

MAGNEGAS CORP
Form 10-Q
May 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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: 001-35586

MagneGas Corporation

(Exact name of registrant as specified in its charter)

Delaware **26-0250418**
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

11885 44th Street North **33762**

Clearwater, Florida
(Address of principal executive offices) (Zip Code)

(727) 934-3448
(Registrant's telephone number, including area code)

150 Rainville Rd
Tarpon Springs, Florida 34689
(Former name, former address and former fiscal year, if changed since last report)

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.

Large accelerated filer `` Accelerated filer ``
Non-accelerated filer `` (do not check if smaller reporting company) Smaller reporting company x

Edgar Filing: MAGNEGAS CORP - Form 10-Q

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 May 10, 2016 there were 45,899,534 shares of common stock, \$0.001 par value, issued and outstanding.

MAGNEGAS CORPORATION

TABLE OF CONTENTS

FORM 10-Q REPORT

March 31, 2016

	Page Number
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements.</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	28
Item 4. <u>Controls and Procedures.</u>	28
<u>PART II - OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings.</u>	29
Item 1A. <u>Risk Factors.</u>	29
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	29
Item 3. <u>Defaults Upon Senior Securities.</u>	29
Item 4. <u>Mine Safety Disclosures</u>	29
Item 5. <u>Other Information.</u>	29
Item 6. <u>Exhibits.</u>	30
<u>SIGNATURES</u>	31

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

	Page Number
<u>Balance Sheets as of March 31, 2016 (unaudited) and December 31, 2015 (restated)</u>	4
<u>Statements of Operations for the three months ended March 31, 2016 and 2015 (unaudited)</u>	5
<u>Statement of Changes in Stockholders' Equity (unaudited)</u>	6
<u>Statements of Cash Flows for the three months ended March 31, 2016 and 2015 (unaudited)</u>	7
<u>Notes to Unaudited Financial Statements</u>	8

MagneGas Corporation**Balance Sheets**

	March 31, 2016 (Unaudited)	December 31, 2015 (Restated*)
Assets		
Current Assets		
Cash and cash equivalents	\$2,217,442	\$5,319,869
Accounts receivable, net of allowance for doubtful accounts of \$124,568 and \$109,568, respectively	328,291	373,006
Inventory	2,337,019	2,362,014
Prepaid and other current assets	390,093	320,431
Total Current Assets	5,272,845	8,375,320
 Property and equipment, net of accumulated depreciation of \$1,582,589 and \$1,467,123, respectively	 6,522,797	 6,004,990
 Intangible assets, net of accumulated amortization of \$359,355 and \$345,382, respectively	 479,043	 493,016
Investment in joint ventures	767,965	754,601
Security deposits	28,524	24,113
Goodwill	2,108,781	2,108,781
Total Assets	\$15,179,955	\$17,760,821
 Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$437,759	\$425,294
Accrued expenses	280,835	504,855
Deferred revenue and Customer Deposits	412,500	412,500
Notes Payable (equipment)-Short Term	9,329	7,891
Change in Derivative Liability	285,044	1,241,841
Total Current Liabilities	1,425,467	2,592,381
 Long Term Liabilities		
Note payable on headquarters building & equipment	552,313	552,177
Total Liabilities	\$1,977,780	\$3,144,558
 Stockholders' Equity		
Preferred stock: \$0.001 par; 10,000,000 authorized; 1,000,000 issued and outstanding	1,000	1,000
Common stock: \$0.001 par; 90,000,000 authorized; 45,749,534 and 45,599,535 issued and outstanding, respectively	45,749	45,599
Additional paid-in capital	50,865,373	50,658,216
Accumulated deficit	(37,709,947)	(36,088,552)

Total Stockholders' Equity	13,202,175	14,616,263
Total Liabilities and Stockholders' Equity	\$15,179,955	\$17,760,821

* see Note 2

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

MagneGas Corporation**Statements of Operations****(Unaudited)**

	Three Months Ended March 31,	
	2016	2015
Revenue:	\$665,663	\$545,648
Direct costs	365,763	299,325
	299,900	246,323
Operating Expenses:		
Selling, General and Administration	2,552,904	1,758,948
Research and development	161,294	62,426
Depreciation and amortization	153,953	136,923
Total Operating Expenses	2,868,151	1,958,297
Operating Income (Loss)	(2,568,251)	(1,711,974)
Other Income and (Expense):		
Net Interest	(10,806)	(4,770)
Loss on Sale of Unused Property	-	(483,630)
Other Income	865	2,822
Change in Derivative Liability	956,797	-
Total Other Income (Expense)	946,856	(485,578)
Net Income (Loss) before tax benefit	(1,621,395)	(2,197,552)
Provision for Income Taxes		
Net Income (Loss)	\$(1,621,395)	\$(2,197,552)
Net Loss per share:		
Basic and diluted	\$(0.04)	\$(0.06)
Weighted average common shares:		
Basic and diluted	45,685,248	37,142,551

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

MagneGas Corporation**Statement of Changes in Stockholders' Equity****(Unaudited)**

	Preferred		Common		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid In	Deficit	Equity
					Capital		
Balance at							
December 31, 2015	1,000,000	\$ 1,000	45,599,544	\$ 45,599	\$ 50,658,216	\$(34,846,711)	\$ 15,858,104
(audited)							
Adjustment for						(1,241,841)	(1,241,841)
derivative Liability							
Balance at							
December 31, 2015	1,000,000	\$ 1,000	45,599,544	\$ 45,599	\$ 50,658,216	\$(36,088,552)	\$ 14,616,263
(restated)							
Offerings costs					(17,987)		(17,987)
Issued for services			150,000	150	175,350		175,500
Options - Stock					49,794		49,794
Comp							
Options/warrants							
Exercised							
Net loss (unaudited)						(1,621,395)	(1,621,395)
Balance at March							
31, 2016	1,000,000	\$ 1,000	45,749,544	\$ 45,749	\$ 50,865,373	\$(37,709,947)	\$ 13,202,175

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

MagneGas Corporation**Statement of Cash Flows****For the Three Months Ended March 31, 2016 and 2015****(Unaudited)**

	March 31, 2016	2015
Cash Flows from Operations		
Net loss	\$(1,621,395)	(2,197,552)
Adjustments to reconcile net loss to cash used in operating Activities:		
Depreciation and amortization	153,953	136,923
Stock compensation	49,794	226,268
Stocks issued for Services	175,500	255,775
Provision for bad debt	15,000	1,210
Provision for Obsolete Spare Parts	100,000	-
Loss on disposal of Fixed Assets	5,366	483,630
Change in Derivative Liability/Warrants	(956,797)	-
Changes in operating assets:		
Accounts receivable	14,724	24,918
Inventory	23,517	12,906
Prepaid & other current assets	(98,532)	(238,068)
Accounts payable	(51,208)	153,418
Accrued expenses	(224,536)	10,688
Deferred revenue and customer deposits	-	(23,333)
Total adjustments to net income	(793,219)	1,044,335
Net cash (used in) operating activities	(2,414,614)	(1,153,217)
Cash Flows from Investing Activities		
Acquisition of property and equipment	(661,624)	(139,157)
Security deposit	(4,411)	184
Acquisition of Intangibles	(13,365)	(12,420)
Proceeds from sale of assets	8,000	400,410
Net cash flows (used in) investing activities	(671,400)	249,017
Cash Flows from Financing Activities		
Notes Payable	1,574	-
Offering cost	(17,987)	(17,775)
Common Stock/Warrants Exercised	-	-
Net cash flows provided by (used in) financing activities	(16,413)	(17,775)

Edgar Filing: MAGNEGAS CORP - Form 10-Q

Net increase (decrease) in cash	(3,102,427)	(921,975)
Cash balance, beginning	5,319,869	5,061,674
Cash balance, ending	\$2,217,442	4,139,699
Disclosure of cash flow information and non-cash investing and financing activities:		
Interest paid	\$12,356	8,450
Taxes paid		

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

MagneGas Corporation

Notes to the Unaudited Financial Statements

March 31, 2016

1. Background Information

MagneGas Corporation (the “Company”) was organized in the state of Delaware on December 9, 2005. The Company was originally organized under the name 4307, Inc., for the purpose of locating and negotiating with a business entity for a combination. On April 2, 2007 all the issued and outstanding shares of 4307, Inc. were purchased and the Company name was changed to MagneGas Corporation.

