China Natural Gas, Inc.
Form 10-Q/A
November 15, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2011.

or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to .

Commission File Number 001-34373

CHINA NATURAL GAS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	98-0231607 (I.R.S. Employer Identification No.)

19th Floor, Building B, Van Metropolis
35 Tang Yan Road, Hi-Tech Zone
Xi'an, 710065, Shaanxi Province, China
(Address of Principal Executive Offices including zip code)

+86-29-8832-7391
(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 Exchange Act 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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every, Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No þ

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company

Large Accelerated Filer ¨ Accelerated Filer þ Non-Accelerated Filer ¨ Smaller reporting

(Do not check if a smaller reporting company) company ¨

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

The number of shares outstanding of the registrant's common stock as of November 8, 2011 was 21,458,654.

Explanatory Note

The sole purpose of this Amendment No. 1 to China Natural Gas, Inc.'s (the "Company") Quarterly Report on Form 10-Q (the "Form 10-Q") for the quarterly period ended September 30, 2011, as filed with the Securities and Exchange Commission (the "SEC") on November 14, 2011, is to furnish Exhibit 101 to the Form 10-Q in accordance with Rule 405 of Regulation S-T. Exhibit 101 provides the financial statements and related notes from the Form 10-Q formatted in XBRL (eXtensible Business Reporting Language).

No other changes have been made to the Form 10-Q. This Amendment No. 1 to the Form 10-Q does not reflect events that may have occurred subsequent to the original filing date, and does not modify or update in any way the disclosures made in the original Form 10-Q.

Item 6. Exhibits

Exhibits:
(b) Exhibits

Exhibit No.	Description
31.1	Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)
31.2	Certification of Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)
32.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)
32.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)
101	The following financial statements from China Natural Gas, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets (unaudited); (ii) the Consolidated Statements of Income (unaudited); (iii) the Consolidated Statements of Stockholders' Equity and Comprehensive Income (unaudited); (iv) the Consolidated Statements of Cash Flows (unaudited); and, (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text.*

(1) Filed as an exhibit to the original Form 10-Q for the quarterly period ended September 30, 2011, filed November 14, 2011.

* Pursuant to Rule 406T of Regulation S-T, the interactive files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

	CHINA NATURAL GAS, INC.	
November 15, 2011	By:	/s/ Shuwen Kang Shuwen Kang Chief Executive Officer (Principal Executive Officer)
November 15, 2011	By:	/s/ Bode Xu Bode Xu Chief Financial Officer (Principal Financial Officer)

3

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nding in 2009 compared to 2008.

Other income, net.   Other income, net increased $2,240 to $2,433 compared to $193 for the first quarters ended March 31, 2009 and 2008, respectively. In connection with our final payment in January 2009 on the 2004 Matrix debt settlement agreement, and receipt of the formal release from the creditor of any remaining obligations to them, we recognized a $2,359 gain on the reversal of the remaining carrying value of the accrued liability.

In addition, in February 2009, the Company sold precious metal targets that remained after our Palo Alto, California manufacturing facility was closed in 2006 and production was moved to Germany.   The targets had previously been expensed in 2006, and therefore, the sale resulted in a net gain of $346 to other income in the first quarter of 2009.

These gains were offset by $189, representing our 50% share of net losses incurred by our joint venture, Southwall Insulating Glass, LLC, and a $264 fluctuation quarter over quarter in our foreign exchange loss, relating to transactions with foreign customers that were denominated in foreign currencies, principally the Euro.

Income before provision for income taxes. Pre-tax income increased $278 to $2,436 in the first quarter of 2009 compared to $2,158 for the first quarter ended March 31, 2008. This decrease was primarily due to a significant decrease in operating income resulting from lower sales volume, offset by the significant increase in other income resulting from the reversal of the long term reserve associated with Matrix lease settlement.

Provision for income taxes. The increase in the provision for income taxes in the three months ended March 31, 2009 compared to the same period in 2008 is primarily related to higher taxable income in 2009 of our foreign subsidiary, Southwall Europe GmbH, or SEG.

For the three months ended March 31, 2009, the Company's effective tax rate was a provision of 6.5%. As allowed by FASB Interpretation No. 18, "Accounting for Income Taxes in Interim Periods" (FIN 18), we have used the actual effective tax rate for the three months ended March 31, 2009 as our best estimate for the tax rate for the year ending December 31, 2009, as a reliable estimate for the full year cannot be made at this time. In addition, to the extent our expected profitability changes during the year, the effective tax rate would be revised to reflect any changes in the projected profitability. This rate differs from the statutory federal rate of 34% primarily due to the realization of a portion of the Company's valuation allowance on the U.S. deferred tax asset due to the income generated by the U.S. operations through the first three months of 2009.

