MAGNEGAS CORP
Form 10-Q
August 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 205

FORM 10-Q

[X]	**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2018.**

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)

(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 website, 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, smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]
(Do not check if a smaller reporting company)	Emerging growth company [X]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [X]

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 August 8, 2018, there were 37,713,529 shares of the issuer's $0.001 par value common stock issued and outstanding.

MAGNEGAS CORPORATION

TABLE OF CONTENTS

FORM 10-Q REPORT

June 30, 2018

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

MagneGas Corporation

Condensed Consolidated Balance Sheets

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current Assets		
Cash	$1,147,522	$586,824
Accounts receivable, net of allowance for doubtful accounts of $116,794 and $101,063, respectively	1,140,210	389,652
Inventory, net	1,964,332	738,950
Prepaid and other current assets	426,297	198,056
Total Current Assets	4,678,361	1,913,482
Property and equipment, net of accumulated depreciation and amortization of $2,357,325 and $2,032,265, respectively	9,134,228	6,865,389
Deposits on acquisition	-	325,000
Intangible assets, net of accumulated amortization of $705,963 and $457,171, respectively	2,270,818	412,331
Security deposits	96,871	27,127
Goodwill	3,343,280	2,108,781
Total Assets	$19,523,558	$11,652,110
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$2,202,730	$1,716,661
Accrued expenses	960,504	909,562
Deferred revenue and customer deposits	-	44,095
Capital leases, current	27,460	27,460
Note payable, net of debt discount of $66,868 and $184,204, respectively	205,840	451,754
Promissory notes payable - related party	46,250	100,000
Total Current Liabilities	3,442,784	3,249,532
Long Term Liabilities		
Note payable	763,613	520,000
Capital leases, net of current	69,748	63,839

Total Liabilities	4,276,145	3,833,371
Commitments and Contingencies		
Series C Preferred stock: 25,000 shares designated; 352 and 115 shares issued and outstanding with a liquidation preference of approximately $404,800 at June 30, 2018	352,000	115,000
Series E Preferred stock: 455,882 shares designated; 36,765 and 316,875 shares issued and outstanding with a liquidation preference of approximately $57,500 at June 30, 2018	50,000	430,950
Series F Preferred Stock: 817,670 shares designated; 616,120 and 0 shares issued and outstanding with a liquidation preference of approximately $418,962 at June 30, 2018	418,963	-
Stockholders' Equity		
Preferred stock: $0.001 par; 10,000,000 shares authorized		
Series A Preferred stock: 1,000,000 shares authorized; 1,000,000 shares issued and outstanding with no liquidation preference at June 30, 2018	1,000	1,000
Series B Preferred stock: 2,700 shares designated; 0 shares issued and outstanding at June 30, 2018 and December 31, 2017	-	-
Common stock: $0.001 par; 190,000,000 shares authorized; 23,609,814 shares issued and outstanding at June 30, 2018 and 1,782,864 shares issued and outstanding at December 31, 2017	23,610	1,783
Additional paid-in-capital	85,499,209	71,852,874
Accumulated deficit	(71,097,370)	(64,582,868)
Total Stockholders' Equity	14,426,449	7,272,789
Total Liabilities, Temporary Equity and Stockholders' Equity	$19,523,558	$11,652,110

See accompanying notes to the unaudited condensed consolidated financial statements.

MagneGas Corporation

Condensed Consolidated Statements of Operations

(Unaudited)

	For the three months ended		For the six months ended	
	Jun. 30, 2018	**Jun. 30, 2017**	**Jun. 30, 2018**	**Jun. 30, 2017**
Revenue:	$2,907,712	$966,204	$4,079,464	$1,837,992
Cost of Revenues	1,972,586	532,657	2,730,459	1,036,045
Gross Profit	935,126	433,547	1,349,005	801,947
Operating Expenses:				
Selling, general and administration	3,951,595	3,305,578	7,087,255	5,913,444
Research and development	2,440	26,114	3,592	124,255
Depreciation and amortization	401,929	193,230	579,474	360,568
Total Operating Expenses	4,355,964	3,524,922	7,670,321	6,398,267
Operating Loss	(3,420,828)	(3,091,375)	(6,321,316)	(5,596,320)
Other Income and (Expense):				
Interest	(23,011)	(18,909)	(96,015)	(18,909)
Amortization of debt discount	(70,754)	(43,677)	(116,711)	(146,757)
Other (expense) income	19,542	2,007	19,542	(2,547)
Extinguishment of debt	-	(513,725)	-	(513,725)
Change in fair value of derivative liability	-	1,423,902	-	2,255,322
Total Other Income (Expense)	(74,223)	849,598	(193,184)	1,573,384
Net Loss	(3,495,060)	(2,241,777)	(6,514,500)	(4,022,936)
Deemed dividend	314,100	75,000	1,244,400	75,000
Net loss attributable to common shareholders	$(3,809,160)	$(2,316,777)	$(7,758,900)	$(4,097,936)
Net loss per share: Basic and Diluted	**$(0.24)**	**$(0.33)**	**$(0.69)**	**$(0.63)**
Weighted average common shares: Basic and Diluted	15,972,166	7,026,075	11,188,009	6,475,082

See accompanying notes to the unaudited condensed consolidated financial statement

5

MagneGas Corporation

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Fiscal Year Ended December 31, 2017 and the Six Months Ended June 30, 2018

	Series A Preferred Stock Shares	Amount	Common Shares	Amount	Additional **Paid-in-Capital**	Accumulated **(Deficit)**	Stockholders' **Equity**
Balance at December 31, 2017	1,000,000	$ 1,000	1,782,864	$ 1,783	$ 71,852,874	$ (64,582,868)	$ 7,272,789
Common shares issued for services			1,786,827	1,787	1,059,453		1,061,240
Common shares issued for settlement of accounts payable			721,455	721	564,152		564,873
Common stock warrants issued for service					142,599		142,599
Exercise of Series C preferred stock warrants					11,199,600		11,199,600
Conversion of Series C preferred stock into shares of common stock			17,421,375	17,421	989,979		1,007,400
Conversion of Series E preferred stock into shares of common stock			135,754	136	380,814		380,950
Conversion of Series F preferred stock into shares of common stock			725,000	725	136,329		137,054
Amortization of stock-based compensation					123,674		123,674
Common shares issued for the exercise of warrants issued for service			75,000	75	675		750
Common shares issued for acquisition of assets			961,539	962	1,258,654		1,259,616
Stock issuance costs					(965,194)		(965,194)
Deemed Dividend					(1,244,400)		(1,244,400)
Net loss						(6,514,500)	(6,514,500)
Balance at June 30, 2018	1,000,000	$ 1,000	23,609,814	$ 23,610	$ 85,499,209	$ (71,097,370)	$ 14,426,449

6

MagneGas Corporation

Condensed Consolidated Statements of Cash Flows

For the Six Months Ended June 30, 2018 and 2017

(Unaudited)

