MAGNEGAS CORP
Form 10-Q
November 16, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED September 30, 2017.**

OR

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

For the transition period from ______________ to _______________.

Commission File Number: 001-35586

MagneGas Corporation

(Exact name of registrant as specified in its charter)

Delaware	**26-0250418**
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

11885 44 th Street North
Clearwater, Florida **33762**
(Address of principal executive offices) (Zip Code)

(727) 934-3448

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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, smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of November 14, 2017, there were 18,708,634 shares of the issuer's $0.001 par value common stock issued and outstanding.

MAGNEGAS CORPORATION

TABLE OF CONTENTS

FORM 10-Q REPORT

September 30, 2017

		Page Number
PART I - FINANCIAL INFORMATION		
Item 1.	Financial Statements.	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	26
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	34
Item 4.	Controls and Procedures.	34
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings.	35
Item 1A.	Risk Factors.	35
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	35
Item 3.	Defaults Upon Senior Securities.	36
Item 4.	Mine Safety Disclosures	36
Item 5.	Other Information.	36
Item 6.	Exhibits.	36
SIGNATURES		37

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

	Page Number
Condensed Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31, 2016	4
Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016 (unaudited)	5
Condensed Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2017 (unaudited)	6
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 (unaudited)	7
Notes to Unaudited Condensed Consolidated Financial Statements	8

MagneGas Corporation

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current Assets		
Cash	$93,895	$1,616,410
Accounts receivable, net of allowance for doubtful accounts of $101,063 and $145,931, respectively	542,800	442,555
Inventory, net	1,604,857	1,615,933
Prepaid and other current assets	304,580	226,305
Total Current Assets	2,546,132	3,901,203
Property and equipment, net of accumulated depreciation and amortization of $1,902,058 and $1,474,944, respectively	6,015,305	6,402,931
Intangible assets, net of accumulated amortization of $484,470 and $401,277, respectively	421,712	437,121
Security deposits	37,356	26,636
Goodwill	2,108,781	2,108,781
Total Assets	$11,129,286	$12,876,672
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$1,611,993	416,247
Accrued expenses	661,034	276,630
Deferred revenue and customer deposits	44,824	25,000
Capital leases, current	8,793	9,328
Note payable, net of debt discount of $13,043 and 0, respectively	986,957	-
Promissory notes payable - related party	340,007	-
Derivative liabilities	-	7,700,585
Total Current Liabilities	3,653,608	8,427,790
Long Term Liabilities		
Note payable	520,000	520,000
Capital leases, net of current	8,806	25,317

Senior convertible debenture, net of debt discount of $27,504 and $811,000, respectively	1,496	75,000
Total Liabilities	4,183,910	9,048,107
Commitments and Contingencies		
Redeemable Convertible Series C Preferred Stock, par value $0,001, 25,000 shares designated; 0 shares issued and outstanding.	-	-
Redeemable Series D Preferred Stock, par value $0.001, 694,422 shares designated; 0 shares issued and outstanding at September 30, 2017 and December 31, 2016.	-	-
Redeemable Series E Preferred Stock, par value $0.001, 455,882 shares designated; 0 shares issued and outstanding at September 30, 2017 and December 31, 2016.	-	-
Stockholders' Equity		
Preferred stock, par value $0.001, 10,000,000 shares authorized; 7,821,966 shares available for designation.		
Series A Preferred Stock, $$0.001 par value, 1,000,000 shares authorized, 1,000,000 shares issued and outstanding with a liquidation preference of $1,000 at September 30, 2017 and December 31, 2016.	1,000	1,000
Series B Preferred Stock, par value $0.001, 2,700 shares designated, 0 shares issued and outstanding at September 30, 2017 and December 31, 2016.	-	-
Common stock, par value $0.001, 190,000,000 shares authorized, 13,358,128 shares issued and outstanding at September 30, 2017 and 5,804,027 shares issued and outstanding at December 31, 2016	13,358	5,804
Additional paid-in-capital	67,637,489	57,380,241
Accumulated deficit	(60,706,471)	(53,558,480)
Total Stockholders' Equity	6,945,376	3,828,565
Total Liabilities and Stockholders' Equity	$11,129,286	$12,876,672

See accompanying notes to the unaudited condensed consolidated financial statements

4

MagneGas Corporation

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Revenue:	$879,511	$1,037,668	$2,717,503	$2,540,588
Cost of Revenues	552,374	632,531	1,588,419	1,470,569
Gross Profit	327,137	405,137	1,129,084	1,070,019
Operating Expenses:				
Selling, general and administration	2,453,160	2,690,495	8,366,604	7,544,484
Research and development	1,470	143,072	125,725	472,329
Impairment of joint venture	-	-	-	501,011
Depreciation and amortization	166,034	177,557	526,602	507,000
Total Operating Expenses	2,620,664	3,011,124	9,018,931	9,024,824
Operating Loss	(2,293,527)	(2,605,987)	(7,889,847)	(7,954,805)
Other Income and (Expense):				
Interest	(27,233)	(47,734)	(46,142)	(67,233)
Non-Cash Interest, derivative liability	-	(50,000)	-	(50,000)
Amortization of debt discount	(804,776)	-	(951,533)	(2,622,080)
Other (expense) income	481	40,533	(2,066)	61,763
Extinguishment of debt	-	-	(513,725)	-
Change in fair value of derivative liability	-	(1,404,490)	2,255,322	(206,971)
Total Other Income (Expense)	(831,528)	(1,461,691)	741,856	(2,884,521)
Net Loss	(3,125,055)	(4,067,678)	(7,147,991)	(10,839,326)
Deemed dividend	1,034,682	-	1,109,682	-
Net loss attributable to common shareholders	$(4,159,737)	$(4,067,678)	$(8,257,673)	$(10,839,326)
Net loss per share: Basic and Diluted	$(0.39)	$(0.81)	$(1.06)	$(2.29)
Weighted average common shares: Basic and Diluted	10,786,551	5,036,152	7,763,782	4,723,559

See accompanying notes to the unaudited condensed consolidated financial statements

MagneGas Corporation

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Fiscal Year Ended December 31, 2016 and the Nine Months Ended September 30, 2017

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Series D Preferred Stock		**Common**		Additi
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	**Shares**	**Amount**	Paid-in Capita
Balance at December 31, 2016	1,000,000	$1,000	-	-			-	-	5,804,027	$5,804	$57,38
Common shares issued for services									1,442,276	1,443	2,287
Issuance of common stock and series B preferred stock in accordance with debt extinguishment			2,700	27					100,000	100	5,652
Issuance of common stock and Series D preferred Units for cash							694,422	676,032	150,000	150	150,0
Issuance of Series C preferred stock for cash					315	315			-	-	283,1
Conversion of series B preferred stock into common stock			(2,700)	(27)					900,000	900	(873
Conversion of Series C preferred stock into common stock					(315)	(315)			785,243	785	(470
Conversion of Series D							(694,422)	(676,032)	1,801,497	1,801	674,2

preferred stock into common stock											
Amortization of stock based compensation											353,5
Common shares issued for the exercise of warrants									79,371	79	7,858
Conversion of notes into shares of common stock									2,295,714	2,296	854,7
Reclassification of derivative liability to equity											427,5
Stock issuance costs											(432,
Net loss											
Balance at September 30, 2017	1,000,000	$1,000	-	$-	$-	$-	-	$-	13,358,128	$13,358	$67,63

See accompanying notes to the unaudited condensed consolidated financial statements

6

MagneGas Corporation

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the nine months ended September 30,	
	2017	2016
	(Unaudited)	(Unaudited)
Cash Flows from Operations		
Net Loss	$(7,147,991)	$(10,839,326)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	526,602	507,000
Accretion of debt discount	951,533	50,000
Stock based compensation	353,537	241,852
Stocks issued for services	2,288,741	820,500
Provision for bad debt	-	26,363
Provision for slow moving spare parts	50,000	270,000
Loss (gain) on disposal of fixed assets	(48,381)	131,934
Provision for impairment of investment in joint venture	-	501,011
Non-cash interest for derivative liability	-	2,622,080
Extinguishment of debt	513,725	
Change in fair value of derivative liability	(2,255,322)	206,971
Changes in operating assets:		
Accounts receivable	(100,245)	(58,483)
Inventory	(38,925)	(119,144)
Prepaid and other current assets	(78,275)	(213,646)
Accounts payable	1,195,747	(36,060)
Accrued expenses	384,404	(182,940)
Deferred revenue and customer deposits	19,824	(383,650)
Net cash used in operating activities	(3,385,026)	(6,455,538)
Cash Flows from Investing Activities		
Purchase of property and equipment and intangible assets	(136,527)	(1,252,695)
Purchase of intangibles	(26,723)	-
Security deposit	(10,720)	(2,542)
Investment in joint ventures	-	(25,000)
Proceeds from sale of assets	88,064	8,000
Net cash used in investing activities	(85,906)	(1,272,237)
Cash Flows from Financing Activities		

