

MAGNEGAS CORP  
Form 10-Q  
May 16, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-51883

\_\_\_\_\_  
MagneGas Corporation  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

26-0250418  
(I.R.S. Employer Identification No.)

150 Rainville Rd  
Tarpon Springs, FL 34689  
(Address of principal executive  
offices)

34689  
(Zip Code)

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

Not Applicable  
(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

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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 o

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 o No o

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 o

Accelerated filer o

Non-accelerated filer o (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 o No x

As of May 16, 2011, there were 128,331,226 shares of common stock, \$0.001 par value, issued and outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Financial Statements

MagneGas Corporation

As of March 31, 2011 (unaudited) and December 31, 2010 (audited)  
And for the Three Months Ended March 31, 2011 (unaudited) and 2010 (unaudited)

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MagneGas Corporation  
Balance Sheets

	March 31, 2011 (unaudited)	December 31, 2010 (audited)
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$295,691	\$917,495
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$0, respectively	10,427	8,159
Inventory, at cost	1,800,384	1,554,807
Prepaid and other current assets	-	30,000
<b>Total Current Assets</b>	<b>2,106,502</b>	<b>2,510,461</b>
Property and equipment, net of accumulated depreciation of \$12,631 and \$8,839, respectively	61,391	50,616
Deferred tax asset	586,500	456,500
Intangible assets, net of accumulated amortization of \$115,161 and \$103,044, respectively	611,839	623,956
Investment in joint ventures	490,410	490,410
<b>Total Assets</b>	<b>\$3,856,642</b>	<b>\$4,131,943</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$325,374	\$378,215
Accrued expenses	32,797	31,495
Deferred revenue and customer deposits	496,661	569,994
Due to affiliate	10,000	10,000
Note payable to related party	4,826	46,692
<b>Total Current Liabilities</b>	<b>869,658</b>	<b>1,036,396</b>
<b>Total Liabilities</b>	<b>869,658</b>	<b>1,036,396.00</b>
<b>Stockholders' Equity</b>		
Preferred stock: \$0.001 par; 10,000,000 authorized; 2,000 issued and outstanding	2	2
Common stock: \$0.001 par; 900,000,000 authorized; 124,245,209 and 123,445,209 issued and outstanding, respectively	124,245	123,445
Additional paid-in capital	5,281,518	5,180,468
Issued and unearned stock compensation	(43,333 )	(48,333 )
Accumulated deficit	(2,375,448 )	(2,160,035 )
<b>Total Stockholders' Equity</b>	<b>2,986,984</b>	<b>3,095,547</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$3,856,642</b>	<b>\$4,131,943</b>

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

MagneGas Corporation  
Statements of Operation  
Three Months Ended March 31, 2011 and 2010  
(unaudited)

	Three Months Ended March 31, (unaudited)	
	2011	2010
Revenue	\$ 158,988	\$ 242,182
Direct Costs	74,274	152,558
	84,714	89,624
<b>Operating Expenses:</b>		
Advertising	13,513	10,177
Selling	86,018	58,738
Professional	70,288	21,987
Rent and overhead	28,235	11,525
Office and administration	89,014	69,725
Investor relations	8,510	21,786
Stock-based compensation	101,240	125,410
Research and development	17,059	14,563
Depreciation and amortization	15,909	13,820
Total Operating Expenses	430,176	347,731
Operating loss	(345,462 )	(258,107 )
<b>Other Income and (Expense)</b>		
Interest income (expense), net	49	(1,476 )
Total Other (Income) Expense	49	(1,476 )
Net loss before tax benefit	(345,413 )	(259,583 )
Provision (benefit) for Income Taxes	(130,000 )	(97,500 )
Net loss	\$(215,413 )	\$(162,083 )
<b>Loss per share:</b>		
Basic	\$(0.00 )	\$(0.00 )
<b>Weighted average common shares:</b>		
Basic	115,630,719	103,186,009

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

MagneGas Corporation  
Statement of Cash Flows  
For the Three Months Ended March 31, 2011 and 2010  
(unaudited)

