MAGNEGAS CORP
Form 10-Q
November 10, 2015

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 September 30, 2015

or

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

For the transition period from ______________ to ______________

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.)

150 Rainville Rd

Tarpon Springs, Florida	**34689**
(Address of principal executive offices)	(Zip Code)

(727) 934-3448

(Registrant's telephone number, including area code)

N/A

(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

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 November 6, 2015 there were 41,215,553 shares of common stock, $0.001 par value issued and outstanding.

MAGNEGAS CORPORATION

TABLE OF CONTENTS

FORM 10-Q REPORT

September 30, 2015

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

MagneGas Corporation
Balance Sheets

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 2,169,120	$ 5,061,674
Accounts receivable, net of allowance for doubtful accounts of $109,568 and $104,028, respectively	331,619	268,308
Inventory, at cost	2,232,433	2,164,838
Prepaid and other current assets	540,996	300,065
Total Current Assets	5,274,168	7,794,885
Property and equipment, net of accumulated depreciation of $1,339,576 and $961,520, respectively	5,630,905	6,353,655
Intangible assets, net of accumulated amortization of $333,265 and $296,914, respectively	496,093	492,252
Investment in joint ventures	744,601	718,246
Security deposits	21,463	21,647
Goodwill	2,108,781	2,098,069
Total Assets	$ 14,276,011	$ 17,478,754
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 444,022	$ 155,909
Accrued expenses	262,000	52,120
Deferred revenue and Customer Deposits	30,000	56,666
Notes Payable (equipment)-Short Term	3,727	0
Total Current Liabilities	739,749,	264,695
Long Term Liabilities		
Note payable on headquarters building & equipment	535,856	520,000
Total Liabilities	$ 1,275,605	$ 784,695
Stockholders' Equity		
Preferred stock: $0.001 par; 10,000,000 authorized; 1,000,000 issued and outstanding	1,000	1,002
Common stock: $0.001 par; 90,000,000 authorized; 41,215,553 and 36,691,505 issued and outstanding, respectively	41,215	36,692
Additional paid-in capital	45,195,198	42,361,578
Accumulated deficit	(32,237,007)	(25,705,213)
Total Stockholders' Equity	13,000,406	16,694,059

Total Liabilities and Stockholders' Equity	$ 14,276,011	$ 17,478,754

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

4

MagneGas Corporation
Statements of Operations
(Unaudited)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2015	2014	2015	2014
Revenue:	$623,893	$146,400	$1,753,986	$516,331
Direct costs	405,979	98,484	1,078,032	328,943
	217,914	47,916	675,954	187,388
Operating Expenses:				
Selling, General and Administration	1,658,168	946,676	4,591,290	2,670,551
Sale on Unused Property	0	0	483,630	0
Stock-based compensation	100,755	380,535	410,160	1,112,563
Stock issued to pay for services	425,001	398,249	1,063,276	766,055
Research and development	104,968	124,351	231,618	306,010
Depreciation and amortization	141,848	104,707	418,467	269,921
Total Operating Expenses	2,430,740	1,954,518	7,198,441	5,125,100
Operating Income (Loss)	(2,212,826)	(1,906,602)	(6,522,487)	(4,937,712)
Other Income and (Expense):				
Net Interest	(10,815)	901	(21,070)	1,423
Other Income	8,421		11,763	386
Total Other Income (Expense)	(2,394)	901	(9,307)	1,809
Net Income (Loss) before tax benefit	(2,215,220)	(1,905,701)	(6,531,794)	(4,935,903)
Provision for Income Taxes				
Net Income (Loss)	$(2,215,220)	$(1,905,701)	$(6,531,794)	$(4,935,903)
Net Loss per share:				
Basic and diluted	$(0.05)	$(0.06)	$(0.17)	$(0.16)
Weighted average common shares:				
Basic and diluted	41,181,102	33,315,633	39,170,542	30,359,870

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

MagneGas Corporation
Statement of Changes in Stockholders' Equity

(Unaudited)

	Preferred Shares	**Amount**	**Common Shares**	**Amount**	**Additional Paid In Capital**	**Unearned Sock Comp**	**Accumulated Deficit**	**Total Equity**
Balance at December 31, 2013	1,000,000	$ 1,000	23,259,109	$ 23,259	$ 26,163,522	$ 0	$ (18,552,761)	$ 7,635,020
Private placement	6.242	6	7,500,755	7,501	13,992,493			14,000,000
Offerings costs					(1,483,818)			(1,483,818)
Issued for services			959,499	960	1516,360			1,517,320
Options - Stock Comp					1,511,989			1,511,989
Options exercised			600,000	600	665,400			666,000
Preferred shares converted to Common Stock	(4.242)	(4)	4,372,142	4,372	(4,368)			0
Net loss (audited)							(7,152,452)	(7,152,452)
Balance at December 31, 2014	1,002,000	$ 1,002	36,691,505	$ 36,692	$ 42,361,578	$ 0	$ (25,705,213)	$ 16,694,059
Offerings costs					(53,775)			(53,775)
Issued for services			1,169,483	1,168	982,073			983,241
Options - Stock Comp					410,160			410,160
Options/warrants Exercised			1,354,565	1355	1,497,160			1,498,515
Preferred shares converted to Common Stock	(2,000)	(2)	2,000,000	2,000	(1,998)			0
Net loss (unaudited)							(6,531,794)	(6,531,794
Balance at September 30, 2015	1,000,000	$ 1,000	41,215,553	$ 41,215	$ 45,195,198	$ 0	$ (32,237,007)	$ 13,000,406

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

6

MagneGas Corporation
Statement of Cash Flows
For the Nine Months Ended September 30, 2015 and 2014
(Unaudited)

