

Surna Inc.  
Form 10-Q  
August 14, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015**

***OR***

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

**Commission File Number: 000-54286**

**SURNA, INC.**

*(Exact name of registrant as specified in its charter)*

**NEVADA**  
*(State or other jurisdiction of*

**27-3911608**  
*(I.R.S. Employer*

Edgar Filing: Surna Inc. - Form 10-Q

*incorporation or organization)*

*Identification No.)*

**1780 55<sup>th</sup> St., Suite C, Boulder, Colorado 80301**

*(Address of principal executive offices) (Zip code)*

(303) 993-5271

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 last 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 (SS 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **YES [X] NO [ ]**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

**Large Accelerated Filer [ ] Accelerated Filer [ ]**  
**Non-accelerated Filer [ ] Smaller Reporting Company [X]**

*(Do not check if smaller reporting company)*

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

The number of shares outstanding of the registrant's common stock as of August 13, 2015 is 130,292,515.

**TABLE OF CONTENTS**

	<b>Page</b>
 <b><u>PART I.</u></b>	
Item 1. <u>FINANCIAL STATEMENTS.</u>	F-1
<u>Condensed Consolidated Balance Sheets as of June 30, 2015 (Unaudited) and December 31, 2014</u>	F-1
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2015 and 2014 (Unaudited)</u>	F-2
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014 (Unaudited)</u>	F-3
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	F-4
Item 2. <u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.</u>	4
Item 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.</u>	7
Item 4. <u>CONTROLS AND PROCEDURES.</u>	7
 <b><u>PART II.</u></b>	
Item 1. <u>LEGAL PROCEEDINGS.</u>	9
Item 1A. <u>RISK FACTORS.</u>	9
Item 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.</u>	9
Item 3. <u>DEFAULTS UPON SENIOR SECURITIES.</u>	9
Item 4. <u>MINE SAFETY DISCLOSURES.</u>	9
Item 5. <u>OTHER INFORMATION.</u>	9
Item 6. <u>EXHIBITS.</u>	9
<u>Signatures</u>	10

## **CERTAIN CONVENTIONS**

Except where the context otherwise requires and for purposes of this quarterly report only:

China or “PRC” refers to the People’s Republic of China, and excludes Hong Kong, Macau, and Taiwan.

“Us”, the “Company”, and “our” refer to Surna, Inc., and, unless the context requires otherwise, its wholly-owned subsidiary Hydro Innovations, LLC.

## **FORWARD-LOOKING INFORMATION**

This quarterly report contains statements of a forward-looking nature. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as “may,” “will,” “expects,” “anticipates,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to,” or other similar expressions. The accuracy of these statements may be affected by a number of risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. A list of factors that could cause our actual results of operations and financial condition to differ materially is set forth below, and these factors are discussed in greater detail under the “Risk Factors” section of our Annual Report on Form 10-K as filed with the SEC on April 16, 2015:

If it were determined that our spin-off of Trebor Resource Management Group, Inc. in March 2014 violated federal or state securities laws, we could incur monetary damages, fines, or other damages that could have a material adverse effect on our financial condition and prospects.

Our limited operating history and ability to achieve profitability.

Our ability to assure that related party transactions are fair to our company.

Our ability to manage growth in our business.

The impact of the volatility in the worldwide credit and equity markets.

Legislative and judicial changes at Federal, state and local levels.

Changes in Federal law enforcement priorities or the availability and use of civil claims under Federal law, especially the Racketeer Influenced and Corrupt Organizations Act.

The impact of changes in interest rates.

3

**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****Surna Inc.****Condensed Consolidated Balance Sheets**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	Unaudited	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$145,502	\$689,963
Accounts receivable (net of allowance for doubtful accounts of \$10,000)	818,643	394,830
Note receivable	235,000	100,000
Inventory	569,466	264,031
Prepaid expenses	329,437	57,089
Total Current Assets	2,098,048	1,505,913
<b>Noncurrent Assets</b>		
Property and equipment, net	152,618	163,815
Intangible assets, net	647,302	651,564
Total Noncurrent Assets	799,920	815,379
<b>TOTAL ASSETS</b>	<b>\$2,897,968</b>	<b>\$2,321,292</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$728,908	\$411,828
Deferred revenue	1,423,321	408,199
Current portion long term debt	6,050	9,731
Amounts due shareholders	231,595	303,672
Derivative liability on conversion feature	852,024	847,438
Derivative liability on warrants	58,733	304,432
Total Current Liabilities	3,300,631	2,285,300
<b>NONCURRENT LIABILITIES</b>		
Convertible promissory notes, net	1,265,787	488,544
Convertible accrued interest	345,563	202,122
Promissory note due shareholders	195,760	195,760