	For the six months ended June 30,	
	2018	**2017**
	(Unaudited)	*(Unaudited)*
Cash Flows from Operations		
Net Loss	$(6,514,500)	$(4,022,936)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	579,474	360,568
Amortization of debt discount	116,711	146,757
Stock based compensation	165,369	1,882,255
Common stock and warrants issued for services	1,203,839	-
Provision for slow moving spare parts	-	50,000
Deferred revenue and customer deposits	(44,095)	10,000
Extinguishment of debt	-	513,725
Change in fair value of derivative liability	-	(2,255,322)
Changes in operating assets:		
Accounts receivable	295,443	39,078
Inventory	133,618	(144,973)
Prepaid and other current assets	150,479	(86,278)
Accounts payable	726,536	855,213
Accrued expenses	(787,120)	274,546
Net cash used in operating activities	(3,974,246)	(2,377,367)
Cash Flows from Investing Activities		
Cash acquired in acquisition of business	69,000	-
Cash paid for acquisition	(3,767,500)	-
Cash paid for acquisition of noncompete agreements	(1,658,279)	-
Purchase of property and equipment	(90,452)	(139,680)
Security deposit	(69,744)	(10,170)
Proceeds from sale of assets	-	20,100
Net cash used in investing activities	(5,516,975)	(129,750)
Cash Flows from Financing Activities		

Gross proceeds on sale of notes payable	-	1,000,000
Capital lease payments	(13,730)	(13,381)
Notes payable repaid	(363,250)	-
New notes entered into	243,613	-
Net proceeds on related party notes and advances	22,588	107,103
Debt issuance costs	-	(60,000)
Repayment of related party notes	(72,458)	-
Cash proceeds on issuance of series C preferred stock units	11,199,600	75,000
Issuance costs	(965,194)	(144,386)
Cash proceeds from exercise of warrants	750	7,937
Net cash provided by financing activities	10,051,919	972,273
Net increase/(decrease) in cash	560,698	(1,534,844)
Cash, beginning of period	586,824	1,616,410
Cash, end of period	$1,147,522	$81,566
Supplemental disclosure of cash flow information Cash paid during the year for:		
Interest	$96,015	$5,950
Noncash Transactions		
Reclassification of derivative liability to equity	$-	$(427,568)
Issuance of common stock and series B preferred stock in conjunction with debt extinguishment	$-	$5,652,494
Common shares issued for settlement of accounts payable	$523,178	$57,000
Conversions of series C preferred stock to common stock	$1,007,400	$-
Conversions of series E preferred stock to common stock	$380,950	$-
Conversions of series F preferred stock to common stock	$137,054	$-
Assets acquired in NG Enterprises acquisition	$916,219	$-
Liabilities assumed in NG Enterprises acquisition	$(148,719)	$-
Assets acquired in Green Arc Supply acquisition	$2,398,625	$-
Liabilities assumed in Green Arc Supply acquisition	$(154,009)	$-
Assets acquired in Trico Welding Supplies acquisition	$3,052,000	$-
Liabilities assumed in Trico Welding Supplies acquisition	$(1,106,000)	$-
Fair value of common stock issued in Green Arc Supply acquisition	$1,259,616	$-
Common shares issued for the settlement of accounts payable	$523,178	$-
Series F Preferred stock issued for the settlement of accounts payable	$556,017	$-
Deemed dividend in connection with the issuance of Series C Preferred stock	$1,244,400	$-

See accompanying notes to the unaudited condensed consolidated financial statements.

7

MagneGas Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

June 30, 2018

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

MagneGas Corporation (the "Company") was organized in the State of Delaware on December 9, 2005.

The Company is an alternative energy company that has developed a proprietary plasma arc system ("Plasma Arc Flow Units" or "Plasma Arc Flow System") which generates hydrogen based synthetic gases through the gasification of various types of liquid feedstocks. The Company's synthetic gas – MagneGas2® - is bottled in cylinders and is distributed to the metalworking market as an alternative cutting fuel to acetylene and propane. Through the course of its business development, the Company has established a retail and wholesale platform and a network of brokers to sell its MagneGas2® for use in the metalworking and manufacturing industries throughout the world. Additionally, the Company is in the process of developing ancillary uses of MagneGas2® for additional end-user applications. The Company's Plasma Arc Flow Units include various commercial applications, most notably the sterilization of liquid waste, which has resulted in the Company's marketing and sale of Plasma Arc Flow Units for third-party commercial use.

In the second quarter of 2014 the Company began implementing an acquisition-focused growth strategy that was highlighted by the October 2014 purchase of Equipment Sales and Services, Inc. ("ESSI"). ESSI is a full line seller of industrial gases and equipment for the welding and metal cutting industries. Since acquiring ESSI, the Company has opened four retail locations and distributes MagneGas2® as a metal cutting fuel as well as other gases and welding supplies. Additional acquisitions and the success of ESSI has allowed the Company to augment its acquisition growth model with significant organic growth. In January 2018, the Company acquired all of the assets of GGNG Enterprises, Inc. and began doing business in Southern California under the name "Complete Welding San Diego". In February 2018, the Company acquired all of the assets of Green Arc Supply, L.L.C. and began doing business in Texas and Louisiana under the name "Green Arc Supply". On April 3, 2018, the Company acquired all of the capital stock of Trico Welding Supplies, Inc. and began doing business in Northern California under the name "Trico Welding Supplies".

The Company discusses three major marketing initiatives in this Report. However, operating segments are defined as components of an enterprise about which separate financial information is available and that is evaluated regularly by the chief operating decision maker, or decision–making group in deciding how to allocate resources and in assessing performance. Therefore, even though the Company discusses discrete initiatives it is actually three product offerings within one operating segment.

NOTE 2 - GOING CONCERN AND MANAGEMENTS' PLAN

As of June 30, 2018, the Company had cash of $1,147,522 and has reported a net loss of $6,514,500 and has used cash in operations of $3,974,246 for the six months ended June 30, 2018. In addition, as of June 30, 2018 the Company has working capital of $1,235,578 and an accumulated deficit of $71,097,370. These conditions indicate that there is substantial doubt about the Company's ability to continue as a going concern within one year from the issuance date of the financial statements.

The ability of the Company to continue as a going concern is dependent upon its ability to further implement its business plan and generate sufficient revenue and its ability to raise additional funds by way of public or private offerings.

Historically, the Company has financed its operations through equity and debt financing transactions and expects to continue incurring operating losses for the foreseeable future. The Company's plans and expectations for the next 12 months include raising additional capital to help fund commercial operations and product development. The Company utilizes cash in its operations of approximately $660,000 per month. Management believes, but it cannot be certain, its current holdings of cash, along with the cash to be generated from expected product sales and future financings, will be sufficient to meet its projected operating requirements for the next twelve months from the date of this report.

If these sources do not provide the capital necessary to fund the Company's operations during the next twelve months from the date of this Report, the Company may need to curtail certain aspects of its operations or expansion activities, consider the sale of its assets, or consider other means of financing. The Company can give no assurance that it will be successful in implementing its business plan and obtaining financing on terms advantageous to the Company or that any such additional financing would be available to the Company.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial information. In the opinion of the Company's management, the accompanying condensed consolidated financial statements reflect all adjustments, consisting of normal, recurring adjustments, considered necessary for a fair presentation of the results for the interim periods ended June 30, 2018 and 2017. As this is an interim period financial statement, certain adjustments are not necessary as with a financial period of a full year. Although management believes that the disclosures in these unaudited condensed consolidated financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in financial statements that have been prepared in accordance U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's financial statements for the year ended December 31, 2017, which contains the audited financial statements and notes thereto, for the years ended December 31, 2017 and 2016 included within the Company's Form 10-K filed with the SEC on April 16, 2018. The interim results for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ended December 31, 2018 or for any future interim periods.

Use of Estimates

The Company prepares its financial statements in conformity with U.S. 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 consolidated financial statements presented include inventory reserves, fair value of derivative financial instruments along with other equity instruments, recoverability of deferred tax assets, collections of its receivables, and valuation of assets acquired and liabilities assumed by acquisition.

Principles of Consolidation

The condensed consolidated financial statements have been prepared using the accounting records of MagneGas and its wholly owned subsidiaries and all material intercompany balances and transactions have been eliminated.