	September 30, 2015	2014
Cash Flows from Operations		
Net loss	$(6,531,794)	(4,935,903)
Adjustments to reconcile net loss to cash used in operating Activities:		
Depreciation and amortization	418,467	269,921
Stock compensation	410,160	1,112,563
Stocks issued for Services	1,063,276	1,065,474
Provision for bad debt	5,540	(5,759)
Loss on disposal of Fixed Assets	483,630	333
Changes in operating assets:		
Accounts receivable	(70,102)	58,655
Inventory	(50,514)	(171,088)
Prepaid & other current assets	(240,931)	(354,218)
Security Deposits		(2,086)
Accounts payable	295,056	(85,396)
Accrued expenses	131,351	5,994
Deferred revenue and customer deposits	(26,666)	(109,340)
Total adjustments to net income	2,419,267	1,755,053
Net cash (used in) operating activities	(4,112,527)	(3,180,850)
Cash Flows from Investing Activities		
Acquisition of property and equipment	(578,381)	(359,684)
Security deposit	184	0
Acquisition of Intangibles	(66,548)	(248,281)
Proceeds from sale of assets	400,410	
Net cash flows (used in) investing activities	(244,335)	(607,965)
Cash Flows from Financing Activities		
Proceeds from issuance of common stock		8,686,053
Note Payable	19,583	0
Offering cost	(53,775)	
Common Stock/Warrants Exercised	1,498,500	0
Net cash flows provided by (used in) financing activities	1,464,308	8,686,053
Net increase (decrease) in cash	(2,892,554)	4,897,238
Cash balance, beginning	5,061,674	216,523

Cash balance, ending	$2,169,120	5,113,791
Disclosure of cash flow information and non-cash investing and financing activities:		
Interest paid	$28,299	104
Taxes paid		

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

7

MagneGas Corporation

Notes to the Unaudited Financial Statements

September 30, 2015

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 MagneGas 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, 2014.

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 & nine months ended September 30, 2015 and 2014; (b) the financial position at September 30, 2015; and (c) cash flows for the nine months ended September 30, 2015 and 2014, 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 MagneGas 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.
Level 2	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 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 September 30, 2015. 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.

Accounts Receivable, Credit

Accounts receivable consist of amounts due for the delivery of MagneGas 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 MagneGas 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 September 30, 2015and December 31, 2014.

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.

Shipping Costs

The Company includes shipping costs and freight-in costs in direct costs, for those expenses associated with revenue process. The Company has incurred shipping and delivery costs associated with establishing units at production sites as well as incurring costs in shipping samples, trade shows and other business related functions, which are charged as a selling or administrative expense. Shipping costs were $123,524 and $169,647 for the nine months ended September 30, 2015 and 2014, respectively.

Advertising Costs

The costs of advertising are expensed as incurred. Advertising expenses are included in the Company’s operating expenses. Advertising expense was $86,484 and $52,181 for the nine months ended September 30, 2015 and 2014, respectively.

Research and Development

The Company expenses research and development costs when incurred. Research and development costs include engineering and laboratory testing of product and outputs. Indirect costs related to research and developments are allocated based on percentage usage to the research and development. Research and Development expense was $231,618 and $306,010 for the nine months ended September 30, 2015 and 2014, respectively

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.

(a) On June 26, 2012, the Company effected a ten-for-one reverse split of common shares. All share amounts have been retroactively adjusted to reflect the post-split shares

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

	September 30, 2015	September 30, 2014
Net loss	$ (6,531,794)	$ (4,935,903)
Weighted Average Shares		
Common Stock	39,170,542	30,359,870
Common stock equivalents (Options)	*	*
	39,170,542	30,359,870

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

As of September 30, 2015, there are no options and warrants vested above the current fair market trading value, which would be common stock equivalents.

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:

	September 30,	**December 31,**

	2015	2014
Production materials consumables, spare parts, & accessories	$ 843,565	$984,287
Units, Construction in process	1,388,868	1,180,551
	$ 2,232,433	$2,164,838

12

5. Long Lived Assets

Property and equipment consists of:

	September 30, 2015	**December 31,** 2014
Machinery and equipment	$ 317,235	$ 273,450
Furniture and office equipment	80,616	63,461
Transportation	252,381	275,210
Production units & cylinders	4,548,095	4,292,959
Land and buildings	1,772,154	2,420,124
	6,970,481	7,315,175
Less accumulated depreciation	1,339,576	961,520
	$ 5,630,905	$ 6,353,655

Depreciation of equipment was $382,117 and $233,570 for the nine months ended September 30, 2015 and 2014, 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 September 30, 2015 and December 31, 2014 management concluded that there was no impairment to the intangible assets.

	September 30, 2015	**December 31,** 2014
Intellectual property	$ 829,358	$ 789,166
Less accumulated amortization	333,265	296,914
	$ 496,093	$ 492,252

Future amortization through December 31,:	
2015	48,467
2016	48,467

2017	48,467
2018	48,467
2019	48,467
2020 and thereafter	253,758
	$ 496,093

Amortization of the intangible assets was $36,350 and $36,350 for the nine months ended September 30, 2015 and 2014, 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 is to account for the investment under 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 established a subsidiary company, 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 conduction 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 Stated 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.

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 MagneGas™ 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 September 30, 2015 and December 31, 2014, management does not believe any impairment exists with regard to the investments in joint ventures.

7. 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. The pro forma consolidated statement of operations for the nine months ended September 30,, 2015 for the consolidated entity as if the acquisition had occurred on January 1, 2014 is as follows.

The pro forma results disclosed in the tables below are based on the interim statements of the Company and ESSI. Various assumptions were made and are not necessarily indicative of the results of operations that would have occurred had the Company completed this acquisition on January 1, 2014.

The pro forma income statements for the combined Companies as if they were together since January 1, 2014 are as follows:

	September 30, 2015	**September 30, 2014**
Revenues	$ 1,753,986	$ 1,993,565
Net income	$ (6,531,794)	$ (4,566,442)
EPS	(0.17)	(0.15)

8. 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).

