
U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

☒ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 0-23590

SUPER VISION INTERNATIONAL, INC.

(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

DELAWARE

(State or other Jurisdiction of Incorporation or Organization)

59-3046866

(I.R.S. Employer Identification No.)

9400-200 SOUTHRIDGE PARK COURT, ORLANDO, FLORIDA 32819

(Address of Principal Executive Offices) (Zip Code)

(407) 857-9900

(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12 (b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, \$.001 par value	The NASDAQ Stock Market LLC (NASDAQ Capital Market)

Securities registered under Section 12(g) of the Exchange Act: None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ☐

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 ☐

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☐

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

The issuer's revenues for its most recent fiscal year were: \$11,001,011.

The aggregate market value of the voting and non-voting common equity of the Registrant held by non-affiliates of the Registrant computed by reference to the last sale price at which the stock was sold on March 28, 2007 was \$9,386,644.

As of March 28, 2007, there were issued and outstanding: 6,701,556 shares of Class A Common Stock, \$.001 par value.

Transitional Small Business Disclosure form (check one):

Yes ☐ No ☒

Documents Incorporated by Reference:

Portions of the Company's definitive proxy statement in connection with its Annual Meeting of Stockholders are incorporated by reference in Part III of this Report on Form 10-KSB. The Company's definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after December 31, 2006.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information contained in this Annual Report on Form 10-KSB, other than historical information, may include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the “Act”) provides certain “safe harbor” provisions for forward-looking statements. All forward-looking statements made in this Annual Report on Form 10-KSB are made pursuant to the Act. Words such as “may,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “continue,” “plan” and similar expressions in this report identify forward-looking statements. The forward-looking statements are based on current views with respect to future events and financial performance. Actual results may differ materially from those projected in the forward-looking statements. The forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things those:

- associated with the relative success of sales, marketing and product development;
- competition, including price competition;
- general economic and business conditions; and
- terrorist activities and the prospect of or the actuality of war

The factors listed under the caption “Factors That May Affect Future Results and Market Price of Stock” in the “Management’s Discussion and Analysis or Plan of Operation” section of this report as well as any other cautionary language in this report, provide examples of risks, uncertainties and events which may cause our actual results to differ materially from the expectations we described in our forward-looking statements. We do not undertake any obligation to publicly release the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I

Item 1. *Description of Business.*

GENERAL

On March 1, 2007, Super Vision International, Inc. announced that it was changing its name to Nexxus Lighting, Inc. effective in April 2007. The name change symbolizes a significant shift in the strategic direction and market focus of the company. This significant shift is designed to capitalize on the emerging market for advanced lighting technology, including Light Emitting Diode (LED) lighting systems and controls as a replacement for conventional incandescent lighting systems for general lighting applications. The Company will focus its resources on designing, manufacturing, marketing and selling new LED lighting products and systems as well as enhancing its fiber optic lighting product line for use in commercial, architectural, signage, swimming pool and OEM lighting applications.

The Company derives its revenues primarily from sales of Savi® brand LED lighting systems and controls including its Digital Lighting System™ (DLS), FlexLED™ and BorderLight™ lighting products, power supplies and control systems. The Company also derives a significant percentage of its revenues from sales of SIDE-GLOW® and END-GLOW® fiber optic lighting cables, and fiber optic lighting sources, accessories, endpoint signs and displays. The Company also designs, manufactures, markets and sells LED and fiber optically lit waterfalls and water features under the Oasis™ water features brand. The Company markets and distributes its products globally primarily through multiple networks of independent sales representatives and distributors.

The Company was incorporated in Delaware on December 16, 1993 and is the successor by merger to a Florida corporation of the same name, which was incorporated in January 1991. Effective April 1, 2007, the Company’s executive offices were relocated to its new manufacturing facility at 9400-200 Southridge Park

Court, Orlando, FL 32819. The Company's telephone number is (407) 857-9900. References in this report to "Super Vision," "Nexus Lighting," the "Company," "we," "us," and "our" refer to Super Vision International, Inc., a Delaware corporation.