We are an alternative energy company that creates a system that produces hydrogen based fuel through the gasification of liquid and liquid waste. We have developed a process which gasifies various types of liquids and liquid wastes through a proprietary plasma arc system. A byproduct of this process is an alternative to natural gas currently sold in the metalworking market as a cutting fuel. We produce gas bottled in cylinders for the purpose of distribution to the metalworking market as an alternative to acetylene. Additionally, we market, for sale or licensure, our proprietary plasma arc technology for the processing of liquid waste (the “Plasma Arc Flow” or “Plasma Arc Flow System”), are developing the ancillary uses of our MagneGas2® fuel for co-combustion and have acquired a gas distribution company that sells various types of industrial fuels and supplies. Through the course of our business development, we have established a retail and wholesale platform to sell our fuel for use in the metalworking and manufacturing industries. We have also established a network of brokers to sell our Plasma Arc Flow equipment internationally.

2. Summary of Significant Accounting Policies

The significant accounting policies followed are:

Basis of Presentation

The accompanying unaudited financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information, the instructions to SEC Form 10-Q and Article 8 of

Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's Form 10-K for the year ended December 31, 2015.

In the opinion of management, all adjustments consisting of normal recurring adjustments necessary for a fair statement of (a) the result of operations for the three months ended March 31, 2016 and 2015; (b) the financial position at March 31, 2016; and (c) cash flows for the three months ended March 31, 2016 and 2015, have been made.

Certain reclassifications have been made to prior year classifications for comparability purposes.

Use of Estimates

The Company prepares its financial statements in conformity with GAAP. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these estimates are reasonable and have been discussed with the Board of Directors; however, actual results could differ from those estimates. The financial statements presented include estimates for patent life, recoverability of deferred tax assets and collections on our receivables. Our estimates include consideration of the useful lives of our intellectual property, allocations to research and development costs and recognition of deferred tax assets.

Variable Interest Entities

The Company considers the consolidation of entities to which the usual condition (ownership of a majority voting interest) of consolidation does not apply, focusing on controlling financial interests that may be achieved through arrangements that do not involve voting interest. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary is generally required to consolidate assets, liabilities and non-controlling interests at fair value (or at historical cost if the entity is a related party) and subsequently account for the variable interest as if it were consolidated based on a majority voting interest. The Company has investments in joint ventures that are in development of the MagneGas2® technology, however the Company is not identified as a primary beneficiary; therefore no consolidation is required and the investments are listed at their cost.

Fair Value of Financial Instruments

In September 2006, the Financial Accounting Standards Board (FASB) introduced a framework for measuring fair value and expanded required disclosure about fair value measurements of assets and liabilities. The Company adopted the standard for those financial assets and liabilities as of the beginning of the 2008 fiscal year and the impact of adoption was not significant. FASB Accounting Standards Codification (ASC) 820 “ *Fair Value Measurements and Disclosures* ” (ASC 820) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principle or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value

hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 2
- Level 3 Inputs that are both significant to the fair value measurement and unobservable.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of March 31, 2016. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include accounts receivable, inventory, other current assets, accounts payable, accrued compensation and accrued expenses. The fair value of the Company's notes payable is estimated based on current rates that would be available for debt of similar terms which is not significantly different from its stated value. The Company applied ASC 820 for all non-financial assets and liabilities measured at fair value on a non-recurring basis.

Derivative Liability recognized on warrants issued prior to 2014 which is the basis for our restatement of our Balance Sheet dated December 31, 2015

In 2011, 2012, and 2013, the Company issued warrants (the “Pre-2014 Warrants”).

The Company accounts for the Pre-2014 Warrants in accordance with the guidance in ASC 815 *Derivatives and Hedging*. As described in Note 7, the Company may be obligated to settle the Pre-2014 Warrants in cash in the case of a fundamental transaction.

Accordingly, the Pre-2014 Warrants are considered to have a cash settlement feature that precludes their classification as equity instruments. Settlement at fair value upon the occurrence of a fundamental transaction would be computed using the Black Scholes Option Pricing Model.

Under ASC 815-40-35, the Company adopted a sequencing policy that reclassifies contracts, with the exception of stock options, from equity to assets or liabilities for those with the latest inception date first. Future issuance of securities will be evaluated as to reclassification as a liability under our sequencing policy of latest inception date first until either all of the Pre-2014 Warrants are settled or expire.

	As Reported 12 months 2014	As Adjusted for 12 months 2014	\$ Change
Derivative Liability	0	(512,175	) (512,175)
Net (Loss) Income	(7,152,452	) (7,664,627	) (512,175)
APIC	42,361,578	42,361,578	-
Stockholder's Equity	16,694,059	16,181,884	(512,175)
EPS	(0.23	) (0.24	) (0.01)

	As Reported 12 months 2015	As Adjusted for 12 months 2015	\$ Change
Derivative Liability	0	(759,666	) (729,666)
Net (Loss) Income	(9,141,498	) (9,871,164	) (729,666)
APIC	50,658,216	50,658,216	-
Stockholder's Equity	15,858,104	15,128,438	(729,666)
EPS	(0.23	) (0.25	) (0.02)

	As Reported 12 months 2015	As Restated for 12 months 2015	\$ Change
Derivative Liability	0	(1,241,841	) (1,241,841)
Net (Loss) Income	(9,141,498	) (10,383,339	) (1,241,841)
APIC	50,658,216	50,658,216	-
Stockholder's Equity	15,858,104	14,616,263	(1,241,841)
EPS	(0.23	) (0.26	) (0.03

Accounts Receivable, Credit

Accounts receivable consist of amounts due for the delivery of MagneGas2® sales to customers. An allowance for doubtful accounts is considered to be established for any amounts that may not be recoverable, which is based on an analysis of the Company's customer credit worthiness, and current economic trends. Based on management's review of accounts receivable, an allowance for doubtful accounts was considered necessary, based on considerations of limited credit history with our customers and in consideration of the economy. Receivables are determined to be past due, based on payment terms of original invoices. The Company does not typically charge interest on past due receivables.

Revenue Recognition

The Company generates revenue through two processes: (1) the sale of its MagneGas2® fuel for metal cutting and (2) the sale of its Plasma Arc Flow units. Additionally the Company also recognizes revenue from territorial license arrangements, and through the sales of metal cutting gases and related products through their wholly owned subsidiary, Equipment Sales and Service, Inc. ("ESSI"), a Florida corporation.

Revenue for metal-working fuel is recognized when shipments are made to customers. The Company recognizes a sale when the product has been shipped and risk of loss has passed to the customer.

Revenue generated from sales of its production unit is recognized on a percentage of completion, based on the progress during manufacturing of the unit. Our machine is a significant investment and generally requires a 6 to 9 month production cycle. During the course of building a unit the actual costs are tracked to our cost estimates and revenue is proportionately recognized during the process. Significant deposits are required before production. These deposits are classified as customer deposits. During our production, costs and progress earnings are accumulated and included in "Costs and earnings" as an asset.

Licenses are issued, per contractual agreement, for distribution rights within certain geographic territories. The Company recognizes revenue ratably, based on the amounts paid or values received, over the term of the licensing agreement.