Inventory

Inventory is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Inventory is comprised of industrial gases, welding supply finished goods and MagneGas2®. The Company carries little to no inventory classified as work in progress at any time. Estimates of lower of cost or net realizable value are based upon economic conditions, historical sales quantities and patterns, and in some cases, the specific risk of loss on specifically identified inventories. The Company evaluates inventories on a regular basis to identify inventory on hand that may be slow moving. Inventory that is in excess of current and projected use is reduced by an allowance to the level that approximates its estimate of future demand.

Goodwill and Other Indefinite-lived Assets

The Company records goodwill and other indefinite-lived assets in connection with business combinations. Goodwill, which represents the excess of acquisition cost over the fair value of the net tangible and intangible assets of acquired companies, is not amortized. Indefinite-lived assets are stated at fair value as of the date acquired in a business combination.

The Company assesses the recoverability of goodwill and certain indefinite-lived intangible assets annually in the fourth quarter and between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Under Financial Accounting Standards Board ("FASB") guidance for goodwill and intangible assets, a reporting unit is defined as an operating segment or one level below the operating segment, called a component. However, two or more components of an operating segment will be aggregated and deemed a single reporting unit if the components have similar economic characteristics. The Company operates as one reporting unit.

Authoritative accounting guidance allows the Company to first assess qualitative factors to determine whether it is necessary to perform the more detailed two-step quantitative goodwill impairment test. The Company performs the quantitative test if its qualitative assessment determined it is more likely than not that a reporting unit's fair value is less than its carrying amount. The Company may elect to bypass the qualitative assessment and proceed directly to the quantitative test for any reporting unit or asset. The quantitative goodwill impairment test, if necessary, is a two-step process. The first step is to identify the existence of a potential impairment by comparing the fair value of a reporting unit (the estimated fair value of a reporting unit is calculated using a discounted cash flow model) with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, the reporting unit's goodwill is considered not to be impaired and performance of the second step of the quantitative goodwill impairment test is unnecessary. However, if the carrying amount of a reporting unit exceeds its fair value, the second step of the quantitative goodwill impairment test is performed to measure the amount of impairment loss to be recorded, if any. The second step of the quantitative goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined using the same approach as employed when determining the amount of goodwill that would be recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of its assets and liabilities as if the reporting unit had been acquired in a business combination and the fair value was the purchase price paid to acquire the reporting unit.

Revenue Recognition

In March 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers - Principal versus Agent Considerations”, in April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing” and in May 9, 2016, the FASB issued ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606)”, or ASU 2016-12. This update provides clarifying guidance regarding the application of ASU No. 2014-09 - Revenue From Contracts with Customers which is not yet effective. These new standards provide for a single, principles-based model for revenue recognition that replaces the existing revenue recognition guidance. In July 2015, the FASB deferred the effective date of ASU 2014-09 until annual and interim periods beginning on or after December 15, 2017. It has replaced most existing revenue recognition guidance under U.S. GAAP. The ASU may be applied retrospectively to historical periods presented or as a cumulative-effect adjustment as of the date of adoption. We have adopted Topic 606 using a modified retrospective approach and will be applied prospectively in our financial statements from January 1, 2018 forward. Revenues under Topic 606 are required to be recognized either at a “point in time” or “over time”, depending on the facts and circumstances of the arrangement, and will be evaluated using a five-step model. The adoption of Topic 606 did not have a material impact on the financial statements, either at initial implementation nor will it have a material impact on an ongoing basis.

Based on the Company’s analysis the Company did not identify a cumulative effect adjustment for initially applying the new revenue standards. The Company principally generates revenue through the sales of: (1) MagneGas2®, other industrial gases and welding supply goods and (2) Plasma Arc Flow Units, either directly or through one or more of its wholly owned welding supply and gas distribution subsidiaries. The Company’s revenue recognition policy for the year ending December 31, 2018 is as follows:

Revenue for metal-working fuel, industrial gases and welding supplies is recognized at the point where the customer obtains control of the goods and we satisfy our performance obligation. The majority of the Company’s terms of sale have a single performance obligation to transfer products. Accordingly, the Company recognizes revenue when control has been transferred to the customer, generally at the time of shipment of products. Under the previous revenue recognition accounting standard, the Company recognized revenue upon transfer of title and risk of loss, generally upon the delivery of goods.

Revenue generated from sales of a Plasma Arc Flow Unit (“Units”) is no longer recognized on a percentage of completion. Even though our Units are cost intensive and generally require a 6 to 9 month production cycle, revenue will now be recognized upon shipment of the completed machine. We require purchasers of our Units to make significant payments before we proceed with production and at 75% completion; these payments are now classified as customer deposits instead of revenue.

The following table summarizes our revenue recognized in the condensed consolidated financial statements of operations:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Metal-working fuel, industrial gases and welding supplies	2,907,712	966,204	4,079,464	1,837,992
Plasma Arc Flow Unit	-	-	-	-
Total revenues	2,907,712	966,204	4,079,464	1,837,992

Information on Remaining Performance Obligations and Revenue Recognized from Past Performance

We do not disclose information about remaining performance obligations pertaining to contracts that have an original expected duration of one year or less. The transaction price allocated to remaining unsatisfied or partially unsatisfied performance obligations with an original expected duration exceeding one year was not material at June 30, 2018.

Contract Balances

The timing of our revenue recognition may differ from the timing of payment by our customers. We record a receivable when revenue is recognized prior to payment and we have an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, we record deferred revenue until the performance obligations are satisfied.

Contract Costs

Contract costs include labor and other costs to fulfill contracts associated with our Plasma Arc Flow are capitalized where the revenue is recognized at a point in time and the costs are determined to be recoverable.

Preferred Stock

The Company applies the accounting standards for distinguishing liabilities from equity under U.S. GAAP when determining the classification and measurement of its Preferred stock. Preferred shares subject to mandatory redemption are classified as liability instruments and are measured at fair value. Conditionally redeemable preferred shares (including preferred shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company’s control) are classified as temporary equity. At all other times, preferred shares are classified as permanent equity.

Stock-Based Compensation

The Company accounts for stock-based compensation costs under the provisions of ASC 718, “Compensation—Stock Compensation”, which requires the measurement and recognition of compensation expense related to the fair value of stock-based compensation awards that are ultimately expected to vest. Stock based compensation expense recognized includes the compensation cost for all stock-based payments granted to employees, officers, and directors based on the grant date fair value estimated in accordance with the provisions of ASC 718. ASC 718 is also applied to awards modified, repurchased, or canceled during the periods reported.

The Company incurred stock-based compensation charges, net of estimated forfeitures of $105,075 and $0 for the three months ended June 30,2018 and 2017, respectively, and $123,674 and $0 for the six months ended June 30, 2018 and 2017, respectively, and has included such amounts in selling, general and administrative expenses in the consolidated statements of operations.

Stock-Based Compensation for Non-Employees

The Company accounts for warrants and options issued to non-employees under ASC 505-50, Equity Based Payments to Non-Employees, using the Black-Scholes option-pricing model. The value of such non-employee awards unvested are re-measured over the vesting terms at each reporting date.

The Company incurred stock-based compensation charges, net of estimated forfeitures of $79,125 and $102,905 for the three months ended June 30, 2018 and 2017, respectively, and $142,599 and $243,145 for the six months ended June 30, 2018 and 2017, respectively, and has included such amounts in selling, general and administrative expenses in the condensed consolidated statements of operations.

