

Surna Inc.
Form 10-Q
July 15, 2011

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

FORM 10-Q

- QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY
PERIOD ENDED MAY 31, 2011
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 incorporation or organization)

1103 United Success Commercial Centre
508 Jaffe Road
Causeway Bay, Hong Kong
(Address of principal executive offices and Zip Code)

852-3721-3668
(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 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 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,"

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and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>

(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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicated the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 79,175,000 as of June 28, 2011.

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PART I. FINANCIAL INFORMATION

ITEM 1. INTERIM FINANCIAL STATEMENTS.

Surna Inc.
(A Development Stage Company)
Balance Sheets
(Unaudited)

	May 31, 2011	November 30, 2010
ASSETS		
Current Assets		
Cash	\$ 36,145	\$ 73,314
Prepaid Expenses	1,228	3,211
Total Current Assets	37,373	76,525
TOTAL ASSETS	\$ 37,373	\$ 76,525
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable & Accrued liabilities	\$ -	\$ 51
Advance from Related Party	5,700	17,700
TOTAL LIABILITIES	5,700	17,751
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.00001 par value, 150,000,000 shares authorized, - shares issued and outstanding	-	-
Common stock, \$0.00001 par value; 350,000,000 shares authorized, 79,175,000 shares issued and outstanding	792	792
Additional paid-in capital	97,708	97,708
Deficit accumulated during the development stage	(66,827)	(39,726)
TOTAL STOCKHOLDERS' Equity	31,673	58,774
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 37,373	\$ 76,525

Surna Inc.
(A Development Stage Company)
Statement of Expenses
(Unaudited)

	Three Months Ended May 31, 2011	Three Months Ended May 31, 2010	Six Months Ended May 31, 2011	Six Months Ended May 31, 2010	Inception (October 15, 2009) to May 31, 2011
EXPENSES					
Professional fees	\$ 9,542	\$ 2,000	\$ 19,114	\$ 4,500	50,458
Transfer Agents and brokerage fees	-	-	1,452	-	2,452
Bank service charge	247	-	348	25	840
Rent Expense	-	501	525	701	1,914
Placement expense	-	-	-	-	253
Licenses and Permits	-	-	-	-	550
Software Development	-	487	1,636	3,806	5,444
Office Admin Expense	3,829	294	4,026	294	4,916
Total Expenses	\$ 13,618	\$ 3,282	\$ 27,101	\$ 9,327	66,827
LOSS FROM OPERATIONS	\$ (13,618)	\$ (3,282)	\$ (27,101)	\$ (9,327)	(66,827)
NET LOSS	\$ (13,618)	\$ (3,282)	\$ (27,101)	\$ (9,327)	(66,827)
BASIC AND DILUTED NET LOSS PER SHARE	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED					
	79,175,000	15,000,000	79,175,000	15,000,000	

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Surna Inc.
(A Development Stage Company)
Statement of Cash Flow
(Unaudited)

	Six Months Ended May 31, 2011	Six Months Ended May 31, 2010	Inception (October 15, 2009) to May 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (27,101)	\$ (9,327)	\$ (66,827)
Adjustments to reconcile net loss to cash used by operating activities:			
Net change in:			
Prepaid expenses and other current assets	1,782	(3,623)	(978)
Rent Deposit	150	(250)	(250)
Accounts payable			-
NET CASH USED BY OPERATING ACTIVITIES	(25,169)	(13,200)	(68,055)
CASH FLOWS FROM FINANCING ACTIVITIES			
Shareholders Loan (repayment)	(12,000)	13,200	5,700
Proceeds from Placement of stocks	-	-	98,500
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES	(12,000)	13,200	104,200
NET INCREASE IN CASH AND CASH EQUIVALENTS	(37,169)	-	36,145
Cash and cash equivalents, beginning of period	73,314	-	-
Cash and cash equivalents, end of period	\$ 36,145	\$	\$ 36,145

Surna Inc.
(A DEVELOPMENT STAGE COMPANY)
Notes to the Financial Statements
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's most recent Annual Financial Statements filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim period presented have been reflected herein. The results of operations for the interim period are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal period, as reported in the Form 10-K, have been omitted.

NOTE 2 - GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. The Company has net losses for the period from inception to May 31, 2011 of \$66,827. The Company intends to fund operations through sales and equity financing arrangements.