Inventories

Inventories are stated at the lower of standard cost or market, which approximates actual cost. Cost is determined using the first-in, first-out method. Inventory is comprised of spare parts, consumables used in the production of gas, regulators and tips and accumulated costs incurred in the manufacturing process of units held for future sales.

Long-Lived Assets

Property and equipment is stated at cost. Depreciation is computed by the straight-line method over estimated useful lives (3-30 years). Intellectual property assets are stated at their fair value acquisition cost. Amortization of intellectual property assets is calculated by the straight line method over their specific life (15 years). Historical costs are reviewed and evaluated for their net realizable value of the assets. The carrying amount of all long-lived assets is evaluated periodically to determine if adjustment to the depreciation and amortization period or the unamortized balance is warranted. Based upon its most recent analysis, the Company believes that no impairment of property and equipment existed at March 31, 2016 and December 31, 2015.

Long-lived assets such as property, equipment and identifiable intangibles are reviewed for impairment whenever facts and circumstances indicate that the carrying value may not be recoverable. When required impairment losses on assets to be held and used are recognized based on the fair value of the asset. The fair value is determined based on estimates of future cash flows, market value of similar assets, if available, or independent appraisals, if required. If the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows, an impairment loss is recognized for the difference between the carrying amount and fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risk associated with the recovery of the assets. The Company did not recognize any impairment losses for any periods presented.

Stock Based Compensation

The Company issues restricted stock to consultants for various services and to Directors for their service on the Board of Directors. Cost for these transactions are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The value of the common stock is measured at the earlier of (i) the date at which a firm commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete. The Company recognized consulting expenses and a corresponding increase to additional paid-in-capital related to stock issued for services. Stock compensation for the periods presented were issued to consultants for past services provided, accordingly, all

shares issued are fully vested, and there is no unrecognized compensation associated with these transactions.

Income Taxes

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are recorded based on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose, referred to as temporary differences. Deferred tax assets and liabilities at the end of each period are determined using the currently enacted tax rates applied to taxable income in the periods in which the deferred tax assets and liabilities are expected to be settled or realized.

Earnings (Loss) Per Share

Basic earnings (loss) per share calculations are determined by dividing net income (loss) by the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share calculations are determined by dividing net income (loss) by the weighted average number of shares. In periods of net loss, stock equivalents are excluded, as those shares would be anti-dilutive. The Company has issued options to several investors, upon their purchase of shares. Options, whose strike price is less than the current market value, are considered common stock equivalents and are included in dilutive earnings per share.

(b) Net loss for the period, options and other dilutive common stock equivalents are anti-dilutive and are excluded from computation.

	March 31, 2016	March 31, 2015
Net loss	\$(1,621,395)	\$(2,197,552)
Weighted Average Shares		
Common Stock	45,685,248	37,142,551
Common stock equivalents (Options)	*	*
	45,685,248	37,142,551

* Net loss for the period, options and other dilutive common stock equivalents are anti-dilutive and are excluded from computation.

3. Recently Issued Accounting Pronouncements

Except for rules and interpretive releases of the SEC under authority of federal securities laws and a limited number of grandfathered standards, the FASB Accounting Standards Codification™ (“ASC”) is the sole source of authoritative GAAP literature recognized by the FASB and applicable to the Company. Management has reviewed the aforementioned rules and releases and believes any effect will not have a material impact on the Company's present or future consolidated financial statements.

4. Inventory

Inventory primarily consists of:

	March 31, 2016	December 31, 2015
Production materials consumables, spare parts, & accessories	\$813,399	\$891,383
Units, Construction in process	1,523,620	1,470,631
	\$2,337,019	\$2,362,014

5. Long Lived Assets

Property and equipment consists of:

	March 31, 2016	December 31, 2015
Machinery and equipment	\$367,533	\$347,377
Furniture and office equipment	205,873	133,496
Transportation	285,144	262,995
Production units & cylinders	5,132,755	4,744,649
Land and buildings	2,114,081	1,983,596
	8,105,386	7,472,113
Less accumulated depreciation	1,582,589	1,467,123
	\$6,522,797	\$6,004,990

Depreciation of equipment was \$139,980 and \$124,806 for the three months ended March 31, 2016 and 2015, respectively.

Intellectual property:

The Company owns intellectual property, which it is amortizing on a straight-line basis over the assets useful life. The Company assesses fair market value for any impairment to the carrying values. As of March 31, 2016 and December 31, 2015 management concluded that there was no impairment to the intangible assets.

	March 31, 2016	December 31, 2015
Intellectual property	\$ 838,398	\$ 838,398
Less accumulated amortization	359,355	345,382
	\$ 479,043	\$ 493,016

Future amortization through December 31,:

2016	55,895
2017	55,895

2018	55,895
2019	55,895
2020	55,895
2021 and thereafter	199,568
	\$ 479,043

Amortization of the intangible assets was \$13,973 and \$12,117 for the three months ended March 31, 2016 and 2015, respectively.

Management periodically reviews the valuation of this asset for potential impairments. Consideration of various risks to the valuation and potential impairment includes, but is not limited to: (a) the technology's acceptance in the marketplace and the Company's ability to attain projected forecasts of revenue (discounted cash flow of projections); (b) competition of alternative solutions; and (c) federal and state laws which may prohibit the use of the Company's production machinery as currently designed. Management has not impaired this asset, to date, and does not anticipate any negative impact from known current business developments. Management continuously measures the marketplace, potential revenue developments and competitive developments in the scientific industry.

6. Investment in Joint Ventures

On June 25, 2010, the Company entered into agreement with a Belgian company, whereby 250,000 shares of the Company's common stock and territorial license rights were exchanged for a 20% interest in MagneGas Europe. The Company valued the investment in the Joint Venture at the fair market value of the shares issued (\$23,750). The Company does not have effective or beneficial control over the European entity and the Company accounts for this investment using the Cost Method.

On June 28, 2010, the Company entered into agreement with DDI Industries, a Chinese company, in contemplation of the formation of MagneGas China. The Company provided mechanical drawings (for complete construction), computer programs, license of patents (Greater China Region), trademarks, etc. of the Plasma Arc Flow Recyclers to the new entity in exchange for a \$2 million investment in MagneGas Corporation (received as of September 30, 2010; subscription at a share price of \$1.35 or 1,481,481 common shares and 20% share in MagneGas China. The Company's investment has been valued at \$466,660, a mutually agreed amount for the technology license. The MagneGas China entity has been funded in cash for an amount which reflects the intellectual property's value. The Company does not have effective or beneficial control over the China entity, investment is reported under the Cost Method.

On January 16, 2014, the Company entered into a joint venture, Supplemental Energy Solutions, LLC, to pursue the coal co-combustion coal market in the United States and Canada. The Company owns 50% of Supplemental Energy Solutions, LLC with the balance owned by confidential partners from the United States and additional partners to be added as warranted. Currently there is no value placed on this subsidiary as it is a development stage company conducting research and development for this market.

On March 19, 2014, the Company signed a Joint Venture agreement with FutureEnergy Pty Ltd of Australia. Under the terms of the agreement, both parties will own 50% of a new Company formed for the purpose of developing, licensing and commercializing new intellectual property for co-combustion of MagneGas fuels with hydrocarbon fuels to reduce emissions and increase energy. This agreement includes and extends beyond the existing partnership of coal co-combustion to include other current and future developments such as the combustion of MagneGas with diesel, heavy oil, aviation fuels, and liquid petroleum gas. The Company is working with FutureEnergy Pty Ltd and Supplemental Energy Solutions to finalize a license and commercialization agreement for the United States and Canada for Coal Co-Combustion. Currently there is no value placed on this joint venture as it is a development stage company conducting research and development and research activity has been minimal to date.