Basic and Diluted Net Loss per Common Share

Basic loss per common share is computed by dividing the net loss by the weighted average number of shares of common stock outstanding for each period. Diluted loss per share is computed by dividing the net loss by the weighted average number of shares of common stock outstanding plus the dilutive effect of shares issuable through the common stock equivalents.

As of June 30, 2018, and 2017 the Company's common stock equivalents outstanding are described as follows:

	June 30,	
	2018	2017
Options	231,084	238,100
Warrants	222,222	11,641,668
Convertible secured debentures	-	276,334
Convertible preferred stock	2,990,618	225,000
Total common stock equivalents outstanding	3,443,924	12,381,102

The common stock equivalents have not been included in our weighted average shares outstanding calculation in the condensed consolidated statement of operations for the three and six months ended June 30, 2018 and 2017 as the inclusion would be antidilutive.

Subsequent Events

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the consolidated financial statements, except as disclosed in Note 14.

NOTE 4 – ACQUISITIONS

January 2018 Asset Purchase:

On January 19, 2018, the Company entered into an Amended and Restated Asset Purchase Agreement ("Amended Asset Purchase Agreement") with GGNG Enterprises Inc. (formerly known as NG Enterprises, Inc.) and Guillermo Gallardo (collectively, the "Seller") and closed the purchase of certain assets related to the Seller's welding supply and gas distribution business in San Diego, California. The total purchase price for the Purchased Assets was $767,500. $22,500 was paid as a business broker commission and is included in goodwill. Upon consummation of the closing, on January 19, 2018, the Company commenced business operations in San Diego, California through its wholly owned subsidiary NG Enterprises Acquisition, LLC and is doing business as "Complete Welding San Diego".

The preliminary allocation of the consideration transferred is as follows:

Cash	$767,500
Total purchase price	$767,500
Accounts receivable	$55,000
Inventory	150,000
Cylinders	325,000
Trucks	10,000
Accounts payable assumed	(148,719)
Total purchase price allocation	$391,281

Goodwill	$376,219

February 2018 Asset Purchase:

On February 16, 2018, the Company entered into an Asset Purchase Agreement (“Asset Purchase Agreement”) with Green Arc Supply, L.L.C. (the “Seller”) and closed the purchase of certain assets related to the Seller’s welding supply and gas distribution business located in Louisiana and Texas. The total purchase price for the purchased assets and assumed liabilities was $2,259,616, which was comprised of a $1,000,000 cash payment and the issuance of 961,539 shares of restricted common stock having a fair value of $1,259,616. The Asset Purchase Agreement also included certain conditional and bonus payments to the Seller, subject to certain performance criteria being met, as well as other terms and conditions which are typical in asset purchase agreements.

Further, in conjunction with the Asset Purchase Agreement, the Company entered into four (4) Assignment, Assumption and Amendment to Lease Agreements (each a “Lease Assumption Agreement”) with the Seller and the landlords of certain real property leased by the Seller for the operation of the Seller’s business locations in Louisiana and Texas. Upon consummation of the closing, the Company commenced operations in Texas and Louisiana through its wholly owned subsidiary MWS Green Arc Acquisition, LLC and is doing business as “Green Arc Supply”.

The preliminary allocation of the consideration transferred is as follows:

Cash	$1,000,000
Shares issued in connection with acquisition	1,259,616
Total purchase price	$2,259,616

Cash	$15,000
Accounts receivable	277,000
Inventory	707,000
Other current assets	18,000
Cylinders	750,000
Trucks	250,000
Fixed assets	321,625
Other assets	75,000
Accounts payable assumed	(154,009)
Total purchase price allocation	$2,259,616
Goodwill	$0

April 2018 Stock Purchase:

On April 3, 2018, MagneGas Corporation (the “Company”) entered into a Securities Purchase Agreement (“SPA”) with Robert Baker, Joseph Knieriem (collectively, the “Sellers”) and Trico Welding Supplies, Inc., a California corporation (“Trico”) for the purchase of all of the issued and outstanding capital stock of Trico by the Company. Under the terms of the SPA, the Company purchased one hundred percent (100%) of Trico’s issued and outstanding capital stock for the gross purchase price of $2,000,000 (“Trico Stock”). The SPA included certain other terms and conditions which are typical in securities purchase agreements. On March 21, 2018, the Company made an initial non-refundable deposit for the purchase of the Trico Stock. Upon execution of the SPA the Company funded the remaining $1,000,000 balance due. Effective at closing, the Company commenced business operations in northern California through its new wholly owned subsidiary Trico Welding Supplies, Inc.

The preliminary allocation of the consideration transferred is as follows:

Cash	$2,000,000
Total purchase price	$2,000,000
Accounts receivable	$714,000
Cash	54,000
Inventory	502,000
Refundable deposits	8,000
Prepaid	9,000
Customer relationships	449,000
Cylinders and trucks	493,000
Accounts payable assumed	(536,000)
Accrued liabilities	(74,000)
Capital leases	(384,000)
Deferred tax liability	(112,000)
Total purchase price allocation	$1,123,000
Goodwill	$877,000

14

All goodwill recorded as part of the purchase price allocations is currently anticipated to be tax deductible.

The following unaudited proforma financial information presents the consolidated results of operations of the Company with MWS Green Arc Acquisition, LLC, NG Enterprises Acquisition, LLC and Trico Welding Supplies, Inc. for the three months ended June 30, 2018 and 2017, as if the above discussed acquisitions had occurred on January 1, 2017 instead of January 19, 2018, February 16, 2018 and April 3, 2018, respectively. The proforma information does not necessarily reflect the results of operations that would have occurred had the entities been a single company during those periods.

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Revenues	2,907,712	2,918,269	5,720,278	5,697,216
Gross Profit	935,126	993,449	2,040,303	2,184,543
Operating Loss	(3,379,142)	(3,529,096)	(6,403,894)	(6,252,073)
Net Loss	(3,495,060)	(2,752,275)	(6,683,989)	(4,831,863)
Weighted Average Common Stock Outstanding	15,972,166	7,026,075	11,188,009	6,475,082
Loss per Common Share – Basic and Diluted	(0.22)	(0.39)	(0.60)	(0.75)

NOTE 5 - INVENTORY

Inventory, consisting primarily of production materials consumables, spare parts and accessories was $2,134,777 and $738,950 at June 30, 2018 and December 31, 2017, respectively.

	June 30, 2018	December 31, 2017
Production materials consumables, spare parts, and accessories	$2,134,777	$738,950
Work in process	-	-
Total at cost	2,134,777	738,950
Slow moving inventory allowance	(170,445)	-
Inventory, net	$1,964,332	$738,950

NOTE 6 – INTANGIBLE ASSETS

The Company’s recorded intangible assets consist of intellectual property, customer relationships and non-compete agreements. Applicable long–lived assets are amortized or depreciated over the shorter of their estimated useful lives, the estimated period that the assets will generate revenue, or the statutory or contractual term. Estimates of useful lives and periods of expected revenue generation are reviewed periodically for appropriateness and are based upon management’s judgment. Intellectual property is amortized on the straight-line method over its useful lives of 15 years. Customer relationships are amortized on the straight-line method over their useful lives of 10 years. Non-compete agreements are amortized on the straight-line method over the length of each agreement.

The Company’s intangible assets consisted of the following:

	Estimated useful life	June 30, 2018	December 31, 2017
Intellectual property	15 years	$877,781	$869,502
Customer relationships	10 years	449,000	-
Non-compete agreements	1-10 years	1,650,000	-
Total intangible assets, gross		2,976,781	869,502
Less: Accumulated amortization		(705,963)	(457,171)
Intangible assets, net		$2,270,818	$412,331

The Company recorded amortization expense of $215,853 and $13,991 for the three months ended June 30, 2018 and 2017, respectively, and $248,792 and $27,965 for the six months ended June 30, 2018 and 2017, respectively.