	September 30, 2015	**December 31,** 2014
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	10,000
Louisiana Venture deposit for future sale	10,000	0
	$ 995,660	$ 975,660
Portion recognized	965,660	918,994
Deferred revenue and customer deposits	$ 30,000	$ 56,666

The amount recognized as revenue under licensing arrangements was, $46,666 and $69,999 for the nine months ended September, 2015 and 2014, respectively.

9. 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, 2009 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, 2014 the Company has net operating loss carry forwards remaining from the following years:

Year Generated	Net Operating Loss	Year Expires
2007 – 2014 approx	$23,682,652	By 2030

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 2014. The Company state income tax returns are open to audit under the statute of limitations for the years ending December 31, 2006 through 2014. 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 nine months ended September 30, 2015and September 30, 2014

10. Equity

The Company has several classifications of stock:

Our certificate of incorporation provides that we are authorized to issue up to 10,000,000 shares of preferred stock with a par value of $0.001 per share. Our board of directors has the authority, without further action by the stockholders, to issue from time to time the preferred stock in one or more series for such consideration and with such relative rights, privileges, preferences and restrictions that the board may determine. The preferences, powers, rights and restrictions of different series of preferred stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions and purchase funds and other matters. The issuance of preferred stock could adversely affect the voting power or other rights of the holders of common stock.

Of the 10,000,000 shares authorized of Preferred stock at a par value of $0.001, 1,000,000 shares have been designated and issued as Series A Preferred Stock, 2,141.1328 shares have been designated and issued as Series B Convertible Preferred Stock, 2,100.5 shares have been designated and issued as Series C Convertible Preferred Stock, 1,060 shares have been designated and issued as Series D-1 Convertible Preferred Stock, and 940 shares have been designated and issued as Series D-2 Convertible Preferred Stock. As of June 30, 2015, only the 1,000,000 shares of Series A Preferred Stock is outstanding. All of the Series B, C, D-1, and D-2 shares previously issued have been converted into shares of Common Stock.

Series A Preferred Stock has liquidation and dividend rights over Common Stock, which is not in excess of its par value. The preferred stock has no conversion rights or mandatory redemption features. There have been 1,000,000 shares of Preferred Stock issued to an entity controlled by Dr. Ruggero Santilli, Ermanno Santilli, President and CEO, Luisa Ingargiola, CFO and Carla Santilli, Director. Ermanno Santilli and Luisa Ingargiola have no equity interest, only voting control. Each share of Preferred Stock is entitled to 100,000 votes.

Series B Preferred Stock has a liquidation preference equal to the stated value of each share of Series B Preferred Stock or $1,000 per share. The shares of Series B Preferred Stock do not have any voting rights other than if the Company seeks to alter or adversely affect the rights of the Series B Preferred Stock. Subject to certain ownership limitations as described below, shares of Series B Preferred Stock are convertible at any time at the option of the holder into shares of the Company’s common stock at a conversion price of $0.80 per share. The conversion price is subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions and any issuances of securities below $0.80. Subject to limited exceptions, holders of shares of Series B Preferred Stock will not have the right to convert any portion of their Preferred Stock if the holder, together with its affiliates, would beneficially own in excess of 4.99% of the number of shares of the Company’s common stock outstanding immediately after giving effect to its conversion.

Shares of Series C Preferred Stock have a liquidation preference equal to the stated value of each share of Preferred Stock or $1,000 per share. The shares of Series C Preferred Stock do not have any voting rights other than if the Company seeks to alter or adversely affect the rights of the Series C Preferred Stock. Subject to certain ownership limitations as described below, shares of Series C Preferred Stock are convertible at any time at the option of the holder into shares of the Company’s common stock at a conversion price of $1.45 per share. The conversion price is subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions. Subject to limited exceptions, holders of shares of Series C Preferred Stock will not have the right to convert any portion of their Series C Preferred Stock that would result in the holder, together with its affiliates, beneficially owning in excess of 9.99% of the number of shares of the Company’s common stock outstanding immediately after giving effect to its conversion. In addition, until such time as the Company has received shareholder approval as required by applicable Nasdaq rules, the Company may not issue, upon conversion of the Series C Preferred Stock or exercise of the March Investor Warrant, a number of shares of common stock which, when aggregated with the March Registered Stock or the shares previously issued upon conversion, would exceed 19.99% of the total number of shares of common stock outstanding immediately prior to this transaction.

Shares of Series D-1 and Series D-2 Preferred Stock have a liquidation preference equal to the stated value of each share of October Preferred Stock (as defined below under “Common Stock Issuances”) or $1,000 per share. The shares of October Preferred Stock do not have any voting rights other than if the Company seeks to alter or adversely affect the rights of the October Preferred Stock. Subject to certain ownership limitations as described below, shares of October Preferred Stock are convertible at any time at the option of the holder into shares of the Company’s common stock at a conversion price of $1.00 per share. The conversion price is subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions. Subject to limited exceptions, holders of shares of October Preferred Stock will not have the right to convert any portion of their October Preferred Stock that would result in the holder, together with its affiliates, beneficially owning in excess of 9.99% of the number of shares of the Company’s common stock outstanding immediately after giving effect to its conversion. In addition, until such time as the Company has received shareholder approval as required by applicable Nasdaq rules, the Company may not issue, upon conversion of the October Preferred Stock or exercise of the October Investor Warrant (as defined below under “Common Stock Issuances”), a number of shares of common stock which, when aggregated with the October Registered Stock (as defined below under “Common Stock Issuances”) or the shares previously issued upon conversion, would exceed 19.99% of the total number of shares of common stock outstanding immediately prior to this transaction.

The holders of Common Stock and the equivalent Series A Preferred Stock, voting together, shall appoint the members of the Board of the Directors. Each share of Common Stock is entitled to one vote.

Common Stock includes 90,000,000 shares authorized at a par value of $0.001.