The ability of the Company to emerge from the development stage is dependent upon the Company's successful efforts to raise sufficient capital and then attaining profitable operations. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 – RELATED PARTY TRANSACTIONS

From inception to May 31, 2011, 7bridge Capital Partners advanced Surna cash with a current balance of \$5,700. This advance is non-interest bearing, unsecured and due on demand.

Surna Inc.
(A DEVELOPMENT STAGE COMPANY)
Notes to the Financial Statements
(Unaudited)

NOTE 4 – STOCK DIVIDEND

On May 16, 2011, the Company declared a stock dividend of four shares of common stock for each common share on record. The total number of shares of common stock to be distributed is 63,340,000. Since the total numbers of shares to be issued exceed 25% of common shares outstanding, the transaction is recorded as a stock split and offset to additional paid in capital at par value and the effect of the issuance is applied retroactively to all prior periods presented.

On May 18, 2011, the Company amended its articles of incorporation to increase the number of authorized shares of Common Stock from 100,000,000 to 350,000,000, par value \$0.00001 per share, and the number of authorized shares of Preferred Stock from 100,000,000 to 150,000,000, par value \$0.00001 per share.

NOTE 5 – SUBSEQUENT EVENT

On June 22, 2011, we purchased computer equipment in exchange for 200,000 common shares, with a fair value of \$50,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This section of this quarterly report includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements, which apply only as of the date of this report. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions.

We are a start-up stage corporation and have not started operations or generated or realized any revenues from our business operations.

Our auditors have issued a going concern opinion. This means that our auditors believe there is substantial doubt that we can continue as an on-going business for the next twelve months unless we obtain additional capital to pay our bills. This is because we have not generated any revenues and no revenues are anticipated until we complete the development of our software products and website and sell products and services to our customers. We have spent nominal time designing the website. We intend to retain the services of a website developer to create the website. Accordingly, we must raise cash from sources other than operations. Our only other source for cash at this time is investments by others in our company. We must raise cash to implement our project and begin our operations. We do not know how long the money will last, however, we do believe it will last twelve months.

To meet our need for cash we raised money from our public offering. We believe that we raised enough money through our public offering to maintain operations for twelve months, but we cannot guarantee that once we begin operations we will stay in business after twelve months. If we are unable to secure enough suppliers of products at suitably low pricing or enough customers willing to buy the products at higher than the price we have negotiated with our suppliers, we may quickly use up the proceeds from the minimum amount of money from our public offering and will need to find alternative sources, like a second public offering, a private placement of securities, or loans from our officers or others in order for us to maintain our operations. At the present time, we have not made any arrangements to raise additional cash, other than through our public offering. If we need additional cash and cannot raise it we will either have to suspend operations until we do raise the cash, or cease operations entirely.

Plan of Operation

With the completion of our public offering, our specific goal is to profitably sell products and/or services through our Internet website, to companies and the public. We intend to accomplish this through the following steps:

1. Having completed our public offering, we believe that we have raised sufficient capital to begin our operations, which we believe this could take up to 270 days to set-up.

2. We will establish our office and begin to acquire the equipment we need to commence operations, a process that we have started but is currently at a preliminary stage. On April 1, 2011, we terminated the office arrangements we had in Los Angeles and have established an office in Hong Kong at the offices of our majority shareholder, 7bridge Capital Management Limited. The office space dedicated to Surna is approximately 200 sq/ft and is taken on a month-to-month basis. The rental fee for this is Hong Kong dollars 5000 per month. As we did not raise \$150,000 or more we will not look to hire any full-time employees in the short-term.

3. We have spent time designing the website in the past but we believe that it will need to be redesigned if we are likely to be successful in promoting our products and services offerings. We expect this will cost between \$5,000 and \$10,000 for a site that services our minimum current requirements, and are currently exploring the best options for procuring these web design services, including from developers in Hong Kong and/or China, which we feel may be more cost-effective.

4. Marketing and advertising will be focused on promoting our website and software products. The advertising campaign may also include the design and printing of various sales materials. We intend to market our products and website through traditional sources such as advertising in magazines, billboards, telephone directories and preparing and sending out flyers and mailers both through the regular mail and via email. Advertising and promotion will be an ongoing effort but the initial cost of developing the campaign is estimated to cost between \$15,000 and \$35,000.

