

Surna Inc.
Form 10-Q
May 21, 2013

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 MARCH 31, 2013
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 333-164578

SURNA INC.

(Exact name of registrant as specified in its charter)

Nevada
*(State or other jurisdiction of
incorporation or organization)*

27-3911608
(I.R.S. Employer Identification No.)

**Suite S3, 414 Block B, Goldway Industrial Centre
2 Wing Kin Road, Kwai Tsing**

N/A

Hong Kong

(Address of principal executive offices)

(ZIP Code)

+852.3721.3668

(Registrant's telephone number, including area code)

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** **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** **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 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

(Do not check if a smaller reporting company)

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

SURNA INC.

Quarterly Report on Form 10-Q

For the Quarter ended 31 March, 2013

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AVAILABLE INFORMATION

Surna Inc. files annual, quarterly and current reports and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including Morgan Stanley) file electronically with the SEC. Surna's electronic SEC filings are available to the public at the SEC's internet site, www.sec.gov.

Surna's internet site is surna.com. You can access the Company's Investor Relations webpage at surna.com/index/investors and Corporate Governance webpage at governance.surna.com. Surna posts the following on its Corporate Governance webpage:

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Code of Ethics

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Charter for our Audit Committee

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Charter for our Disclosure Committee

Surna's Code of Ethics applies to all directors, officers and employees, including its Chief Executive Officer, its Chief Financial Officer and its Controller and Principal Accounting Officer. Surna will post any amendments to the Code of Ethics on its internet site. The information on Surna's internet site is not incorporated by reference into this report.

CERTAIN CONVENTIONS

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

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China or PRC refers to the People's Republic of China, and excludes Hong Kong, Macau and Taiwan;

we, us, our company and our refer to Surna Inc., and, unless the context requires otherwise, its wholly-owned subsidiaries, including Surna Media Inc., a British Virgin Islands company, Surna Hongkong Limited, a Hong Kong company, and Flying Cloud Information Technology Co. Ltd., a PRC company.

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, estimate, is/are likely to or other similar expressions. The accuracy of these statements may be impacted by a number of risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, the following:

We have limited financial resources and accordingly may not be able to continue to operate as a going concern unless we obtain additional financing;

Our lack of resources may make it difficult or impossible to stabilize and strengthen our position as an online game developer in China;

We may not be successful in our efforts to develop and launch additional online games;

Our various initiatives to implement our business strategies may not prove successful despite the costs incurred to pursue them;

Our competitors have significantly more resources than we do, and as a result we might not be able to compete successfully;

The regulatory environment in China and other countries relating to the Internet and Internet content providers, including online game developers and operators, may hinder or impair our ability to conduct our online gaming business as we intend; and

These risks are not exhaustive. We operate in an emerging and evolving environment. New risk factors emerge from time to time and it is impossible for our management to predict all risk factors, 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 of this annual report to differ materially from those contained in any forward-looking statement.

We would like to caution you not to place undue reliance on forward-looking statements and you should read these statements in conjunction with the risk factors disclosed under Item 1A. Risk Factors of our last annual report. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS.**

Surna Inc.

Condensed Consolidated Balance Sheets

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets		
Cash	\$ 1,203	\$ 1,197
Accounts receivable	22	-
Prepaid expenses	-	250
Total Current Assets	1,225	1,447
Equipment, net of accumulated depreciation	13,335	16,668
TOTAL ASSETS	\$ 14,560	\$ 18,115
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Accrued liabilities	\$ 80,893	\$ 83,509
Amounts due to related parties	2,466,224	2,371,861
Total Current Liabilities	2,547,117	2,455,370
TOTAL LIABILITIES	2,547,117	2,455,370
STOCKHOLDERS DEFICIT		
Preferred stock, \$0.00001 par value; 150,000,000 shares authorized;	-	-
0 shares issued and outstanding		
Common stock, \$0.00001 par value; 350,000,000 shares authorized;	994	994
99,375,000 issued and outstanding		
Paid in capital	148,507	148,507
Accumulated other comprehensive loss	(7,438)	(4,304)
Accumulated deficit	(2,674,620)	(2,582,452)

Total Stockholders' Deficit		(2,532,557)		(2,437,255)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$	14,560	\$	18,115

Please see accompanying notes to these unaudited condensed consolidated financial statements

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Surna Inc.

Condensed Consolidated Statement of Operations and Comprehensive Income

(Unaudited)

	Three months ended	
	March 31,	March 31,
	2013	2012
Revenue	\$ 22	\$ 47,831
Cost of revenue	-	-
Gross margin	22	47,831
Operating Expenses:		
Depreciation expenses	3,333	3,333
Product development cost	-	17,433
General and administrative expenses	88,858	188,984
Total operating expenses	92,191	209,750
Operating loss	(92,168)	(161,919)
Other income (expenses):		
Other expense	-	-
Loss from continuing operations before provision for income taxes	(92,168)	(161,919)
Provision for income taxes	-	-
Loss from continuing operations	(92,168)	(161,919)
Income from discontinued operations	-	11,607
Net loss	(92,168)	(150,312)
Comprehensive loss:		
Net loss	(92,168)	(150,312)
Foreign currency translation loss	(3,134)	(50)
Comprehensive loss	\$ (95,302)	\$ (150,362)
Loss per common share from continuing operations - basic and diluted	(\$0.00)	(\$0.00)
Income per common share from discontinued operations - basic and diluted	\$0.00	\$0.00
Net loss per common share - basic and diluted	(\$0.00)	(\$0.00)
Weighted average number of common shares outstanding, basic and diluted	99,375,000	99,375,000

Please see accompanying notes to these unaudited condensed consolidated financial statements.