	March 31, 2011	2010
Cash Flows from Operations		
Net income (loss)	\$(215,413 )	\$(162,083 )
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	15,909	13,820
Stock compensation	101,240	119,800
Waiver of related party expenses	5,610	5,610
Deferred income taxes	(130,000 )	(97,500 )
Changes in operating assets:		
Accounts receivable	(2,268 )	(591 )
Costs and estimated profits	-	(235,395 )
Inventory	(245,577 )	2,825
Prepaid & other current assets	30,000	(25,500 )
Accounts payable	(52,841 )	(17,281 )
Accrued expenses	1,302	34,724
Deferred revenue and customer deposits	(73,333 )	950,000
Total adjustments to net income	(349,958 )	750,512
Net cash (used in) provided by operating activities	(565,371 )	588,429
Cash Flows from Investing Activities		
Acquisition of equipment	(14,567 )	(13,899 )
Net cash flows (used in) investing activities	(14,567 )	(13,899 )
Cash Flows from Financing Activities		
Advances from related party	(41,866 )	835
Proceeds from note payable to related party	-	22,000
Repayments on notes payable from related party	-	(54,000 )
Interest accrued on affiliate notes and advances	-	1,476
Net cash flows used in investing activities	(41,866 )	(29,689 )
Net increase (decrease) in cash	(621,804 )	544,841
Cash balance, beginning	917,495	7,338
Cash balance, ending	\$295,691	\$552,179
Supplemental disclosure of cash flow information and non cash investing and financing activities:		
Interest paid	\$-	\$-
Taxes paid	\$-	\$-

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



MagneGas Corporation  
(Previously a Development Stage Enterprise)  
Notes to Financial Statements  
For the Three Months Ended March 31, 2011 and 2010

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.

The Company’s operating plan and mission is to produce hydrogen based alternative fuel made from liquid waste. A patented process has been developed which transforms contaminated liquid waste through a proprietary plasma arc technology. A byproduct of this process is to produce a green fuel alternative to natural gas. The patented proprietary technology is owned by the Company. The Company produces bottled gas for the purpose of distribution to the metal working market. Additionally, the Company is marketing, for sale or licensure, its proprietary plasma arc machines.

2. Summary of Significant Accounting Policies

The significant accounting policies followed are:

Basis of Presentation

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 month periods ended March 31, 2011 and 2010; (b) the financial position at March 31, 2011; and (c) cash flows for the three month periods ended March 31, 2011 and 2010, have been made.

The Company prepares its financial statements in conformity with generally accepted accounting principles in the United States of America. These principals 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.

Use of Estimates

The Company prepares its financial statements in conformity with generally accepted accounting principles in the United States of America. These principals 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.

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 principal 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 March 31, 2011. 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, 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. The adoption of ASC 820 for non-financial assets and liabilities did not have a significant impact on the Company's financial statements.

#### Cash and Cash Equivalents

The majority of cash is maintained with a major financial institution in the United States. Deposits with this bank may exceed the amount of insurance provided on such deposits. At March 31, 2011, approximately \$46,000 was in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Generally, these deposits may be redeemed on demand and, therefore, bear minimal risk. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

#### 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, no allowance for doubtful accounts was considered necessary. 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) Sale of MagneGas fuel for metal cutting and (2) Sale of its Plasma Arc Flow units. Additionally we also recognize revenue from territorial license arrangements.

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. We recognize 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 filled cylinders of MagneGas and accessories (regulators and tips) available for sale and accumulated costs incurred in the manufacturing process of units held for future sales.

The Company is manufacturing additional units for sale. Each unit is assigned a project number and the costs, including labor, are accumulated in the carrying value as inventory. Upon delivery, the accumulated cost for the unit will be charged to cost of sales.

#### Long-Lived Assets

Property and equipment is stated at cost. Depreciation is computed by the straight-line method over estimated useful lives (3-7 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 December 31, 2010.

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.

#### Stock Based Compensation

The Company issues 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. 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. In May 2008 the Company entered into a consulting agreement for services to be rendered over a five year period. The consulting expense is to be recognized ratably over the requisite service period.