Capital lease payments	(17,046)	-
Gross proceeds on sale of notes payable	1,000,000	1,000,000
Principle payments on notes payable	-	(3,091)
Net proceeds on related party notes	340,007	-
Proceeds from prefunded warrants	-	2,540,821
Gross proceeds on issuance of series C and D preferred stock units	1,109,682	-
Debt issuance costs	(60,000)	-
Stock issuance costs	(432,163)	-
Cash proceeds from exercise of warrants	7,937	52,632
Net cash provided by financing activities	1,948,417	3,590,362
Net decrease in cash	(1,522,515)	(4,137,413)
Cash, beginning of period	1,616,410	5,319,869
Cash, end of period	$93,895	$1,182,456
Supplemental disclosure of cash flow information Cash paid during the year for:		
Interest	$-	$46,635
Noncash Transactions		
Reclassification of warrants and conversion option to derivative liabilities	$-	$2,947,370
Reclassification of derivative liability to equity	$(427,568)	$2,868,184
Fair value of warrants and embedded conversion option issued in connection with debt	$-	$1,000,000
Issuance of common stock and series B preferred stock	$5,652,500	$-
Common shares issued for debt	$857,000	$-

See accompanying notes to the unaudited condensed consolidated financial statements

7

MagneGas Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

September 30, 2017

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

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

The Company is an alternative energy company that creates a system that produces hydrogen based fuel through the gasification of liquid and liquid waste. Management has 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. The Company produces gas bottled in cylinders for the purpose of distribution to the metalworking market as an alternative to acetylene. Additionally, the Company markets for sale its proprietary plasma arc technology for the processing of liquid waste (the "Plasma Arc Flow Units" or "Plasma Arc Flow System"), is developing ancillary uses of its MagneGas2® fuel for co-combustion, and has acquired a gas distribution company that sells various types of industrial fuels and supplies. Through the course of its business development, the Company has established a retail and wholesale platform to sell its fuel for use in the metalworking and manufacturing industries. The Company has also established a network of brokers to sell its Plasma Arc Flow equipment internationally.

In October of 2014, the Company purchased Equipment Sales and Services, Inc. ("ESSI") for $3 million cash. ESSI is a full line seller of industrial gases and equipment for the welding and metal cutting industries. Since acquiring ESSI, we have opened three additional retail locations and distribute our proprietary MagneGas2® product as well as other gases and welding supplies through ESSI, our wholly owned subsidiary.

On February 1, 2017, the Company formed two wholly owned subsidiaries in the State of Delaware called MagneGas Energy Solutions, LLC and MagneGas Welding Supply, LLC, respectively.

On March 3, 2017, the Company formed three wholly owned subsidiaries in the State of Delaware called MagneGas Real Estate Holdings, LLC, MagneGas IP, LLC and MagneGas Production, LLC, respectively.

NOTE 2 - GOING CONCERN AND MANAGEMENTS' PLAN

As of September 30, 2017, the Company had cash of $93,895 and has reported a net loss of $7,147,991 and has used cash in operations of $3,385,026 for the nine months ended September 30, 2017. In addition, as of September 30, 2017 the Company has a working capital deficit of $1,107,476 and an accumulated deficit of $60,706,471. These conditions indicate that there is substantial doubt about the Company's ability to continue as a going concern within one year from the issuance date of the financial statements.

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

Historically, the Company has financed its operations through equity and debt financing transactions and expects to continue incurring operating losses for the foreseeable future. The Company's plans and expectations for the next 12 months include raising additional capital to help fund commercial operations, including product development. The Company utilizes cash in its operations of approximately $515,000 per month. Management believes, but it cannot be certain, its current holdings of cash along with the cash to be generated from expected product sales and future financings will be sufficient to meet its projected operating requirements for the next twelve months from the date of this report.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and the rules and regulations of the SEC for interim financial information. In the opinion of the Company’s management, the accompanying condensed consolidated financial statements reflect all adjustments, consisting of normal, recurring adjustments, considered necessary for a fair presentation of the results for the interim periods ended September 30, 2017 and 2016. As this is an interim period financial statement, certain adjustments are not necessary as with a financial period of a full year. Although management believes that the disclosures in these unaudited condensed consolidated financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in financial statements that have been prepared in accordance U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company’s financial statements for the year ended December 31, 2016, which contains the audited financial statements and notes thereto, for the years ended December 31, 2016 and 2015 included within the Company’s Form 10-K filed with the SEC on March 31, 2017. The interim results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the year ended December 31, 2017 or for any future interim periods.

Use of Estimates

The Company prepares its financial statements in conformity with U.S. GAAP. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these estimates are reasonable and have been discussed with the Board of Directors; however, actual results could differ from those estimates. The financial statements presented include inventory reserves, fair value of derivative financial instruments, recoverability of deferred tax assets and collections of its receivables.

Concentrations of Credit Risk

The Company maintains its cash accounts at financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times, the Company may have deposits in excess of federally insured limits.

Revenue Recognition

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

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

Revenue generated from sales of each Plasma Arc Flow Unit is recognized on a percentage of completion, based on the progress during manufacturing of a Plasma Arc Flow Unit. Plasma Arc Flow Units require a significant investment and generally have a 6 to 9 month production cycle. During the course of building a Plasma Arc Flow Unit the actual costs are tracked to our cost estimates and revenue is proportionately recognized during the process. Significant deposits are required before production commences. These deposits are classified as customer deposits. During production, costs and progress earnings are accumulated and included in "Costs and earnings" as an asset, such amounts have been immaterial to date.

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.

Fair Value Measurements

Accounting Standards Codification 820, "Fair Value Measurements and Disclosure," ("ASC 820") defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not adjusted for transaction costs. ASC 820 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels giving the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels are described below:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that is accessible by the Company;

Level 2 Inputs – Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 Inputs – Unobservable inputs for the asset or liability including significant assumptions of the Company and other market participants.

The carrying amount of the Company's financial assets and liabilities, such as cash, accounts payable and accrued expenses approximate their fair value because of the short maturity of those instruments.

Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated.

The assets or liability's fair value measurement within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. The following tables provides a summary of financial instruments that are measured at fair value as of September 30, 2017 and December 31, 2016, respectively.

The Company utilized the following range of management assumptions in valuing the derivative conversion features during the period January 1, 2017 through May 9, 2017, the date the derivative ceased to exist:

Exercise price	$5.70 – 13.00	
Risk free interest rate	1.94	%
Dividend yield	-	%
Expected volatility	142	%
Remaining term	4.25 – 7.07	

September 30, 2017	Total	Quoted Prices In Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrant liability	$ —	—	—	$ —
Embedded conversion feature	—	—	—	—
Derivative liability – September 30, 2017	$ —	—	—	$ —

December 31, 2016	Total	Quoted Prices In Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrant liability	$7,195,617	—	—	$ 7,195,617
Embedded conversion feature	504,968	—	—	504,968
Derivative liability – December 31, 2016	$7,700,585	—	—	$ 7,700,585

The table below provides a summary of the changes in fair value, including net transfers in and/or out, of all financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the interim period ended September 30, 2017:

	Warrant Liability	Embedded Conversion Feature	Total Derivative Liabilities

Balance – December 31, 2016	$7,195,617	$504,968	$7,700,585
Change in fair value	(2,131,990)	(123,332)	(2,255,322)
Reclassification of derivative liabilities to equity	(396,854)	(30,714)	(427,568)
Derivative extinguishment	(4,666,773)	(350,922)	(5,017,695)
Balance – September 30, 2017	$—	$—	$—

The Company's Level 3 liabilities shown in the above table consist of warrants that contain a cashless exercise feature that provides for their net share settlement at the option of the holder. In addition, the convertible debt conversion feature has a price reset provision with no floor. The warrants also contain a fundamental transactions provision that permits their settlement in cash at fair value at the option of the holder upon the occurrence of a change in control. Such change in control events include tender offers or hostile takeovers, which are not within the sole control of the Company as the issuer of these warrants. Settlement at fair value upon the occurrence of a fundamental transaction computed using the Black Scholes Option Pricing Model using the following assumptions:

Assumptions utilized in the valuation of Level 3 liabilities are described as follows:

	For the nine months ended September 30,	
	2017	2016
Risk free interest rate	0.2%-1.94%	0.36 %
Expected term	0.25 to 7.07 years	0.25 to 7.5 years
Volatility	62% to 142%	0.62 to 1.3%
Dividends	$0	$0

The risk-free interest rate was determined from the implied yields from U.S. Treasury zero-coupon bonds with a remaining term consistent with the expected term of the instrument being valued. The expected term used is the contractual life of the instrument being valued. Volatility was calculated using the Company's historical common stock price over the expected term of the instruments valued. Dividends were deemed to be $0 as the Company has historically never declared any dividends to its stock holders.

Derivative Liability

The Company evaluates its options, warrants or other contracts, if any, to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with Accounting Standards Codification 815-10-05-4 and 815-40-25. The result of this accounting treatment is that the fair value of the embedded derivative is marked-to-market each balance sheet date and recorded as either an asset or a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the condensed consolidated statement of operations as other income or expense. Upon conversion, exercise or cancellation of a derivative instrument, the instrument is marked to fair value at the date of conversion, exercise or cancellation and then the related fair value is reclassified to equity.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified to liability at the fair value of the instrument on the reclassification date. Derivative instrument liabilities will be classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument is expected within 12 months of the balance sheet date.

The Company had no derivative liabilities as of September 30, 2017.

