodwill, be recorded as assets. These intangible assets must either be amortized over their useful lives or, if they have indefinite useful lives, not be amortized and periodically tested for impairment; and
- . ceasing all amortization of goodwill, instead requiring it be tested at least annually for impairment. In addition, existing goodwill on business combinations completed before July 1, 2001 will no longer be amortized after December 31, 2001 and should be tested annually for impairment.

Cheniere will account for all future business combinations under SFAS No. 141. Effective January 1, 2002, Cheniere will adopt SFAS No. 142 as required. The

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impact of these standards will be evaluated in future periods, but it is not expected to be material.

The FASB also issued SFAS No. 143, Accounting for Asset Retirement Obligations. This statement significantly changes the method of accruing for costs associated with the retirement of fixed assets (e.g., oil and gas production facilities) for which an entity is legally obligated to incur. We will be further evaluating the impact and timing of implementation of SFAS No. 143. Implementation of this standard is required no later than January 1, 2003, with earlier adoption encouraged.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which clarified certain implementation issues arising from SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. This standard is effective January 1, 2002, and the Company is currently assessing its impact.

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

NOTE 2 - OIL AND GAS PROPERTIES

The Company follows the full cost method of accounting for its oil and gas properties. Under this method, all productive and nonproductive exploration and development costs incurred for the purpose of finding oil and gas reserves are capitalized.

The costs of the Company's oil and gas properties, including the estimated future costs to develop proved reserves, are depreciated using a composite units-of-production rate based on estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. Net capitalized costs are limited to a capitalization ceiling, calculated on a quarterly basis as the aggregate of the present value, discounted at 10%, of estimated future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties, less related income tax effects.

The Company's allocation of seismic exploration costs to proved properties involves an estimate of the total reserves to be discovered in the project. It is reasonably possible, based on the results obtained from future events, that revisions of this estimate could occur which would affect the Company's capitalization ceiling. At June 30, 2001, the Company's capitalized costs exceeded its capitalization ceiling, resulting in a ceiling test write-down in the amount of \$2,159,645. At September 30, 2001, the Company's capitalized costs exceeded its capitalization ceiling by \$2,966,603, resulting in an additional ceiling test write-down.

NOTE 3 - COMMON STOCK AND WARRANTS

In February 2001, the Company issued to one investor 250,000 units at a price of \$2.00 per unit, each unit representing one share of common stock and one-sixth warrant to purchase a share of common stock. Warrants issued in connection with this sale of units are exercisable at a price of \$3.00 per share on or before December 31, 2003. This issuance was made in reliance on the exemption from registration provided by Section 506 of Regulation D. Net proceeds from the

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issuance were \$493,329.

In May 2001, the Company granted to a consultant warrants to purchase 50,000 shares of Cheniere common stock at a strike price of \$3.00 per share, exercisable on or before April 30, 2005. The non-cash issuance of warrants was valued at \$93,000 using the Black-Scholes method.

On June 14, 2001, the Company issued 500,000 shares of common stock to acquire a 3-year lease option on a potential site for a liquefied natural gas (LNG) receiving terminal in Freeport, Texas. In connection with the transaction, Cheniere is obligated to issue an additional 750,000 shares of common stock when it completes the permitting process and an LNG site is ready for construction to commence. The 500,000 shares issued in June were valued at \$1,150,000, or \$2.30 per share, the closing market price of the Company's common stock on the date of the transaction. Under the terms of the lease option, the Company is obligated to make semi-annual payments of \$125,000 commencing in September 2001 and continuing throughout the 3-year term of the lease option. Such option payments will be applied toward lease rentals upon execution of a long-term lease.

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

NOTE 4 - INVESTMENT IN UNCONSOLIDATED AFFILIATE

Cheniere accounts for its investment in Gryphon Exploration Company (Gryphon) using the equity method of accounting. Cheniere does not exercise control over Gryphon but exercises significant influence through board participation. Cheniere presently owns 100% of the outstanding common stock of Gryphon. At such time as Gryphon's preferred shares are converted to common shares, Cheniere's equity interest in Gryphon's earnings (losses) will be calculated using the Company's percentage ownership of common shares on a converted basis, which percentage is 23.6% as of November 7, 2001. Gryphon was formed on October 11, 2000. Results of Gryphon's operations for the three months and nine months ended September 30, 2001 are summarized as follows:

| | Period Ended September 30, 2001 | |
|---|---------------------------------|-------------|
| | Three Months | Nine Months |
| Net sales | \$ 273,733 | \$ 668,141 |
| Gross profit | 227,882 | 562,280 |
| Income from continuing operations | (46,074) | 77,445 |
| Net income (loss) | (46,074) | 77,445 |
| Accrued preferred dividends | (883,408) | (2,014,357) |
| Cheniere's equity in net loss of unconsolidated affiliate | (929,482) | (1,936,912) |