Index

Realization of deferred tax assets is dependent upon the existence of sufficient taxable income. The Company continues to maintain a valuation allowance against its remaining net deferred tax assets in the United States, as Management does not believe the realization of those net deferred tax assets is "more likely than not". Management has made this determination based upon a number of factors, including the reversal of existing taxable temporary differences, historical earnings, expected future taxable income, and the availability of tax planning strategies.

Deemed dividend on preferred stock. We accrued $122 of deemed dividend on preferred stock in each of the first three months of 2009 and 2008, respectively. The holders of our secured convertible promissory notes converted those notes to shares of Series A preferred stock in December 2004. The Series A Preferred Stock accrues cumulative dividends at the rate of 10% per annum.

Liquidity and Capital Resources

Liquidity

Our principal liquidity requirements are for working capital, consisting primarily of accounts receivable and inventories, for debt repayments and capital expenditures. We believe that because of the production cycle of certain of our products, our inventories will continue to represent a significant portion of our working capital.

Our cash and cash equivalents decreased $2,992 from $10,768 at December 31, 2008 to $7,776 at March 31, 2009. The primary causes for the decline in cash were the final payment of the Matrix obligation and timing differences in the collection of accounts receivable and payment of accrued liabilities.

Specifically, cash used in operating activities of $1,247 for the first three months of 2009 was primarily the result of net income of $2,279, non-cash depreciation of $622, non-cash stock compensation expense of $92 offset by a gain on the settlement of the Matrix obligation of $2,359, an increase in accounts receivable of $1,053 resulting from the timing of first quarter 2009 sales when compared to fourth quarter 2008 sales, a decrease in accounts payable and accrued liabilities of $501 and an increase in inventory of $361.

Cash used in investing activities for the first three months of 2009 was $82 and was the net result of capital expenditures of $371 partially offset by a first quarter 2009 reclassification of $261 from restricted cash to cash and cash equivalents associated with the expiration of contractual obligations relating to consigned precious metals in Germany which required a cash deposit.

Cash used in financing activities for the first three months of 2009 was $1,228, which included the final debt payment with Matrix Funding Corporation for $995. The balance of cash outflow for financing activities was associated with scheduled payments of $233 related to repayments of other term debt and capital lease obligations.

We entered into an agreement with the Saxony government in May 1999, under which we receive investment grants. As of March 31, 2009, we had received grants of 5,000 Euros or $5,000 at the historical exchange rate and accounted for these grants by applying the proceeds received to reduce the cost of our fixed assets in our Dresden manufacturing facility. As of March 31, 2009, all government grants had been applied for or repaid.

Index

Borrowing arrangements

Credit Agreement with Wells Fargo Bank

In May 2008, we entered into a new Credit Agreement with Wells Fargo Bank ("Bank"). The Credit Agreement provides for a $3 million revolving line of credit, under which we may, from time to time, borrow up to 85% of eligible accounts receivables. Amounts borrowed under the facility bear interest at prime plus 0.75% annualized on the average daily financed amount outstanding. All borrowings under the facilities are collateralized by our assets in the United States and are subject to certain covenants including minimum cumulative quarterly net income, minimum net worth and a maximum annual cap on unfinanced capital expenditures. On November 28, 2008, an amendment to the Credit Agreement was executed that adjusted the minimum monthly book net worth covenant due to the devaluation of the Euro. This amendment became effective October 31, 2008.

Generally, if any event of default occurs, the Bank may declare all outstanding indebtedness under the Credit Agreement to be due and payable. The maturity date of the facility is May 19, 2009. We are currently pursuing a renewal on the credit line, although no assurances can be given that we will be successful in obtaining a new or replacement credit facility due to restrictive credit markets that have resulted from the current, worldwide economic conditions. We believe that even if we are unable to obtain a new loan agreement with the Bank, or any other lender, our cash reserves are adequate to maintain operations.

The foregoing does not purport to be a complete statement of the parties' rights and obligations under the Credit Agreement, and the transactions contemplated thereby or a complete explanation of material terms thereof. We are in compliance with all covenants, and as of March 31, 2009, no amounts under this Credit Agreement were outstanding.

Borrowing Arrangements with German Banks

Our borrowing arrangements with various German banks as of March 31, 2009 are described in Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements (Item 1. "Financial Statements") set forth herein. We are in compliance with all of the covenants of the German bank loans and capital leases, and we have classified $1,000 and $3,463 outstanding under the German bank loans as a short-term liability and long-term liability, respectively, at March 31, 2009.

As of March 31, 2009, we were in compliance with all financial covenants under all financial instruments.

Capital expenditures

We expect to spend approximately $1,200 in 2009 on upgrades and refurbishment of our production machines and research and development tools. We spent approximately $371 in capital expenditures during the first three months of 2009.