Beneficial conversion feature of convertible notes payable

The Company accounts for convertible notes payable in accordance with the guidelines established by the FASB Accounting Standards Update ("ASU") Topic 470-20, Debt with Conversion and Other Options, Emerging Issues Task Force ("EITF") 98-5, Accounting for Convertible Securities with beneficial conversion features or Contingently Adjustable Conversion Ratios, and EITF 00-27, Application of Issue No 98-5 To Certain Convertible Instruments. The beneficial conversion feature of a convertible note is normally characterized as the convertible portion or feature of certain notes payable that provide a rate of conversion that is below market value or in-the-money when issued. The Company records a beneficial conversion feature related to the issuance of a convertible note when issued and also records the estimated fair value of any warrants issued with those convertible notes. The beneficial conversion features that are contingent upon the occurrence of a future event are recorded when the contingency is resolved.

The beneficial conversion feature of a convertible note is measured by first allocating a portion of the note's proceeds to any warrants, if applicable, as a discount on the carrying amount of the convertible on a relative fair value basis. The discounted face value is then used to measure the effective conversion price of the note. The effective conversion price and the market price of the Company's common stock are used to calculate the intrinsic value of the conversion

feature. The intrinsic value is recorded in the financial statements as a debt discount from the face amount of the note and such discount is amortized over the expected term of the convertible note (or to the conversion date of the note, if sooner) and is charged to interest expense.

Stock-Based Compensation

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

Stock-Based Compensation for Non-Employees

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

The Company incurred stock-based compensation charges, net of estimated forfeitures of $406,486 and $343,331 for the three months ended September 30, 2017 and $2,288,741 and $820,500 for the nine months ended September 30, 2017 and 2016, respectively and has included such amounts in selling, general and administrative expenses in the condensed consolidated statements of operations.

Basic and Diluted Net (Loss) per Common Share

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

As of September 30, 2017 and 2016 the Company's common stock equivalents outstanding.

	September 30,	
	2017	2016
Options	230,100	4,729,500
Common Stock Warrants	3,333,334	23,266,241
Preferred Stock Warrants	8,228,333	-
Convertible secured debentures	82,857	1,754,386
Total common stock equivalents outstanding	11,874,624	29,750,127

Derivative Financial Instruments

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

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

The Company had no derivative liabilities as of September 30, 2017.

Recent Accounting Policies

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers* ("ASC 606")*: Narrow-Scope Improvements and Practical Expedients*, ("ASU 2016-12"). The amendments in ASU 2016-12 provide clarifying guidance in certain narrow areas and add some practical expedients. Specifically, the amendments in this update (1) clarify the objective of the collectability criterion in step 1, and provides additional clarification for when to recognize revenue for a contract that fails step 1, (2) permit an entity, as an accounting policy election, to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price (3) specify that the measurement date for noncash consideration is contract inception, and clarifies that the variable consideration guidance applies only to variability resulting from reasons other than the form of the consideration, (4) provide a

practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations, (5) clarifies that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application. Further, accounting for elements of a contract that do not affect revenue under legacy GAAP are irrelevant to the assessment of whether a contract is complete. In addition, the amendments permit an entity to apply the modified retrospective transition method either to all contracts or only to contracts that are not completed contracts, and (6) clarifies that an entity that retrospectively applies the guidance in ASC 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. However, an entity is still required to disclose the effect of the changes on any prior periods retrospectively adjusted. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in ASC 606. The guidance is effective for the Company beginning January 1, 2019, although early adoption is permitted beginning January 1, 2017. The Company is in the process of performing an initial review of custom contracts to determine the impact that ASU 2014-09 and its subsequent updates through December 31, 2016 will have on the Company's condensed consolidated financial statements or financial statement disclosures upon adoption. Based on this preliminary review, the Company believes that the timing and measurement of revenue for these customers will be similar to the current revenue recognition. However, this view is preliminary and could change based on the detailed analysis associated with the conversion and implementation phases of ASU 2014-09. The Company will complete the assessment during 2017, and will include other significant customers as part of the review. The Company intends to transition method, retrospectively adopting with the cumulative effect of initially applying the standard at the date of initial application.

In May 2017, the FASB issued ASU 2017-09, "*Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting,"* which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This standard is required to be adopted in the first quarter of 2018. The Company is currently evaluating the impact this guidance will have on its condensed consolidated financial statements and related disclosures.

In July 2017, the FASB issued ASU 2017-11, "Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception". Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company has early adopted the accounting guidance and as such, has not accounted for down round provisions as derivative liabilities.

In September 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-03, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842).* The new standard, among other things, provides additional implementation guidance with respect to Accounting Standards Codification (ASC) Topic 606 and ASC Topic 842. ASU 2017-03 is effective for annual and interim fiscal reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of the new standard, but does not expect it to have a material impact on its implementation strategies or its condensed consolidated financial statements upon adoption.

Subsequent Events

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the condensed consolidated financial statements, except as disclosed in Note. 9

NOTE 4 - INVENTORY, NET

Inventory primarily consists of:

	September 30, 2017	December 31, 2016
Production materials consumables, spare parts, and accessories	$991,908	$937,133
Work in process	862,949	853,800
Total at cost	1,854,857	1,790,933
Slow moving inventory reserve	(250,000)	(175,000)
Inventory, net	$1,604,857	$1,615,933

15

NOTE 5 – NOTES PAYABLE

Notes Payable – Related Parties

On April 3, 2017, the Company entered into a $50,000 promissory note with a member of the Board of Directors. The note bears interest of 15% as is due on July 3, 2017. As of November 14, 2017, the Note has not been repaid.

On April 11, 2017, the Company entered into a $50,000 promissory note with the Company’s Chief Executive Officer (“CEO”). The note bears interest of 15% and is due on July 11, 2017. The CEO funded an additional $7,103 and the entire balance was repaid as of August 21, 2017.

During the period July 1, 2017 through September 30, 2017, the Company’s Chief Executive officer continued to fund working capital in the amount of $174,801. There is no formal note agreement, stated interest rate or maturity date.

Note Payable:

On May 9, 2017, the Company entered into a Securities Purchase Agreement (“SPA”) with an institutional investor providing for the sale and issuance of 8% Senior Debentures. Pursuant to the SPA, the Company agreed to sell, and the investor agreed to purchase up to an aggregate of $1,000,000 principal amount of Senior Debentures (“Debenture”). The Debenture is due in November 2017 and bears interest at a rate of 8% per annum based on a 360-day year. The Company is required to make interest payments quarterly beginning on the original issuance date of the Debenture. The Debenture is unsecured and is not convertible.

The Company recognized issuance costs of $60,000 as recognized as a debt discount and will expense over the maturity of the note using the straight-line method which approximates the interest rate method. During the three months ended September 30, 2017 the Company recorded an expense of $30,000, and during the nine months ended September 30, 2017 the Company recorded an expense of $46,957 leaving an unamortized balance of $13,043.

Convertible Note Payable:

Pursuant to terms of that certain Exchange Agreement entered into in conjunction with the SPA, the Company also agreed to amend the terms of a certain Convertible Debenture held by the investor, which had a current outstanding principal amount of $829,000 on the date of the Exchange (May 9, 2017), as follows: (i) the Conversion Price of the Convertible Debenture is reduced from $0.57 to $0.30, subject to adjustment under the Exchange Agreement or under the terms of such Convertible Debenture, which will result in an increase of 1,308,947 shares of Common Stock that may be issuable upon conversion of the Convertible Debenture and (ii) the Company shall be permitted to prepay the then-outstanding principal amount of the Convertible Debenture, together with a prepayment premium in the amount of 10% of the principal amount being prepaid.

The Company assessed the exchange for extinguishment versus modification accounting. The Company evaluated the fair value of the instrument prior to the exchange and compared such value to the fair value of the consideration received. Because the fair value of the consideration received was greater than 10%, the Company applied extinguishment accounting, resulting in an extinguishment loss of $513,725, which was recorded in other income/expense. In addition, because the derivative liability embedded in the convertible note ceased to exist, the Company recorded $350,922 into paid in capital.

The Company recorded a full beneficial conversion discount against the note of $829,000 and will expense such discount over the remaining maturity of the note using the straight line method which approximates the interest rate method.

During the period ended September 30, 2017, the noteholder converted $800,000 in principal into 2,285,714 shares of the Company’s common stock at a conversion rate of $0.35 per share. As a result of the conversion, the Company fully accreted the $800,000 in debt discount. During the period ended September 30, 2017, the Company recorded an expense of $1,496 on the remaining debt discount associated with the remaining $29,000 in unconverted principal.

NOTE 6 - STOCKHOLDERS’ EQUITY

On May 18, 2017, the Company filed a Certificate of Amendment to Certificate of Incorporation (the “Certificate of Amendment”) with the Delaware Secretary of State to effect a one-for-ten reverse split of the Company’s issued and outstanding common stock (the “Reverse Stock Split”), and the Reverse Stock Split became effective in accordance with the terms of the Certificate of Amendment at 5:00 p.m. Eastern Time on May 19, 2017 (the “Effective Time”).

At the Effective Time, every ten shares of the Company’s common stock issued and outstanding were automatically combined into one share of common stock, without any change in the par value per share. The Company did not issue any fractional shares in connection with the Reverse Stock Split. Instead, fractional shares were entitled, upon surrender of certificate(s) representing shares, to receive a cash payment in lieu of the fractional shares without interest. The Reverse Stock Split did not modify the rights or preferences of the common stock. Proportional adjustments have been made to the conversion and exercise prices of the Company’s outstanding warrants, convertible notes, convertible preferred stock and stock options, and to the number of shares issued and issuable under the Company’s equity compensation plans.