During the first nine months of 2001, Gryphon made cash calls totaling \$20,000,000 against its capital commitment of \$75,000,000. Cheniere declined to participate in such cash calls, and accordingly, its ownership interest in Gryphon, after the effect of converting preferred stock into common stock, was

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reduced from 36.8% at December 31, 2000 to 24.4% as of July 23, 2001. Cheniere's ownership interest was diluted further to 23.6% on July 27, 2001, when it transferred 6,740 shares of Gryphon common stock to Gryphon in connection with the sale of licenses to certain seismic data. (See Note 6 for additional discussion.)

In connection with the seismic license contributed to Gryphon upon its formation, Cheniere entered into an agreement with the third party issuer of the license. The agreement provides that Cheniere will pay a transfer fee to the third party in an aggregate amount of up to \$2,500,000. Such transfer fee is contingent upon Gryphon's completion of up to ten successful wells during the license period and within the license area. Upon Gryphon's completion of such a well, an amount of \$250,000 is payable by Cheniere one month after production commences. If such amount is not paid at the end of the one-month period, it will bear interest of 18% from such date until paid. Any transfer fees payable will be recorded as additions to Cheniere's investment in Gryphon. The first amount became payable in October 2001.

NOTE 5 - SALE OF PROPRIETARY DATA SET

In September 2001, Cheniere acquired for \$500,000 all rights to its 228-square-mile proprietary seismic database from the industry partner with whom it had jointly acquired the data in 1996 and 1997. Cheniere subsequently sold the seismic data to a seismic marketing company for \$2,500,000 and a 50% share in licensing proceeds generated by the marketing company. Proceeds from the September 2001 sale of 3D seismic data were recorded as a reduction to the Company's unproved oil and gas property costs. Cheniere retained a license to all of the seismic data for use in its exploration program.

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

NOTE 6 - RELATED PARTY TRANSACTIONS

In April 2001, the Company sold an interest in a prospect to Gryphon. Gryphon paid Cheniere \$225,563 for a 50% interest in the related leases and will pay a disproportionate share of the drilling costs on terms representative of what a third party would pay for participation in the prospect generated by Cheniere.

In June 2001, Cheniere sold to Gryphon for \$3,500,000 one of its two licenses to certain 3D seismic data covering 3,800 square miles. Gryphon paid \$853,197 in cash to Cheniere and assumed \$2,646,803 of Cheniere's obligations related to the reprocessing of the data. Cheniere is responsible for the cost of reprocessing the remainder of the data (\$1,061,692), which is expected to be completed in the first quarter of 2002. Cheniere retains one license to the seismic data.

In July 2001, Cheniere sold to Gryphon one of its two licenses to certain 3D seismic data covering an additional 3,000 square miles. Gryphon agreed to pay Cheniere's accounts payable of \$1.3 million and the remaining commitment of \$2.9 million related to the reprocessing of the data. In connection with the transaction, Cheniere also transferred to Gryphon 6,740 shares of Gryphon common stock, valued at approximately \$418,000, or \$62 per share, based on the fair market value of the Gryphon common stock which considered the fair value of such stock at the formation of Gryphon and any significant changes in Gryphon's operations or market conditions. The proceeds at closing of \$1.3 million were accounted for, after giving effect to the restatement described in Note 8, as a reduction to the carrying amount of Cheniere's investment in Gryphon (\$418,000) and unproved oil and gas properties (\$882,000). Cheniere retains one license to

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the seismic data. At September 30, 2001, Cheniere has included \$750,880 in accounts receivable and in accounts payable related to reprocessing charges which are to be paid by Gryphon.

In September 2001, the Company made a payment of \$40,000 to its chairman representing consulting fees for the months of October 2001 through January 2002. The balance is included in prepaid expenses at September 30, 2001.