Reverse Stock Split

On June 26, 2012 we effected a ten-for-one reverse split of common shares. All share amounts have been retroactively adjusted to reflect the post-split shares

Common Stock Issuances

On June 1, 2011, the Company executed agreements for two private offerings of its common stock (each an “Offering”). In connection with the Offerings, the Company entered into two securities purchase agreements (each a “Securities Purchase Agreement”) with DDI Industry International (Beijing) Co., Ltd (the “China Investor”). Pursuant to the first Securities Purchase Agreement, the Company issued an aggregate of 384,625 shares of its common stock (the “Shares”) to the China Investor for a purchase price of $500,000, at $1.30 per share. Pursuant to the second Securities Purchase Agreement, the Company issued an aggregate of 333,333 Shares to the China Investor for a purchase price of $561,248, at $1.68 per share. The Company has received the proceeds from both offerings. The second offering, in the amount of $561,248 was received in August 2011.

Prior to this Offering, the Company and the China Investor did have a material relationship. In June 2010, the Company entered into an agreement with the China Investor to form a Chinese joint venture ("MagneGas China"). Pursuant to the agreement, the China Investor acquired exclusive MagneGas™ Technology and manufacturing rights for the Greater China Market. The China Investor also acquired 1,481,482 shares of the Company's common stock at a purchase price of $2 million and purchased a 300Kw Plasma Arc Refinery at a purchase price of $1.855 million. The Company owns 20% of the equity in MagneGas China and the Company's former Chief Executive Officer, Dr. Ruggero Santilli, is a member of the board of directors. The Company is working with MagneGas China to replace Dr. Ruggero Santilli with Ermanno Santilli in this position. Pursuant to the agreement, the Company appointed Allen Feng, the Chief Executive Officer of the China Investor, to its board of directors.

On October 28, 2011 and November 8, 2011, we entered into definitive agreements with investors to sell in a private placement an aggregate of 19,662,500 shares of its common stock and warrants to purchase 19,662,500 shares of its common stock at a purchase price of $0.16 per unit, resulting in gross proceeds to us of $3,146,000, before deducting placement agent fees and other offering expenses. The warrants are exercisable at an exercise price of $0.30 per share and expire five years from the initial closing date.

2012 Private Placement

On March 28, 2012, we entered into a definitive agreement with investors to sell in a private placement an aggregate of 1,941,250 shares of our common stock and warrants to purchase 970,625 shares of our common stock at a purchase price of $2.00 per unit, resulting in gross proceeds to us of $3,882,500, before deducting placement agent fees and other offering expenses. The warrants are exercisable at an exercise price of $4.00 per share and expire five years from the initial closing date, which was March 29, 2012.

2012 Public Offering

On August 16, 2012, the Company completed a public offering of 2,850,000 shares of common stock at a price to the public of $3.00 per share. Of the 2,850,000 shares of common stock, an aggregate 652,173 shares were offered by three stockholders of the Company. The Company intends to use the net proceeds from the offering to further develop its products and operations, for working capital, and general corporate purposes. The Company did not receive any of the proceeds from the sale of shares by the selling stockholders. The offering resulted in the net issuance of 2,197,827 shares of common stock (2,850,000, less 652,173 common shares of the selling shareholders) for gross proceeds of $6,593,481 less offering and closing costs of $758,477, resulting in net proceeds of $5,835,004

On June 5, 2013, the Company closed its previously-announced underwritten public offering of 2,728,139 shares of common stock, par value $0.001 per share, and 2,728,139 warrants to purchase 682,035 shares of common stock with an exercise price of $1.35 per share, which includes the full exercise of the over-allotment option by the underwriter to purchase an additional 355,844 shares of common stock and warrants to purchase 88,961 shares of common stock with an exercise price of $1.35, at a combined price to the public of $0.90, for gross proceeds to the company of $2,455,325.

On September 27, 2013, the company settled a dispute with GreenPlanet Aid C. V. of Mexico (GreenPlanet) to which GreenPlanet was requesting a refund of a non-refundable deposit and as settlement of this dispute the Company offered 93,750 shares of common stock. This resulted in a $43,750 gain which is recognized as Other Income. This is an unrelated entity to Clear Sky Energy S. A. de C. V. of Mexico, who has a current active contract with the Company.

January 2014 Financing

On January 21, 2014, the Company entered into the Purchase Agreement with an institutional investor providing for the issuance and sale by the Company (the "January Offering") of 2,323,584 shares of the Company's common stock, par value $0.001 per share, for a purchase price of $1,858,867.20 (the "January Registered Stock") and 2,141.13280 shares of the Company's Series B Preferred Stock, which are convertible into a total of 2,676,416 shares of common stock (the "January Conversion Shares"). In connection with the purchase of shares of Series B Preferred Stock in the January Offering, the institutional investor received warrants to purchase 2,676,416 shares of common stock at an exercise price equal to $1.11 (the "January Investor Warrants"). Each January Investor Warrant shall be initially exercisable on the six (6) month anniversary of the issuance date and have a term of exercise equal to five (5) years from the date on which first exercisable. The closing of the sale of these securities took place on January 27, 2014. On February 10, 2014, we filed a registration statement on Form S-3 with the SEC covering the resale of the shares of common stock issuable upon conversion of the Series B Preferred Stock and upon exercise of the January Investor Warrant and the warrant issued to the Placement Agent for the January Offering.

March 2014 Financing

On March 24, 2014, the Company entered into a Securities Purchase Agreement with an institutional investor (the "March Investor") providing for the issuance and sale by the Company (the "March Offering") of 2,000,000 shares (the "March Shares") of the Company's common stock, par value $0.001 per share, and 2,100.5 shares of the Company's Series C convertible preferred stock (the "Series C Preferred Stock") which are convertible into a total of 1,448,276 shares of common stock (the "March Conversion Shares") for an aggregate purchase price of $5,000,000 (the March Shares, the Series C Preferred Stock and the March Conversion Shares shall be referred to as the "March Registered Stock"). In connection with the purchase of shares of the March Registered Stock in the March Offering, the March Investor received a warrant to purchase 1,724,138 shares of common stock at an exercise price equal to $2.15 (the "March Investor Warrant"). The March Investor Warrant was initially exercisable on the six (6) month anniversary of the issuance date and has a term of exercise equal to five (5) years from the date on which first exercisable. The closing of the sale of these securities occurred on March 28, 2014.