On March 20, 2015, the Company finalized a term sheet with two confidential parties for a tri-party joint venture implemented through a limited liability company. The Company and the two confidential parties will each own one-third of a new Delaware limited liability company that will engage in the worldwide testing, development, and pursuit of the co-combustion of MagneGas2® with coal and coal by-products in the electric power plant industry. The Term Sheet supersedes the USA MOU dated October 8, 2013 and the Supplement to the USA MOU dated June 16, 2014 discussed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2015.

Our investments in joint ventures are considered as Level 3, as defined in FASB Accounting Standards Codification (ASC) 820 " *Fair Value Measurements and Disclosures* " (ASC 820), and management considers alternative methods for valuing these investments to determine if there would be impairment to the current carrying value, currently our cost basis. As of March 31, 2016 and December 31, 2015, management does not believe any impairment exists with regard to the investments in joint ventures.

7. Warrant Liability

Terms of Pre-2014 Warrants

The Company has issued the Pre-2014 Warrants.

The Pre-2014 Warrants contain standard anti-dilution provisions for stock dividends, stock splits, subdivisions, combinations and similar types of recapitalization events. They also contain a cashless exercise feature that provides for their net share settlement at the option of the holder in the event that there is no effective registration statement covering the continuous offer and sale of the Pre-2014 Warrants and underlying shares. The Company is required to comply with certain requirement to cause or maintain the effectiveness of a registration statement for the offer and sale of these securities. The Pre-2014 Warrant contracts further provide for the payment of liquidated damages at an amount per month equal to 1% of the aggregate VWAP of the shares into which each Pre-2014 Warrant is convertible into in the event that the Company is unable to maintain the effectiveness of a registration statement as described herein. The Company evaluated the registration payment arrangement stipulated in the terms of these securities and determined that it is probable that the Company will maintain an effective registration statement and has therefore not allocated any portion of the IPO or private transaction proceeds to the registration payment arrangement. The Pre-2014 Warrants also contain a fundamental transactions provision that permits their settlement in cash at fair value at the option of the holder upon the occurrence of a change in control. Such change in control events include tender offers or hostile takeovers, which are not within the sole control of the Company as the issuer of these Pre-2014 Warrants. Accordingly, the Pre-2014 Warrants are considered to have a cash settlement feature that precludes their classification as equity instruments. Settlement at fair value upon the occurrence of a fundamental transaction would be computed using the Black Scholes Option Pricing Model.

Accounting Treatment

The Company accounts for the Pre-2014 Warrants in accordance with the guidance in ASC 815 *Derivatives and Hedging*. As indicated, above the Company may be obligated to settle the Pre-2014 Warrants in cash in the case of a fundamental transaction.

Additionally, the terms of the Pre-2014 Warrants do not explicitly limit the potential number of shares, thereby the exercise of the Pre-2014 Warrants could result in the Company's obligation to deliver a potentially unlimited number of shares upon settlement. As such, share settlement is not considered to be within the control of the Company.

The Company classified the Pre-2014 Warrants as liabilities at their fair value and will re-measure the Pre-2014 Warrants at each balance sheet date until they are exercised or expire. Any change in the fair value is recognized as other income (expense) in the Company's statement of operations.

Under ASC 815-40-35, the Company adopted a sequencing policy that reclassifies contracts, with the exception of stock options, from equity to assets or liabilities for those with the latest inception date first. Future issuance of securities will be evaluated as to reclassification as a liability under our sequencing policy of latest inception date first until either all of the Pre-2014 Warrants are settled or expire.

In accordance with the guidance under ASC 815-40-25, we have evaluated that we have a sufficient number of authorized and unissued shares as of March 31, 2016, to settle all existing commitments.

8. Acquisition of Subsidiary

As previously reported, on October 10, 2014, MagneGas Corporation (the "Company"), signed a Stock Purchase Agreement (the "Agreement") with the Robert A. Ficocelli Revocable Trust, Robert A. Ficocelli and Stephen R. Homer (each, a Seller Party and together, the "Seller Parties"), the holders of all of the issued and outstanding capital stock (the "ESSI Shares") of ESSI, pursuant to which the Company agreed to purchase, and the Seller Party agreed to sell, all the ESSI Shares for a total purchase price of Three Million Dollars (\$3,000,000).

ESSI operates a business of sales and distribution of gases based from its headquarters in Pinellas Park, Florida.

The closing of the Company's purchase of the ESSI Shares occurred on October 27, 2014. Upon the closing of this transaction, the Company entered into a lease agreement for the premises at Pinellas Park, Florida that had served as ESSI's corporate headquarters.

The Company accounted for the assets, liabilities and ownership interests in accordance with the provisions of ASC 805, Business Combinations for acquisitions occurring in years beginning after December 15, 2008 (formerly SFAS No. 141R, Business Combinations). As such, the recorded assets and liabilities acquired were recorded at fair value and any difference in the net asset values and the consideration given will be recorded as a gain on acquisition or as goodwill.

9. Deferred Revenue and Customer Deposits

The Company has received deposits on production units and fees for exclusive territorial license. The Company has deferred the associated revenues until such time that production order is placed and produced (recognition under percentage of completion method) or through the passage of time (recognition over the life of the license term).

	March 31, 2016	December 31, 2015
China territory license, exclusive 5 year license, expired June 28, 2015	466,660	466,660
Installment payments from Kazakhstan for equipment	499,000	499,000
South African deposit for future sale	20,000	20,000
Deposit from Green Arc Supply for future sale	392,550	392,500
	\$1,378,160	\$1,378,160
Portion recognized	965,660	965,660
Deferred revenue and customer deposits	\$412,500	\$412,500

The amount recognized as revenue under licensing arrangements was, \$0 and \$23,333 for the three months ended March 31, 2016 and 2015, respectively.

10. Income Tax

Provision (Benefit) for Income Taxes

The Company has not recognized a provision for income tax benefit during the periods presented, due to the net operating losses incurred. The Company may recognize benefits in future periods when management believes that any benefit will be recognized.

Deferred Income Taxes

Deferred income taxes are the result of timing differences between book and tax basis of certain assets and liabilities, timing of income and expense recognition of certain items and net operating loss carry-forwards.

The Company assesses temporary differences resulting from different treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded in our balance sheets. The Company evaluates the realizability of its deferred tax assets and assesses the need for a valuation allowance on an ongoing basis. In evaluating its deferred tax assets, the Company considers whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of deferred tax assets depends upon generating sufficient future taxable income prior to the expiration of the tax attributes. In assessing the need for a valuation allowance the Company must project future levels of taxable income. This assessment requires significant judgment. The Company examined the evidence related to a recent history of tax losses, the economic conditions in which it operates recent organizational changes, its forecasts and projections. The Company will continue to evaluate its deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit.

The Company had not previously recognized an income tax benefit for its operating losses generated since inception through December 31, 2015 based on uncertainties concerning its ability to generate taxable income in future periods of which, at the time, the realization could not be considered more likely than not. Based on events subsequent to the balance sheet date, management has re-assessed the valuation allowance and the recognition of its deferred tax losses, however, based on the Company's history of losses and other negative evidence resulting in the allowance, no income tax benefit will be recognized for prior periods. The tax benefit for the prior periods, in the amount of \$348,800, arising from operating losses as a start-up company and other temporary differences, has been off-set by an equal valuation allowance.

For balance sheet presentation the Company nets its current deferred tax assets and liabilities and non-current deferred tax assets and liabilities.

Under the Internal Revenue Code of 1986, as amended, these losses can be carried forward twenty years. As of December 31, 2015 the Company has net operating loss carry forwards remaining from the following years:

Year Generated	Net Operating Loss	Year Expires
2007 – 2015 approx	\$37,700,000	By 2033

The adoption of provisions, required by Accounting Standard Codification (“ASC”) No. 740, did not result in any adjustments.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2008 through 2015. The Company state income tax returns are open to audit under the statute of limitations for the years ending December 31, 2006 through 2015. The Company’s 2012 tax return was audited in 2014 by the IRS and while certain deductions were disallowed in 2012 for tax purposes they were only timing differences so no penalties or interest was imposed due to that audit.