NOTE 7 - SUBSEQUENT EVENTS

In October 2001, the Company received a cash call from Gryphon in the amount of \$10,000,000 (\$2,361,725 net to Cheniere). Cheniere declined to participate. In the event Warburg, Pincus Equity Partners, L.P. contributes the full \$10,000,000 to Gryphon on or before November 19, 2001, as it is entitled to do, Cheniere's as-converted, effective interest in Gryphon will be reduced from 23.6% to 20.2%.

NOTE 8 - THIRD QUARTER 2001 RESTATEMENT

The Company is restating its consolidated financial statements for the three and nine months ended September 30, 2001 to record the amount previously reported as a gain on sale of unconsolidated affiliate stock of \$425,678, as reductions to the basis of the Company's investment in Gryphon and to oil and gas properties (See Note 6). The Company is also adjusting the fair value of the stock used in allocating the sales proceeds between the investment account and oil and gas properties. The effect of this restatement on the significant line items affected is as follows:

| | Three months | | Nine Months | |
|---|--------------------|---------------|---------------|---------------|
| | As Reported | As Restated | As Reported | As Restated |
| Net Loss | \$(4,632,237) | \$(5,057,915) | \$(9,328,713) | \$(9,754,000) |
| Net Loss per share | \$ (0.35) | \$ (0.38) | \$ (0.72) | \$ (0.75) |
| | September 30, 2001 | | | |
| | As Reported | As Restated | | |
| Oil and Gas Properties | \$19,513,958 | \$19,257,817 | | |
| Investment in Unconsolidated Affiliate | \$ 4,704,015 | \$ 4,534,478 | | |

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

GENERAL

The Company's unaudited consolidated financial statements and notes thereto relate to the three-month and nine-month periods ended September 30, 2001 and 2000. These statements, the notes thereto and the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as amended, contain detailed information that should be referred to in conjunction with the following discussion.

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PRODUCTION AND PRODUCT PRICES

Information concerning the Company's production and average prices received for the three-month and nine-month periods ended September 30, 2001 and 2000 is presented in the following table:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------|-------------------------------------|---------|------------------------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| Production | | | | |
| Oil (Bbls) | 355 | - | 1,880 | 3,041 |
| Gas (Mcf) | 141,037 | 280,106 | 448,980 | 1,227,281 |
| Gas equivalents (Mcf) | 143,167 | 280,106 | 460,260 | 1,245,527 |
| Average sales prices | | | | |
| Oil (per Bbl) | \$ 26.15 | \$ - | \$ 28.92 | \$ 29.22 |
| Gas (per Mcf) | \$ 2.90 | \$ 4.56 | \$ 4.92 | \$ 3.47 |
| Gas equivalents (per Mcfe) | \$ 2.92 | \$ 4.56 | \$ 4.92 | \$ 3.49 |

RESULTS OF OPERATIONS

COMPARISON OF THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2000 - The Company's operating results for the three months ended September 30, 2001 reflect a loss of \$5,057,915, or \$0.38 per share (basic and fully diluted), compared to a loss of \$81,131, or \$0.01 per share (basic and fully diluted) a year earlier. The most significant factor in Cheniere's loss for the current quarter is a non-cash ceiling test write-down of \$2,966,603.

In the three months ended September 30, 2001, Cheniere recorded oil and gas revenues of \$395,540 compared to \$1,198,052 a year earlier. The decrease in revenues related to a decline in production from 280,106 million cubic feet equivalents (Mcf) for the 2001 third quarter to 143,167 Mcfe for the same period in 2001 and a decrease in product prices from \$4.56 to \$2.92 per Mcfe of gas. The decrease in production reflects depletion of the zones currently producing in the Company's two wells. Production costs totaled \$68,943 for the third quarter of 2001 and \$120,494 for the respective 2000 quarter, with such decrease relating primarily to the effect of lower production rates on severance taxes.

Depreciation, depletion and amortization expense decreased to \$332,570 for the 2001 third quarter compared to \$901,084 for the same period in 2000. Depreciation, depletion and amortization of oil and gas property costs decreased to \$292,059 for the 2001 quarter compared to \$785,667 for the same period in 2000, principally due to lower levels of production in 2001. Depreciation of fixed assets decreased to \$49,275 in the 2001 quarter, compared to \$115,417 during the same period in 2000, as a result of Cheniere's transfer of assets to Gryphon in October 2000.