Shares of Series C Preferred Stock have a liquidation preference equal to the stated value of each share of Preferred Stock or $1,000 per share. The shares of Series C Preferred Stock do not have any voting rights other than if the Company seeks to alter or adversely affect the rights of the Series C Preferred Stock. Subject to certain ownership limitations as described below, shares of Series C Preferred Stock are convertible at any time at the option of the holder into shares of the Company's common stock at a conversion price of $1.45 per share. The conversion price is subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions. Subject to limited exceptions, holders of shares of Series C Preferred Stock will not have the right to convert any portion of their Series C Preferred Stock that would result in the holder, together with its affiliates, beneficially owning in excess of 9.99% of the number of shares of the Company's common stock outstanding immediately after giving effect to its conversion. In addition, until such time as the Company has received shareholder approval as required by applicable Nasdaq rules, the Company may not issue, upon conversion of the Series C Preferred Stock or exercise of the March Investor Warrant, a number of shares of common stock which, when aggregated with the March Registered Stock or the shares previously issued upon conversion, would exceed 19.99% of the total number of shares of common stock outstanding immediately prior to this transaction.

The March Registered Stock was offered by the Company pursuant to an effective shelf registration statement on Form S-3, which was initially filed with the Securities and Exchange Commission (the “SEC”) on May 17, 2013 and declared effective on May 28, 2013 (File No. 333-188661) (the “Registration Statement”). On March 27, 2014, we filed a prospectus supplement with the SEC in connection with the sale of the March Registered Stock.

The March Investor Warrant was issued and sold without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act and/or Regulation D promulgated thereunder and in reliance on similar exemptions under applicable state laws. All potential investors in the March Offering, including the private placement, were solicited by means of direct contact by Northland Securities, Inc. (the "Placement Agent"). The Placement Agent had a substantive pre-existing relationship with the institutional investor and the Company did not engage in any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) in connection with the offer or sale of the Series C Preferred Stock or the March Investor Warrant. Accordingly, the March Investor may exercise the warrant and sell the underlying shares only pursuant to an effective registration statement under the Securities Act covering the resale of those shares, an exemption under Rule 144 under the Securities Act or another applicable exemption under the Securities Act. Pursuant to a Registration Rights Agreement, dated March 24, 2014, by and between the Company and the Investor (the "March Registration Rights Agreement"), the Company agreed to file one or more registration statements with the SEC covering the resale of the shares of common stock issuable upon exercise of the March Investor Warrant. On November 26, 2014, we filed a registration statement on Form S-3 with the SEC covering the resale of the shares of common stock issuable upon exercise of the March Investor Warrant.

Moreover, in connection with the March Offering the Placement Agent received cash compensation equal to 7% of the total amount raised and received a warrant to purchase an aggregate amount of 172,414 shares of the Company's common stock ("March Agent Warrant"). On November 26, 2014, we filed a registration statement on Form S-3 with the SEC covering the resale of the shares of common stock issuable upon exercise of the March Agent Warrant.

October 2014 Financing

On October 21, 2014, the Company entered into a Securities Purchase Agreement (the "October Purchase Agreement") with an institutional investor (the "October Investor") providing for the issuance and sale by the Company (the "October Offering") of 3,000,000 shares of the Company's common stock, par value $0.001 per share, at a purchase price of $1.00 per share (the "October Common Shares"), 1,060 shares of the Company's Series D-1 convertible preferred stock, par value $0.001 per share, at a purchase price of $1,000 per share (the "Series D-1 Preferred Shares"), which are convertible into a total of 1,060,000 shares of common stock for an aggregate purchase price of $4,060,000 (the October Common Shares, and Series D-1 Preferred Shares shall be referred to as the "October Registered Stock"). Pursuant to the October Purchase Agreement, the October Investor also agreed to purchase 940 shares the Company's Series D-2 convertible preferred stock, par value $0.001 per share, at a purchase price of $1,000 per share, in a private placement (the "Series D-2 Private Placement Preferred Shares," together with the Series D-1 Preferred Shares, the "October Preferred Stock"), which are convertible into a total of 940,000 shares of the Company's Common Stock for an aggregate purchase price of $940,000. In connection with the purchase of the Series D-2 Private Placement Preferred Shares, the October Investor received a warrant to purchase 5,000,000 shares of the Company's common stock at an exercise price equal to $1.31 (the "October Investor Warrant"). The October Investor Warrant shall be initially exercisable on the six (6) month anniversary of the issuance date and have a term of exercise equal to five (5) years from the date on which first exercisable. The closing of the sale of these securities occurred on October 23, 2014.

Shares of Series D-1 Preferred Stock have a liquidation preference equal to the stated value of each share of October Preferred Stock or $1,000 per share. The shares of October Preferred Stock do not have any voting rights other than if the Company seeks to alter or adversely affect the rights of the October Preferred Stock. Subject to certain ownership limitations as described below, shares of October Preferred Stock are convertible at any time at the option of the holder into shares of the Company's common stock at a conversion price of $1. 00 per share. The conversion price is subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions. Subject to limited exceptions, holders of shares of October Preferred Stock will not have the right to convert any portion of their October Preferred Stock that would result in the holder, together with its affiliates, beneficially owning in excess of 9.99% of the number of shares of the Company's common stock outstanding immediately after giving effect to its conversion. In addition, until such time as the Company has received shareholder approval as required by applicable Nasdaq rules, the Company may not issue, upon conversion of the October Preferred Stock or exercise of the October Investor Warrant, a number of shares of common stock which, when aggregated with the October Registered Stock or the shares previously issued upon conversion, would exceed 19.99% of the total number of shares of common stock outstanding immediately prior to this transaction.

