

Surna Inc.
Form 10-Q
November 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 SEPTEMBER 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 November 10, 2017, there were 191,265,919 shares of the registrant's common stock outstanding.

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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**

	September 30, 2017 Unaudited	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$1,300,706	\$319,546
Accounts receivable (net of allowance for doubtful accounts of \$93,000 and \$91,000 respectively)	274,762	47,166
Notes receivable	-	157,218
Inventory, net	554,170	747,905
Prepaid expenses	182,623	84,976
Total Current Assets	2,312,261	1,356,811
Noncurrent Assets		
Property and equipment, net	77,676	93,565
Intangible assets, net	680,267	667,445
Deposits	51,000	-
Total Noncurrent Assets	808,943	761,010
TOTAL ASSETS	\$3,121,204	\$2,117,821
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable and accrued liabilities	\$1,450,363	\$1,337,853
Deferred revenue	1,241,819	1,421,344
Amounts due shareholders	21,676	57,398
Convertible promissory notes, net	-	761,440
Convertible accrued interest	-	161,031
Derivative liability on warrants	265,760	477,814
Total Current Liabilities	2,979,618	4,216,880
Noncurrent Liabilities		
Amounts due shareholders-long term	-	11,985
Total Noncurrent Liabilities	-	11,985

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TOTAL LIABILITIES	2,979,618	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; 189,865,919 and 160,744,916 shares issued and outstanding, respectively	1,898	1,607
Additional paid in capital	18,027,715	12,222,789
Accumulated deficit	(17,888,799)	(14,336,212)
Total Shareholders' Equity (Deficit)	141,586	(2,111,044)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY(DEFICIT)	\$3,121,204	\$2,117,821

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$1,566,256	\$1,170,760	\$4,901,241	\$5,560,837
Cost of revenue	1,175,047	753,624	3,668,698	3,742,321
Gross profit	391,209	417,136	1,232,543	1,818,516
Operating expenses:				
Advertising and marketing expenses	168,476	45,177	484,418	155,172
Product development costs	60,145	75,144	250,228	275,370
Selling, general and administrative expenses	1,396,957	533,694	3,518,528	1,559,070
Total operating expenses	1,625,578	654,015	4,253,174	1,989,612
Operating income (loss)	(1,234,369)	(236,879)	(3,020,631)	(171,096)
Other income (expense):				
Interest and other income, net	1,016	10,576	3,808	19,060
Interest expense	-	(89,203)	(41,233)	(282,657)
Amortization of debt discount on convertible promissory notes	(10,037)	(291,000)	(63,157)	(1,335,429)
Loss on extinguishment of debt	(228,428)	-	(643,428)	-
(Loss) gain on change in derivative liabilities	(6,660)	(62,000)	212,054	(348,297)
Total other income (expense)	(244,109)	(431,627)	(531,956)	(1,947,323)
Loss before provision for income taxes	(1,478,478)	(668,506)	(3,552,587)	(2,118,419)
Provision for income taxes	-	-	-	-
Net loss	(1,478,478)	(668,506)	(3,552,587)	(2,118,419)
Other comprehensive income (expense)	-	-	-	-
Comprehensive loss	\$(1,478,478)	\$(668,506)	\$(3,552,587)	\$(2,118,419)
Loss per common share – basic and dilutive	\$(0.01)	\$(0.00)	\$(0.02)	\$(0.02)
Weighted average number of shares outstanding, both basic and dilutive	184,912,253	145,268,135	179,470,179	139,684,359

See accompanying notes to the unaudited condensed consolidated financial statements.

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Surna Inc.

Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficit)

For the Nine Months Ended September 30, 2017

(Unaudited)

	Preferred Stock	Common Stock					
	Number	Number	Number	Amount	Additional	Accumulated	Shareholders'
	of	of	of		Paid in	Deficit	Deficit
	Shares	Shares	Shares		Capital		
		to Be	to Be				
		outstanding	Issued				
Balance December 31, 2016							