All share and per share amounts for the common stock have been retroactively restated to give effect to the reverse split.

On June 14, 2017, the Company filed an Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware to, among other things, increase the number of authorized shares of common stock from ninety million (90,000,000) to one hundred ninety million (190,000,000). The proposal for the amendment was approved by the Company's shareholders at a Special Meeting of Shareholders held on May 17, 2017.

On July 12, 2017, the Board of Directors submitted the following actions to the Majority Stockholder for ratification and approval by consent in lieu of meeting, and the Majority Stockholder has ratified and approved the following actions: approving the MagneGas Corporation Amended and Restated 2014 Equity Incentive Award Plan (the "New Plan"), for the principal purpose of increasing the number of shares that may be issued or transferred pursuant to awards under the New Plan.

Common shares issued for services

During the three months ended September 30, 2017, the Company issued 815,000 shares of the Company's common stock to key advisors and consultants of the Company. The total value of these issuances is $741,675.

During the nine months ended September 30, 2017, the Company issued 1,442,276 shares of the Company's common stock to key advisors and consultants of the Company. The total value of these issuances is $2,288,741.

Common Stock Issued for Exercise of Warrants

During the nine months ended September 30, 2017 the Company issued 79,371 shares of common stock for the exercise of warrants, cash proceeds were $7,937. The exercise of these warrants resulted in a reduction of the derivative liability associated with these warrants of $396,854, which has been reclassified to additional paid in capital.

Conversion of Convertible Note into Shares of Common Stock

During the nine months ended September 30, 2017 the Company issued 10,000 shares of common stock for conversion of $57,000 of senior convertible debentures. The conversion of the $57,000 resulted in the reduction of the derivative liability associated with the embedded conversion feature of $30,714, which has been reclassified to additional paid in capital.

Series A Preferred Stock

As of September 30, 2017, the Company has designated 1,000,000 shares of Series A Preferred Stock and 1,000,000 shares are issued and outstanding. The Series A Preferred Stock does not have any conversion provision or provides for cumulative dividends and each share of Series A Preferred Stock had voting rights equal to 100,000 shares of common stock. The Series A Preferred Stock has no redemption provision at the option of the holder and accordingly has been classified as permanent equity.

Series B Convertible Preferred Stock

On May 9, 2017, the Company entered into an Exchange Agreement (“Exchange Agreement”) with an institutional investor (“Investor”). Under the terms of the Exchange Agreement, the Investor agreed to exchange with the Company (the “Exchange”), Warrants, exercisable for 22,198,554 shares of Company Common Stock, for (i) 2,700 shares of newly issued Series B Convertible Preferred Stock at a stated value of $1,000 per share and convertible into 9,000,000 shares of Common Stock at a conversion price of $3.00 and (ii) 1,000,000 shares of newly issued Common Stock (collectively, the “Exchange Securities”). The preferred stock and common shares were recorded at fair market value. As a result of the Exchange Agreement and the derivative warrant liability ceasing to exist, the Company recorded a $4,666,773 addition to paid in capital.

Pursuant to terms of the Exchange Agreement, the Company also agreed to amend the terms of the Convertible Debentures, which had a current outstanding principal amount of $829,000, as follows: (i) the Conversion Price of the Convertible Debenture was reduced from $5.70 to $3.00, subject to adjustment under the Exchange Agreement or under the terms of such Convertible Debenture, which will result in an increase of 1,308,947 shares of Common Stock that may be issuable upon conversion of the Convertible Debenture and (ii) the Company shall be permitted to prepay the then-outstanding principal amount of the Convertible Debenture, together with a prepayment premium in the amount of 10% of the principal amount being prepaid.

In conjunction with the Exchange, the Company filed a Certificate of Designation with the Delaware Secretary of State. The Certificate of Designation designated a new class of Series B Convertible Preferred Stock ("Preferred Stock"). The Preferred Stock is convertible in shares of Common Stock at a price of $3.00 per share. The Corporation previously received the unanimous written consent of the Board of Directors and the holder of the Series A Preferred Stock authorizing the creation of the class of Series B Convertible Preferred Stock. The holders of Series B Convertible Preferred Stock would receive upon liquidation, the same amount that a holder of common stock would receive if the preferred stock were fully converted, paid pari passu with all holders of common stock.

As of May 9, 2017, the Company has issued 2,700 shares of newly designated Series B Convertible Preferred Stock of which none are outstanding as of September 30, 2017. The Series B Convertible Preferred Stock included a conversion into common stock at price of $3.00 per share subject to subsequent equity sales reset provisions. The conversion provision was at the option of the holder and the Series B Convertible Preferred Stock did not provide for cumulative dividends.

During the nine months ended September 30, 2017, 2,700 shares of the Series B Convertible Preferred Stock were converted into 900,000 shares of the Company's common stock an exchange rate of $3.00 per share.

Series C Convertible Preferred Stock

On June 12, 2017, the Company entered into a Securities Purchase Agreement ("SPA") with one or more investors. Under the terms of the SPA, the Company agreed to issue and sell to each investor, Series C Convertible Preferred Stock ("Preferred Shares"), Series C Convertible Preferred Warrants ("Preferred Warrants") and Common Stock Purchase Warrants ("Common Stock Warrants"), for a total gross purchase price of up to $25,000,000. At the initial closing under the SPA, the Company issued a total of 75 Preferred Shares at a purchase price of $900 per share. The Preferred Warrants are exercisable for a total of 24,925 Preferred Shares at an exercise price of $900 per share. The Preferred Shares have an initial conversion price of $3.00 and are initially convertible into an aggregate of 8,333,334 shares of common stock. The Common Stock Warrants are exercisable for 2,916,667 shares of common stock, representing thirty-five percent (35%) of the total number of shares of common stock initially issuable upon conversion of the Preferred Shares. The exercise price of the Common Stock Warrants is $3.00 per share and are exerciseable for 5 years.

In conjunction with the SPA, the Company designated a new class of preferred stock as "Series C Convertible Preferred Stock" in the aggregate amount of 25,000 shares. The Preferred Shares have a stated value of $1,000, with an aggregate value of $25,000,000. The initial conversion price of the Preferred Shares is $3.00.

The holders of Preferred Shares are entitled to receive dividends, when and as declared by the Board, from time to time, in its sole discretion. From and after the occurrence of a Triggering Event (as defined in the certificate of designation for the Preferred Shares) until such time as all Triggering Events then outstanding are cured, the holders shall be entitled to receive Dividends at a rate of eighteen percent (18.0%) per annum, which dividends shall be computed on the basis of a 360-day year and twelve 30-day months and shall compound each calendar month. No such triggering events occurred during the period ended September 30, 2017.

At any time after the occurrence of a Triggering Event the holder may, at its option, convert any Preferred Shares at an Alternate Conversion Price. The "Alternate Conversion Price" means the lower of (A) the applicable conversion price as then in effect and (B) the greater of (x) $0.35 and (y) the lowest of (i) 85% of the VWAP of the common stock as of the trading day immediately preceding the delivery or deemed delivery of the applicable conversion notice, (ii) 85% of the VWAP of the common stock as of the trading day of the delivery or deemed delivery of the applicable conversion notice and (iii) 85% of the price computed as the quotient of (I) the sum of the VWAP of the common stock for each of the ten (10) trading days with the lowest VWAP of the common stock during the twenty (20) consecutive trading day period ending and including the trading day immediately preceding the delivery or deemed delivery of the applicable conversion notice, divided by (II) ten (10).

In lieu of conversion, upon a Triggering Event, the holder may require the Company to redeem all or any of the Preferred Shares at a price equal to the greater of (i) the product of (A) the conversion amount of the Preferred Shares

to be redeemed multiplied by (B) a redemption premium of 115% and (ii) the product of (X) the conversion rate with respect to the conversion amount in effect at such time of redemption multiplied by (Y) the product of (1) a redemption premium of 115% multiplied by (2) the greatest closing sale price of the common stock on any trading day during the period commencing on the date immediately preceding such Triggering Event and ending on the date the Company makes the entire redemption payment.

19

The Company may, at its option following notice to each holder, redeem such amount of Preferred Shares by paying to each holder the corresponding installment amount in cash. The applicable installment conversion price with respect to a particular date of determination, shall be equal to the lower of (A) the conversion price then in effect and (B) the greater of (x) $0.35 and (y) the lower of (i) 85% of the VWAP of the common stock as of the trading day immediately preceding the applicable Installment Date and (ii) 85% of the quotient of (A) the sum of the VWAP of the common stock for each of the ten (10) trading days with the lowest VWAP of the common stock during the twenty (20) consecutive trading day period ending and including the trading day immediately prior to the applicable Installment Date, divided by (B) ten (10).

If the Company elects to effect an installment redemption in lieu of an installment conversion, in whole or in part, such Preferred Shares shall be redeemed by the Company in cash on the applicable Installment Date in an amount equal to 103% of the applicable installment redemption amount.

As a result of such Triggering Event discussed above, the Series C Preferred Stock has redeemable features which are not in the Company's control and therefore should not be included in permanent equity. Management has classified the Series C Preferred Stock in temporary equity in accordance with ASC 480-10-S99-3A on the condensed Consolidated Balance Sheet.

During the nine months ended September 30, 2017, the warrant holders exercised 240 Preferred Warrants into 240 Preferred Shares. The investors simultaneously converted the 240 shares (and the previously issued 75 Preferred Shares) into 785,243 shares of the Company's Common Stock.