At September 30, 2001, the Company's capitalized costs exceeded its capitalization ceiling by \$2,966,603, resulting in a non-cash ceiling test write-down. The write-down was a result of a decline in oil and gas prices to

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\$22.00 per barrel and \$2.16 per Mcf, respectively, at September 30, 2001 (compared to \$28.00 per barrel and \$3.68 per Mcf at June 30, 2001). If oil and gas prices continue to decline, the Company may be required to record additional write-downs in the future.

General and administrative (G&A) expenses, net of recoveries and amounts capitalized, were \$1,157,574 and \$262,510 in the third quarters of 2001 and 2000, respectively. Total G&A expenses increased by \$249,730 to \$1,344,574 from the total of \$1,094,844 a year earlier. Legal and professional fees increased by \$243,129 to \$340,316 in the third quarter of 2001 principally related to the Company's project to develop an LNG receiving terminal business and the acquisition of sites for such terminals in 2001. Consulting expenses increased by \$243,449 to \$315,629, also related to the LNG project. Salaries and benefits decreased by \$287,973 to \$363,228 in 2001 due to fewer employees as a result of the formation of, and transfer of certain employees to, Gryphon in October 2000. Cheniere capitalized \$187,000 of G&A expenses to oil and gas property costs in the third quarter of 2001 compared to \$459,000 during the same period of 2000, the change being a direct result of the reduced number of Cheniere's exploration staff following the formation of Gryphon in October 2000. Finally, Cheniere received no management fees in 2001, compared to \$373,333 which served to offset G&A expenses in the 2000 quarter.

Cheniere accounts for its investment in Gryphon using the equity method of accounting. Cheniere does not exercise control over Gryphon but exercises significant influence through board participation. Cheniere's equity interest in Gryphon's operating results for the three months ended September 30, 2001 was a loss of \$929,482 during the same period of 2000, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net loss of \$46,074 and reducing such result for Gryphon's preferred dividends earned but undeclared for the quarter of \$883,408. At such time as Gryphon's preferred shares are converted to common shares, Cheniere's equity interest in Gryphon's earnings (losses) will be calculated using its percentage ownership of common shares on an as-converted basis, which percentage is 23.6% as of November 7, 2001. In October 2001, the Company received a cash call from Gryphon in the amount of \$10,000,000 (\$2,361,725 net to Cheniere). Cheniere declined to participate. In the event Warburg, Pincus Equity Partners, L.P. (Warburg) contributes the full \$10,000,000 to Gryphon on or before November 19, 2001, as it is entitled to do, Cheniere's as-converted, effective interest in Gryphon will be reduced from 23.6% to 20.2%. Gryphon commenced operations on October 11, 2000.

COMPARISON OF NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2000 - The Company's operating results for the nine months ended September 30, 2001 reflect a net loss of \$9,754,391, or \$0.75 per share (basic and fully diluted) compared to a net loss of \$25,373, or \$0.00 per share (basic and fully diluted), during the same period of 2000. The most significant factors in Cheniere's loss for the 2001 period are non-cash ceiling test write-downs of \$2,159,645 in the second quarter and \$2,966,603 in the third quarter, totaling \$5,126,248 for the nine months.

In the first nine months of 2001, Cheniere recorded revenues of \$2,142,028 compared to \$4,102,735 in 2000. The decrease in revenues resulted principally from a decline in production from 1,245,547 Mcfe for the nine-month period ended September 30, 2000 compared to 460,260 Mcfe for the same period in 2001 offset by the effect of an increase in product prices from \$3.49 to

\$4.92 per Mcfe. The decrease in production reflects depletion of the zones currently producing in the Company's two wells. Production costs totaled \$276,006 for the 2001 period and \$316,227 for the 2000 period, with the decrease relating primarily to the effect of lower production rates on severance taxes.

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Depreciation, depletion and amortization expense decreased to \$1,093,202 for the first nine months of 2001 compared to \$2,897,431 in the first nine months of 2000. Depreciation, depletion and amortization of oil and gas property costs decreased to \$938,928 for the 2001 period compared to \$2,563,741 for the 2000 period, principally due to lower levels of production in 2001. Depreciation of fixed assets decreased to \$144,674 in the 2001 period, compared to \$333,690 during the same period of 2000, as a result of Cheniere's transfer of assets to Gryphon in October 2000.