PRODUCTS AND SERVICES

LED LIGHTING SYSTEMS

During 2001, the Company introduced its first line of lighting products using Light-Emitting-Diode (LED) technology for signs, lighting strips, swimming pools and spas and architectural lighting. We believe that LED technology has many benefits over conventional incandescent, halogen and fluorescent light sources, including much longer life and lower energy consumption. The energy efficient nature of LED technology makes it a "green" or environmentally friendly light source, and the compact size of LED's has created new possibilities in lighting fixture design. Our Flex-LED™ and BorderLight™ products were designed to reduce sign and display lighting costs through lower energy consumption and lower maintenance and service costs. LED's are solid-state semiconductors and, due to their robust design, LED lighting products can last up to 100,000 hours or twelve years of continuous operation vs. only 1000-2000 hours for incandescent and halogen light sources. LED's typically consume only 25-40% of the energy to produce the same amount of usable light with less heat as compared to incandescent and halogen light sources. The Company's FlexLED™ strip and BorderLight™ products are low voltage and are available in a variety of monochromatic colors and are up to 70% more energy efficient than incandescent or neon. These products are relatively easy to install, not requiring any special training or skills.

In addition to its sign lighting products, in 2002, Super Vision introduced a new line of RGB (Red, Blue, and Green) color changing LED replacement light bulbs for the pool and spa markets. The Galaxy Pool Light and AGS products provide a range of colors and preprogrammed effects which can be triggered by the flip of a light switch. In 2004, we expanded our LED product line to include a new modular Digital Lighting System (DLS) to service the portable above ground spa market. We have applied for a patent on this new technology and have added several additional products to enhance the DLS product line including an LED lit waterfall and an audio system interface. In the 4th quarter of 2006, we introduced a new and improved version of the system called DLS-2 and we continue to explore expanded applications for the product platform.

Savi® – ARCHITECTURAL LED LIGHTING

In mid-2004, we began the strategic development of a new line of dramatic color changing, energy efficient LED lighting products targeted at the commercial/architectural lighting market. Introduced in the 2nd quarter of 2005, the Savi® Flood, Savi® Spot, Savi® Tube, Savi® Accent, Savi® Step Light, Savi® Flood Strip, and Savi® 512 DMX control system were the first products offered as part of our new Savi® brand. Sales of our new Savi® products generated approximately \$1,158,000 of revenue in 2006 compared to approximately \$593,000 in 2005. In March 2006, we began production on the new Savi™ SHO (Super High Output) light at our facility in Orlando, Florida. The Savi® SHO is a new 90-watt super high output RGB LED flood light that is based on state-of-the-art high density array LED technology. We believe the Savi® SHO is optically superior to other competitive LED products in the market. In the summer of 2006, we added new Savi® Pool and Spa lighting products that also feature this new high-density array technology, and in the 1st Quarter of 2007 we introduced the Savi® Note to provide a new patented "niche-less" LED lighting solution for the pool and spa lighting market.

In addition to our expanded line of LED lighting fixtures, in January 2007 we introduced a new comprehensive line of LED light bulbs to replace conventional incandescent and halogen light bulbs in commercial "white light" applications. The new Savi® LED line of light bulbs feature, MR16, R16, R20, R25 and R30 designs in addition to several globe and accent light bulbs that last up to 50,000 hours and consume 75% less energy than incandescent bulbs. Unlike compact fluorescent lamps, the Savi® LED line of bulbs contain no mercury and create no disposal hazard.

In 2006, we also invested in the design, development and tooling of several additional LED products that we expect to introduce in 2007. Under the new Nexxus Lighting vision of “connecting advanced technology with light,” we plan to expand our product development efforts for general “white light” LED applications. As the technology continues to improve, we expect to be able to provide cost effective lighting solutions that save energy and meet commercial specification grade requirements. The Company owns or has been issued three U.S. Patents related to its LED technology and has six (6) patent applications pending, with additional applications planned for 2007.

Revenue from sales of LED lighting systems and control products accounted for approximately 50% of our sales in 2006 as compared to approximately 49% in 2005. Sales of fiber optic lighting systems accounted for approximately 45% of the Company’s revenue in 2006 as compared to approximately 47% in 2005. The balance of our revenue came from sales of our Oasis™ waterfall and water feature line of products. We believe that our LED product lines are still in their growth mode and offer significant revenue potential for both the commercial/architectural and pool and spa lighting markets.