The following table outlines estimated future annual amortization expense for the next five years and thereafter:

December 31,	
2018	$180,739
2019	303,465
2020	303,465
2021	303,465
2022	303,465
Thereafter	876,219
Total	$2,270,818

NOTE 7 – NOTES PAYABLE

Point Financial Promissory Note Payable

The Company entered into a short-term note agreement with a financing company on November 15, 2017. The new note has an implicit interest rate of 25% and the Company received net proceeds of $500,000. The short-term note agreement has a term of twelve (12) months and requires the Company to make monthly payments in the amount of $10,417 with a $625,000 balloon payment at end of term, which includes a $125,000 buy back premium. The Company has the right to prepay the amounts owed under the note at any time without penalty. The short-term note agreement has a blanket lien on the Company’s assets.

The Company recorded $250,000 in commitment fees, buy back premiums and interest as an original issue discount and recorded a face amount of $750,000. The $250,000 in discount is being accreted over the 12-month life of the agreement using the straight-line method, which approximates the interest rate method.

During the three and six months ended June 30, 2018 the Company has made discretionary principal prepayments in the amount of $83,125 and $363,250, respectively, which included the minimum payments under the terms of the agreement. The Company accretion of the debt discount for the three and six months ended June 30, 2018 was $71,378 and $117,376, respectively.

NOTE 8 - STOCKHOLDERS' EQUITY

Reverse Stock Splits

On January 16, 2018, the Company filed an amendment to the Certificate of Incorporation to effect a one-for-fifteen reverse split of the Company's issued and outstanding common stock which was effectuated on January 16, 2018.

The reverse stock splits did not modify the rights or preferences of the common stock. Proportional adjustments have been made to the conversion and exercise prices of the Company's outstanding common stock warrants, convertible notes, common stock options, and to the number of common stock shares issued and issuable under the Company's equity compensation plan. The Company did not issue any fractional shares in connection with the reverse stock splits or change the par value per share. Fractional shares issuable entitle shareholders, to receive a cash payment in lieu of the fractional shares without interest. All share and per share amounts for the common stock have been retroactively restated to give effect to the reverse splits.

Common Shares Issued for Accounts Payable Settlement

During the six months ended June 30, 2018, the Company issued 721,455 shares of common stock to its directors, officers and consultants to settle the outstanding payables and accrued compensation. The total fair value of these issuances was $564,873 of which $41,696 was recorded as current period expense as stock compensation.

Common Shares Issued for Services

During the three and six months ended June 30, 2018, the Company issued 1,155,160 and 1,786,935 shares of common stock to consultants, respectively. The total fair value of these issuances during the three and six months ended June 30, 2018 were $519,457 and $2,250,207, respectively. These shares vest over the service term from the date of issuance. $712,014 and $1,061,240 were recognized as stock-based compensation during three and six months ended June 30, 2018, respectively. As of June 30, 2018, $1,188,967 remains unvested.

Common Stock Issued for Exercise of Warrants

During the first quarter of 2018, the Company issued 75,000 shares of common stock for the exercise of warrants, cash proceeds were $750.

NOTE 9 – PREFERRED STOCK

Series C Convertible Preferred Stock

During the six months ended June 30, 2018, investors converted 12,207 shares of Preferred Series C which had a stated value of $12,207,000 into 17,421,375 shares of the Company’s Common Stock.

Series E Convertible Preferred Stock

During the six months ended June 30, 2018, investors converted 280,110 shares of Preferred Series E which had a stated value of $380,950 into 135,754 shares of the Company’s Common Stock.

Series F Convertible Preferred Stock

On June 27, 2018, the Company entered into a Securities Settlement Agreement (“SSA”) with Maxim Group, LLC (“Maxim”). Maxim was entitled to certain placement agent fees from the Company in the aggregate amount of $556,016 arising from the convertible preferred transaction dated as of June 12, 2017, pursuant to the engagement letter, dated March 7, 2017, between the Company and Maxim. Under the terms of the SSA, the Company issued to Maxim 817,670 shares of Series F Convertible Preferred Stock with an initial total value of $556,016 (“Series F Convertible Preferred Stock”). The Series F Convertible Preferred Stock has an initial conversion price of $0.68 per share and will be initially convertible into an aggregate of 817,670 shares of Common Stock.

Upon execution of the SAA, the Company reduced its outstanding obligations by $556,016.

During the three months ended June 30, 2018, investors converted 201,550 shares of Series F Convertible Preferred Stock which had a stated value of $137,054 into 725,000 shares of the Company’s Common Stock for settlement of payable to the placement agents.

NOTE 10 – COMMON STOCK OPTIONS

Options outstanding as of June 30, 2018 consisted of the following:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Intrinsic Value
December 31, 2017	15,342	$ 159.34	1.58	-
Granted	225,000	$ 0.93	10	-
Exercised	-			
Forfeited	-			
Expired	(9,258)	$ 169.52	-	-
June 30, 2018	231,084	$		$ -
Exercisable at June 30, 2018	139,618			

As of June 30, 2018, the fair value of non-vested options totaled $84,594 which will be amortized to expense over the weighted average remaining term of 9.34 years.

During the six months ended June 30, 2018, the Company granted options for the purchase of 225,000 shares of common stock to employees and directors of the Company. These options vest pro-rata over 24 months and have a life of ten years and an exercise price of $0.86-0.94 per share. The Company valued the stock options using the Black-Scholes option valuation model and the fair value of the awards was determined to be $208,300. The fair value of the common stock as of the grant date was determined to be $0.86-0.93 per share.

The fair value of each employee option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. Key weighted-average assumptions used to apply this pricing model during the three months ended 2018 were as follows:

Risk free interest rate	2.79-2.84%
Expected term	10 years
Volatility	183 %
Dividends	$-

NOTE 11 – COMMON STOCK WARRANTS

Common Stock Warrants outstanding as of June 30, 2018 consisted of the following:

	Outstanding	Weighted Exercise Price	Average Remaining Life
Balance- December 31, 2017	22,222	456	4.45
Granted	75,000	0.01	0.08
Exercised	(75,000)	0.01	
Expired	-		
Balance- June 30, 2018	22,222	455.63	4.20

On January 17, 2018, the Company issued 75,000 common stock warrants in consideration for the services rendered by a consultant. The warrants were exercisable immediately and had an exercise price of $0.01. The warrants would have expired on February 17, 2018 had they not been exercised.

During the first quarter of 2018, the Company issued 75,000 shares of common stock for the exercise of warrants, cash proceeds were $750. The fair value of the common stock warrants is $316,501, of which $79,125 and $142,599 was recognized as stock-based compensation for three and six months ended June 30, 2018, respectively.

At June 30, 2018 the total intrinsic value of warrants outstanding and exercisable was $0.