At September 30, 2001, the Company's capitalized costs exceeded its capitalization ceiling by \$2,966,603, resulting in a non-cash ceiling test write-down. This write-down was a result of a decline in oil and gas prices to \$22.00 per barrel and \$2.16 per Mcf at September 30, 2001 (compared to \$28.00 per barrel and \$3.68 per Mcf at June 30, 2001). At June 30, 2001, the Company's capitalized costs exceeded its capitalization ceiling by \$2,159,645, also resulting in a ceiling test write-down. The write-down was a result of a decline in oil and gas prices to \$28.00 per barrel and \$3.68 per Mcf at June 30, 2001 (compared to \$29.72 per barrel and \$10.71 per Mcf at December 31, 2000).

G&A expenses, net of recoveries and amounts capitalized, were \$3,479,732 and \$932,274 in the first nine months of 2001 and 2000, respectively. Total G&A expenses increased by \$916,791 to \$4,087,732 in the 2001 period from the total of \$3,170,941 a year earlier. Legal and professional fees increased by \$836,865 to \$1,112,491 principally related to the Company's project to develop an LNG receiving terminal business and the acquisition of sites for such terminals in 2001. Consulting expenses increased by \$661,531 to \$873,449, also related to the LNG project. Salaries and benefits decreased by \$625,100 to \$1,112,344 in 2001 due to fewer employees as a result of the formation of, and transfer of certain employees to, Gryphon in October 2000. Also included in the 2001 period were \$93,000 in non-cash expenses related to the issuance of warrants to a consultant who provided services to the Company including assisting in listing Cheniere's stock on The American Stock Exchange. Cheniere capitalized \$608,000 of G&A expenses to oil and gas property costs in the first nine months of 2001 compared to \$1,262,000 a year earlier, the change being a direct result of the reduced number of Cheniere's exploration staff following the formation of Gryphon in October 2000. Finally, Cheniere received no management fees in 2001, compared to \$976,667 which served to offset G&A expenses in the 2000 period.

Cheniere accounts for its investment in Gryphon using the equity method of accounting. Cheniere does not exercise control over Gryphon but exercises significant influence through board participation. Cheniere's equity interest in Gryphon's operating results for the nine-months ended September 30, 2001 was \$1,936,912, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net income of \$77,445 during the same period in 2000 and reducing such result for Gryphon's preferred dividends earned but undeclared for the period of \$2,014,357. At such time as Gryphon's preferred shares are converted to common shares, Cheniere's equity interest in Gryphon's earnings (losses) will be calculated using its percentage ownership of common shares on an as-converted basis, which percentage is 23.6% as of November 7, 2001. In October 2001, the Company received a cash call from Gryphon in the amount of \$10,000,000 (\$2,361,725 net to Cheniere). Cheniere declined to participate. In the event Warburg contributes the full \$10,000,000 to Gryphon on or before November 19, 2001, as it is entitled to do, Cheniere's as-converted, effective interest in Gryphon will be reduced from 23.6% to 20.2%. Gryphon commenced operations on October 11, 2000.

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Cash balances and cash flows from current operations will not be adequate to meet the future liquidity requirements of the Company. The Company expects that future liquidity requirements will be met by one or more of the following: the divestiture of producing oil and gas properties, sales of portions of its working interest in the prospects within its exploration program, sale to an industry partner of a participation in the Company's exploration program, sale of proprietary 3D seismic data licenses, sale of a participation interest in the Company's LNG project, and/or additional offerings of the Company's equity securities. Management expects to meet all of its liquidity requirements for the next twelve months through such sources. In the event that the Company is unable to obtain additional capital from one or more of these sources, its operations could be adversely affected.

In its second quarter report, the Company stated that subsequent to June 30, 2001, it had received and was evaluating offers for the sale of its producing oil and gas properties, for the sale of an interest in certain prospects, for the sale of a portion of its 3D seismic data, and for the sale of a participation interest in its LNG project. Due to market conditions at the time, the Company elected not to sell its producing oil and gas properties in what it deemed to be a time of temporarily depressed gas prices. Cheniere has sold interests in certain of its prospects, generating proceeds totaling approximately \$226,000 in April 2001, \$517,000 in August 2001 and \$410,000 in October 2001. Cheniere also completed the sale of its proprietary 3D seismic data in September 2001 for \$2,500,000 and a share in licensing proceeds generated by the purchaser. The Company rejected an offer to purchase its LNG project for securities valued at \$10,000,000. The offer rejected by the Company was subject to customary conditions and restrictions. There can be no assurance that the Company could actually receive \$10,000,000 for its LNG project or obtain financing secured by such project. The Company has retained Petrie Parkman & Co. to assist in arranging financing for its LNG project.