The October Registered Stock was offered by the Company pursuant to the Registration Statement. On October 22, 2014, we filed a prospectus supplement with the SEC in connection with the sale of the October Registered Stock.

The Series D-2 Private Placement Preferred Shares and October Investor Warrant were issued and sold without registration under the Securities Act in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act and/or Regulation D promulgated thereunder and in reliance on similar exemptions under applicable state laws. Accordingly, the Investor may convert the Series D-2 Private Placement Preferred Shares and exercise the October Investor Warrant and sell the underlying shares only pursuant to an effective registration statement under the Securities Act covering the resale of those shares, an exemption under Rule 144 under the Securities Act or another applicable exemption under the Securities Act. Pursuant to a Registration Rights Agreement, dated October 21, 2014, by and between the Company and the October Investor (the “October Registration Rights Agreement”), the Company agreed to file one or more registration statements with the SEC covering the resale of the shares of common stock issuable upon conversion of the Series D-2 Private Placement Preferred Shares and upon exercise of the October Investor Warrant. On November 26, 2014, we filed a registration statement on Form S-3 with the SEC covering the resale of the shares of common stock issuable upon conversion of the Series D-2 Preferred Stock and upon exercise of the October Investor Warrant.

Moreover, in connection with the October Offering the Placement Agent received cash compensation equal to 7% of the total amount raised and received a warrant to purchase an aggregate amount of 250,000 shares of the Company’s common stock (“October Agent Warrant”). On November 26, 2014, we filed a registration statement on Form S-3 with the SEC covering the resale of the shares of common stock issuable upon exercise of the October Agent Warrant

During 2014, the company issued 1,284,937 shares of Common Stock as payments for services, investment, or exchange.

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:

			Weighted Average		
	Options & Warrants Outstanding	Options Vested	Intrinsic Value	Exercise Price	Remaining Term
December 31, 2013	6,909,121	4,553,922	$ 2.44	$ 1.43	2.9 years
Granted	11,475,554	437,500	1.51	1.48	
Exercised	(675,000)	(75,000)			
Forfeited	(1,550,000)	(1,698,922)			
December 31, 2014	16,169,675	3,217,500	$ 2.27	$ 1.41	2.8 years
Granted	680,000		1.20	0.72	
Exercised	(757,586)				
Forfeited					
September 30, 2015	16,092,089	3,142,500	2.12	1.32	2.4 years

11. 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.

12. Product Line Information

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

	Revenue	Costs	Margin
September 30, 2015			
Product Line:			
Metal Cutting	$1,707,320	$1,078,032	$629,288
License Fees	46,666	-	46,666
Unit Sales	-	-	-
	$1,753,986	$1,078,032	$675,954
September 30, 2014			
Product Line:			
Metal Cutting	$391,991	$263,960	$128,031
License Fees	69,999		69,999
Unit Sales	54,341	64,983	(10,642)
	$516,331	$328,943	$187,388

13. 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. OSHA stated that initial fines are routinely appealed for reduction and the Company estimates that 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. The Department of Transportation ("DOT") issued their initial report and did not fine the Company for any regulatory violations. However, they do have the option to re-open their investigation should new information related to the accident be determined. The Company has not received notice of any threatened or pending litigation related to the accident.

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. The Company has since resumed operations and has two gas production systems online with a third expected in December 2015.

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 primarily due to an increase in expenses for public relations and investor relations following the accident.

14. Subsequent Events

None

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 Products

We currently have four products: the fuels called MagneGas® and MagneGas2, the equipment primarily known in the firefighting industry, known as MagneTote, and the machines that produce MagneGas®, 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.

Fuel

In the United States, we currently produce MagneGas®, 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. However, the Company found that its original feedstock created a fuel that has a flow rate which is difficult to control without repeated training of the user. As a result, the Company launched MagneGas2. 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. A 200Kw refinery was sold in 2010 to a customer in China for $1.855 Million. We also sold a 50Kw system to a group from Central Asia for $499,000 which has been paid in full.

The Company is pursuing three major market segments:

· Industrial Gas Sales

· Equipment Sales for Liquid Waste Processing

· Use of MagneGas™ for the Co-Combustion of Hydro-Carbon Fuels to Reduce Emissions

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

· High volume processing of oil

· Combustion of MagneGas 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 MagneGas 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 MagneGas.

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

The Company has a strategy of selling fuel to the military, the first responder market and major marquee customers. 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-up 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 has started a new marketing campaign aimed at 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.

The Company is in advanced stages of negotiation with several potential joint venture partners and distributors for the sale of equipment internationally. It has also initiated grant applications in the United States, Africa and in Europe for international expansion opportunities.

On March 18, 2015, the Company received a non-refundable payment of $50,000 from a Company in Mexico for a 6 month first right of refusal to become the exclusive distributor of certain MagneGas products in Mexico.

On July 21, 2015, the Company signed a Memorandum of Understanding to form a Joint Venture with Green Gas Supply LLC, a Louisiana company and sell a Plasma Arc Flow refinery for $550,000. The term of this Memorandum of Understanding which was due to expire in October was extended to November 18, 2015.

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

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 has delayed the supply of fuel for this testing. However, it is still anticipated that the validation of these results will be completed in 2015.

The Company has completed internal testing both in the United States and Australia and has demonstrated reduced hydrocarbon emission and increased heat with the Co-Combustion of Coal and MagneGas™. The third party testing is anticipated to also include an analysis of the volume of gas needed to achieve lowered emission results and the economic impact of this solution. Once third party testing is complete, the Company will work through the new Joint Venture to sell equipment, fuel and byproducts to end user coal power plants in this market.

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 MagneGas™ 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.

