

Surna Inc.
Form 10-Q
April 14, 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 FEBRUARY 28, 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)

2nd Floor, 1901 Avenue of the Stars
Los Angeles, CA 90067
(Address of principal executive offices, including zip code)

213-985-1939
(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," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large Accelerated Filer
Non-accelerated Filer
(Do not check if smaller reporting company)

Accelerated Filer
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: 15,835,000 as of April 13, 2011.

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PART I. FINANCIAL INFORMATION

ITEM 1. INTERIM FINANCIAL STATEMENTS.

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

| | February 28, 2011 | November 30, 2010 |
|---|----------------------|-------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 58,489 | \$ 73,314 |
| Prepaid Expenses | 1,228 | 3,211 |
| Total Current Assets | 59,717 | 76,525 |
| TOTAL ASSETS | \$ 59,717 | \$ 76,525 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts Payable & Accrued liabilities | \$ 1,726 | \$ 51 |
| Advance from Related Party | 12,700 | 17,700 |
| TOTAL LIABILITIES | 14,426 | 17,751 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, \$0.0001 par value, 100,000,000 shares authorized, - shares issued and outstanding | - | - |
| Common stock, \$0.00001 par value; 100,000,000 shares authorized, 15,835,000 shares issued and outstanding | 158 | 158 |
| Additional paid-in capital | 98,342 | 98,342 |
| Deficit accumulated during the development stage | (53,209) | (39,726) |
| TOTAL STOCKHOLDERS' Equity | 45,291 | 58,744 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 59,717 | \$ 76,525 |

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

| | Three Months Ended February 28, 2011 | Three Months Ended February 28, 2010 | Inception (October 15, 2009) to February 28, 2011 |
|------------------------------------|--|--|---|
| EXPENSES | | | |
| Professional fees | \$ 9,571 | \$ 2,500 | \$ 40,916 |
| Transfer Agents and brokerage fees | 1,452 | - | 2,452 |
| Bank service charge | 102 | 25 | 594 |
| Rent Expense | 525 | 200 | 1,914 |
| Placement expense | - | - | 253 |
| Licenses and Permits | - | - | 550 |
| Software Development | 1,833 | 3,319 | 6,497 |
| Office Admin Expense | - | - | 33 |
| Total Expenses | \$ 13,483 | \$ 6,044 | \$ 53,209 |
| LOSS FROM OPERATIONS | \$ (13,483) | \$ (6,044) | \$ (53,209) |
| NET LOSS | \$ (13,483) | \$ (6,044) | \$ (53,209) |
| BASIC AND DILUTED NET LOSS | | | |
| PER SHARE | (0.00) | (0.00) | |
| WEIGHTED AVERAGE NUMBER OF | | | |
| COMMON SHARES OUTSTANDING, | | | |
| BASIC AND DILUTED | 15,835,000 | 15,000,000 | |

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

| | Three Months Ended February 28, 2011 | Three Months Ended February 28, 2010 | Inception (October 15, 2009) to February 28, 2011 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss | \$ (13,483) | \$ (6,044) | \$ (53,209) |
| Adjustments to reconcile net loss to cash used by operating activities: | | | |
| Net change in: | | | |
| Prepaid expenses and other current assets | 1,983 | (3,706) | (978) |
| Rent Deposit | - | (250) | (250) |
| Accounts payable | 1,675 | - | 1,726 |
| NET CASH USED BY OPERATING ACTIVITIES | (9,825) | (10,000) | (52,711) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Shareholders Loan from 7bridge Capital Management | (5,000) | 10,000 | 12,700 |
| Proceeds from Placement of stocks | | | 98,500 |
| CASH FLOWS PROVIDED BY FINANCING ACTIVITIES | (5,000) | 10,000 | 111,200 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | (14,825) | - | 58,489 |
| Cash and cash equivalents, beginning of period | 73,314 | - | - |
| Cash and cash equivalents, end of period | \$ 58,489 | \$ - | \$ 58,489 |

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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 February 28, 2011 of \$53,209. 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 February 28, 2011, 7bridge Capital Management advanced Surna cash with a balance of \$12,700. This advance is non-interest bearing, unsecured and due on demand.

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. Even if we raise the maximum amount of money in this offering, we do not know how long the money will last, however, we do believe it will last twelve months. We will not begin operations until we raise money from this offering.

We believe that we have raised enough money through this 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 this 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 this 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. If we raise the minimum amount of money from this offering, it will last a year but with limited funds available to develop growth strategy. If we raise the maximum amount, we believe the money will last a year and also provide funds for growth strategy.

As we raised less than the maximum amount in our public offering, we may need to obtain additional money through further fund raising activities. Other than as described in this paragraph, we have no other financing plans.

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. We have allocated \$10,000 for the initial setup of the office. 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 going 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 February 28, 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 \$53,209 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 stocks as of February 28, 2011 stands at 15,835,000.

For this quarter ending February 28, 2011, there is no revenue generated and total expenses incurred total \$13,483. The expenses consisted of professional legal fees and accounting and auditing expenses \$9,571, transfer and brokerage fees \$1,452, bank charges \$102, office rental \$525 and software development expenses \$1,833. Comparing with quarter ending February 28, 2010 were professional fees \$2,500, bank charges \$25, office rental 200 and software development charge \$3,319; totaling \$6,044.

Total asset as of February 28, 2011 was \$59,717 made up of cash \$58,489 and prepaid expenses \$1,228.

Total liabilities stand at \$14,426 after prepaying \$5,000 to 7 bridge capital with balance outstanding shareholder loans amounting to \$12,700. Other total payables amount to \$1,726.

Liquidity and capital resources

As of the date of this prospectus, 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.

As of February 28, 2011, our total assets were \$59,717 and our total liabilities were \$14,426.

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 February 28, 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. As of 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:

| | | |
|---------------------------|-----------|------------|
| Website development | \$ | 0 |
| Product Development | \$ | 0 |
| Marketing and advertising | \$ | 0 |
| Establishing an office | \$ | 525 |
| Salaries | \$ | 0 |
| Working capital | \$ | 0 |
| TOTAL | \$ | 525 |

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 | |
| 4.1 | Specimen Stock Certificate. | S-1 | 1/28/10 | 4.1 | |
| 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 |
| 99.2 | Audit Committee Charter. | 10-K | 2/28/11 | 99.2 | |
| 99.3 | 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 13th day of April, 2011

SURNA INC.
(the "Registrant")

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

BY: T. C. TAN
T. C. Tan
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 | |
| 4.1 | Specimen Stock Certificate. | S-1 | 1/28/10 | 4.1 | |
| 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 |
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| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 99.2 | Audit Committee Charter. | 10-K | 2/28/11 | 99.2 | |
| 99.3 | Disclosure Committee Charter. | 10-K | 2/28/11 | 99.3 | |