Cash Flow from Operating Activities

Due to declines in the production rates of its two wells and expenses related to the development of an LNG receiving terminal business, the Company reported a \$1,325,029 net use of cash in its operations (before changes in operating assets and liabilities) for the nine months ended September 30, 2001. At September 30, 2001, the Company had a working capital deficit of \$441,017.

Private Placements of Equity

In February 2001, the Company issued to one investor 250,000 units at a cash purchase price of \$2.00 per unit (for an aggregate offering price of \$500,000), each unit representing one share of common stock and one-sixth warrant to purchase a share of common stock. Warrants issued in connection with this sale of units are exercisable at a price of \$3.00 per share on or before December 31, 2003. These units were sold pursuant to offers made exclusively by accredited investors, in reliance on the exemption from registration provided by Section 506 of Regulation D. No underwriting discounts or commissions were made with respect to the offering. Net proceeds from the offering were \$493,329.

Exploration Funding

On October 11, 2000, Cheniere completed a transaction with Warburg to fund its exploration program on approximately 8,800 square miles of seismic data in the Gulf of Mexico through a newly formed affiliated company, Gryphon. Cheniere contributed selected assets and liabilities in exchange for 100% of the common stock of Gryphon (a 36.8% effective interest after conversion of preferred stock held by Warburg) and \$2,000,000 in cash. Warburg contributed \$25,000,000 in cash and received preferred stock, with an 8% cumulative preferred dividend,

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convertible into 63.2% of Gryphon's common stock. Cheniere and Warburg also agreed, under certain circumstances, to contribute an additional \$75,000,000 to Gryphon, proportionate to their respective ownership interests.

During the first nine months of 2001, Gryphon made cash calls totaling \$20,000,000. Cheniere declined to participate in such cash calls, and accordingly, its ownership interest in Gryphon, after the effect of converting preferred stock into common stock, was reduced from 36.8% at December 31, 2000 to 24.4% as of July 23, 2001. Cheniere's ownership interest was diluted further to 23.6% on July 27, 2001, when it transferred 6,740 shares of Gryphon common stock to Gryphon in connection with the sale of licenses to certain seismic data. In October 2001, the Company received a cash call from Gryphon in the amount of \$10,000,000 (\$2,361,725 net to Cheniere). Cheniere declined to participate. In the event Warburg contributes the full \$10,000,000 to Gryphon on or before November 19, 2001, as it is entitled to do, Cheniere's as-converted, effective interest in Gryphon will be reduced from 23.6% to 20.2%.

Seismic Reprocessing

Between June 2000 and October 2000, Cheniere acquired licenses to approximately 6,800 miles of seismic data primarily in the shallow waters offshore Texas and also in the West Cameron area in the Gulf of Mexico (the Offshore Texas Project Area) in separate transactions with Seitel Data Ltd., a division of Seitel Inc., and JEBCO Seismic, L.P. Cheniere committed to reprocess all of the data from the Offshore Texas Project Area at a cost of approximately \$8,500,000, payable in installments beginning in October 2000 and continuing through the final delivery of reprocessed data, which is expected to occur in the fourth quarter of 2001. Deliveries of reprocessed data began in May 2001. After the assumption of liabilities by Gryphon related to its purchase of one license to the data (discussed below), Cheniere's remaining liability for reprocessing is \$1,061,692.

Sale of Licenses to Seismic Data

In June and July 2001, Cheniere sold licenses to 6,800 square miles of seismic data to Gryphon. Cash proceeds to Cheniere were \$853,197. Gryphon also agreed to pay \$6,820,824 of Cheniere's obligation to fund the reprocessing of the seismic data. In connection with the transaction, Cheniere also transferred 6,740 shares of Gryphon common stock to Gryphon. Cheniere retains one license to all of the data in the Offshore Texas Project Area.

Sale of Proprietary Seismic Data

In September 2001, Cheniere acquired for \$500,000 all rights to its 228-square-mile proprietary seismic database from the industry partner with whom it had jointly acquired the data in 1996 and 1997. Cheniere subsequently sold the seismic data to a seismic marketing company for \$2,500,000 and a 50% share in licensing proceeds generated by the marketing company. Proceeds from the September 2001 sale of 3D seismic data were recorded as a reduction to the Company's unproved oil and gas property costs. Cheniere retains a license to all of the seismic data for use in its exploration program.