Management analyzed the conversion features embedded in the Preferred Warrants and Preferred Shares and because the Preferred Warrants may not be exercised unless the registration statement is effective, no derivative liability has been recognized. The Company recorded a beneficial conversion feature in the amount of $826,182. The beneficial conversion feature was recognized as a deemed dividend.

Maxim Group, LLC ("Maxim") acted as the exclusive placement agent for the aforementioned transaction. The Company agreed to pay Maxim a cash fee payable upon each closing equal to 6.0% of the gross proceeds ($4,050 in cash fees and a legal expense reimbursement of $5,000) received by the Company at each Closing (the "Placement Fee"). Such fees were recognized as stock issuance costs. Additionally, the Company granted to Maxim (or its designated affiliates) warrants to purchase up to 416,667 shares common stock (the "Placement Agent Warrants"). The Placement Agent Warrants expire five (5) years after the Closing. The Placement Agent Warrants are exercisable at a price per share equal to $3.30. The Placement Agent Warrants are not be redeemable and are exercisable for 5 years. The Placement Agent Warrants may be exercised in whole or in part and provide for a "cashless" exercise, except in the event the shares of common stock issuable upon exercise of the Placement Agent Warrants are registered for resale, in which case they provide for a "cash" exercise only. The Placement Agent Warrants were recorded at fair value as a

stock issuance costs. Although the Placement Agent Warrants contain certain change in control provisions that are potentially settleable in cash, such settlement is at the Company's discretion.

Series D Convertible Preferred Stock

On July 21, 2017, the Company entered into a Securities Purchase Agreement ("SPA") with one or more investors. Under the terms of the SPA, the Company agreed to issue and sell to each Investor, and each investor severally, but not jointly, agreed to purchase from the Company shares of Common Stock ("Common Stock"), and Series D Convertible Preferred Warrants ("Preferred Warrants") for a total gross purchase price of up to $844,422. On July 27, 2017, at the initial closing under the SPA, the Company issued to the Investors a total of 150,000 shares of Common Stock at a purchase price of $1.00 per share. The Preferred Warrants are exercisable for a total of 694,422 Preferred Shares at an exercise price of $1.00 per share. The Preferred Shares have an initial conversion price of $1.00 and are initially convertible into an aggregate of 694,422 shares of Common Stock.

The Company designated a new class of preferred stock as "Series D Convertible Preferred Stock" in the aggregate amount of 694,422 shares. The Preferred Shares have a stated value of $1.00, with an aggregate value of $694,422.

The holders of Preferred Shares shall be entitled to receive dividends, when and as declared by the Board, from time to time, in its sole discretion. From and after the occurrence of a Triggering Event (as defined in the certificate of designations for the Preferred Shares) until such time as all Triggering Events then outstanding are cured, the holders shall be entitled to receive Dividends at a rate of eighteen percent (18.0%) per annum, which dividends shall be computed on the basis of a 360-day year and twelve 30-day months and shall compound each calendar month.

The initial conversion price of the Preferred Shares is $1.00.

During the period July 1, 2017 through September 30, 2017, the 694,422 shares of Series D Preferred Shares were converted into 1,801,497 shares of the Company's Common Stock at an average conversion price of $0.39 per share.

Series E Convertible Preferred Stock

On September 15, 2017, the Company designated a new class of preferred stock as "Series E Convertible Preferred Stock" in the aggregate amount of 455,882 shares. The Preferred Shares have a stated value of $1.36, with an aggregate value of $620,000.

The holders of Preferred Shares will be entitled to receive dividends, when and as declared by the Board, from time to time, in its sole discretion. From and after the occurrence of a Triggering Event (as defined in the certificate of designations for the Preferred Shares) until such time as all Triggering Events then outstanding are cured, the holders shall be entitled to receive Dividends at a rate of eighteen percent (18.0%) per annum, which dividends shall be computed on the basis of a 360-day year and twelve 30-day months and shall compound each calendar month.

The initial conversion price of the Preferred Shares will be $1.36.

At any time after the occurrence of a Triggering Event the holder may, at its option, convert any Preferred Shares at an Alternate Conversion Price. The "Alternate Conversion Price" means with respect to any Alternate Conversion that price which shall be the lowest of (A) the applicable Conversion Price as in effect on the applicable Conversion Date of the applicable Alternate Conversion and (B) the greater of (x) the Floor Price and (y) the lowest of (i) 75% of the Closing Bid Price of the Common Stock as of the Trading Day immediately preceding the delivery or deemed delivery of the applicable Conversion Notice, (ii) 75% of the VWAP of the Common Stock as of the Trading Day of the delivery or deemed delivery of the applicable Conversion Notice, (iii) 75% of the sum of the lowest VWAP of the Common Stock for each Trading Day during three (3) out of the ten (10) consecutive Trading Day period ending and

including the Trading Day immediately preceding the delivery or deemed delivery of the applicable Conversion Notice, divided by (I) three (3), (iv) 75% of the price computed as the quotient of (I) the sum of the lowest VWAP of the Common Stock for each Trading Day during five (5) of the twenty (20) consecutive Trading Day period ending and including the Trading Day immediately preceding the delivery or deemed delivery of the applicable Conversion Notice, divided by (II) five (5).

In lieu of conversion, upon a Triggering Event, the holder may require the Company to redeem all or any of the Preferred Shares at a price equal to the greater of (i) the product of (A) the Conversion Amount of the Preferred Shares to be redeemed multiplied by (B) the 115% and (ii) the product of (X) the Conversion Rate with respect to the Conversion Amount of such Preferred Shares in effect at such time as such Holder delivers a Triggering Event Redemption Notice multiplied by (Y) the product of (1) the 115% multiplied by (2) the greatest Closing Sale Price of the Common Stock on any Trading Day during the period commencing on the date immediately preceding such Triggering Event and ending on the date the Company makes the entire payment required to be made.

As of September 30, 2017, no issuances on the Series E Preferred Stock had been made.

Options

Options outstanding as of September 30, 2017 consisted of the following:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Intrinsic Value
December 31, 2016	468,100	13.70	1.23	13.60
Granted	—			
Exercised	—			
Forfeited	—			
Expired	(238,000)	15.00		
September 30, 2017	230,100	10.77	1.83	0
Exercisable at September 30, 2017	230,100			

As of September 30, 2017, the fair value of non-vested options totaled $549,128 which will be amortized to expense over the weighted average remaining term of 1.83 years.

The fair value of each employee option grant is estimated on the date of the grant using the Black-Scholes option-pricing model. Key weighted-average assumptions used to apply this pricing model during the nine months ended 2016 were as follows:

Risk free interest rate	1.10	%
Expected term	3-5 years	
Volatility	55.6	%
Dividends	$0	

Common Stock Warrants

Warrants outstanding as of September 30, 2017 consisted of the following:

	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
Balance -December 31, 2016	22,992,262	9.10	5.8
Granted	3,333,334	3.04	5.0
Exercised	(793,708)	0.10	
Forfeited/Exchanged	(22,198,554)	12.40	
Expired			
Balance- September 30, 2017	3,333,334	3.04	4.65
Exercisable at September 30, 2017	3,333,334		

During the nine months ended September 30, 2017 the Company issued 79,371 shares of common stock for the exercise of warrants, cash proceeds were $7,937.

Preferred Stock Warrants

Warrants outstanding to purchase Series C Preferred Stock as of September 30, 2017 consisted of the following:

	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
Balance -December 31, 2016	-	-	-
Granted	24,925	900	5.0
Exercised	-	-	
Forfeited/Exchanged	-	-	
Expired			
Balance- September 30, 2017	24,925	900	4.9
Exercisable at September 30, 2017	24,925		

NOTE 7 - RELATED PARTY TRANSACTIONS

The Company previously occupied 5,000 square feet of a building owned by a related party. Rent was payable at $4,000 on a month to month basis. The facility allowed for expansion needs. The lease was held by EcoPlus, Inc., a company that is effectively controlled by Dr. Ruggero Santilli, a former officer and director of the Company and one of the people who currently has voting and investment control over 1,000,000 shares of Series A Preferred Stock which, in turn, has 100,000 votes per share on any matters brought to a vote of the common stock shareholders. Rent expense for both the nine months ended September 30, 2017 and 2016 under this lease was approximately $12,000. The lease was terminated on May 27, 2017.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Litigation

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

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

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

On April 16, 2015, there was an accident at the Company’s facilities which occurred during the gas filling process. As a result of the accident, one employee was killed and one was injured but has recovered and has returned to work.

Although the Company has Workers Compensation Insurance and General Liability Insurance, the financial impact of the accident is unknown at this time. No customers have terminated their relationship with the Company as a result of the accident. On October 14, 2015 the Company received their final report from the Occupational and Safety Hazard Administration (“OSHA”) related to the accident. The OSHA report included findings, many of which were already resolved and a proposed citation. The Company was not cited for any willful misconduct and no final determination was made as to the cause of the accident. The Company received citations related to various operational issues and received an initial fine of $52,000. The Company has also been informed by the U.S. Department of Transportation that it has closed its preliminary investigation with no findings or citations to the Company. The U.S. Department of Transportation has the right to re-open the investigation should new information become available.

