

Surna Inc.
Form 10-Q
August 14, 2017

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, 2017

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 **27-3911608**
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

1780 55th 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," "smaller reporting company," and "emerging growth 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) **Emerging Growth Company []**

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. []

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

As of August 7, 2017 there were 183,294,028 shares of the registrant's common stock outstanding.

TABLE OF CONTENTS

	Page
<u>Cautionary Note Regarding Forward-Looking Statements</u>	ii
 <u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. — Financial Statements</u>	F-1
<u>Unaudited Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016</u>	F-1
<u>Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2017 and 2016</u>	F-2
<u>Unaudited Condensed Consolidated Statements of Changes in Shareholders’ Deficit for the Six Months Ended June 30, 2017 and 2016</u>	F-3
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016</u>	F-4
<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	F-5
<u>Item 2. — Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	1
<u>Item 3. — Quantitative and Qualitative Disclosures About Market Risk</u>	8
<u>Item 4. — Controls and Procedures</u>	8
 <u>PART II — OTHER INFORMATION</u>	
<u>Item 1. — Legal Proceedings</u>	8
<u>Item 2. — Unregistered Sales of Equity Securities and Use of Proceeds</u>	9
<u>Item 3. — Defaults Upon Senior Securities</u>	9
<u>Item 4. — Mine Safety Disclosures</u>	9
<u>Item 5. — Other Information</u>	9
<u>Item 6. — Exhibits</u>	10
<u>SIGNATURES</u>	11
<u>EXHIBIT INDEX</u>	12

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Form 10-Q”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements contained in this Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in the section entitled “Risk Factors” in the Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as updated from time to time in the Company’s filings with the U.S. Securities and Exchange Commission (the “SEC”). Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Unless expressly indicated or the context requires otherwise, the terms “Surna,” the “Company,” “we,” “us,” and “our” in this Form 10-Q refer to Surna Inc., a Nevada corporation, and, where appropriate, its wholly owned subsidiary.

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

	June 30, 2017 Unaudited	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$1,353,072	\$319,546
Accounts receivable (net of allowance for doubtful accounts of \$91,000 and \$91,000 respectively)	170,802	47,166
Notes receivable	-	157,218
Inventory, net	583,593	747,905
Prepaid expenses	150,465	84,976
Total Current Assets	2,257,932	1,356,811
Noncurrent Assets		
Property and equipment, net	78,733	93,565
Intangible assets, net	684,498	667,445
Total Noncurrent Assets	763,231	761,010
TOTAL ASSETS	\$3,021,163	\$2,117,821
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable and accrued liabilities	\$1,543,048	\$1,337,853
Deferred revenue	696,881	1,421,344
Notes Payable, net	500,835	-
Amounts due shareholders	36,205	57,398
Convertible promissory notes, net	-	761,440
Convertible accrued interest	-	161,031
Derivative liability on warrants	259,099	477,814
Total Current Liabilities	3,036,068	4,216,880
Noncurrent Liabilities		
Amounts due shareholders-long term	-	11,985
Total Noncurrent Liabilities	-	11,985

Edgar Filing: Surna Inc. - Form 10-Q

TOTAL LIABILITIES	3,036,068	4,228,865
SHAREHOLDERS' EQUITY (DEFICIT)		
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; 183,294,028 and 160,744,916 shares issued and outstanding, respectively	1,832	1,607
Additional paid in capital	16,392,812	12,222,789
Accumulated deficit	(16,410,321)	(14,336,212)
Total Shareholders' Equity (Deficit)	(14,905)	(2,111,044)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY(DEFICIT)	\$3,021,163	\$2,117,821

See accompanying notes to the unaudited condensed consolidated financial statements.

F-1

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

	For the Three Months		For the Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenue	\$1,741,893	\$1,891,472	\$3,334,985	\$4,390,077
Cost of revenue	1,328,895	1,578,753	2,493,651	2,988,697
Gross margin	412,998	312,719	841,334	1,401,380
Operating expenses:				
Advertising and marketing expenses	209,737	59,190	315,942	109,995
Product development costs	96,294	93,947	190,083	200,226
Selling, general and administrative expenses	1,303,611	458,779	2,121,571	1,025,376
Total operating expenses	1,609,642	611,916	2,627,596	1,335,597
Operating income (loss)				