Research and Development

High Volume Processing of Oil

The Company has historically processed oil through the addition of water or other dilution, which limits the volume of oil processed and decreases the flame temperature. There are several customers that have requested larger volume processing of oil based waste. The Company has spent considerable effort to achieve lower dilution levels and higher volume processing and has made significant progress to date. This research resulted in an entirely new family of MagneGas gasifiers based on the Venturi™ system for which MagneGas filed a definitive patent and for which a prototype system has been completed. The Company is continuing its work and is in the process of expanding the prototype to an operational working model for sales purposes.

Sterilization System for Agricultural Use

The Company has 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 next step is to build a 300kw industrial size system. The farmer has indicated he is interested in continuing the relationship and the Company is working to determine if a teaming agreement can be negotiated that shares in the cost of building and promoting an industrial size system to the agricultural community.

Third Party Validation of Fuel and Equipment

- The Company received independent test results from a laboratory in Europe that demonstrated that sewage, swine blood and leachates, when passed through the MagneGas system, results in full sterilization of bio-contaminates suspended in the liquid.

- The Company received independent test results from a laboratory in the United States that hog manure processed through MagneGas system results in full sterilization of bio-contaminants.

- MagneGas Australia (an unrelated MagneGas distributor) completed testing of MagneGas™ combusted with coal and found that the emissions from the coal were reduced and the heat output was increased.

- An independent laboratory in the United States provided certified results that cutting metal with MagneGas does not impact the metal or impede the strength of the weld.

- An independent laboratory in the United States provided certified results that MagneGas™ made from a proprietary blend of liquid does not contain Carbon Dioxide.

- An independent laboratory tested MagneGas2 vs acetylene on 2 inch plate and found that it cut 38% faster and consumed 30% less oxygen. A test conducted at a Naval facility concluded that MagneGas 2 cut 100% faster than acetylene.

- An independent laboratory completed shock testing and rapid high compression testing of MagneGas and certified its safety under those conditions. Testing at a prominent University conducted a MagneGas spark ignition composition test and the results were that there is no indication of a decomposition in the reaction vessel during any of the tests runs.

- The Company obtained confirmation from the Environmental Protection Agency that manure which is processed through the MagneGas sterilization system meets Class A treatment requirements.

Manufacturing

Equipment

MagneGas™ systems are assembled by us at our facility in Tarpon Springs, Florida. The proprietary components of the system are manufactured on location, while commercially available components such as generators and compressors are purchased from existing suppliers and assembled in Tarpon Springs. A new facility was purchased in September 2014 in Clearwater, Florida and the Company plans to relocate its headquarters to this new location in the first quarter of 2016.

Fuel

MagneGas® currently has the ability to produce fuel in Florida and ship the fuel to its various distributors. The fuel is compressed into standard industrial gas cylinders and delivered directly to local retail customers and distributors.

Current MagneGas® production is temporarily from a feedstock of virgin ethylene glycol (anti-freeze) and used or new vegetable oil. We are currently working to enhance our ability to process and compress fuels from waste oils on a high volume basis. Jointly, our plan includes provisions to secure the feedstock supplies, relationships and logistical abilities to process post-consumer waste oils such as used motor oils and/or anti-freeze.

Customers

We distribute products through several industrial gas companies in California, Michigan, Florida, Georgia, Indiana, and Pennsylvania. In addition, we have direct retail customers in Florida and New York.

Acquisitions

The Company is actively seeking to acquire Companies in related industries that are generating positive cash flow. Acquisitions in the environmental, energy and wastewater industries are under consideration and are in various stages of due diligence.

Strategic Relationships

We recently entered into commercial testing and discussion with a select group of leading U. S. strategic industrial companies and military contractors which, after conducting preliminary reviews of MagneGas™, are now seeking further testing or have agreed to purchase MagneGas™. These types of relationships inherently have a long sales cycle and have been under development for several years. In addition we have multiple opportunities for additional sales of fuel and equipment:

U.S. Expansion

On July 21, 2015 the Company entered into a Memorandum of Understanding with Green Gas Supply LLC to form a Joint Venture to expand the sale of MagneGas fuel into Louisiana and Texas. Under the terms of the Joint Venture, the Company will own 50% of a New Company “NewCo” that will produce and distribute MagneGas fuel in Louisiana and Texas. As part of the Joint Venture, Green Gas Supply will purchase a gasification system from the Company for $550,000 and the Company will receive a 5% royalty on all gas sales plus an equal profit share of NewCo. The Company is in advanced stages of negotiation of the definitive agreements. The term of this Memorandum of Understanding which was due to expire in October was extended to November 18, 2015.

On May 28, 2015, the Company announced that it formed a subsidiary Joint Venture "Kickin Gas Partners" to distribute MagneGas fuel, welding gas and supplies into North Florida. Under the terms of the agreement, the Company will own 50% of the new Joint Venture which will establish a new location in N. Florida for distribution and retail sales. The new location has been established and is actively selling fuel and hard goods.

International Expansion

The Company is working with several potential private and public partners in Europe, Sierra Leone, Haiti, Trinidad, Mexico, South Africa, and others for various initiatives surrounding the sale of MagneGas equipment and fuel for metal cutting and cooking alternatives. Several grant applications have been submitted to support these relationships and fuel demonstrations have been completed. The Company is in various stages of negotiation with potential partners from these regions.

Navy

The U. S. Navy has been working with us to explore both the use of MagneGas™ for metal working. The National Center for Manufacturing Sciences, a testing contractor for the U. S. Navy, completed testing of MagneGas™ as an environmentally-friendly alternative for major metal cutting projects, particularly to reduce emissions during the breakup and recycling of retiring vessels. The final written report compared seven methods and gases for metal cutting to find the lowest opacity and showed MagneGas™ as one of the only two methods with positive results. The Company announced on May 15, 2015 that the Navy placed their first order of MagneGas fuel. The Company is working through the procurement process with the Navy to place additional recurring orders.