#### Shipping Costs

The Company includes shipping costs and freight-in costs in cost of goods sold. Total freight-in included in cost of goods sold expense was \$161 and \$280 for the three months ended March 31, 2011 and 2010, respectively.

#### Advertising Costs

The costs of advertising are expensed as incurred. Advertising expenses are included in the Company's operating expenses. Advertising expense was \$13,513 and \$10,177 for the years ended March 31, 2011 and 2010, 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.

#### 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. 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.

	March 31, 2011	March 31, 2010
Net loss	\$(215,413 )	\$(162,083 )
Weighted average shares		
Common stock	115,630,719	103,186,009
Common stock equivalents (options)	- *	- *
	115,630,719	103,186,009

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

### 3. Recently Issued Accounting Pronouncements

In December 2010, the FASB issued ASU 2010-28, “Intangibles — Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.” For reporting units with zero or negative carrying amounts, if it is more likely than not that a goodwill impairment exists, ASU 2010-28 requires performance of an additional test to determine whether goodwill has been impaired and to calculate the amount of impairment. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years and interim periods within those years beginning after December 15, 2010. The Company adopted ASU 2009-28 in the first quarter of 2011 and the impact of adopting ASU 2010-28 will not be known until evaluations for goodwill impairment are performed at our annual impairment testing date or more frequently if indicators of potential impairment exist.

In December 2010, the FASB issued ASU 2010-29, “Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. ASU 2010-29 specifies that for material business combinations when comparative financial statements are presented, revenue and earnings of the combined entity should be disclosed as though the business combination had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations with an acquisition date on or after the beginning of the first annual reporting period after December 15, 2010. The Company adopted this standard in 2011, and noted it had no impact on its disclosures through March 31, 2011.

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

### 4. Inventory

Inventory primarily consists of:

	March 31, 2011	December 31, 2010
Cylinders, metal cutting fuel	\$ 78,162	\$ 8,381

Units, Construction in process	1,722,222	-
	\$ 1,800,384	\$ 8,381

The Company is currently manufacturing four refineries for future sales.

#### 5. Long Lived Assets

Property and equipment consists of:

	March 31, 2011	December 31, 2010
Machinery and equipment	\$56,428	\$46,616
Furniture and office equipment	9,288	-
Truck	4,325	4,375
	74,022	50,991
Less accumulated depreciation	12,631	375
	\$61,391	\$50,616

Depreciation of equipment was \$3,792 and \$1,703 for the three months ended March 31, 2011 and 2010, 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 December 31, 2010 management concluded that there was no impairment to the intangible assets.

	December 31, 2010	December 31, 2009
Intellectual property	\$727,000	\$727,000
Less accumulated amortization	103,044	103,044
	\$623,956	\$623,956
Future amortization through December 31,:		
2010	\$48,467	
2011	48,467	
2012	48,467	
2013	48,467	
2014	48,467	
2015 and thereafter	369,504	
	\$611,839	

Amortization of the intangible assets was \$12,177 and \$12,117 for the three months ended March 31, 2011 and 2010, 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 our 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 our 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 Belgium company, whereby 250,000 shares of MagneGas Corporation'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 Equity Method.

On June 28, 2010, the Company entered into agreement with DDI Industries, a China company, in formation of MagneGas China. The Company is to provide 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 \$0.135 or 14,814,814 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 and is to account for the investment under the Equity Method.

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 December 31, 2010, management does not believe any impairment exists with regard to the investments in joint ventures.

## 7. Deferred Revenue and Customer Deposits

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

	March 31, 2011	December 31, 2010
Mexico territory license, non-refundable payment from a company for a six-month period ending February 28, 2011	\$ 150,000	\$ 150,000
China territory license	466,660	466,660
Philippines, deposit on production unit	100,000	100,000
	716,660	716,660
Portion recognized	219,999	146,666
Deferred revenue and customer deposits	\$ 496,661	\$ 569,994

The amount recognized as revenue under licensing arrangements was \$73,333 and \$0 for the three months ended March 31, 2011 and 2010, respectively.