The Company recognizes interest and penalties related to income taxes in income tax expense. The Company had incurred no penalties and interest for the three months ended March 31, 2016 and 2015

11. Equity

During the period ending March 31, 2016, a total of 150,000 shares of common stock were issued to consultants for various services rendered

Options and Warrants

On February 13, 2015 the Board of Directors issued 350,000 common stock options to members of management with a strike price of \$0.72 cents, 5 year term and vesting to be determined by the Board based on achieving certain performance criteria. On June 15, 2015, the Board voted to vest 104,500 of these shares based on interim performance achievements by management.

On June 15, 2015 the Board of Directors issued 330,000 common stock options to be spread amongst all non-management employees of the Company with a strike price of \$1.16, 5 year term and 50% to vest in 12 months, 25% in 24 months and 25% in 36 months.

The following is a summary of outstanding options and warrants:

Edgar Filing: MAGNEGAS CORP - Form 10-Q

	Options & Warrants Outstanding	Options Vested	Weighted Average		
			Intrinsic Value	Exercise Price	Remaining Term
December 31, 2014	16,169,675	3,217,500	\$ 2.27	\$ 1.41	2.8 years
Granted	680,000		1.20	1.72	
Exercised	(5,538,556)				
Forfeited	105,289				
December 31, 2015	11,802,819	,3,435,000	\$ 2.12	\$ 1.32	2.4 years
Granted					
Exercised					
Forfeited					
March 31, 2016	11,802,819	3,332,500	2.12	1.32	2.1 years

12. Related Party Transactions

At various times we received advances from Dr. Santilli and Carla Santilli for unsecured promissory notes. All funds are at the same terms of the original stockholder note. These promissory notes have no repayment date; however they are payable within 30 days of written demand. Payment is to include accrued simple interest at 4%. Since 2007, the Company received promissory notes in the aggregate amount of \$257,200. All note principal has been paid in full.

The Company occupies 5,000 square feet of the building owned by a related party. Rent is payable at \$4,000 on a month to month basis. The facility allows for expansion needs. The lease is held by EcoPlus, Inc., a company that is effectively controlled by Dr. Santilli.

The Company holds a 20% ownership of MagneGas Europe acquired by the issuance of 25,000 shares of common shares, which were valued at the fair market price at the date of grant, June 25, 2010, at \$0.95 per share for an aggregate of \$23,750. Dr. Santilli is a stockholder of MagneGas Europe, and at the time of the agreement, Ermanno Santilli, our current Chief Executive Officer, was the Chief Executive Officer of MagneGas Europe and Vice President of MagneGas Corporation.

Employment Agreements

On March 31, 2012, we entered into employment agreements with our key employees. A summary of these agreements are as follows:

Executive Title	Term*	Annual Salary**	Options***
Luisa Ingargiola, Chief Financial Officer, Director	March 31, 2014 *****	\$ 120,000	100,000 shares, vesting based on performance, exercisable at \$0.72
Ermanno Santilli, Chief Executive Officer, Director	March 31, 2014 *****	\$ 144,000	150,000 shares, vesting based on performance, exercisable at \$0.72

* Term is extendable at mutual consent.

** Annual salaries also stipulate performance bonuses, to be determined and approved by Board of Directors.

*** Options, valued to be \$5,400,700, using Black-Scholes method, The Company recognizes stock-based compensation, on a straight-line basis over the ratable vesting period. Assumptions used in the calculation were: volatility of 40.2%; estimated life of 2.6 years; 0% forfeiture; and risk free interest rate of 0.46%.

****The employment agreement for Ermanno Santilli expired March 31, 2014 and the Board of Directors is currently negotiating an extension of this contract. Effective January 1, 2015, his annual salary was increased to \$130,000 per year plus bonus to be determined by the Board based on performance. The employment agreement for Luisa Ingargiola expired March 31, 2014 and the Board of Directors is currently negotiating an extension of this contract. Effective January 1, 2015, her annual salary was increased to \$120,000 per year plus bonus to be determined by the Board based on performance.

13. Product Line Information

The following information is the results of our operating product line revenues:

	Revenue	Costs	Margin
March 31, 2016			
Product Line:			
Metal Cutting	\$665,663	\$365,763	\$299,900
License Fees		-	
Unit Sales	-	-	-
	\$665,663	\$365,763	\$299,900
March 31, 2015			
Product Line:			
Metal Cutting	\$522,315	\$299,325	\$222,990
License Fees	23,333		23,333
Unit Sales	0	0	
	\$545,648	\$299,325	\$246,323

14. Contingencies

From time to time the Company may be a party to litigation matters involving claims against the Company. The Company operates with waste, hazardous material and within a highly regulated industry, which may lend itself to legal matters.

On April 16, 2015, there was an accident at the Company's facilities which occurred during the gas filling process. As a result of the accident, one employee was killed and one was injured but has recovered and has returned to work. Although the Company has Workers Compensation Insurance and General Liability Insurance, the financial impact of the accident is unknown at this time. No customers have terminated their relationship with the Company as a result of the accident. On October 14, 2015 the Company received their final report from the Occupational and Safety Hazard Administration ("OSHA") related to the accident at the Company headquarters on April 16, 2015. The OSHA report included findings, many of which were already resolved and a proposed citation. The Company was not cited for any willful misconduct and no final determination was made as to the cause of the accident. The Company received citations related to various operational with an initially total proposed fine of \$52,000. The Company has also been informed by the U.S. Department of Transportation that it has closed its preliminary investigation with no findings or citations to the Company. The U.S. Department of Transportation has the right to re-open the investigation should new information become available.

The Company is still investigating the cause of the accident and there have been no conclusive findings as of this time. It is unknown whether the final cause of the accident will be determined and whether those findings will negatively impact Company operations or sales. The Company continues to be fully operational and transparent with all regulatory agencies.

There is, however, a risk in the future that equipment sales or gas sales may be negatively impacted as a result of the accident. In addition, although no regulatory agency halted the Company's gas operation, the Company halted operations for several weeks out of an abundance of caution while it reviewed procedures.

Sales were negatively impacted during the months of May and June 2015 as customers were being supplied out of inventory, or sales were held back until inventory was available. In addition, expenses were higher during the period ended June 30, 2015 primarily due to an increase in expenses for public relations and investor relations following the accident.

15. Subsequent Events

The Company also issued warrants in January 2014, March 2014, and October 2014 (collectively, the "Most Recent Warrants"). The Most Recent Warrants each inadvertently contained a cash settlement feature that would have precluded their classification as equity instruments.

In May 2016, the Company and the one investor who holds each of the Most Recent Warrants, entered into: (1) an agreement (in the case of the January 2014 warrant) and; (2) amendments (in the case of each of the March 2014 warrant and the October 2014 warrant) that clarified that the cash settlement feature along with certain other provisions were inadvertently included in the Most Recent Warrants. The Company and the investor agreed, via the May 2016 agreement and amendments, that such provisions were deleted retroactive to the 2014 issuance dates of the Most Recent Warrants. As a result of the agreement and amendments, the Company is able to treat the Most Recent Warrants as equity instruments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Notice Regarding Forward Looking Statements

The information contained in Item 2 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual results will not be different from expectations expressed in this report.