Facilities

We presently lease 5,000 square feet for our principal offices at 150 Rainville Rd, Tarpon Springs, FL 34689 on a month-to-month basis and the Company owns property at 1500 Rainville Rd and 1550 Rainville Rd for expansion and further manufacturing capability. The Company has also purchased new headquarters in Clearwater, Florida and plans to move to its new location in the first quarter of 2016.

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”

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.

Employees

We presently have thirty three 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 and nine months ended September 30, 2015and 2014

Revenues

For the three months ended September 30, 2015 and 2014 we generated revenues of $623,893 and $146,400, respectively. For the three months ended September 30, 2015 and 2014, we generated revenues from our metal cutting fuel of $623,893 and $123,067, respectively.

For the nine months ended September 30, 2015 and 2014 we generated revenues of $1,753,986 and $516,331, respectively. For the nine months ended September 30, 2015 and 2014, we generated revenues from our metal cutting fuel of $1,707,320 and $391,991, respectively.

Our increase in revenues was primarily due to the acquisition of ESSI.

For our technology licensing, we have recognized $0 and $23,333 for the three months ended September 30, 2015 and 2014, respectively, and $46,666 and $69,999 for the nine months ended September 30, 2015 and 2014, 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 September 30, 2015 and 2014 were $2,430,740 and $1,954,518, respectively, and for the nine months ended September 30, 2015 and 2014 were $7,198,441 and $5,125,100, respectively. During the three months ended September 30, 2015 we recognized a non-cash charge of $100,755 in stock based compensation, compared to $380,535 in the comparable three months ended September 30, 2014. Other non-cash operating expenses were due to depreciation and amortization charges of $141,848 for the three month period ended September 30, 2015, compared to $104,707 for the three months ended September 30, 2014. During the nine months ended September 30, 2015 we recognized a non-cash charge of $410,160 in stock based compensation, compared to $1,112,563 in the comparable nine months ended September 30, 2014. Other non-cash operating expenses were due to depreciation and amortization charges of $418,467 for the nine month period ended September 30, 2015, compared to $269,921 for the nine months ended September 30, 2014. The increase in expenses was primarily due to the acquisition of ESSI.

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 $2,215,220 and $1,905,701 for the three months ended September 30, 2015 and 2014, respectively, and losses in the amount of $6,531,794 and $4,935,903 for the nine months ended September 30, 2015 and 2014, respectively. The increase in the losses was attributable to an increase in expenses related to the accident described below and additional public relations outreach as a result of the accident. In addition, the Company experienced a decrease in consolidated sales as a result of the accident. Sales are expected to return to normal as operations continue to ramp up and expenses are expected to decrease with less expenditures expected related to the accident and related public relations.

Liquidity and Capital Resources

The Company completed three capital raises in 2014 and had $2,169,120 in cash as of September 30, 2015. The Company believes that it has sufficient cash on hand for the next 12 months of operations.

As reflected in the unaudited financial statements we currently have an accumulated a deficit of approximately $32.2 million dollars. Our cash flow from operations for the nine month period ending September 30, 2015 used approximately $4.1 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. It is slowly resuming operations, with two systems out of three currently operating. It anticipates another system will begin operation in December of 2015. Sales were negatively impacted during the months of May and June 2015as customers were supplied out of inventory or sales were held back until inventory was available.

Cash Flows from Continuing Operations

Cash flows from continuing operations for operating, financing and investing activities for the nine months ended September 30, 2015 and 2014 are summarized in the following table:

	Nine Months Ended September 30, 2015	2014 (unaudited)
Operating activities	$ (4,112,527)	$ (3,180,850)
Investing activities	(244,335)	(607,965)
Financing activities	1,464,308	8,686,053

Net (decrease) increase in cash from continuing operations	$ (2,892,554)	$ 4,897,238

For the nine months ended September 30, 2015 and 2014, we used cash of $4,112,527 in 2015 and used cash of $3,180,850 from operations in 2014. Our cash use for 2015 was primarily attributable to general operations, research and development, investor relations and public relations expenses after the accident. Our cash use for 2014 was primarily attributable to general operations. During the nine months ended September 30, 2015, cash used by investing activities consisted of $244,335 primarily subsidized by the sale of land. During the nine months ended September 30, 2014, cash used by investing activities consisted of $607,965 primarily attributable to property, plant and equipment purchases. Cash provided by financing activities for the nine months ended September 30, 2015 was $1,464,308 primarily attributable to warrants exercised. Cash provided by financing activities for the nine months ended September 30, 2014 was $8,686,053 primarily attributable to the two financings described in Note 10 to the unaudited financial statements. The net decrease in cash during the nine months ended September 30, 2015 was $2,892,554 as compared with a net increase of $4,897,238 for the nine months ended September 30, 2014.

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 September 30, 2015 and in our notes to financial statements for the fiscal year ended December 31, 2014, which are contained in the Company’s 2014 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.

The Company generates revenue through two processes: (1) the sale of its MagneGas 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 that are designed to ensure that information required to be disclosed in our reports, filed under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As required by the SEC Rule 13a-15(b), we carried out an evaluation under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

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.

None.

Item 1A. Risk Factors.

There have been no changes that constitute material changes from the risk factors previously disclosed in our 2014 Annual Report filed on Form 10-K.

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

During the period ending September 30, 2015, a total of 775,000 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

33

Item 6. Exhibits

Exhibit Number	Exhibit Title	Filing Method
10.1	MOU with Green Gas Supply, L.L.C., dated July 16, 2015..	Incorporated by Reference to Exhibit 10.1 filed with 8-K on July 24, 2015
10.2	Extension with Green Gas, dated October 21, 2015.	Incorporated by Reference to Exhibit 10.1 filed with 8-K/A on October 27, 2015
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: November 10, 2015

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

(Principal Financial and Accounting Officer)

Dated: November 10, 2015