## 8. Income Tax

## Provision (Benefit) for Income Taxes

The provision for income taxes consists of the following:

	March 31, 2011	March 31, 2010
Current Tax Provision	\$ -	\$ -
Deferred Tax(Benefit) Provision	(130,000)	(97,500)
Total Tax (Benefit) Provision	\$ (456,500)	\$ (97,500)

A reconciliation of the expected Federal statutory rate of 34% to the Company's actual rate as reported for each of the periods presented is as follows:

	2010	2009
Expected statutory rate	(34.0)%	(34.0)%
State Income tax rate, net of federal benefit	(3.6)%	(3.6)%
Permanent Differences	0.0%	0.0%
Temporary Differences	0.0%	0.0%
Valuation Allowance	0.0%	0.0%
	(37.6)%	(37.6)%

## 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 therefore has recorded deferred tax assets as of December 31, 2010, as it is satisfied the realization standard for the year ended December 31, 2010. 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.

The following is a schedule of the deferred tax assets and liabilities as of March 31, 2011 and 2010:

	December 31, 2010	December 31, 2009
Deferred Tax Assets		
Net Operating Loss Carry Forwards	\$ 586,500	\$ 456,500
Deferred Tax Liabilities		
Total Deferred Tax Assets (Liabilities)	\$ -	\$ -
Net Deferred Tax Asset (Liabilities)	\$ 586,500	\$ 456,500

For balance sheet presentation the Company nets its current deferred tax assets and liabilities and non-current deferred tax assets and liabilities. The following table summarizes the presentation:

	Balance Sheet Presentation	
	2010	2009
Net current deferred tax assets (liabilities)	\$ —	\$ —
Net long-term deferred tax assets (liabilities)	\$ 586,500	\$ 472,900

Management believes that the Company has matured and product acceptance will generate the revenues and achieve a level of profitability creating taxable income of approximately \$1,212,000 which would utilize the recognized deferred tax assets.

Under the Internal Revenue Code of 1986, as amended, these losses can be carried forward twenty years. As of December 31, 2010 the Company has net operating loss carry forwards remaining from the following years:

Year Generated	Net Operating Loss	Expires
2007	375,000	2027
2008	977,000	2028
2009	1,255,000	2029
	\$ 2,607,000	

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, 2006 through 2010. The Company state income tax returns are open to audit under the statute of

limitations for the years ending December 31, 2006 through 2010.

The Company recognizes interest and penalties related to income taxes in income tax expense. The Company had incurred no penalties and interest for the three months ended March 31, 2011 and 2010.

9. Equity

The company has two classifications of stock:

Preferred Stock includes 10,000,000 shares authorized at a par value of \$0.001. Preferred Stock has been issued as Series A Preferred Stock. 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 2,000 shares of Preferred Stock issued to an entity controlled by Dr. Ruggero Santilli and other members of the Board of Directors. Each share of Preferred Stock is entitled to 100,000 votes.

Common Stock includes 900,000,000 shares authorized at a par value of \$0.001. The holders of Common Stock and the equivalent Preferred Stock, voting together, shall appoint the members of the Board of the Directors. Each share of Common Stock is entitled to one vote.

Founding contributors were issued 67,052,000 shares during 2007. As management determined that the Company had negligible value, no value was attributed to the founders' shares.

During year ended December 31, 2009, the company issued 30,000,000 common shares, valued at \$727,000 to secure intellectual property rights and 100,000 common shares under a consulting agreement (see Related Party Transactions). The Consulting agreement was for a five year period, the unearned portion is ratably charged to operations with corresponding reduction to unearned stock compensation, reflected as a contra-equity.

The use of an initial small production refinery has been contributed by Dr. Ruggero Santilli, Chief Executive Officer, Chief Scientist, and Chairman of the Board. The computed fair value of this refinery is approximately \$210,000; the month to month rental agreement is \$1,870 per month and has been charged to equipment rental expense in the operating expenses. To reflect the contributed value, the corresponding entry has been charged to additional paid in capital, and is included in the statement of stockholders' equity. Total contributed value was \$5,610 for both three months ended March 31, 2011 and 2010.