Edgar Filing: Surna Inc. - Form 10-Q

Vehicle loan	33,318	33,318
Total Noncurrent Liabilities	1,840,428	919,744
<b>TOTAL LIABILITIES</b>	<b>5,141,059</b>	<b>3,205,044</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$0.00001 par value; 150,000,000 shares authorized; 77,220,000 shares issued and outstanding	772	772
Common stock, \$0.00001 par value; 350,000,000 shares authorized; 127,041,114 and 113,511,250 shares issued and outstanding	1,271	1,135
Paid in capital	5,917,497	4,881,918
Accumulated deficit	(8,162,630)	(5,767,577)
Total Stockholders' Deficit	(2,243,090)	(883,752 )
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$2,897,969</b>	<b>\$2,321,292</b>

See accompanying notes to the unaudited condensed consolidated financial statements.

**Surna Inc.****Condensed Consolidated Statements of Operations and Comprehensive Loss****(Unaudited)**

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Revenue	\$1,677,950	\$346,559	\$2,548,845	\$346,559
Cost of revenue	1,326,769	282,606	2,009,505	282,606
Gross profit	351,181	63,953	539,340	63,953
Operating Expenses:				
Advertising and marketing	92,480	78,351	175,454	78,351
Product development costs	128,454	7,768	309,443	7,768
General and administrative expenses	821,020	279,463	1,624,762	326,549
Total operating expenses	1,041,954	365,582	2,109,659	412,668
Operating loss	(690,773 )	(301,629 )	(1,570,319 )	(348,715 )
Other income (expense):				
Interest expense	(128,299 )	(13,632 )	(288,559 )	(13,632 )
Amortization of debt discount on convertible notes	(584,248 )	(68,165 )	(1,011,048 )	(68,165 )
Gain on derivative liabilities	426,710	(1,738,141 )	474,873	(1,738,141 )
	(285,837 )	(1,819,938 )	(824,734 )	(1,819,938 )
Loss from continuing operations before provision for income taxes	(976,610 )	(2,121,567 )	(2,395,053 )	(2,168,653 )
Provision for income taxes	-	-	-	-
Loss from continuing operations	(976,610 )	(2,121,567 )	(2,395,053 )	(2,168,653 )
Loss from discontinued operations				(6,521 )
Net (Loss)	(976,610 )	(2,121,567 )	(2,395,053 )	(2,175,174 )
Comprehensive Income (Loss)	-	-	-	-
Net and Comprehensive (Loss)	\$(976,610 )	\$(2,121,567 )	\$(2,395,053 )	\$(2,175,174 )
Loss per common share from continuing operations - basic and diluted	\$(0.01 )	\$(0.02 )	\$(0.02 )	\$(0.02 )



Edgar Filing: Surna Inc. - Form 10-Q

Loss per common share from discontinued operations - basic and diluted	\$-	\$-	\$-	\$-
Loss per common share - basic and diluted	\$(0.01	) \$(0.02	) \$(0.02	) \$(0.02
Weighted average number of common shares outstanding, basic and diluted	122,707,813	99,375,000	118,680,260	99,375,000

See accompanying notes to the unaudited condensed consolidated financial statements.

F-2

**Surna Inc.****Condensed Consolidated Statements of Cash Flows****(Unaudited)**

	<b>For the Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
Net loss	\$ (2,395,053)	\$ (2,175,174)
Loss from discontinued operations	-	6,521
Loss from continuing operations	(2,395,053)	(2,168,653)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	30,548	5,366
Amortization of debt discount	1,011,049	68,165
Change in derivative liability	(474,873 )	1,738,141
Accrued interest	267,858	-
Changes in operating assets and liabilities:		
Accounts and notes receivable	(423,813 )	(68,399 )
Inventory and prepaid expenses	(577,783 )	(2,507 )
Accounts payable and accrued liabilities		