NOTE 12 – PREFERRED STOCK WARRANTS

Preferred Stock Warrants outstanding to purchase Series C Preferred Stock as of June 30, 2018 consisted of the following:

	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
Balance -December 31, 2017	21,397	$ 900	-
Granted	-		
Exercised	(12,444)	$ 900	
Forfeited	-	-	
Expired			
Balance- June 30, 2018	8,953	$ 900	
Exercisable at June 30, 2018	8,953		

18

During the three and six months ended June 30, 2018, the warrant holders exercised 3,141 and 12,444 Preferred Warrants into 3,141 and 12,444 Series C Convertible Preferred Shares, respectively. The investors simultaneously converted 2,789 and 12,207 shares, respectively during the three and six months ended June 30, 2018, which had a stated value of 2,789,000 and $12,207,000, respectively. These Series C Convertible Preferred Shares converted into 7,743,544 and 17,421,275 shares of the Company's Common Stock during the three and six months ended June 30, 2018, respectively. Management analyzed the conversion features of the Series C Preferred stock underlying the Series C Preferred Warrants and recorded a beneficial conversion feature in the amount of $314,100 and $1,244,400, which was recognized as a deemed dividend for the three and six months ended June 30, 2018, respectively.

At June 30, 2018 and December 31, 2017, the total intrinsic value of preferred stock warrants outstanding and exercisable was $0 and $0, respectively.

NOTE 13 - RELATED PARTY TRANSACTIONS

Operating Leases – Related Party

The Company previously occupied 5,000 square feet of a building owned by a related party. Rent was payable at $4,000 on a month-to-month basis. The facility allowed for expansion needs. The lease was held by EcoPlus, Inc., a company that is effectively controlled by Dr. Ruggero Santilli, a former officer and director of the Company and one of the people who currently has voting and investment control over 1,000,000 shares of Series A Preferred Stock which, in turn, has 100,000 votes per share on any matters brought to a vote of the common stock shareholders. The lease was terminated on May 27, 2017. Rent expense for the three months ended June 30, 2017 under this lease was approximately $12,000 and for the six months ended June 30, 2017 was approximately $20,000.

Notes Payable – Related Parties

As of December 31, 2017, the Company had a $50,000 promissory note with a member of the Board of Directors. The note bore interest of 15% per annum and was due on July 3, 2017. During the six months ended June 30, 2018 the Company repaid $40,000 in principal and $6,313 in interest. As of June 30, 2018, the balance payable was $13,125 including interest of $1,896.

As of December 31, 2017, the Company had a $50,000 promissory note with the Company's Chief Executive Officer ("CEO"). The note bears interest of 15% and was due on July 11, 2017. During the six months ended June 30, 2018 the Company repaid $20,000 in principal and $6,146 in interest. As of June 30, 2018, the balance payable was $33,125 including interest of $1,896.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Litigation

Certain conditions may exist as of the date the consolidated financial statements are issued which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company’s consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

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. 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 issues and received an initial 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. As of June 30, 2018, the Company has not accrued for any contingency.

On November 18, 2016 a lawsuit was filed in District Court in Pinellas County, Florida by the Estate of Michael Sheppard seeking unspecified damages. The lawsuit alleges that the Company was negligent and grossly negligent in various aspects of its safety, training and overall work environment that led to the accident. The Company was not cited by OSHA for any willful misconduct nor did it receive any citations from the Department of Transportation. As of June 30, 2018, the Company has not accrued for any contingency.

NOTE 15 – SUBSEQUENT EVENTS

Notes Payable – Related Parties

On July 3, 2018, the Company repaid the remaining balance of that certain $50,000 promissory note held by a member of the Board of Directors. The note bore interest of 15% per annum and was originally due on July 3, 2017.

On July 11, 2018, the Company repaid the remaining balance of a $50,000 promissory note with the Company's Chief Executive Officer ("CEO"). The note bore interest of 15% and was originally due on July 11, 2017.

Equity:

During the period July 1, 2018 through August 8, 2018, the warrant holders exercised 2,522 Preferred Warrants into 2,522 Series C Preferred Shares. The investors converted 2,522 Series C Preferred Shares into 10,843,865 shares of the Company's Common Stock.

During the period July 1, 2018 through August 8, 2018, the warrant holders exercised 616,120 Preferred Warrants into 616,120 Series F Preferred Shares. The investors converted 616,120 Series F Preferred Shares into 2,407,106 shares of the Company's Common Stock.

During the period July 1, 2018 through August 8, 2018, the Company issued 301,725 shares of Common Stock to Joseph Knieriem as payment for non-compete and compensation agreements. The Company issued 64,103 shares of Common Stock to Christopher Huntington as payment for Board of Directors compensation.

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

Cautionary Notice Regarding Forward Looking Statements

The following is a “safe harbor” statement under the Private Securities Litigation Reform Act of 1995. Statements contained in this document that are not based on historical facts are “forward-looking statements.” This Management’s Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q contain forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions that are not statements of historical facts. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. We may, in some cases, use words such as “project,” “believe,” “anticipate,” “plan,” “expect,” “estimate,” “intend,” “continue,” “should,” “woul “potentially,” “will,” “may” or similar words and expressions that convey uncertainty of future events or outcomes to identify these forward-looking statements.

The forward-looking statements in this document are based upon various assumptions, many of which are based on management’s discussion and analysis or plan of operations and elsewhere in this Report. Although we believe that these assumptions were reasonable when made, these statements are not guarantees of future performance and are subject to certain risks and uncertainties, some of which are beyond our control, and are difficult to predict. Actual results could differ materially from those expressed in forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements, which reflect management’s view only as of the date of this Report.

Certain Terms Used in this Report

When this report uses the words “we,” “us,” “our,” and the “Company,” they refer to MagneGas Corporation and our wholly-owned subsidiaries. “SEC” refers to the Securities and Exchange Commission.

Overview

MagneGas Corporation (the “Company”) was organized in the State of Delaware on December 9, 2005.

The Company is an alternative energy company that has developed a proprietary plasma arc system ("Plasma Arc Flow Units" or "Plasma Arc Flow System") which generates hydrogen based synthetic gases through the gasification of various types of liquid feedstocks. The Company's synthetic gas – MagneGas2® - is bottled in cylinders and is distributed to the metalworking market as an alternative cutting fuel to acetylene and propane. Through the course of its business development, the Company has established a retail and wholesale platform and a network of brokers to sell its MagneGas2® for use in the metalworking and manufacturing industries throughout the world. Additionally, the Company is in the process of developing ancillary uses of MagneGas2® for additional end-user applications. The Company's Plasma Arc Flow Units include various commercial applications, most notably the sterilization of liquid waste, which has resulted in the Company's marketing and sale of Plasma Arc Flow Units for third-party commercial use.

In the second quarter of 2014 the Company began implementing an acquisition-focused growth strategy that was highlighted by the October 2014 purchase of Equipment Sales and Services, Inc. ("ESSI"). ESSI is a full line seller of industrial gases and equipment for the welding and metal cutting industries. Since acquiring ESSI, the Company has opened four retail locations and distributes MagneGas2® as a metal cutting fuel as well as other gases and welding supplies. Additional acquisitions and the success of ESSI has allowed the Company to augment its acquisition growth model with significant organic growth. In January 2018, the Company acquired all of the assets of GGNG Enterprises, Inc. and began doing business in southern California under the name "Complete Welding San Diego". In February 2018, the company acquired all of the assets of Green Arc Supply, L.L.C. and began doing business in Texas and Louisiana under the name "Green Arc Supply". On April 3, 2018, the Company acquired all of the capital stock of Trico Welding Supplies, Inc. and began doing business in Northern California under the name "Trico Welding Supplies".

Between February and March of 2017, the Company formed five wholly owned subsidiaries in the State of Delaware respectively called MagneGas Energy Solutions, LLC, MagneGas Welding Supply, LLC, MagneGas Real Estate Holdings, LLC, MagneGas IP, LLC and MagneGas Production, LLC. The Company formed these entities to hold the various types of Company assets their names indicate. On June 29, 2018, the Company organized MagneGas Limited under the laws of the United Kingdom and commenced business operations in greater Europe.