The Company issued 800,000 and 890,000 common shares to employees and consultants as compensation, valued at \$96,240 and \$118,302 for the three month periods ended March 31, 2011 and 2010, respectively.

#### 10. Related Party Transactions

On December 28, 2009 the Company acquired all relevant patents and intellectual property for the MagneGas technology from a company, Hyfuels, Inc. related by common management, that originally secured an intellectual property license. The Company issued 30,000,000 shares of common stock, valued at the fair market trading value of the stock at the time of purchase, in exchange for the intellectual property. Significant terms of the agreement were:

Territories defined as: North, South, Central America and all Caribbean Islands ("the Territories"), in perpetuity;

The Company acquired the MagneGas domain names and trademarks and the following patents:

U.S. Patent No. 6,926,872, issued on August 9, 2005 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 entitled Apparatus and Method for Processing Hydrogen, Oxygen and Other Gases;

U.S. application no. 11/474,687, filed on June 26, 2006 entitled Operating Under High Power, Pressure and Temperature Conditions to Produce A Combustible Gas.

In February 2008, the Company entered into a 5 year consulting agreement with Dr. Santilli, whose knowledge and expertise of the technology is essential in the development of the MagneGas product. The terms of the consulting agreement consist of issuance of common stock (100,000 shares) and payment of \$5,000 per month to Dr. Santilli, upon the determination by the Board of Directors of MagneGas Corporation of achieving adequate funding. The Board has since determined that Dr. Santilli's monthly accrued salary will be \$10,000 per month.

In 2008 an advance in the amount of \$10,000 was made by a company owned by a shareholder, for initial deposit for services. There are no repayment terms to this advance and the amount is payable upon demand.

At various times the Company received advances from a shareholder for an unsecured promissory note. All funds are at the same terms of the original shareholder note. These promissory notes have no repayment date; however it is payable within 30 days of written demand. Payment is to include accrued simple interest at 4%. The balance on the promissory note has been paid in full.

Beginning April 2008 the Company entered into a month-to-month lease, at a monthly rate of \$2,500 per month for facilities to occupy approximately 3,000 square feet of a 6,000 square foot building and the use of certain equipment and utilities, as needed. The facility allows for expansion needs. The lease is held by a Company that is effectively controlled by Dr. Santilli.

The use of an initial small production refinery has been contributed by Dr. Ruggero Santilli, Chief Executive Officer, Chief Scientist, and Chairman of the Board. The value of the refinery is approximately \$210,000; the computed fair value of this month to month rental agreement is \$1,870 per month and has been charged to equipment rental expense in the operating expenses, beginning in July 2008. To reflect the contributed value, the corresponding entry has been charged to additional paid in capital, and is included in the statement of stockholders' equity. Total contributed value was \$22,440 and \$22,440 for the year ended March 31, 2011 and 2010, respectively.

The Company entered into an agreement to acquire a 20% ownership of Magnegas Europe. This Company is related by common management. The CEO of Magnegas Europe, Ermanno Santilli is also the Vice President of Magnegas Corporation and is the son of Dr. Ruggero M. Santilli. Dr. Santilli is also a shareholder of Magnegas Europe. There are no other related party transactions, joint venture or royalty agreements. The amounts and terms of the above transactions may not necessarily be indicative of the amounts and terms that would have been incurred had comparable transactions been entered into with independent third parties.

The amounts and terms of the above transactions may not necessarily be indicative of the amounts and terms that would have been incurred had comparable transactions been entered into with independent third parties.