The Company is still investigating the cause of the accident and there have been no conclusive findings as of this time. It is unknown whether the final cause of the accident will be determined and whether those findings will negatively impact Company operations or sales. The Company continues to be fully operational and transparent with all regulatory agencies. As of September 30, 2016 the Company has not accrued for any contingency.

On November 18, 2016 a lawsuit was filed in District Court in Pinellas County, Florida by the Estate of Michael Sheppard seeking unspecified damages. The lawsuit alleges that the Company was negligent and grossly negligent in various aspects of its safety, training and overall work environment that led to the accident. The Company was not cited by OSHA for any willful misconduct nor did it receive any citations from the Department of Transportation. As of September 30, 2017 the Company has not accrued for any contingency.

NOTE 9 – SUBSEQUENT EVENTS

During the period October 1, 2017 through November 14, 2017, the warrant holders exercised 2,005 Preferred Warrants into 2,005 Series C Preferred Shares. The investors converted the 1,827 Series C Preferred Shares into 5,100,497 shares of the Company’s Common Stock.

On November 1, 2017, the Company issued 250,000 shares of the Company’s common stock to a consultant of the Company. The total value of this issuance is $113,750 (or $0.455/share).

On October 2, 2017, The Company entered into an “Assignment of Purchase Agreement” (the “Assignment”) with its wholly owned subsidiary MagneGas Energy Solutions, LLC (“Subsidiary”). Under the terms of the Assignment, the Company’s wholly owned Subsidiary shall assume the position of the Company in that certain “MagneGas Systems Purchase Agreement” entered into between the Company and Talon Ventures & Consulting GmbH, on December 30, 2016 (“Purchase Agreement”).

On October 16, 2017, The Company and its wholly owned subsidiary entered into a second MagneGas Systems Purchase Agreement (“Second Purchase Agreement”) with Talon Ventures & Consulting GMBH, a company constituted under the laws of Germany (“Talon”) to manufacturer and deliver a 300KW stationary gasification system (“Unit”). The purchase price for the Unit is $1,575,000.00 (the “Purchase Price”). A partial payment of $1,000,000 shall be made to MagneGas within six (6) months following the execution of the Second Purchase Agreement. The balance of the Purchase Price must be paid to MagneGas on or before the one year anniversary following the execution of this Agreement. MagneGas shall complete manufacture of the Unit on or before the one year anniversary of the Second Purchase Agreement.

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

Cautionary Notice Regarding Forward Looking Statements

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

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

Certain Terms Used in this Report

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

Overview.

MagneGas Corporation is a technology company that utilizes a plasma based system for the gasification and sterilization of liquid waste. A byproduct of our process is a hydrogen based fuel called MagneGas2®" that we sell for metal cutting as an alternative to acetylene. In addition, we are developing the use of our fuel for co-combustion with hydrocarbon fuels to reduce emissions. We also market, for sale or licensure, our proprietary plasma arc technology for the processing of liquid waste (the "Plasma Arc Flow® System"). We have established a retail and distribution

platform to sell our fuel for use in the metalworking industries. We have also developed a global network of brokers to sell our system for processing liquid waste and we are testing our fuel through a third party laboratory for use in the reduction of coal emissions. Additionally, we intend to acquire complementary gas distribution businesses in order to become a larger distributor of MagneGas2®, other industrial gases and related equipment.

In October of 2014, we purchased Equipment Sales and Services, Inc. ("ESSI") for $3 million cash. ESSI is a full line seller of industrial gases and equipment for the welding and metal cutting industries. Since acquiring ESSI, we have opened three additional retail locations and distribute our proprietary MagneGas2® product as well as other gases and welding supplies through ESSI, our wholly owned subsidiary.

On February 1, 2017, the Company formed two wholly owned subsidiaries in the State of Delaware called MagneGas Energy Solutions, LLC and MagneGas Welding Supply, LLC, respectively.

On March 3, 2017, the Company formed three wholly owned subsidiaries in the State of Delaware called MagneGas Real Estate Holdings, LLC, MagneGas IP, LLC and MagneGas Production, LLC, respectively.

Results of Operations.

Comparison for the three and nine months ended September 30, 2017 and 2016

Revenues

For the three and nine months ended September 30, 2017 and 2016 we generated revenues of $879,511 and $2,717,503 compared to $1,037,668 and $2,540,588. For the three and nine months ended September 30, 2017 and 2016, we generated revenues from our metal cutting fuel of $879,511 and $2,717,503 compared to $676,518 and $1,985,688, respectively. The increase in revenues was primarily due to successful expansion through our two new locations in Lakeland and Sarasota, FL. We also experienced an expansion in our existing customer base in Clearwater, FL, and in improvement in our revenues per customer for some of the clients we added in 2016 that expanded their relationship with our subsidiary, ESSI in 2017.

The decrease in revenue during the three months ended September 30, 2017 was primarily attributable to damaging hurricanes that paralyzed much of the gulf coast during August and September of 2017. The three months ended September 30, 2017 were also negatively impacted by the fact that no unit sales were recognized, as compared to the same period in the prior year, when the Company recognized $361,150. The remaining $676,518 were sales under ESSI for industrial gas and welding supplies. When the revenues for the three months ended September 30, 2017 are compared to these figures, revenues actually increased 30% when unit sales are excluded from the prior year.

For the three and nine months ended September 30, 2017 and 2016 cost of revenues were $552,374 and $1,588,419 compared to $632,531 and $1,470,569, respectively. For the three and nine months ended September 30, 2017 and 2016, we generated a gross profit of $327,137 and $1,129,084 compared to $405,137 and $1,070,019. An improved gross profit can be attributed to strategic price increases and controlling the cost of materials. The Company implemented price increased for the sales of MagneGas2 in during the three months ended September 30, 2017. The Company's cost of producing MagneGas2 continued to decline during the period, also positively impacting the cost of goods sold. Lastly, product mix was also a factor in the improvement in cost of goods sold.

Operating Expenses

Operating costs for the three and nine months ended September 30, 2017 and 2016 were $2,620,664 and $9,018,931 compared to $3,011,124 and $9,024,824. During the nine months ended September 30, 2017 we recognized a

non-cash charge of $2,288,741 in stock based compensation paid to consultants and third party vendors, compared to $820,500 in the comparable nine months ended September 30, 2016. Other non-cash operating expenses were due to depreciation and amortization charges of $526,602 for the nine month period ended September 30, 2017, compared to $507,000 for the nine months ended September 30, 2016.

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 for the nine months ended September 30, 2017 have recognized losses in the amount of $7,147,991 compared to $10,839,326 for the nine months ended September 30, 2016. The decrease in our loss was primarily attributable to an increase in gross profit of approximately $59,065, and an increase in other income and expense as a result of an increased gain on fair value adjustment of our derivative liabilities by approximately $2,462,293.

Liquidity and Capital Resources.

As of September 30, 2017, the Company had cash of $93,895 and has reported a net loss of $7,147,991 and has used cash in operations of $3,385,026 for the nine months ended September 30, 2017. In addition, as of September 30, 2017 the Company has a working capital deficit of $1,107,476 and an accumulated deficit of $60,706,471. These conditions indicate that there is substantial doubt about the Company's ability to continue as a going concern within one year from the issuance date of the financial statements.

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

Historically, the Company has financed its operations through equity and debt financing transactions and expects to continue incurring operating losses for the foreseeable future. The Company’s plans and expectations for the next 12 months include raising additional capital to help fund commercial operations, including product development. The Company utilizes cash in its operations of approximately $515,000 per month. Management believes, but it cannot be certain, its current holdings of cash along with the cash to be generated from expected product sales and future financings will be sufficient to meet its projected operating requirements for the next twelve months from the date of this report.

27

Cash Flows from Continuing Operations.

Cash flows from continuing operations for operating, financing and investing activities for the nine months ended September 30, 2017 and 2016 are summarized in the following table:

	Nine Months Ended September 30,	
	2017 (unaudited)	2016 (unaudited)
Operating activities	$(3,385,026)	$(6,455,538)
Investing activities	(85,906)	(1,272,237)
Financing activities	1,948,417	3,590,362
Net decrease in cash from continuing operations	$(1,522,515)	$(4,137,413)

For the nine months ended September 30, 2017, we used cash of $3,385,026 in operations in 2017 and used cash of $6,455,538 in operations in 2016. Our cash use for 2017 was primarily attributable to general operations. Our cash use for 2016 was primarily attributable to the completion of our new headquarters and consulting expenses related to research and development, investor relations, public relations and new business development. During the nine months ended September 30, 2017, cash used by investing activities consisted of $85,906. During the nine months ended September 30, 2016, cash used by investing activities consisted of $1,272,237 primarily due to the purchases of assets offset by the sale of land. Cash provided by financing activities for the nine months ended September 30, 2017 was $1,948,417 as compared to cash provided by financing activities for the nine months ended September 30, 2016 of $3,590,362. The net decrease in cash during the nine months ended September 30, 2017 was 1,522,515 as compared to $4,137,413 for the nine months ended September 30, 2016.

Note Payable

On May 9, 2017, the Company entered into a Securities Purchase Agreement (“SPA”) with an institutional investor providing for the sale and issuance of 8% Senior Debentures. Pursuant to the SPA, the Company agreed to sell, and the investor agreed to purchase up to an aggregate of $1,000,000 principal amount of Senior Debentures (“Debenture”). The Debenture is due in November 2017 and bears interest at a rate of 8% per annum based on a 360-day year. The Company is required to make interest payments quarterly beginning on the original issuance date of the Debenture. The Debenture is unsecured and is not convertible.