5. We intend to continue to develop our software. We anticipate spending between \$5,000 and \$20,000.

We anticipate that we will generate revenues as soon as we beginning providing services to customers. We will be conducting continuing research with respect to our software. We currently do not foresee any need to buy or lease significant equipment during the next twelve months.

If we cannot generate sufficient revenues to continue operations, we will suspend or cease operations. If we cease operations, we do not know what we will do and we do not have any plans to do anything.

We anticipate that we will generate revenues as soon as we beginning providing services to customers.

We will be conducting continuing research with respect to our software. We are not planning to buy or sell any plant or significant equipment during the next twelve months.

If we cannot generate sufficient revenues to continue operations, we will suspend or cease operations. If we cease operations, we do not know what we will do and we do not have any plans to do anything.

Limited operating history; need for additional capital

There is no historical financial information about us upon which to base an evaluation of our performance. We are in a start-up stage operations and have not generated any revenues. We cannot guarantee we will be successful in our business operations. Our business is subject to risks inherent in the establishment of a new business enterprise, including limited capital resources and possible cost overruns due to price and cost increases in services and products.

To become profitable and competitive, we have to locate and negotiate agreements with manufacturers to offer their products for sale to us at pricing that will enable us to establish and sell the products to our clientele at a profit. We are seeking equity financing to provide for the capital required to implement our operations.

We have no assurance that future financing will be available to us on acceptable terms. If financing is not available on satisfactory terms, we may be unable to continue, develop or expand our operations. Equity financing could result in additional dilution to existing shareholders.

Results of operations

From Inception on October 15, 2009 to May 31, 2011

During the period, we incorporated the company, hired the attorney, and hired the auditor for the preparation of this registration statement. We have prepared an internal business plan. We have reserved the domain names www.surna.com and www.surna.org and commenced construction of our web site. Our loss since inception is \$66,827 for legal fees and professional fees, initial software development services, bank charges, placement related expenses, brokerage fees and office rent. We have not started our proposed business operations and will not do so until we have completed this offering. We expect to begin operations 100 days after we complete this offering.

Since inception, we sold 15,000,000 shares of common stock to 7bridge Capital Management Limited for \$15,000. Beginning September, 2010 to November, 2010, the company placed out 835,000 shares at \$0.10 per shares to 51 new private shareholders and raised \$83,500 excluding expenses. Total common stock outstanding as of May 31, 2011 stands at 79,175,000 shares.

On May 16, 2011, we declared a stock dividend of 4 new shares for each 1 share held (5:1) with a record date of May 18, 2011. These additional shares were issued immediately after the record date.

On May 18, 2011 our Board of Directors approved an increase in authorized capital from 100,000,000 common shares to 350,000,000 common shares. This increase was approved by written consent of our majority shareholder, 7bridge Capital Management Limited, who holds approximately 94.72% of our common stock. All shareholders at the record date of May 18, 2011 were notified by mail of the increase in authorized capital when it became effective.

On May 1, 2011, Charlie Rodriguez was appointed principal financial officer and principal accounting officer. Mr. Rodriguez replaces T. C. Tan for those positions. Mr. Tan continues with the company as Vice President - China. Mr. Rodriguez was selected for the foregoing positions as a result of his past experiences with public companies. We have not yet entered into any compensation arrangements with Mr. Rodriguez.

For this quarter ending May 31, 2011, there is no revenue generated and total expenses incurred total \$13,618. The expenses consisted of professional legal fees and accounting and auditing expenses \$9,542, bank charges \$247, office and administrative expense of \$3,829. Comparing with quarter ending February 28, 2010 were professional fees \$2,000, bank charges \$0, office rental 501 and software development charge \$487, office and administrative expenses of \$294 totaling \$3,282.

On April 20, 2011, we entered into an agreement with Kopere Limited, a Hong Kong corporation, wherein we agreed to purchase certain personal property related to our business in consideration of \$40,000.

On June 20, 2011, we entered into a Debt Conversion Agreement with Kopere Limited wherein it was agreed that the cash payment of \$40,000 referred to in the above referenced agreement, would be converted into a payment by us to Kopere Limited of 200,000 restricted shares of common stock.