#### 11. Segment Information

The following information is the results of our operating revenue segments:

	Revenue	Costs	Margin
March 31, 2011			
Segments:			
Unit Sales	\$-	\$-	\$-
License Fees	73,333	-	73,333
Metal Cutting	85,655	74,274	11,381
	\$158,988	\$74,274	\$84,714
March 31, 2010			
Segments:			
Unit Sales	\$235,395	\$146,789	\$88,606
License Fees	-	-	-
Metal Cutting	6,787	5,769	1,018
	\$242,182	\$152,558	\$89,624

#### 12. 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. Management believes that there are no current matters that would have a material effect on the Company's financial position or results of operations.



of the world. Additionally we have an order and deposit for a customer from the Philippines; however, due to the natural disasters sustained in this country, this order's production has been delayed and is not expected to occur in the foreseeable future. At the close of the 2010 year end we received a non-recourse payment of \$150,000 from a Mexican company for a six-month exclusivity period. The Mexican company, per the memorandum of understanding, intends to purchase a 100kW refinery. Although the exclusivity period has expired, we believe that this memorandum will result in a sale in the future.

#### Metal Working Market

We are seeking to expand sales in the Metal Working market through the use of established industry wholesalers, trade events and media coverage in trade journals. We have identified two independent sales representatives to support these relationships and are in the process of recruiting for additional sales support personnel. We have established a retail sales platform for the direct sale of Magnegas to end consumers in Florida for the metal working market. To that end, we have secured several large retail customers and have received a permit from the Department of Transportation to deliver fuel within Florida. In addition, we have established relationships with major gas distributors in Michigan and Pennsylvania and a major Acetylene manufacturer in Alabama to distribute Magnegas fuel. Magnegas is in the process of being tested by military and industrial end users for use in the metal working market as a replacement to other oxy-acetylene fuels. We are also negotiating with potential fuel distributors from several countries, and across the United States. At the time of the filing of this Form 10-Q we can provide no assurance as to the final outcome of these negotiations.

### Municipal Market

We have received inquiries from several municipalities for testing of the Plasma Arc Flow system on sewage and sludge processing. We plan to expand commercially into this market after we have established our first municipal plant scale demonstration center converting sludge or sewage to fuel and other byproducts. A local municipality's water treatment facility has agreed to set up a demonstration center and conduct testing of the MagneGas refinery. Our existing prototype equipment is being modified for the specifics required for this project. At this time we are unable to accurately estimate the volume that will be processed or the outcome of this testing. In May 2011, subsequent to the March 31, 2011 date, we have received permission to commence a short term site demonstration and have set up our test unit at this municipality.

### International Expansion

We are seeking to expand globally through the sale of equipment and the establishment of Distribution and Joint Venture arrangements. We currently have completed negotiations for joint venture agreements in China and Europe and are in negotiation for expansion into Israel, Mexico, Korea, S. Africa, Europe and South America..

### Business Continuation and Succession

We have developed and trained a team of engineers and consultants to become knowledgeable with the MagneGas technology. Our team is comprised of academic and industrial consultants throughout the United States, Europe and China.

### Results of Operations

For the three months ended March 31, 2011 and 2010

#### Revenues

For the three months ended March 31, 2011 and 2010 we generated revenues of \$158,988 and \$242,182, respectively. For the three months ended March 31, 2011 and 2010 we generated revenues, solely from our metal cutting fuel, of \$85,655 and \$6,787, respectively. Our increase for our metal cutting fuel was due to industry acceptance and sales focus, as we believe that there is a significant market share, which we should attract. We are experiencing increased interest from new and existing customers. We believe that our metal cutting fuel orders will increase significantly as the economy and the building market recovers.

During the second half of 2010 we received contracts for our technology licensing. We have recognized \$73,333 and \$0 for the three month periods ended March 31, 2011 and 2010, respectively. These license fees are ratably earned over the terms of the licensing agreement.

For our three months ended March 31, 2011 and 2010, we recognized \$0 and \$235,395, respectively, from our contract for the sale of our Plasma Arc Flow production unit.

#### Operating Expenses

Operating costs for the three months ended March 31, 2011 and 2010 were \$430,176 and \$347,731, respectively. The increase was primarily attributable to increases in selling expenses, technical sales support for production (technical consulting was included in professional expense).

In 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 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 specific vendors.

#### Net Loss

Our operating results have recognized a loss in the, amount of \$215,413 for the three months ended March 31, 2011, compared to net losses incurred of \$162,083 for the three months ended March 31, 2010. The increase in loss was for a general increases incurred for our general internal support for our increasing metal cutting segment.