The Company recognized issuance costs of $60,000 as recognized as a debt discount and will expense over the maturity of the note. During the period ended September 30, 2017, the Company recorded an expense of $46,957.

Series B Convertible Preferred Stock

On May 9, 2017, the Company entered into an Exchange Agreement ("Exchange Agreement") with an institutional investor ("Investor"). Under the terms of the Exchange Agreement, the Investor agreed to exchange with the Company (the "Exchange"), Warrants, exercisable for 22,198,554 shares of Company Common Stock, for (i) 2,700 shares of newly issued Series B Convertible Preferred Stock at a stated value of $1,000 per share and convertible into 9,000,000 shares of Common Stock at a conversion price of $3.00 and (ii) 1,000,000 shares of newly issued Common Stock (collectively, the "Exchange Securities"). The preferred stock and common shares were recorded at fair market value.

Pursuant to terms of the Exchange Agreement, the Company also agreed to amend the terms of the Convertible Debentures, which had a current outstanding principal amount of $829,000, as follows: (i) the Conversion Price of the Convertible Debenture was reduced from $5.70 to $3.00, subject to adjustment under the Exchange Agreement or under the terms of such Convertible Debenture, which will result in an increase of 1,308,947 shares of Common Stock that may be issuable upon conversion of the Convertible Debenture and (ii) the Company shall be permitted to prepay the then-outstanding principal amount of the Convertible Debenture, together with a prepayment premium in the amount of 10% of the principal amount being prepaid.

In conjunction with the Exchange, the Company filed a Certificate of Designation with the Delaware Secretary of State. The Certificate of Designation designated a new class of Series B Convertible Preferred Stock ("Preferred Stock"). The Preferred Stock is convertible in shares of Common Stock at a price of $3.00 per share. The Corporation previously received the unanimous written consent of the Board of Directors and the holder of the Series A Preferred Stock authorizing the creation of the class of Series B Convertible Preferred Stock. The holders of Series B Convertible Preferred Stock would receive upon liquidation, the same amount that a holder of common stock would receive if the preferred stock were fully converted, paid pari passu with all holders of common stock.

As of May 9, 2017, the Company has issued 2,700 shares of newly designated Series B Convertible Preferred Stock of which 600 are outstanding as of September 30, 2017. The Series B Convertible Preferred Stock included a conversion into common stock at price of $3.00 per share subject to subsequent equity sales reset provisions. The conversion provision was at the option of the holder and the Series B Convertible Preferred Stock did not provide for cumulative dividends.

During the nine months ended September 30, 2017, 2,700 shares of the Series B Convertible Preferred Stock were converted into 900,000 shares of the Company's common stock an exchange rate of $3.00 per share.

Series C Convertible Preferred Stock

On June 12, 2017, the Company entered into a Securities Purchase Agreement ("SPA") with one or more investors. Under the terms of the SPA, the Company agreed to issue and sell to each investor, Series C Convertible Preferred Stock ("Preferred Shares"), Series C Convertible Preferred Warrants ("Preferred Warrants") and Common Stock Purchase Warrants ("Common Stock Warrants"), for a total gross purchase price of up to $25,000,000. At the initial closing under the SPA, the Company issued a total of 75 Preferred Shares at a purchase price of $900 per share. The Preferred Warrants are exercisable for a total of 24,925 Preferred Shares at an exercise price of $900 per share. The Preferred Shares have an initial conversion price of $3.00 and are initially convertible into an aggregate of 8,333,334 shares of common stock. The Common Stock Warrants are exercisable for 2,916,667 shares of common stock, representing thirty-five percent (35%) of the total number of shares of common stock initially issuable upon conversion of the Preferred Shares. The exercise price of the Common Stock Warrants is $3.00 per share and are exerciseable for 5 years.

In conjunction with the SPA, the Company designated a new class of preferred stock as "Series C Convertible Preferred Stock" in the aggregate amount of 25,000 shares. The Preferred Shares have a stated value of $1,000, with an aggregate value of $25,000,000. The initial conversion price of the Preferred Shares is $3.00.

The holders of Preferred Shares are entitled to receive dividends, when and as declared by the Board, from time to time, in its sole discretion. From and after the occurrence of a Triggering Event (as defined in the certificate of designation for the Preferred Shares) until such time as all Triggering Events then outstanding are cured, the holders shall be entitled to receive Dividends at a rate of eighteen percent (18.0%) per annum, which dividends shall be computed on the basis of a 360-day year and twelve 30-day months and shall compound each calendar month. No such triggering events occurred during the period ended September 30, 2017.

At any time after the occurrence of a Triggering Event the holder may, at its option, convert any Preferred Shares at an Alternate Conversion Price. The "Alternate Conversion Price" means the lower of (A) the applicable conversion price as then in effect and (B) the greater of (x) $0.35 and (y) the lowest of (i) 85% of the VWAP of the common stock as of the trading day immediately preceding the delivery or deemed delivery of the applicable conversion notice, (ii) 85% of the VWAP of the common stock as of the trading day of the delivery or deemed delivery of the applicable conversion notice and (iii) 85% of the price computed as the quotient of (I) the sum of the VWAP of the common stock for each of the ten (10) trading days with the lowest VWAP of the common stock during the twenty (20) consecutive trading day period ending and including the trading day immediately preceding the delivery or deemed delivery of the applicable conversion notice, divided by (II) ten (10).

In lieu of conversion, upon a Triggering Event, the holder may require the Company to redeem all or any of the Preferred Shares at a price equal to the greater of (i) the product of (A) the conversion amount of the Preferred Shares to be redeemed multiplied by (B) a redemption premium of 115% and (ii) the product of (X) the conversion rate with respect to the conversion amount in effect at such time of redemption multiplied by (Y) the product of (1) a redemption premium of 115% multiplied by (2) the greatest closing sale price of the common stock on any trading day during the period commencing on the date immediately preceding such Triggering Event and ending on the date the Company makes the entire redemption payment.

The Company may, at its option following notice to each holder, redeem such amount of Preferred Shares by paying to each holder the corresponding installment amount in cash. The applicable installment conversion price with respect to a particular date of determination, shall be equal to the lower of (A) the conversion price then in effect and (B) the greater of (x) $0.35 and (y) the lower of (i) 85% of the VWAP of the common stock as of the trading day immediately preceding the applicable Installment Date and (ii) 85% of the quotient of (A) the sum of the VWAP of the common stock for each of the ten (10) trading days with the lowest VWAP of the common stock during the twenty (20) consecutive trading day period ending and including the trading day immediately prior to the applicable Installment Date, divided by (B) ten (10).

If the Company elects to effect an installment redemption in lieu of an installment conversion, in whole or in part, such Preferred Shares shall be redeemed by the Company in cash on the applicable Installment Date in an amount equal to 103% of the applicable installment redemption amount.

As a result of such Triggering Event discussed above, the Series C Preferred Stock has redeemable features which are not in the Company's control and therefore should not be included in permanent equity. Management has classified the Series C Preferred Stock in temporary equity in accordance with ASC 480-10-S99-3A on the Condensed Consolidated Balance Sheet.

During the nine months ended September 30, 2017, the warrant holders exercised 240 Preferred Warrants into 240 Preferred Shares. The investors simultaneously converted the 240 shares (and the previously issued 75 Preferred Shares) into 785,243 shares of the Company's Common Stock.

Management analyzed the conversion features embedded in the Preferred Warrants and Preferred Shares and because the Preferred Warrants may not be exercised unless the registration statement is effective, no derivative liability has been recognized. The Company recorded a beneficial conversion feature in the amount of $826,182. The beneficial conversion feature was recognized as a deemed dividend.

Maxim Group, LLC ("Maxim") acted as the exclusive placement agent for the aforementioned transaction. The Company agreed to pay Maxim a cash fee payable upon each closing equal to 6.0% of the gross proceeds ($4,050 in cash fees and a legal expense reimbursement of $5,000) received by the Company at each Closing (the "Placement Fee"). Such fees were recognized as stock issuance costs. Additionally, the Company granted to Maxim (or its designated affiliates) warrants to purchase up to 416,667 shares common stock (the "Placement Agent Warrants"). The Placement Agent Warrants expire five (5) years after the Closing. The Placement Agent Warrants are exercisable at a price per share equal to $3.30. The Placement Agent Warrants are not be redeemable and are exercisable for 5 years. The Placement Agent Warrants may be exercised in whole or in part and provide for a "cashless" exercise, except in the event the shares of common stock issuable upon exercise of the Placement Agent Warrants are registered for resale, in which case they provide for a "cash" exercise only. The Placement Agent Warrants were recorded at fair value as a

stock issuance costs.

Series D Convertible Preferred Stock

On July 21, 2017, the Company entered into a Securities Purchase Agreement ("SPA") with one or more investors. Under the terms of the SPA, the Company agreed to issue and sell to each Investor, and each investor severally, but not jointly, agreed to purchase from the Company shares of Common Stock ("Common Stock"), and Series D Convertible Preferred Warrants ("Preferred Warrants") for a total gross purchase price of up to $844,422. On July 27, 2017, at the initial closing under the SPA, the Company issued to the Investors a total of 150,000 shares of Common Stock at a purchase price of $1.00 per share. The Preferred Warrants are exercisable for a total of 694,422 Preferred Shares at an exercise price of $1.00 per share. The Preferred Shares have an initial conversion price of $1.00 and are initially convertible into an aggregate of 694,422 shares of Common Stock.