SIDE-GLOW® AND END GLOW® CABLES

Our *SIDE-GLOW®* fiber optic lighting cables utilize a patented center core in the manufacturing process to produce a plastic cable which, when used in conjunction with a halogen, metal-halide or Light Emitting Diode (LED) light source emits light along its entire length. We market *SIDE-GLOW®* cable as an alternative to neon lighting for indoor and outdoor architectural accents and large signs and displays. The *SIDE-GLOW®* fiber optic lighting cable is flexible and easy to install and is not prone to the breakage associated with glass neon tubes. The *SIDE-GLOW®* fiber optic lighting cable is energy efficient, providing significant savings in electrical costs. In addition, unlike neon, which remains a constant color, the use of certain light sources allows the fiber optic cable to change colors. While, in general, fiber optic lighting products cannot achieve neon’s level of brightness and are generally more costly to purchase and install, we believe the benefits of *SIDE-GLOW®* cable outweigh these factors for certain segments of the current neon market. In addition, the cables can be combined with standard or custom manufactured light sources and control systems to create color changing patterns and unique lighting systems. The cables are offered in a variety of diameters with a wide range of light sources.

END GLOW® cables are utilized to transmit pure, ultra violet and heat free light from a remote light source to the object or area being lit. We market *END GLOW®* cables in conjunction with a complete line of light sources and lighting accessories for a variety of applications including swimming pool and spa lighting, accent and display case lighting and residential landscape lighting. *END GLOW®* cables allow for unique lighting of areas or objects with the added benefits of fiber optics. Utilizing our state of the art fiber optic cabling system, we are able to custom manufacture *END GLOW®* cables to user specifications, delivering the required amount of light to the object at the most affordable cost.

LIGHT SOURCES

Super Vision manufactures a variety of light sources used in conjunction with its *SIDE-GLOW®* and *END GLOW®* fiber optic cables and lighting accessories to create complete lighting systems. Each line of light sources was created to meet specific market needs and applications. The light sources are manufactured to meet the standards established by Underwriters Laboratories and comparable certifying bodies worldwide. We currently manufacture numerous standard light sources for the following: endpoint fiber optic applications and certain *SIDE-GLOW®* applications; swimming pool and residential applications; display case and interior theme lighting industries; and commercial lighting and signage. We also manufacture a wide variety of custom light sources for specific market applications based on customer lighting needs.

We utilize several control systems with our light sources to allow for customization of lighting systems. All of the Company’s light sources are designed to accept a variety of unique controller options, allowing the basic light sources to meet a wide variety of market needs. Multiple light sources can be sequenced using industry standard DMX control systems to create special lighting effects.

SIDE-GLOW® and *END GLOW*® cable products and their required light sources represented approximately 45% of our total revenue in 2006 compared to 47% in the prior year. We expect that revenue from our fiber optic and light source product lines will continue to decrease as a percentage of sales as revenue from our new LED product lines continues to increase at a faster pace. We believe that maintaining a competitively priced and commercially superior line of fiber optic cable and light sources is critical to maintaining market share in currently served markets and vital to penetrating new markets around the world.

WATERFALLS

The company designs, manufactures, markets and sells LED and fiber optically lit waterfalls and water features primarily used in swimming pools and spas, through its Oasis™ brand. During 2006 revenue from the sale of Oasis™ waterfall and water feature products accounted for approximately 5% of the Company's total revenue as compared to 4% in 2005.

SALES AND MARKETING

The Company's products are utilized in a wide variety of applications; consequently, we utilize several unique marketing channels and strategies to address targeted users.

COMMERCIAL (Architectural and Sign Lighting):

We currently market and distribute our LED and fiber optic lighting products and systems through a network of approximately 80 individual lighting agencies covering the United States and Canada. These independent lighting agencies provide assistance in the lighting specification process, provide local customer and project management support and direct the customer to purchase products from Super Vision. The independent lighting agencies are paid on a commission basis. We also sell our FlexLED™ and BorderLight™ products directly to local sign lighting manufacturers and distributors as well as select national accounts.