## Liquidity and Capital Resources

With the availability of money received from our unit sale and the \$2 million dollar investment (both received in 2010), we are in position to fund its operation for the near term. Previously we had financed our operations primarily through cash generated through the sale of stock through a private offering. We believe we can currently satisfy our cash requirements for the next twelve months with our current cash and expected revenues. Additionally, we may secure additional funds through our private placement of common stock as our technology is more widely accepted. Management plans to increase revenue to sustain future operational growth.

Completion of our plan of operation is subject to attaining adequate and continued revenue. We cannot assure investors that adequate revenues will be generated. In the absence of our projected revenues, we believe that we will be able to proceed with our plan of operations. Even without significant revenues within the next twelve months, based on our current cash position, we anticipate being able to continue with our present activities. Although we believe we currently are adequately financed, we are seeking additional financing for sales and marketing objectives to achieve our goal of sustained profit, revenue and growth.

In the event we are not successful in reaching our sustained revenue targets, we anticipate that depending on market conditions and our plan of operations, we could incur operating losses in the future. We base this expectation, in part, on the fact that we may not be able to generate enough gross profit from our services to cover our operating expenses. Consequently, there remains the possibility that the Company may not continue to operate as a going concern in the long term.

As reflected in the unaudited financial statements we have an accumulated a deficit of over \$2 million dollars. Our cash flow from operations used \$565,371 of cash, primarily used in the manufacturing of four refineries for future sales. Our investing activities used \$14,567 of cash for the acquisition of equipment; there were \$13,899 expenditures for equipment in the comparable prior year period. Our investing activities resulted in cash used in the amount of \$41,866 for the three months ended March 31, 2011, primarily due to related party credit activities (use of personal lines of credit with bank).

At March 31, 2011 we had \$295,691 in cash to meet current obligations.

Management believes that current revenue generated and recent investment commitment provides the opportunity for the Company to continue as a going concern and fund the strategic plan.

## Subsequent Events

The Company is in negotiation to expand into Israel, the Middle East and other potential territories through Joint Venture agreements, royalty arrangements or intent to purchase refinery units. However, the Company can make no assurance as to the final outcome of these negotiations.

## Recent Accounting Pronouncements

We have reviewed accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. We have carefully considered the new pronouncements that alter previous generally accepted accounting principles and does not believe that any new or modified principles will have a material impact on the corporation's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration. Those standards have been addressed in the notes to the unaudited financial statement and in our Annual Report, filed on Form 10-K for the period ended December 31, 2010.

### Critical Accounting Policies

The Company's significant accounting policies are presented in the Company's notes to financial statements for the period ended March 31, 2011 and fiscal year ended December 31, 2010, which are contained in the Company's 2010 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 generally accepted accounting principles in the United States of America. These principals 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 Company issues 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 three processes: (a) Sale of MagneGas fuel for metal cutting; (b) Sale of its Plasma Arc Flow units; and (c) licensing.

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. 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.

##### Evaluation of disclosure 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 chief executive officer and chief 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 chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

## Changes in Internal Controls

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

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

### Item 1A. Risk Factors.

We believe there are no changes that constitute material changes from the risk factors previously disclosed in the Company's 2010 Annual Report filed on Form 10-K. We are a smaller reporting company and are not required to provide information required by this item.

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

None

### Item 3. Defaults Upon Senior Securities.

None

### Item 4. Removed and Reserved.

Not Applicable.

### Item 5. Other Information

None

### Item 6. Exhibits

Exhibit Number	Exhibit Title
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31.1	Certification by the Principal Executive Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).
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31.2	Certification by the Principal Financial Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).
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32.1 Certification by the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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/ Dr. Ruggero Maria Santilli  
Dr. Ruggero Maria Santilli  
Chief Executive Officer  
(Principal Executive Officer)

Dated: May 16, 2011

By: /s/ Luisa Ingargiola  
Luisa Ingargiola  
Chief Financial Officer  
(Principal Financial Officer)

Dated: May 16, 2011