Surna Inc.

Condensed Consolidated Statement of Cash Flows

(Unaudited)

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (92,168)	\$ (150,312)
Income from discontinued operations	-	11,607
Loss from continuing operations	(92,168)	(161,919)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation expense	3,333	3,333
Changes in operating assets and liabilities:		
Accounts receivable	(22)	(47,906)
Prepaid expenses	250	565
Accrued liabilities	(2,616)	(4,237)
Amount due to related parties	94,363	200,981
Cash provided by (used in) operating activities of continuing operations	3,139	(709)
Cash (used in) operating activities of discontinued operations	-	(53)
Net cash provided by (used in) operating activities	3,139	(762)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash flow used in investing activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash provided by financing activities	-	-
Effect of exchange rate changes on cash	(3,133)	(50)
Net increase (decrease) in cash	6	(812)
Cash, beginning of period	1,197	2,798
Cash, end of period	\$ 1,203	\$ 1,986
Supplementary disclosure of cash flow information		
Cash paid for interest	\$ -	\$ -
Cash paid of income tax	\$ -	\$ -

Please see accompanying notes to these unaudited condensed consolidated financial statements.

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Surna Inc.

Notes to Condensed Consolidated Financial Statements

March 31, 2013 and 2012

(Unaudited)

NOTE 1 - NATURE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Company

Surna Inc. was incorporated in the State of Nevada on October 15, 2009. From September through November 2010, the company placed 4,175,000 shares to 51 individuals at \$0.02 per shares and raised \$83,500 excluding expenses. On May 16, 2011 a stock dividend of 4 new shares for each 1 share held was declared, with a record date of May 18, 2011. On May 18, 2011 authorized capital was increased from 100,000,000 common shares to 350,000,000 common shares. On September 1, 2011, Surna Inc. entered the online game development business by acquiring Surna Media Inc. and its operating subsidiaries Surna Hongkong Limited and Flying Cloud Information Technology Co. Ltd. through the issuance of 20,000,000 common shares.

Qoo Games Limited was incorporated in Hong Kong on February 21, 2012. It was intended that this company operate as the publisher of mobile games, including for the iOS and Android operating systems, but to-date it has not commenced operations.

Basis of presentation

The accounting policies and methods followed in preparing these unaudited condensed consolidated financial statements are those used by Surna Inc. (the Company) as described in Note 1 of the notes to consolidated financial statements included in the Annual Report on Form 10-K. The unaudited condensed consolidated financial statements for the three-months ended March 31, 2013 and 2012 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 do not conform in all respects to the disclosure and information that is required for annual consolidated financial statements. Operating results for the three month period presented are not necessarily indicative of the results that may be expected for any other interim period or for the full year. The balance sheet at December 31, 2012 has been derived from audited financial statements. These interim consolidated financial statements should be read in conjunction with the most recent 10-K form of the Company filed on April 16, 2013.

In opinion of management, all adjustments, all of which are of a normal recurring nature, considered necessary for fair statement have been included in these interim consolidated financial statements.

Basis of Consolidation

The unaudited condensed consolidation financial statements include the accounts of the Company and its subsidiaries, including Surna Media Inc, Surna Hongkong Limited, and Flying Cloud InfoTech Co. Ltd. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to amounts in prior periods to conform with the current period presentation. All reclassifications have been applied consistently to the periods presented.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives.

Revenue Recognition

The Company provides software development services related to online games in current fiscal year. Based on ASC 985-605-25-3 Software Not Requiring Significant Production, Modification, or Customization, revenue is recognized when persuasive evidence of an arrangement exists, delivery of services has occurred, the service fee is fixed or determinable and the collectability is reasonably assured.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at invoiced amount and generally do not bear interest. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include growth and composition of accounts receivable, the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. The determination of the collectability of amounts due from customer accounts requires the Company to

make judgments regarding future events and trends. Allowances for doubtful accounts are determined based on assessing the Company's portfolio on an individual customer and on an overall basis. This process consists of a review of historical collection experience, current aging status of the customer accounts, and the financial condition of Surna Inc.'s customers. Based on a review of these factors, the Company establishes or adjusts the allowance for specific customers and the accounts receivable portfolio as a whole. At March 31, 2013 and December 31, 2012, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

Concentration of Credit Risk

Financial instruments that potentially subject Surna Inc. to concentration of credit risk consist of cash and accounts receivable. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, for the two-year period of January 1, 2011 through December 31, 2012, cash balances in noninterest-bearing transaction accounts at all FDIC-insured depository institutions are provided temporary unlimited deposit insurance coverage. At March 31, 2013, cash balances in interest-bearing accounts are zero.