POOLS AND SPAS

We market and sell our lighting products in the swimming pool and spa market to pool and spa distributors and pool builders through a network of independent manufacturer's representatives. We believe this distribution channel allows us to better serve our customers as well as offer new services such as the bundling of product and installation. In 2006, we focused our efforts on expanding the breadth of products offered to the pool and spa market and developed new marketing tools to drive sales in 2007. With the introduction of the Savi® pool and spa lighting products and our new Savi® Note product line, we believe that this market segment represents a unique and significant growth opportunity and is an excellent fit with our technology and intellectual property platform.

INTERNATIONAL

International sales are derived from the Company's exclusive and non-exclusive marketing and sales arrangements with leading lighting/electrical distributors in international territories. The Company provides technical expertise and limited marketing support, while its independent international distributors provide sales staff, local marketing, and product service. The Company believes its international distributors are better able to service international markets due to their understanding of local market conditions and best business practices.

MANUFACTURING AND SUPPLIERS

All fiber optic strands used in our endpoint signs and displays, as well as in the production of our *SIDE-GLOW*® and *END GLOW*® cables, are purchased from a key Japanese supplier. Purchases from this Japanese supplier represented approximately 9% and 15% of total inventory purchases for the years ended December 31, 2006 and 2005, respectively. While we believe there are alternative sources for the fiber optic strands used in the

production of our endpoint signs and displays, we believe our *SIDE-GLOW*® and *END GLOW*® cables require fiber optic material of a higher quality than is generally available elsewhere. The loss of this supplier or delays in obtaining shipments could have a material adverse effect on our operations until such time as an alternative supplier could be found.

All LED's used in the manufacture of our LED lighting products and systems are purchased from various companies in Asia and in the US. Approximately 86% of all purchases related to LED lighting products and systems were purchased from six suppliers in the year ended December 31, 2006 compared to approximately 80% of all purchases related to LED lighting products and systems purchased from three suppliers in the year ended December 31, 2005. The loss of these suppliers or delays in obtaining shipments could have a material adverse effect on our operations until such time as alternative suppliers could be identified.

We use customized cabling and extrusion equipment to internally produce our *SIDE-GLOW*® and *END GLOW*® cables. Monitoring and revising the manufacturing process when required, has allowed us to increase quality, improve capabilities and maintain process control. In the event the cabling and extrusion equipment is ever disabled for any significant period of time, we could outsource the manufacturing of our products.

We manufacture most of the light sources and control systems used with our *SIDE-GLOW*® and *END GLOW*® cables and endpoint signs and displays in our facility in Orlando, Florida. The designs of the light sources are considered proprietary, and we have U.S. patents issued with respect to certain designs. All endpoint signs and displays are manufactured by the Company based on the clients' specifications, or designed jointly by our design personnel and our client. We believe our ability to offer a full range of products, and design, engineering and support services, are unique in the market place, and are important to our future growth.

Several of our LED and fiber optic lighting systems and products are produced by overseas contract manufacturers in an effort to reduce production costs. Total purchases from contract manufacturers based in China and Taiwan were approximately 50% and 37% of total inventory purchases for the years ended December 31, 2006 and 2005, respectively. While we believe alternative sources for the production of these products are available, we have selected certain suppliers based on their ability to consistently produce these products per our specifications ensuring the best quality product at the most cost effective price. The Company depends on these suppliers to satisfy performance and quality specifications and to dedicate sufficient production capacity for finished products within scheduled delivery times. Accordingly, the loss of these suppliers or delays in obtaining shipments could have a material adverse effect on the Company's operations until such time as new alternative suppliers could be found.

Effective April 1, 2007 the Company relocated its Orlando, FL manufacturing operations to a new, approximately 34,000 sq. ft., facility located at 9400 Southridge Park Court, Suite 200, Orlando, FL 32819. Moving to the new facility allowed the Company to reduce its monthly rent payment by over \$30,000 and to reconfigure the manufacturing and distribution space for optimum material flow and productivity.