Results of Operations

Comparison for the three and six months ended June 30, 2018 and 2017

Revenues

For the three months ended June 30, 2018 and 2017 we generated revenues of $2,907,712 and $966,204, respectively. The 201% increase in revenue was due primarily to our acquisition of Trico Welding Supplies, Inc. in Northern California which generated $1,392,757. Organic sales growth in the area of preexisting operations generated $1,534,574, as compared to $966,204 for the three months ended June 30, 2018. The $568,369 (58.5%) increase in sales outside of Trico was largely due to the expansion of the Company into the East Texas, Louisiana, and San

Diego, California markets via two acquisitions made during the first quarter of 2018. Revenues generated by ESSI, LLC, the Company's Florida industrial gas and welding supply subsidiary, were $969,140, largely unchanged as compared to the same period in the prior year. The Company has focused on increased staffing and growth efforts in East Texas and California, where the Company sees significant growth potential and higher profit margin opportunities.

For the six months ended June 30, 2018 and 2017 we generated revenues of $4,079,464 and $1,837,992, respectively. The 122% increase in revenue was due primarily to the three acquisitions completed year-to-date and organic sales growth in the area of preexisting operations. These acquisitions contributed $2,218,411 in revenue during the period. The Company's Florida operations generated $1,855,465 during the first six months of 2018, largely unchanged from the same period in the prior year. The Company dedicated virtually all spare financial and operational resources during the first six months of 2018 to completing, integrating, and implementing growth plans at three newly acquired business in California, Texas and Louisiana.

For the three months ended June 30, 2018 and 2017 cost of revenues were $1,972,586 compared to $532,657, respectively. For the three months ended June 30, 2018 and 2017, we generated a gross profit of $935,126 compared to $433,547. Gross margins for the three months ended June 30, 2018 and 2017 were 32% and 45%, respectively. The decline in gross margins was due to acquisition accounting treatment of the acquired inventory values. The company recorded $331,061 in additional cost of goods sold during the period due to acquisition accounting. If this amount were excluded, gross margins would have been 44%. The Company anticipates that margins will improve as all acquired inventory is sold and our cost basis for replacement inventory is reflected in our future cost of goods sold. Partially offsetting this increase in cost of goods sold, the Company has achieved better pricing and terms on select products as we achieve economies of scale and greater buying power. In addition, the Company is currently in the process of installing a bulk industrial gas fill plant at its Clearwater facilities. These facilities are estimated to further improve combined gross margins by 3 to 5 percentage points as the Company expects to improve its gas margins in the Florida market.

For the six months ended June 30, 2018 and 2017 cost of revenues were $2,730,459 compared to $1,036,045, respectively. For the six months ended June 30, 2018 and 2017, we generated a gross profit of $1,349,005 compared to $801,947. Gross margins for the six months ended June 30, 2018 and 2017 were 33% and 44%, respectively. The decline in gross margins was due to acquisition accounting treatment of the acquired inventory values. The Company anticipates that margins will improve as all acquired inventory is sold and our cost basis for replacement inventory is reflected in our future cost of goods sold. Partially offsetting this increase in cost of goods sold, the Company has achieved better pricing and terms on select products as we achieve economies of scale and greater buying power.

Operating Expenses

Operating costs for the three months ended June 30, 2018 and 2017 were $4,355,964 and $3,524,922, respectively. The increase in our operating costs in 2018 was primarily attributable to the completion of our acquisition in April 2018 and significant capital markets activity during the period. The Company spent $90,000 on consulting related to the April 2018 acquisition. The Company also recognized significant non-recurring charges related to integration of these acquisitions. The Company incurred approximately $60,000 in computer and IT integration activities. Travel expenses were also significantly higher due to ongoing personnel training, integration and other non-recurring activities. During the three months ended June 30, 2018 we recognized a non-cash charge of $18,599 in stock-based compensation for employees, compared to $1,779,350 in the comparable three months ended June 30, 2017, common stock issued for services of $790,389 for the three months ended June 30, 2018, compared to $1,312,721 in the comparable three months ended June 30, 2017. Other non-cash operating expenses were due to depreciation and amortization charges of $401,929 for the three-month period ended June 30, 2018, compared to $193,230 for the three months ended June 30, 2017.

Operating costs for the six months ended June 30, 2018 and 2017 were $7,670,321 and $6,398,267, respectively. The increase in our operating costs in 2018 was primarily attributable to the completion of our acquisition in April 2018 and significant capital markets activity during the period. The Company spent $547,810 on consulting related to the April 2018 acquisition. The Company also recognized significant non-recurring charges related to integration of these acquisitions. The Company incurred $63,579 in computer and IT integration activities. Travel expenses were also significantly higher due to ongoing personnel training, integration and other non-recurring activities. During the six months ended June 30, 2018 we recognized a non-cash charge of $123,674 in stock-based compensation for employees, compared to $1,882,255 in the comparable six months ended June 30, 2017, common stock issued for services of $1,203,839 for the six months ended June 30, 2018, compared to $1,639,110 in the comparable three months ended June 30, 2017. Other non-cash operating expenses were due to depreciation and amortization charges of $579,474 for the six-month period ended June 30, 2018, compared to $360,568 for the six months ended June 30, 2017.

In the current quarter, as in prior quarters, we selectively 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 for the three months ended June 30, 2018 have recognized losses in the amount of $3,495,060 compared to $2,241,777 for the three months ended June 30, 2017. The increase in our loss was primarily attributable to acquisition and integration expenses.

Our operating results for the six months ended June 30, 2018 have recognized losses in the amount of $6,514,500 compared to $4,022,936 for the six months ended June 30, 2017. The increase in our loss was primarily attributable to acquisition and integration expenses.

Liquidity and Capital Resources

As of June 30, 2018, the Company had cash of $1,147,522 and has reported a net loss of $6,514,500 and has used cash in operations of $3,974,246 for the six months ended June 30, 2018. Partly offsetting our negative cash flows, as of June 30, 2018 the Company had a positive working capital position of $1,235,578, and a stockholder’s equity balance of $14,426,449. As a result of the Company’s negative cash flow generation, there is reasonable doubt about the Company’s ability to continue as a going concern within one year from the issuance date of the financial statements.

The ability of the Company to continue as a going concern is dependent upon its ability to further implement its business plan and generate sufficient revenue and its ability to raise additional funds by way of public or private offerings or through the use of indebtedness.

Historically, the Company has financed its operations through equity and debt financing transactions and expects to continue incurring operating losses for the foreseeable future. The Company’s plans and expectations for the next 12 months include raising additional capital to help fund commercial operations, make select acquisitions, and new product development. The Company utilizes cash in its operations of approximately $660,000 per month. Management believes, but it cannot be certain, its current holdings of cash along with the cash to be generated from expected product sales and future financings will be sufficient to meet its projected operating requirements for the next twelve months from the date of this report.