The Company designated a new class of preferred stock as "Series D Convertible Preferred Stock" in the aggregate amount of 694,422 shares. The Preferred Shares have a stated value of $1.00, with an aggregate value of $694,422. No Preferred Shares were issued at the Closing of the Offering.

The holders of Preferred Shares shall be entitled to receive dividends, when and as declared by the Board, from time to time, in its sole discretion. From and after the occurrence of a Triggering Event (as defined in the certificate of designations for the Preferred Shares) until such time as all Triggering Events then outstanding are cured, the holders shall be entitled to receive Dividends at a rate of eighteen percent (18.0%) per annum, which dividends shall be computed on the basis of a 360-day year and twelve 30-day months and shall compound each calendar month.

The initial conversion price of the Preferred Shares is $1.00.

During the period July 1, 2017 through September 30, 2017, the 694,422 shares of Series D Preferred Shares were converted into 1,801,497 shares of the Company's Common Stock at an average conversion price of $0.39 per share.

Series E Convertible Preferred Stock

On September 15, 2017, the Company entered into a Securities Purchase Agreement ("SPA") with one or more investors identified on the signature pages thereto ("Investors") attached to the SPA. Under the terms of the SPA, the Company issued and sold to each Investor, and each Investor severally, but not jointly, agreed to purchase from the Company shares of Series E Convertible Preferred Stock ("Preferred Stock"), and Series E Convertible Preferred Warrants ("Preferred Warrants") (collectively, the "Transaction Securities") as set forth on the Schedule of Buyers attached to the SPA for a total gross purchase price of up to $620,000 (the "Offering"). At the initial closing under the SPA, the Company issued to the Investors a total of 36,765 shares of Preferred Stock at a purchase price of $1.36 per share. The Preferred Warrants are exercisable for a total of 419,117 Preferred Shares at an exercise price of $1.36 per share. The Preferred Shares have an initial conversion price of $1.36 and will be initially convertible into an aggregate of 36,765 shares of Common Stock.

The Company obtained the written consent of the holders of a majority of its outstanding voting securities approving the terms of the Offering and the issuance of the Transaction Securities, including the potential issuance of more than 20% of the Company's issued and outstanding common stock in connection with the Offering, in accordance with Nasdaq Listing Rule 5635. The Offering was made pursuant to a prospectus supplement and accompanying base prospectus relating to the Company's effective shelf registration statement on Form S-3 (File No. 333-207928).

In conjunction with the Transaction, the Company designated a new class of preferred stock as "Series E Convertible Preferred Stock" in the aggregate amount of 455,882 shares. The Preferred Shares have a stated value of $1.36, with an aggregate value of $620,000.

The holders of Preferred Shares are entitled to receive dividends, when and as declared by the Board, from time to time, in its sole discretion. From and after the occurrence of a Triggering Event (as defined in the certificate of designations for the Preferred Shares) until such time as all Triggering Events then outstanding are cured, the holders shall be entitled to receive Dividends at a rate of eighteen percent (18.0%) per annum, which dividends shall be computed on the basis of a 360-day year and twelve 30-day months and shall compound each calendar month.

The initial conversion price of the Preferred Shares is $1.36.

At any time after the occurrence of a Triggering Event the holder may, at its option, convert any Preferred Shares at an Alternate Conversion Price. The "Alternate Conversion Price" means with respect to any Alternate Conversion that price which shall be the lowest of (A) the applicable Conversion Price as in effect on the applicable Conversion Date of the applicable Alternate Conversion and (B) the greater of (x) the Floor Price and (y) the lowest of (i) 75% of the

Closing Bid Price of the Common Stock as of the Trading Day immediately preceding the delivery or deemed delivery of the applicable Conversion Notice, (ii) 75% of the VWAP of the Common Stock as of the Trading Day of the delivery or deemed delivery of the applicable Conversion Notice, (iii) 75% of the sum of the lowest VWAP of the Common Stock for each Trading Day during three (3) out of the ten (10) consecutive Trading Day period ending and including the Trading Day immediately preceding the delivery or deemed delivery of the applicable Conversion Notice, divided by (I) three (3), (iv) 75% of the price computed as the quotient of (I) the sum of the lowest VWAP of the Common Stock for each Trading Day during five (5) of the twenty (20) consecutive Trading Day period ending and including the Trading Day immediately preceding the delivery or deemed delivery of the applicable Conversion Notice, divided by (II) five (5).

In lieu of conversion, upon a Triggering Event, the holder may require the Company to redeem all or any of the Preferred Shares at a price equal to the greater of (i) the product of (A) the Conversion Amount of the Preferred Shares to be redeemed multiplied by (B) the 115% and (ii) the product of (X) the Conversion Rate with respect to the Conversion Amount of such Preferred Shares in effect at such time as such Holder delivers a Triggering Event Redemption Notice multiplied by (Y) the product of (1) the 115% multiplied by (2) the greatest Closing Sale Price of the Common Stock on any Trading Day during the period commencing on the date immediately preceding such Triggering Event and ending on the date the Company makes the entire payment required to be made.

The Preferred Warrants will be exercisable for a total of 419,117 shares of Series E Convertible Preferred Stock at an exercise price of $1.36 per share. Under the terms of the Preferred Warrants, so long as (I) no Equity Conditions Failure (as defined in the Preferred Warrants) then exists (unless waived in writing by the Holder), (II) no more than 100,000 Preferred Shares are then outstanding and (III) no Forced Exercise (as defined below) has occurred in the Seven (7) Trading Day period immediately prior to the applicable date of determination, the Company shall have the right to require the Holder to exercise the Warrant into up to such aggregate number of fully paid, validly issued and non-assessable Warrant Preferred Shares equal to the lesser of (x) 500,000 and (y) 30% of the aggregate dollar trading volume of the Common Stock (as reported by Bloomberg) during the three (3) consecutive Trading Day period immediately prior to the applicable Forced Exercise Notice Date (as defined in the Preferred Warrant)(such lesser number of Warrant Preferred Shares, the “Maximum Forced Exercise Share Amount”), as designated in the applicable Forced Exercise Notice, to be issued and delivered in accordance with the Preferred Warrant (each, a “Forced Exercise”).

As of September 30, 2017, no issuances on the Series E Preferred Stock had been made.

Insurance

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

Critical Accounting Policies.

Our significant accounting policies are presented in this Report in our Notes to financial statements, which are contained in this Quarterly Report. The significant accounting policies that are most critical and aid in fully understanding and evaluating the reported financial results include the following:

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

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

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

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

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

Our Plasma Arc Flow Units require a significant investment and generally have a 6 to 9 month production cycle. During the course of building a Plasma Arc Flow Unit the actual costs are tracked in work in process. Significant deposits are required before production. These deposits are classified as customer deposits.

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.

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

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

Off Balance Sheet Arrangements.

The Company has no off balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this report, an evaluation was carried out by the Company’s management, with the participation of the chief executive officer and chief financial officer of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”)) as of September 30, 2017. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Commission’s rules and forms, and that such information is accumulated and communicated to management, including the chief executive officer and the chief financial officer, to allow timely decisions regarding required disclosures.

During the evaluation of disclosure controls and procedures as of September 30, 2017, management concluded that Company’s disclosure controls and procedures were not effective.

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

Management’s Report on Internal Control over Financial Reporting

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

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

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

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

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

Management has not completed a proper evaluation, risk assessment and monitoring of the company's internal controls over financial reporting as of September 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). As a result management has concluded controls were not effective and identified material weaknesses in internal control over financial reporting.

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

The material weaknesses identified are disclosed below.

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

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

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

As a result of the material weaknesses in internal control over financial reporting described above, the Company's management has concluded that, as of September 30, 2017, the Company's internal control over financial reporting was not effective based on the criteria in Internal Control – Integrated Framework issued by the COSO.

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

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended September 30, 2017 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

For a discussion identifying additional risk factors and other important factors that could cause actual results to differ materially from those anticipated, see the discussions under Part I, Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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

Common shares issued for services

During the period July 1, 2017 through September 30, 2017, the Company issued 815,000 shares of the Company's common stock to key advisors and consultants of the Company. The total value of these issuances is $741,675.

Conversion of Convertible Note into Shares of Common Stock

During the period ended September 30, 2017, the noteholder converted $800,000 in principal into 2,285,714 shares of the Company's common stock at a conversion rate of $0.35 per share.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit		Incorporated by Reference			Filed or Furnished
Number	Exhibit Description	Form	Exhibit	Filing Date	Herewith
3.1	Amendment No. 1 to By-Laws of MagneGas Corporation.	8-K	3.1	09/29/2016	
31.1	Certification of Principal Executive Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Principal Financial Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1*	Certification of Principal Executive Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2*	Certification of Principal Financial Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS	XBRL Instance.				X
101.SCH	XBRL Schema.				X
101.CAL	XBRL Calculation.				X
101.DEF	XBRL Definition.				X
101.LAB	XBRL Label.				X
101.PRE	XBRL Presentation.				X

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

SIGNATURES

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

MagneGas Corporation

By: /s/ *Ermanno Santilli*
Ermanno Santilli
Chief Executive Officer
(Principal Executive Officer)

Dated: November 16, 2017

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

Dated: November 16, 2017