RESEARCH AND PRODUCT DEVELOPMENT

The Company constantly strives to enhance our existing products. We also plan to develop additional products and identify new markets and distribution channels. We believe that our ability to improve existing products, rapidly introduce new products to fill identified needs, and design solutions for custom applications is critical to our growth. We believe that our responsiveness to the market is an important differentiating factor for the company and we plan to continue to provide rapid response to market trends. The Company has expanded its strategic alliances to offer sourced OEM products designed to exact specifications to increase the rate of product introduction and provide a broader product platform for selling our products. The increasing market for LED lighting products in general may attract larger companies into the market with more capital and technical personnel than the Company currently employs. Accordingly, we plan to continue to explore joint product development activities with our marketing partners to maintain our competitive advantage and defend our market

position. In addition, the Company plans to explore potential acquisitions that could expand our product and technology platform as it relates to advanced lighting systems. We currently have no commitments or agreements to make any acquisitions.

During 2006, we spent approximately \$538,000 on engineering and product development activities, as compared to approximately \$552,000 in 2005. We feel our future success will depend, in large part, on our ability to develop new products, expand the applications for our LED and fiber optic lighting technologies and continue to improve and enhance our existing products.

We believe that increased levels of spending on research and development will be necessary to successfully develop LED lighting products that will have the brightness of conventional lighting systems and can be sold at an acceptable premium. Additionally, as new technologies and new market opportunities are identified, increased levels of spending on product development may occur so the Company can rapidly design, engineer and produce products to fill these market needs.

COMPETITION

The Company currently faces competition from both traditional lighting technologies such as incandescent, neon and florescent lighting and from competitors specifically engaged in providing LED and fiber optic lighting products and systems. There can be no assurance that other large conventional lighting companies will not enter the market and utilize their resources to capture significant market share and adversely affect the Company's operating results.

Traditional lighting technologies have the advantage of a long history of market acceptance and familiarity as compared to our LED and fiber optic products. We believe that educating our target market through our sales representatives and distributors on the advantages of LED and fiber optic lighting systems is critical to our future growth.

We compete with both traditional and strategic competitors on the basis of design, color changing effects, maintenance costs, safety issues, energy consumption, price and brightness. We believe our products can effectively compete against traditional lighting in the areas of visual impact, maintenance costs, safety and energy consumption. Our fiber optic lighting systems offer the advantage of centralized light source maintenance for lamp replacement. This feature is superior to other lighting systems, such as neon, which require maintenance throughout the lighting system. Additionally, the *SIDE-GLOW*® and *END GLOW*® cables are virtually maintenance free and are unbreakable, as opposed to neon and other comparable lighting products which experience high breakage rates both in the field and in shipment. This reduced breakage also results in an additional advantage in the area of safety. Furthermore, our fiber optic products result in a voltage free light, which is particularly beneficial in wet and underwater applications, where risk of shock from electricity in the lighted path is an issue. Our fiber optic lighting systems also eliminate the majority of heat and ultra-violet radiation at the light output, which can be advantageous in applications where these factors may not be desirable, particularly with respect to lighting accessories such as task lighting and display case lighting.

Our sign lighting LED products compete favorably with traditional neon lighting for signs on the basis of energy consumption and price for small to medium channel letters and back lighting. For large signs and channel letters, our FlexMOD™ LED lighting systems compete effectively on the basis of energy savings, lamp life and durability. In applications calling for maximum brightness and competitive cost, the Company's products may not be able to compete effectively with traditional lighting products. In addition, the LED sign lighting market is becoming saturated with competitors that are driving the LED sign lighting products to a low price commodity. As a result, cost reduction efforts in addition to developing new, brighter, higher quality LED sign lighting products is required to stay competitively positioned in the market.

We face competition from an expanding number of companies directly involved in the field of LED lighting for commercial/architectural and pool and spa lighting. These companies utilize technologies similar to ours and compete generally on the basis of product line breadth, price, quality and service. We believe we can compete

favorably in markets where these factors are the central issue, however, increased pressure from new low cost manufacturers in China continues to put pressure on gross margin levels in the sign lighting and OEM spa business. There can be no assurance that current competitors or a new competitor will not develop processes or technology which will allow them to decrease their costs and related selling price, and consequently, erode our market share.