Cash Flows from Continuing Operations

Cash flows from continuing operations for operating, financing and investing activities for the six months ended June 30, 2018 and 2017 are summarized in the following table:

	Six Months Ended June 30,	
	2018 (unaudited)	2017 (unaudited)
Operating activities	$(3,974,246)	$(2,377,367)
Investing activities	(5,516,975)	(129,750)
Financing activities	10,051,919	972,273
Net (decrease) increase in cash from continuing operations	$560,698	$(1,534,844)

23

For the three months ended June 30, 2018, we used cash of $3,974,246 in operations in 2018 and used cash of $2,377,367 in operations in 2017. Our cash use for 2018 was primarily attributable to cash used to reduce vendor balances, accrued expenses and other short-term liabilities. Our cash use for 2017 was primarily attributable to general corporate needs, personnel restructuring, the overhaul of our capital structure, and organic growth initiatives. During the six months ended June 30, 2018, cash used by investing activities consisted of $5,516,975 primarily due to the acquisition of all of the capital stock of Trico Welding Supplies, Inc. During the three months ended June 30, 2017, cash used by investing activities consisted of $129,750. Cash provided by financing activities for the six months ended June 30, 2018 was $10,051,919 as compared to cash provided by financing activities for the six months ended June 30, 2017 of $972,273. The net increase in cash during the six months ended June 30, 2018 was $560,698 as compared to a net decrease in cash of $1,534,844 for the six months ended June 30, 2017.

Insurance

The Company has insurance to cover Liabilities related to environmental and pollution contingencies of $1,000,000 per loss and $2,000,000 in the aggregate.

Critical Accounting Policies

Our significant accounting policies are presented in this Report in our Notes to financial statements, which are contained in this Quarterly Report. 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 U.S. 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 (the “Board”); 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.

The Company adopted ASC 606 effective January 1, 2018 using the modified retrospective method which would require a cumulative effect adjustment for initially applying the new revenue standard as an adjustment to the opening balance of retained earnings and the comparative information would not require to be restated and continue to be reported under the accounting standards in effect for those periods.

Based on the Company’s analysis the Company did not identify a cumulative effect adjustment for initially applying the new revenue standards. The Company principally generates revenue through the sales of: (1) MagneGas2®, other industrial gases and welding supply goods and (2) Plasma Arc Flow Units, either directly or through one or more of its wholly owned welding supply and gas distribution subsidiaries. The Company’s revenue recognition policy for the year ending December 31, 2018 is as follows:

Revenue for metal-working fuel, industrial gases and welding supplies is recognized when performance obligations of the sale are satisfied. The majority of the Company's terms of sale have a single performance obligation to transfer products. Accordingly, the Company recognizes revenue when control has been transferred to the customer, generally at the time of shipment of products. Under the previous revenue recognition accounting standard, the Company recognized revenue upon transfer of title and risk of loss, generally upon the delivery of goods.

Revenue generated from sales of a Plasma Arc Flow Unit ("Units") is no longer recognized on a percentage of completion. Even though our Units are cost intensive and generally require a 6 to 9 month production cycle, revenue will now be recognized upon shipment of the completed machine. We require purchasers of our Units to make significant payments before we proceed with production and at 75% completion; these payments are now classified as customer deposits instead of revenue.

The fair value of an embedded conversion option that is convertible into a variable amount of shares and warrants that include price protection reset provision features are deemed to be "down-round protection" and, therefore, do not meet the scope exception for treatment as a derivative under Accounting Standards Codification ("ASC") ASC 815 "Derivatives and Hedging", since "down-round protection" is not an input into the calculation of the fair value of the conversion option and warrants and cannot be considered "indexed to the Company's own stock" which is a requirement for the scope exception as outlined under ASC 815. The accounting treatment of derivative financial instruments requires that the Company record the embedded conversion option and warrants at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value is recorded as non-operating, non-cash income or expense for each reporting period at each balance sheet date. The Company reassesses the classification of its derivative instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification. As a result of entering into a convertible credit facility for which such instruments contained a variable conversion feature with no floor, the Company has adopted a sequencing policy in accordance with ASC 815-40-35-12 whereby all future instruments may be classified as a derivative liability with the exception of instruments related to share-based compensation issued to employees.

The Black-Scholes option valuation model was used to estimate the fair value of the warrants and conversion options. The model includes subjective input assumptions that can materially affect the fair value estimates. The Company determined the fair value of the Binomial Lattice Model and the Black-Scholes Valuation Model to be materially the same. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the warrants. Conversion options are recorded as debt discount and are amortized as interest expense over the life of the underlying debt instrument.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is a "Smaller Reporting Company" as defined by § 229.10(f)(1) and is not required to provide the information required by this Item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this report, an evaluation was carried out by the Company's management, with the participation of the chief executive officer and chief financial officer of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act")) as of June 30, 2018. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to management, including the chief executive officer and the chief financial officer, to allow timely decisions regarding required disclosures.

During the evaluation of disclosure controls and procedures as of June 30, 2018, management concluded that Company's disclosure controls and procedures were not effective.

Notwithstanding the existence of these material weaknesses, management believes that the consolidated financial statements in this report on Form 10-Q fairly present, in all material respects, the Company's financial condition as reported, in conformity with United States Generally Accepted Accounting Principles ("GAAP").

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. The Company's internal control over financial reporting is a process, under the supervision of the chief executive officer and chief financial officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and the board of directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management has not completed a proper evaluation, risk assessment and monitoring of the company's internal controls over financial reporting as of June 30, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). As a result, management has concluded controls were not effective and identified material weaknesses in internal control over financial reporting.

A material weakness is a control deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The material weaknesses identified are disclosed below:

Failure to Segregate Duties. Management has not maintained adequate segregation of duties within the Company due to its reliance on a few individuals to fill multiple roles and responsibilities. Our failure to segregate duties has been a material weakness for the period covering this report.

Sufficiency of Accounting Resources. The Company has limited accounting personnel to prepare its financial statements and handle complex accounting transactions. The insufficiency of our accounting resources has been a material weakness for the period covering this report.

Evaluation. The Company did not perform a proper evaluation, risk assessment or monitor their internal controls over financial reporting.

As a result of the material weaknesses in internal control over financial reporting described above, the Company's management has concluded that, as of June 30, 2018, the Company's internal control over financial reporting was not effective based on the criteria in Internal Control – Integrated Framework issued by the COSO.

This report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. We were not required to have, nor have we, engaged the Company's independent registered public accounting firm to perform an audit of internal control over financial reporting pursuant to the rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended June 30, 2018 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.

The Company is involved in certain claims and pending litigation arising from the normal conduct of business. Many of these claims are covered in whole or in part by insurance. Based on knowledge of the facts and, in certain cases, opinions of outside counsel, management believes that adequate provisions have been made for probable losses with respect to the resolution of all such claims and pending litigation and that the ultimate outcome, after provisions therefor, will not have a material adverse effect on the financial condition of the Company, but could have a material effect on the results of operations in a given quarter or year.

Item 1A. Risk Factors.

For a discussion identifying additional risk factors and other important factors that could cause actual results to differ materially from those anticipated, see the discussions under Part I, Item 1A, "Risk Factors" in the Company's Annual

Report on Form 10-K for the fiscal year ended December 31, 2017.

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

During the second quarter of 2018, the Company issued 1,155,160 shares of common stock to consultants. The total value of these issuances is $519,457. These shares shall be vested per service term from the date of issuance and $712,014 were recognized as stock-based compensation during the three months ended June 30, 2018.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

		Incorporated by Reference			Filed or
Exhibit Number	**Exhibit Description**	**Form**	**Exhibit**	**Filing Date**	**Furnished Herewith**
3.1	Amendment No. 1 to By-Laws of MagneGas Corporation.	8-K	3.1	09/29/2016	
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.				X
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.				X
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.				X
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.				X
101.INS	XBRL Instance.				X
101.SCH	XBRL Schema.				X
101.CAL	XBRL Calculation.				X
101.DEF	XBRL Definition.				X
101.LAB	XBRL Label.				X
101.PRE	XBRL Presentation.				X

* 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: August 14, 2018

By: */s/ Scott Mahoney*
Scott Mahoney
Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: August 14, 2018