This filing contains a number of forward-looking statements which reflect management’s current views and expectations with respect to our business, strategies, products, future results and events, and financial performance. All statements made in this filing other than statements of historical fact, including statements addressing operating performance, events, or developments which management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, statements expressing general optimism about future operating results, and non-historical information, are forward looking statements. In particular, the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “n variations of such words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements, and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated, or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

Readers should not place undue reliance on these forward-looking statements, which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below), and apply only as of the date of this filing. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors which could cause or contribute to such differences include, but are not limited to, the risks to be discussed in our Annual Report on Form 10-K and in the press releases and other communications to shareholders issued by us from time to time which attempt to advise interested parties of the risks and factors which may affect our business. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Our Company

We are a technology company that produces a plasma based system for the gasification and sterilization of liquid waste. A byproduct of our process is a hydrogen based fuel that we sell for metal cutting as an alternative to acetylene (“MagneGas2®”). In addition, we are developing the use of our fuel for co-combustion with hydrocarbon fuels to reduce emissions. We also market, for sale or licensure, our proprietary plasma arc technology for the processing of liquid waste (the “Plasma Arc Flow® System”). Through the course of our business development, we have established a retail and distribution platform to sell our fuel for use in the metalworking industries; we have developed a global network of brokers to sell our system for processing liquid waste and we are testing our fuel through a third party laboratory for use in the reduction of coal emissions. Additionally, we intend to acquire other gas distribution businesses in order to become a larger distributor of MagneGas2®, other industrial gases and related equipment.

MagneGas Corporation was organized in the state of Delaware on December 9, 2005. We were originally organized under the name 4307, Inc., for the purpose of locating and negotiating with a business entity for a combination. On April 2, 2007 all the issued and outstanding shares of 4307, Inc. were purchased by Clean Energies Tech Co., a private company owned by Dr. Ruggero Santilli, the inventor of the Plasma Arc Flow® technology. Following this stock purchase, our name was changed to MagneGas Corporation.

Our Products

We currently have three products: the fuel called MagneGas2® for the metal working industry, the equipment primarily known in the firefighting industry, known as MagneTote, and the machines that produce MagneGas2®, known as Plasma Arc Flow® refineries. In addition, the Company sells metal cutting fuels and ancillary products through its wholly owned subsidiary, Equipment Sales and Service, Inc. (“ESSI”), a Florida corporation.

While our original fuel for the metal working industry was known as MagneGas®, we started selling MagneGas2® in July 2014 and stopped selling MagneGas® in March 2015.

Fuel

In the United States, we currently produce MagneGas2®, which is comprised primarily of hydrogen. The fuel can be used as an alternative to natural gas to power industrial equipment, automobiles and for metal cutting. The fuel is stored in hydrogen cylinders which are then sold to market on a rotating basis. Independent tests have confirmed that

it cuts 38% faster than acetylene. The fuel has similar properties as acetylene making it easier for end users to adopt with limited training.

MagneTote is a storage and transport system that can be used by firefighters, military and first responders which allows quicker access to fuel. The system has been designed to be used in emergency extraction situations.

Equipment

The Plasma Arc Flow® System can gasify many forms of liquids and liquid waste such as used vegetable oils, ethylene glycol and sewage and sludge. Plasma Arc Flow® refineries have been configured in various sizes ranging from 50kw to 500kw depending on the application. Plasma Arc Flow® refineries range in price from \$500,000 to \$5 Million.

The Company is pursuing three major market segments:

- Industrial Gas Sales
- Equipment Sales for Liquid Waste Processing
- Use of MagneGas2® for the Co-Combustion of Hydro-Carbon Fuels to Reduce Emissions

The Company's Research and Development focuses on the following:

- Increased system efficiency for higher fuel production
- Combustion of MagneGas2® with hydrocarbon fuels, such as coal, to reduce emission
- Third party verification of fuel and equipment safety and performance results

Sales

Industrial Gas Sales

ESSI is being used as a launching platform to accelerate MagneGas2® fuel sales into the Florida market by allowing the Company access to a variety of goods and services for the metal working market and access to acetylene customers for potential conversion into MagneGas2®. In 2015, ESSI had sales of \$2,383,981 which includes MagneGas2® fuel sales.

ESSI operates a business of sales and distribution of industrial gases and related equipment from its headquarters in Pinellas Park, Florida. On April 11, 2016, the Company announced that it had signed a lease for a building to expand into Central Florida through a wholly owned subsidiary. In addition, the Company continues to operate its facility in North Florida “ESSI North” which is owned as a Joint Venture with partner Suwannee Ironworks.

The Company is aggressively seeking other gas distribution business acquisitions. It has retained a consultant to assist in the search and has identified several potential acquisition targets.

The Company has a strategy of selling fuel to the military, the first responder market and major marquee customers in the electric utility and waste to energy industry. The fuel is sourced through ESSI or through local distributor relationships in various states. To that end it has received initial fuel orders from several major customers including utility companies, a transportation company, the U.S. Navy, the Fire Department of New York and several others. All of these sales have long sales cycles as initial orders have been received and filled and the Company is in various stages of the procurement process for additional penetration and recurring orders. The ramp of period for these customers can range from several weeks to several months. In addition, the Company has signed an exclusive distribution agreement with a Florida company to distribute fuel and MagneTote to the first responder market throughout the Southeastern United States.

Equipment Sales

The Company is pursuing international equipment sales in strategic areas of the world through social media, industry events and a network of independent brokers. The Company also retained two experienced consultants for this market, one with substantial experience in waste-water and hazardous waste remediation and the other with international access to funding and partners through the United Nations.

On November 11, 2015, the Company executed agreements with Green Arc Supply of Louisiana for the sale of a MagneGas2® gasification system for \$765,000. A deposit of \$382,500 was received at the execution of the agreements with \$191,500 due and payable when the system construction is 75% complete, balance due and payable upon the completion of the system construction. The Company has until August 2016 to complete the manufacture of the system.

MagneGas2® for the Co-Combustion of Hydro-Carbon Fuels to Reduce Emissions

The Company has completed internal testing both in the United States and Australia of the effect of combusting MagneGas2® with hydrocarbon fuel exhaust and has demonstrated reduced hydrocarbon emission and increased heat with the co-combustion of coal and other hydrocarbon fuels and MagneGas2®.

On September 13, 2014 the Company and FuturEnergy PTY, LTD of Australia signed a term sheet in order to form a Joint Venture (“JV LLC Australia”) for the purposes of pursuing the co-combustion of MagneGas2® fuel with hydrocarbon fuels to reduce emissions. Under the terms of the agreement, each owner of JV LLC Australia controls 50% of the rights to all hydrocarbon fuel emission reductions through co-combustion of MagneGas2® fuel including diesel, gasoline and coal.

On March 20, 2015, the Company and FuturEnergy PTY, LTD finalized a term sheet (the “March 2015 Term Sheet”) with a confidential party from Michigan for a tri-party joint venture implemented through a Delaware limited liability company (the “JV LLC”). Each party owns one-third of the JV LLC which is engaged in the worldwide testing, development, and pursuit of the co-combustion of MagneGas2® with coal and coal by-products in the electric power plant industry. The March 2015 Term Sheet was due to expire on December 31, 2015 unless the three parties agreed to extend the term. During the week of December 14, 2015, the JV LLC successfully tested the co-combustion technology internally. On December 26, 2015, the parties agreed to extend the March 2015 Term Sheet until December 31, 2016. The extension allows the parties to attain verification by an independent agency of the co-combustion technology by December 31, 2016.

A major research center in the United States associated with a large utility company is currently conducting third party testing and validation. The accident at the Company headquarters on April 16, 2015 (please see below under the heading “Accident at Company Facility”) has delayed the supply of fuel for this testing. In late 2015 we began production again of the fuel needed for the co-combustion testing. It is now anticipated that this validation report will be received in 2016. There are, however, many variables associated with the timing of this report. In late 2015, the Company identified the specific fuel characteristics needed to optimize combustion, which is a significant development for this project.

Research and Development

Increased System Efficiency for Greater Fuel Output

The Company has begun working with an advanced power system to test another method of delivering power to the arc within the MagneGas system. Initially analysis has shown that using a more efficient power delivery method could increase fuel output per kilowatt. This testing will be occurring in May and June of 2016.