Index

Future payment obligations

Our future payment obligations on our borrowings pursuant to our term debt, non-cancelable operating and capital leases and other non-cancelable contractual commitments were as follows at March 31, 2009:

	Total	Less Than 1 Year	1-3 Years	3-5 Years	Greater Than 5 Years
Contractual Obligations:					
Term debt (1)	$ 4,111	$ 819	$ 816	$ 660	$ 1,816
Capital lease obligations (1)	699	300	387	12	--
Term debt and capital lease obligation Interest (1)	1,365	288	417	305	355
Other obligations (2)	2,079	--	--	- --	2,079
Operating leases (3)	976	475	501	- -	--
Indium purchase commitments (4)	115	115	--	--	--
Total Contractual Cash Obligations	$ 9,345	$ 1,997	$ 2,121	$ 977	$ 4,250

(1) Represents the principal and interest allocations of loan and capital lease agreements with Portfolio Financing Servicing Company, Varilease Finance Inc. and several German Banks.

(2) Represents accumulated dividends accrual on Series A Preferred Stock (greater than five years).

(3) Represents the remaining rents owed on buildings we rent in Palo Alto, California.

(4) Represents commitments to purchase a total of approximately 210 kg of Indium.

As of March 31, 2009, we maintained 30,174 square feet of office and warehouse space at 3780-3788 Fabian Way, Palo Alto, California 94303. In 2009, the monthly rent payments are $38 and will increase annually at a rate of 3% through the expiration of the lease.

As of March 31, 2009, we also had a lease obligation for 9,200 square feet at 3961 East Bayshore Road, Palo Alto, California 94303. The monthly rent payments for this facility are $6.

Item 3--Quantitative and Qualitative Disclosures about Market Risk

We are exposed to the impact of interest rate changes, foreign currency fluctuations, and changes in the market values of our investments.

Financing risk: The interest rate on one of our German loans has been reset to the prevailing market rate of 5.75% and another of our German loans will have its interest rate reset to the prevailing market rate on September 16, 2009. Fluctuations or changes in interest rates may adversely affect our expected interest expense. The effect of a 10% fluctuation in the interest rate on our line of credit and term debt would have had an immaterial effect on our interest expense for the first three months of 2009.

Investment risk: We invest our excess cash in money market accounts and, by practice, make every effort to limit the amount of exposure by investing with strong, well-known institutions. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely affected due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. The effect of a 10% fluctuation in the interest rate on our excess cash investments would not have had a material effect on our interest income in the first three months of 2009.

Index

Foreign currency risk: International revenues (defined as sales to customers located outside of the United States) accounted for approximately 78% of our total sales in the first quarter of 2009. Approximately

60% of our international revenues were denominated in Euros in the first quarter of 2009. The remaining 40% of our international sales were denominated in US dollars. In addition, certain transactions with foreign suppliers are denominated in foreign currencies. The effect of a 10% fluctuation in the Euro exchange rate would have had an effect of approximately $310 on net revenues for the first quarter of 2009.

Item 4-Controls and Procedures

(a) Evaluation and Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded as of the end of the period covered by this report, that our disclosure controls and procedures were effective, such that the information relating to our company, including our consolidated subsidiaries, required to be disclosed in our Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls. There were no changes during the first three months of 2009 in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Internal control systems, no matter how well designed and operated, have inherent limitations. Consequently, even a system which is determined to be effective cannot provide absolute assurance that all control issues have been detected or prevented. Our systems of internal controls are designed to provide reasonable assurance with respect to financial statement preparation and presentation.

PART II--OTHER INFORMATION

Item 1--Legal Proceedings

We may be a party to various pending judicial and administrative proceedings arising in the ordinary course of business. While the outcome of the pending proceedings cannot be predicted with certainty, based on our review, we believe that any unrecorded liability that may result is not likely to have a material effect on our liquidity, financial condition or results of operations.

Item 1A—Risk Factors

The following information updates should be read in conjunction with the information disclosed in Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 26, 2009.

Financial Risks

There have been no significant changes in financial risk factors for the three month period ended March 31, 2009. See the information set forth in the section entitled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

25

Index

Operational Risks

There have been no significant changes in operational risk factors for the three month period ended March 31, 2009. See the information set forth in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Item 2-- Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3--Defaults upon Senior Securities

None.

Item 4--Submission of Matters to a Vote of Stockholders

None.

Item 5--Other Information

None.

Item 6--Exhibits

(a) Exhibits

Exhibit Number	Item
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32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350

Index

SIGNATURES

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

Dated: May 14, 2009

Southwall Technologies Inc.

By: /s/ Dennis F. Capovilla
Dennis F. Capovilla
Chief Executive Officer

By: /s/ Mallorie Burak
Mallorie Burak
Chief Accounting Officer