Sales to customers via Apple's AppStore comprised 100% of Surna Inc.'s revenues of \$22 for the three months ended March 31, 2013. At March 31, 2013, Surna Inc.'s accounts receivable from its primary customer was \$22. Surna Inc. believes that, in the event that its primary customer is unable or unwilling to continue to purchase Surna Inc.'s production, there are a substantial number of alternative buyers for its production at comparable prices.

Foreign Currency Translation

The Company translates the foreign currency financial statements into US Dollars using the year or reporting period end or average exchange rates in accordance with the requirements of Accounting Standards Codification subtopic 830-10, Foreign Currency Matters (ASC 830-10). Assets and liabilities of these subsidiaries were translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates in effect for the periods presented. The cumulative translation adjustment is included in the accumulated other comprehensive gain (loss) within shareholders' equity (deficit). Foreign currency transaction gains and losses arising from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the unaudited condensed consolidated results of operations.

Functional Currency

The functional currency of the Company is the United States Dollars (USD). The functional currency of the Company's operating subsidiary, Surna HK, is the Hong Kong Dollar (HKD). The functional currency of the Surna HK's operating subsidiary in PRC, Flying Cloud, is the Renminbi (RMB), the PRC's currency. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income (loss) for the respective periods.

For financial reporting purposes, the consolidated financial statements of the Company are translated into the Company's reporting currency, United States Dollars (USD). Balance sheet accounts are translated using the closing exchange rate in effect at the balance sheet date and income and expense accounts are translated using the average exchange rate prevailing during the reporting period.

The exchange rates used to translate amounts in HKD and RMB into USD for the purposes of preparing the consolidated financial statements were as follows:

	March 31, 2013	March 31, 2012
Period-end HKD: USD exchange rate	\$ 7.80	\$ 7.80
Average Period HKD: USD exchange rate	\$ 7.80	\$ 7.80
Period-end RMB: USD exchange rate	\$ 6.27	\$ 6.31
Average Period RMB: USD exchange rate	\$ 6.28	\$ 6.30

Comprehensive Income (Loss)

The Company adopted Accounting Standards Codification subtopic 220-10, Comprehensive Income (ASC 220-10) which establishes standards for the reporting and displaying of comprehensive income (loss) and its components. Comprehensive income (loss) is defined as the change in stockholders' equity (deficit) of a business during a period from transactions and other events and circumstances from non-owners sources. It includes all changes in stockholders' equity (deficit) during a period except those resulting from investments by owners and distributions to owners. ASC 220-10 requires other comprehensive income (loss) to include foreign currency translation adjustments and unrealized gains and losses on available for sale securities.

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Recent Accounting Pronouncements

There were various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's condensed consolidated financial position, results of operations or cash flows.

NOTE 2 - GOING CONCERN

The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company currently has \$2,545,892 working capital deficit (current liabilities exceeds current assets), minimal sources of recurring revenue and has generated cumulative net losses of \$2,674,620 during the period from inception through March 31, 2013.

In the course of its development activities, the Company has sustained and continues to sustain losses. The Company cannot predict if and when the Company will generate profits. The Company expects to finance its operations primarily through debt or equity financing.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent on its ability to meet its obligations, to obtain additional financing as may be required until such time as it can generate sources of recurring revenues and to ultimately attain profitability. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 - CHANGE IN FISCAL YEAR-END

On March 19, 2012, the Board of Directors approved a change to our fiscal year end from November 30 to December 31 of each year. With the change effective this 2012 fiscal year, which will now end December 31, 2012, there is a one fiscal month transition period covering the fiscal month of December 2011. Results for this transition period are reported in the Quarterly Report commencing the first fiscal quarter ended March 31, 2012 along with the results for the new fiscal quarters in 2012. Notice of the Company's election of a change in fiscal year was made on Form 8-K, which was filed on March 20, 2012.

NOTE 4 - DISCONTINUED OPERATIONS

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On March 27, 2012, Surna Inc. sold Surna Networks Inc. and Surna Networks Limited to CHAN Kam Ming for a total sales price of US\$1. Surna Inc. assumed liabilities of Surna Networks Inc. and Surna Networks Limited of US\$9,286. Surna Networks Inc. was incorporated on July 19, 2011 and Surna Networks Limited was incorporated on August 2, 2011.

The results of discontinued operations of Surna Networks for the three month ended March 31, 2013 and 2012 are summarized as below:

	Surna Networks, Inc. (USD)		Surna Networks Limited (USD)	
	Three Months Ended	Three Months Ended	Three Months Ended	Three Month Ended
	03/31/2013	03/31/2012	03/31/2013	03/31/2012
Revenue	\$ -	\$ -	\$ -	\$ 44,433
Cost of Revenue	-	-	-	(31,323)
General& Administrative	-	-	-	-