Sterilization System for Agricultural Use

In early 2015, the Company completed a new generation of mobile systems for use with the sterilization of manures and sewage waste. It has developed a new 50kw Venturi System which was tested at a major hog farm in Indiana. The Company has conducted multiple successful tests at the farm with increasing flow and efficiency rates. The pilot plant achieved what was expected, namely it achieved full sterilization of manures processed through the 50kw pilot system. The Company made a presentation to officials at the United States Department of Agriculture in early 2016. The officials indicated that there are grant programs available for these types of projects and the Company has retained a consultant to assist through the grant application process which was submitted May 10, 2016. A decision on the grant application is anticipated to be in September of 2016.

Facilities

In March of 2016, the Company moved into its new headquarters 18855 44th Street North, Clearwater, Florida. This new facility is 18,000 square feet and has the capacity for three MagneGas systems to run simultaneously for multiple shifts. The Company is in the process of installing all three systems while we continue to produce fuel in our old location.

Intellectual Property

The Plasma Arc Flow® refinery forces a high volume flow of liquid waste through an electric arc between carbon electrodes. The benefit of this from a competitive perspective is that it sterilizes the bio-contaminants within the waste without the need to add any chemical disinfecting agents. In addition, while sterilizing the liquid, a clean burning fuel is produced. In addition to the patents list below, the Company has several patents pending.

MagneGas Corporation has patent ownership on the technology in the United States and is exploring filing patents under the Patent Cooperation Treaty in other areas of the world as needed. MagneGas Corporation has a 20% ownership interest in MagneGas entities that control the intellectual property in Europe, Africa and China. MagneGas Corporation owns the following U. S. patents:

U. S. Patent No. 6,926,872 – issued on August 9, 2005, expires 2021, entitled “Apparatus and Method for Producing a Clean Burning Combustible Gas With Long Life Electrodes and Multiple Plasma-Arc-Flows;”

U. S. Patent No. 6,972,118 – issued on December 6, 2005, expires 2021, entitled “Apparatus and Method for Processing Hydrogen, Oxygen and Other Gases;”

U. S. Patent No. 7,780,924 – issued August 24, 2010, expires 2026, entitled “Operating Under High Power, Pressure and Temperature Conditions to Produce a Combustible Gas;”

U. S. Patent No. 8,236,150 – issued on August 20, 2012, expires 2030, entitled, “Plasma-Arc-Through Apparatus and Process for Submerged Electric Arcs;”

U.S. Patent No. 6183604 – issued on August 11, 1999, expires 2019, entitled “Durable and Efficient Equipment for the Production of Combustible Fuels;”

U.S. Patent No. 6540966 – issued on June 5, 2000, expires in 2020, entitled “Apparatus and Method for Recycling Contaminated Liquid;”

U.S. Patent No. 6673322 – issued June 29, 2001, expires 2021, entitled “Apparatus for Making a Highly Efficient, Oxygen Rich Fuels;” and

U.S. Patent No. 6663752 – issued October 3, 2001, expires 2021, entitled “Clean Burning Liquid Fuel Produced Via a Self-Sustaining Processing of Liquid Feedstock.”

We also own the United States and Mexico Trademark for "MAGNEGAS" and have filed several provisional and patent applications.

Accident at Company Facility

On April 16, 2015, there was an accident at the Company's facilities which occurred during the gas filling process. As a result of the accident, one employee was killed and one was injured but has recovered and has returned to work. Although the Company has Workers Compensation Insurance and General Liability Insurance, the financial impact of the accident is unknown at this time. No customers have terminated their relationship with the Company as a result of the accident. On October 14, 2015 the Company received their final report from the Occupational and Safety Hazard

Administration (“OSHA”) related to the accident at the Company headquarters on April 16, 2015. The OSHA report included findings, many of which were already resolved and a proposed citation. The Company was not cited for any willful misconduct and no final determination was made as to the cause of the accident. The Company received citations related to various operational with a total fine of \$52,000. The Company has also been informed by the U.S. Department of Transportation that it has closed its preliminary investigation with no findings or citations to the Company. The U.S. Department of Transportation has the right to re-open the investigation should new information become available.

The Company is still investigating the cause of the accident and there have been no conclusive findings as of this time. It is unknown whether the final cause of the accident will be determined and whether those findings will negatively impact Company operations or sales. The Company continues to be fully operational and transparent with all regulatory agencies.

2014 Warrants

The Company issued warrants in January 2014, March 2014, and October 2014 (collectively, the “Most Recent Warrants”). The Most Recent Warrants each inadvertently contained a cash settlement feature that would have precluded their classification as equity instruments.

In May 2016, the Company and the one investor who holds each of the Most Recent Warrants, entered into: (1) an agreement (in the case of the January 2014 warrant) and; (2) amendments (in the case of each of the March 2014 warrant and the October 2014 warrant) that clarified that the cash settlement feature along with certain other provisions were inadvertently included in the Most Recent Warrants. The Company and the investor agreed, via the May 2016 agreement and amendments, that such provisions were deleted retroactive to the 2014 issuance dates of the Most Recent Warrants. As a result of the agreement and amendments, the Company is able to treat the Most Recent Warrants as equity instruments.

The foregoing description of the terms of the agreement and amendments is qualified in its entirety by reference to the provisions of the agreement and amendments filed as Exhibits 10.1, 10.2, and 10.3 to this report, which is incorporated by reference herein.

Employees

We presently have forty one full-time employees. We occasionally have leased employees and independent technicians perform production and other duties, as required. We consider our relationship with our employees to be excellent.

Results of Operations

Comparison for the three months ended March 31, 2016 and 2015

Revenues

For the three months ended March 31, 2016 and 2015 we generated revenues of \$665,663 and \$545,648, respectively. For the three months ended March 31, 2016 and 2015, we generated revenues from our metal cutting fuel of \$665,663 and \$522,315, respectively.

Our increase in revenues was primarily due to additional customers and distributors gained through ESSi.

For our technology licensing, we have recognized \$0 and \$23,333 for the three months ended March 31, 2016 and 2015, respectively. These license fees are ratably earned over the terms of the licensing agreement which expired as of June 30, 2015.

Operating Expenses

Operating costs for the three months ended March 31, 2016 and 2015 were \$2,868,151 and \$1,958,297, respectively. The increase in our operating costs in 2016 was primarily attributable to the completion of our new headquarters and increased consulting expenses related to research and development, investor relations, public relations and new business development. During the three months ended March 31, 2016 we recognized a non-cash charge of \$49,794 in stock based compensation, compared to \$226,268 in the comparable three months ended March

31, 2015. Other non-cash operating expenses were due to depreciation and amortization charges of \$153,953 for the three month period ended March 31, 2016, compared to \$136,923 for the three months ended March 31, 2015.

In the current quarter, as in prior quarters, we used common stock as a method of payment for certain services, primarily the advertising and promotion of the technology to increase investor and customer awareness and as incentive to its key employees and consultants. We expect to continue these arrangements, though due to a stronger operating position, this method of payment may become limited to employees.

Net Loss

Our operating results have recognized losses in the amount of \$1,621,395 and \$2,197,552 for the three months ended March 31, 2016 and 2015, respectively. The decrease in our loss was primarily attributable to a 2016 change in derivative liability related to the Pre-2014 Warrants as well as a one-time 2015 loss on the sale of unused property .

Liquidity and Capital Resources

The Company had \$2,217,442 in cash as of March 31, 2016.

As reflected in the unaudited financial statements we currently have an accumulated deficit of approximately \$37.7 million dollars. Our cash flow from operations for the three month period ending March 31, 2016 used approximately \$2.4 million of cash. Cash was used primarily to fund ongoing operations.