RECENTLY ISSUED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

In early July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. The standards revise accounting for business combinations by:

- . prohibiting the pooling of interest method of accounting and

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requiring the purchase method of accounting to be used on all business combinations initiated after June 30, 2001;

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- . requiring that separately identifiable intangible assets, other than goodwill, be recorded as assets. These intangible assets must either be amortized over their useful lives or, if they have indefinite useful lives, not be amortized and periodically tested for impairment; and
- . ceasing all amortization of goodwill, instead requiring it be tested at least annually for impairment. In addition, existing goodwill on business combinations completed before July 1, 2001 will no longer be amortized after December 31, 2001 and should be tested annually for impairment.

Cheniere will account for all future business combinations under SFAS No. 141. Effective January 1, 2002, Cheniere will adopt SFAS No. 142 as required. The impact of these standards will be evaluated in future periods, but it is not expected to be material.

The FASB also issued SFAS No. 143, Accounting for Asset Retirement Obligations. This statement significantly changes the method of accruing for costs associated with the retirement of fixed assets (e.g., oil and gas production facilities) for which an entity is legally obligated to incur. We will be further evaluating the impact and timing of implementation of SFAS No. 143. Implementation of this standard is required no later than January 1, 2003, with earlier adoption encouraged.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which clarified certain implementation issues arising from SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. This standard is effective January 1, 2002, and the Company is currently assessing its impact.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of the Company. The Company and its representatives may from time to time make written or verbal forward-looking statements, including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to its stockholders.

All statements, other than statements of historical facts so included in this report that address activities, events or developments that the Company intends, expects, projects, believes, or anticipates will or may occur in the future are forward-looking statements within the meaning of the Act, including, without limitation; (i) statements regarding the Company's business strategy, plans and objectives and (ii) statements expressing beliefs and expectations regarding the ability of the Company to successfully raise the additional capital necessary to meet the obligations under its 3-D seismic master license agreement, the ability of the Company to secure the leases necessary to facilitate anticipated drilling activities and the ability of the Company to attract additional working interest owners to participate in its exploration and development activities. These forward-looking statements are, and will be, based on management's then current views and assumptions regarding future events.

FACTORS THAT MAY IMPACT FORWARD-LOOKING STATEMENTS OR FINANCIAL PERFORMANCE

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The following are some of the important factors that could affect the Company's financial performance or could cause actual results to differ materially from estimates contained in the Company's forward-looking statements:

-- The Company's ability to generate sufficient cash flows to support capital expansion plans, obligations to repay debt and general operating activities.

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-- The Company's ability to obtain additional financing from lenders, through debt or equity offerings, or through sales of a portion of its interest in prospects.

-- The Company's ability to encounter hydrocarbons in sufficient quantities to be economically viable, and its ability to overcome the operating hazards which are inherent in the oil and gas industry and which are intensified by the Company's concentration of its producing oil and gas assets in few properties.

-- Changes in laws and regulations, including changes in accounting standards, taxation requirements (including tax rate changes, new tax laws and revised tax law interpretations) and environmental laws in domestic or foreign jurisdictions.

-- The uncertainties of litigation as well as other risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings.

The foregoing list of important factors is not exclusive.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company produces and sells natural gas, crude oil and condensate. As a result, the Company's financial results can be significantly affected as these commodity prices fluctuate widely in response to changing market forces. The Company has not entered into any derivative transactions.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The information contained in Notes 3 and 6 to the Consolidated Financial Statements is incorporated herein by reference.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Each of the following exhibits is incorporated by reference or filed herewith:

| Exhibit No. | Description |
|-------------|---|
| ----- | ----- |
| 3.1 | Amended and Restated Certificate of Incorporation of Cheniere Energy, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 1999) (File No. 0-09092) |
| 3.2 | Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Cheniere Energy, Inc. (incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 1999) |

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(File No. 0-09092)

3.3 By-laws of Cheniere as amended through April 7, 1997 (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1998) (File No. 0-09092)

(b) Current Reports on Form 8-K: None.

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHENIERE ENERGY, INC.

/s/ Don A. Turkleson

Don A. Turkleson
Chief Financial Officer (on behalf of the
registrant and as principal accounting
officer)

Date: May 13, 2002

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