Prior to June 22, 2011, we received all of the personal property referenced in our agreement with Kopere Limited dated April 20, 2011. On June 22, 2011, we issued 200,000 restricted shares of common stock to Cherry Ping-Wai Lim, a member of our board of directors, as directed by Kopere Limited in full satisfaction of the agreement dated April 20, 2011 as revised by the Debt Conversion Agreement dated June 20, 2011. With Kopere Limited's action in delivering the personal property to us and our action in issuing and delivering the 200,000 restricted shares of common stock as directed by Kopere Limited, the foregoing agreements were fully performed and terminated as a matter of law.

Total assets as of May 31, 2011, were \$37,373 consisting of cash \$36,145, prepaid expenses \$1,228. Total liabilities stand at \$5,700, after repaying \$7,000 to 7bridge Capital Management, with the balance of outstanding shareholder loans amounting to \$5,700. Other total payables amount to nil.

Liquidity and capital resources

As of the date of this quarterly report, we have yet to generate any revenues from our business operations.

We issued 15,835,000 shares of common stock pursuant to the exemption from registration contained in Regulation S of the Securities Act of 1933. This was accounted for as a sale of common stock. On February 28, 2011, we completed our public offering and issued 4,175,000 shares of common stock.

As of May 31, 2011, our total assets were \$37,373 and our total liabilities were \$5,700.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 4. CONTROLS AND PROCEDURES.

Under the supervision and with the participation of our management, including the Principal Executive Officer and Principal Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on this Evaluation, our CEO and CFO concluded that our Disclosure Controls were not effective because of the identification of a material weakness in our internal control over financial reporting which is identified below, which we view as an integral part of our disclosure controls and procedures.

The material weakness relates to the monitoring and review of work performed by our limited accounting staff in the preparation of financial statements, footnotes and financial data provided to our independent registered public accounting firm in connection with the annual audit. More specifically, the material weakness in our internal control over financial reporting is due to the fact that:

- The Company lacks proper segregation of duties. We believe that the lack of proper segregation of duties is due to our limited resources.
- The Company does not have a comprehensive and formalized accounting and procedures manual.

There were no changes in our internal control over financial reporting during the quarter ended May 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

On August 26, 2010, our Form S-1 registration statement (SEC file no. 333-164578) was declared effective by the SEC. Pursuant to the Form S-1, we offered 750,000 shares minimum, 1,500,000 shares maximum at an offering price of \$0.10 per share in a direct public offering, without any involvement of underwriters or broker-dealers. On February 28, 2011, we completed our public offering by selling 835,000 shares of common stock and raising \$83,500. Since completion of our public offering, we have used the proceeds as follows:

Legal, professional fees and office expense	\$	34,830
Product Development	\$	0
Marketing and advertising	\$	0
Establishing an office	\$	525
Return Shareholder loan	\$	12,000
Working capital	\$	58,489
TOTAL	\$	83,500

ITEM 6. EXHIBITS.

The following documents are included herein:

Exhibit	Document Description	Incorporated by reference			Filed herewith
		Form	Date	Number	
3.1	Articles of Incorporation.	S-1	1/28/10	3.1	
3.2	Bylaws.	S-1	1/28/10	3.2	
3.3	Amended Articles of Incorporation.	8-K	6/16/11	3.3	
4.1	Specimen Stock Certificate.	S-1	1/28/10	4.1	
10.1	Asset Purchase Agreement – Kopere Limited.	8-K	4/28/11	10.1	
10.2	Debt Conversion Agreement.	8-K	6/23/11	10.1	
14.1	Code of Ethics.	10-K	2/28/11	14.1	
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
99.1	Audit Committee Charter.	10-K	2/28/11	99.2	
99.2	Disclosure Committee Charter.	10-K	2/28/11	99.3	

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following person on behalf of the Registrant and in the capacities on this 14th day of July, 2011.

SURNA INC.
(the "Registrant")

BY: RICHARD CLARKE
Richard Clarke
President, Principal Executive Officer and a
member of the Board of Directors

BY: CHARLIE RODRIGUEZ
Charlie Rodriguez
Principal Accounting Officer, Principal
Financial Officer and Treasurer

EXHIBIT INDEX

Exhibit	Document Description	Incorporated by reference			Filed herewith
		Form	Date	Number	
3.1	Articles of Incorporation.	S-1	1/28/10	3.1	
3.2	Bylaws.	S-1	1/28/10	3.2	
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31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
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32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
99.1	Audit Committee Charter.	10-K	2/28/11	99.2	
99.2	Disclosure Committee Charter.	10-K	2/28/11	99.3	