On April 16, 2015, there was an accident at the Company's facility which occurred during the gas filling process. As a result of the accident, one employee was killed and one was injured but has recovered and has returned to work. Although the Company has Workers Compensation Insurance and General Liability Insurance, the financial impact of the accident is unknown at this time. On October 14, 2015 the Company received their final report from the Occupational and Safety Hazard Administration ("OSHA") related to the accident at the Company headquarters on April 16, 2015. The OSHA report included findings, many of which were already resolved and a proposed citation. The Company was not cited for any willful misconduct and no final determination was made as to the cause of the accident. The Company received citations related to various operational with an initially total proposed fine of \$52,000. However, OSHA indicated that this initial fine is routinely appealed and the Company estimates the final determination of fine will be in the \$20,000 to \$30,000 range. The Company has scheduled its first informal meeting with OSHA in November to discuss the findings and a possible reduction in the fine based on good faith actions and a rapid resolution of majority of violations. No customers have terminated their relationship with the Company as a result of the accident. There is, however, a risk in the future that equipment sales or gas sales may be negatively impacted as a result of the accident.

In addition, although no regulatory agency halted the Company's gas operation, the Company halted operations for several weeks out of an abundance of caution while it reviewed procedures.

Sales were negatively impacted during the months of May and June 2015 as customers were supplied out of inventory or sales were held back until inventory was available. In addition, expenses were higher during the period ended June 30, 2015 primarily due to an increase in expenses for public relations and investor relations following the accident.

Cash Flows from Continuing Operations

Cash flows from continuing operations for operating, financing and investing activities for the three months ended March 31, 2016 and 2015 are summarized in the following table:

Three Months Ended March	
31,	
2016	2015
(unaudited)	(unaudited)

Edgar Filing: MAGNEGAS CORP - Form 10-Q

Operating activities	\$ (2,414,614)	\$ (1,153,217)
Investing activities	(671,400)	249,017
Financing activities	(16,413)	(17,775)
Net (decrease) increase in cash from continuing operations	\$ (3,102,427)	\$ (921,975)

For the three months ended March 31, 2016 and 2015, we used cash of \$2,414,614 in 2016 and used cash of \$1,153,217 from operations in 2015. Our cash use for 2016 was primarily attributable to the completion of our new headquarters and consulting expenses related to research and development, investor relations, public relations and new business development. There was also a 2016 change in derivative liability related to the Pre-2014 Warrants. Our cash use for 2015 was primarily attributable to general operations. During the three months ended March 31, 2016, cash used by investing activities consisted of \$671,400. During the three months ended March 31, 2015, cash provided by investing activities consisted of \$249,017 primarily due to the sale of land. Cash used by financing activities for the three months ended March 31, 2016 was \$16,413 as compared to cash used by financing activities for the three months ended March 31, 2015 was \$17,775. The net decrease in cash during the three months ended March 31, 2016 was \$3,102,427 as compared to \$921,975 for the three months ended March 31, 2015.

Recent Accounting Pronouncements

Except for rules and interpretive releases of the SEC under authority of federal securities laws and a limited number of grandfathered standards, the FASB Accounting Standards Codification™ (“ASC”) is the sole source of authoritative GAAP literature recognized by the FASB and applicable to the Company. Management has reviewed the aforementioned rules and releases and believes any effect will not have a material impact on the Company's present or future consolidated financial statements.

Critical Accounting Policies

Our significant accounting policies are presented in this Report in our notes to financial statements for the period ended March 31, 2016 and in our notes to financial statements for the fiscal year ended December 31, 2015, which are contained in the Company’s 2015 Annual Report on Form 10-K. The significant accounting policies that are most critical and aid in fully understanding and evaluating the reported financial results include the following:

The Company prepares its financial statements in conformity with GAAP. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these estimates are reasonable and have been discussed with our board of directors; however, actual results could differ from those estimates.

We issue restricted stock to consultants for various services. Cost for these transactions are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The value of the common stock is measured at the earlier of (i) the date at which a firm commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete.

Long-lived assets such as property, equipment and identifiable intangibles are reviewed for impairment whenever facts and circumstances indicate that the carrying value may not be recoverable. When required impairment losses on assets to be held and used are recognized based on the fair value of the asset. The fair value is determined based on estimates of future cash flows, market value of similar assets, if available, or independent appraisals, if required. If the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows, an impairment loss is recognized for the difference between the carrying amount and fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risk associated with the recovery of the assets. We did not recognize any impairment losses for any periods

presented.

27

The Company generates revenue through two processes: (1) the sale of its MagneGas2® fuel for metal cutting and (2) the sale of its Plasma Arc Flow units. Additionally the Company also recognizes revenue from territorial license arrangements, and through the sales of metal cutting gases and related products through their wholly owned subsidiary, ESSI.

Revenue for metal-working fuel is recognized when shipments are made to customers. We recognize a sale when the product has been shipped and risk of loss has passed to the customer.

Revenue generated from sales of its production unit is recognized on a percentage of completion, based on the progress during manufacturing of the unit. Our machine is a significant investment and generally requires a 6 to 9 month production cycle. During the course of building a unit the actual costs are tracked to our cost estimates and revenue is proportionately recognized during the process. Significant deposits are required before production. These deposits are classified as customer deposits. During our production, costs and progress earnings are accumulated and included in "Costs and earnings" as an asset.

Licenses are issued, per contractual agreement, for distribution rights within certain geographic territories. We recognize revenue ratably, based on the amounts paid or values received, over the term of the licensing agreement.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4. Controls and Procedures.

Disclosure of Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, as appropriate, to allow timely decisions regarding required disclosure.

Our management has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, management has concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective due to material weaknesses in our internal control over financial reporting related to: (i) our internal audit functions; and (ii) a lack of segregation of duties within accounting functions.

Changes in Internal Controls Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are currently not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our company's or our company's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

As a result of the accident which occurred on April 16, 2015, however, potential plaintiffs may initiate litigation related to the accident until April 16, 2017. We are currently unaware of any forthcoming or threatened litigation in connection with the accident.

Item 1A. Risk Factors.

There have been no changes that constitute material changes from the risk factors previously disclosed in our 2015 Annual Report filed on Form 10-K.

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

During the period ending March 31, 2016, a total of 150,000- shares of common stock were issued to consultants for various services rendered.

The above shares were issued in reliance on the exemption under Section 4(2) of the Securities Act. These shares of our common stock qualified for exemption under Section 4(2) since the issuance shares by us did not involve a public offering. The offering was not a "public offering" as defined in Section 4(2) due to the insubstantial number of persons involved in the deal, manner of the issuance and number of shares issued. We did not undertake an offering in which we sold a high number of shares to a high number of investors. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to and received share certificates bearing a legend stating that such shares are restricted pursuant to Rule 144 of the Act. This restriction ensures that these shares would not be immediately redistributed into the market and therefore not be part of a "public offering." Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the

Securities Act for this transaction.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

None

Item 6. Exhibits

Exhibit Number	Exhibit Title	Filing Method
10.1	Agreement Regarding January 2014 Warrant	Filed herewith
10.2	Amendment to March 2014 Warrant	Filed herewith
10.3	Amendment to October 2014 Warrant	Filed herewith
31.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
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.	Furnished herewith
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.	Furnished herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Schema	Filed herewith
101.CAL	XBRL Taxonomy Calculation Linkbase	Filed herewith
101.DEF	XBRL Taxonomy Definition Linkbase	Filed herewith
101.LAB	XBRL Taxonomy Label Linkbase	Filed herewith
101.PRE	XBRL Taxonomy Presentation Linkbase	Filed herewith

* In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

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.

MagneGas Corporation

By: */s/ Ermanno Santilli*
Ermanno Santilli
Chief Executive Officer

(Principal Executive Officer)

Dated: May 16, 2016

By: */s/ Luisa Ingargiola*
Luisa Ingargiola
Chief Financial Officer

(Principal Financial and Accounting Officer)

Dated: May 16, 2016