PATENTS AND PROPRIETARY RIGHTS

Super Vision considers its technology and procedures proprietary and relies primarily on patent and trade secret laws and confidentiality agreements to protect its technology and innovations. Our employees, as well as technical consultants who may be hired from time to time, enter into confidentiality and/or invention assignment agreements providing for non-disclosure of proprietary and trade secret information and the assignment to us of all inventions, improvements, technical information and suggestions relating in any way to our business (whether patentable or not) which the employee or consultant develops during the period of their employment or association with our Company. Despite these restrictions, it may be possible for competitors or customers to copy one or more aspects of our products or obtain information that we consider as proprietary. Furthermore, there can be no assurance that others will not independently develop products similar to those sold by our Company. We therefore believe that producing the highest possible quality products at the most competitive prices is the best means to protect against competitive innovations.

We have been issued a United States patent relating to the reflective center core used in the process of manufacturing our *SIDE-GLOW*® cables and have received Patent Cooperation Treaty protection of this patent overseas. We also have two United States patents on methods of manufacturing alternative versions of fiber optic cables. Additionally, we have acquired a United States patent related to the method of manufacturing a fiber optic image magnification device. While there is no guarantee that this patent can be developed into a commercially viable product, we believe that expansion of the applications for our fiber optic technologies is important to the possible achievement of future growth objectives.

Including the patents identified above, we currently hold twenty patents related to our fiber optic and LED lighting intellectual property. In addition, we have ten patent applications currently filed with the U.S. Patent and Trademark Office.

We will continue to seek patent protection where appropriate for future developments, improvements and enhancements to our technology. There can be no assurance; however, that our existing patents or patents that may be issued in the future will provide us with sufficient protection in the case of an infringement of our technology or that others will not independently develop technology comparable or superior to ours. Although we believe that the products we sell do not and will not infringe upon the patents or violate the proprietary rights of others, it is possible that such infringement or violation has occurred or may occur. In the event that products we sell are deemed to infringe upon the patents or proprietary rights of others, we could be required to modify our products or obtain a license for the manufacture and/or sale of such products.

There has been litigation regarding patent and other intellectual property rights in the fiber optic and LED lighting industry, particularly in the areas in which we compete. We have defended, and will likely continue to defend, ourselves against claims and legal actions alleging infringement of the patent rights of others. Adverse determinations in any patent litigation could subject us to significant liabilities to third parties, require us to seek licenses from third parties, and, if licenses are not available, prevent us from manufacturing, selling or using certain of our products, some of which could have a material adverse effect on our operations.

Additionally, we may find it necessary to initiate litigation to enforce our patent rights, to protect our trade secrets or intellectual properties and to determine the scope and validity of the proprietary rights of others. Patent litigation can be costly and time-consuming, and there can be no assurance that our litigation expenses will not be significant in the future or that the outcome of litigation will be favorable to us. Accordingly, we may seek to

settle some or all of our pending litigation. Settlement may include cross-licensing of the patents which are the subject of the litigation as well as our other intellectual property and may involve monetary payments to or from third parties.

We have a registered trademark for the “Savi,” “Super Vision,” and “Symphony of Light” names. Additionally, we have obtained registered trademarks on the brand names *SIDE-GLOW*® and *END GLOW*® related to our fiber optic cables, and European community trademark applications have been filed as well. We have also submitted applications to register the trademark Nexxus Lighting™, FlexLED™ and Savi LED™. We believe that these trademarks help in our efforts to achieve brand recognition, although there can be no assurance to such effect.

EMPLOYEES

At March 31, 2007, Super Vision had 50 full-time employees, including 3 in research and development, 14 in sales, marketing and customer service, 10 in finance and administration and 23 in production and quality control. None of our employees are currently covered by a collective bargaining agreement and we consider our employee relations to be good. We also utilize temporary and part time employees as required by the volume of business, primarily in the area of production.

Item 2. *Description of Property.*

On November 30, 2006, we entered into a new five-year operating lease agreement with EastGroup Properties, L.P. Effective April 1, 2007, the Company relocated its Orlando, Florida manufacturing operations to approximately 34,000 square feet of office, distribution and light manufacturing space in Orlando, Florida for its Orlando operations facility. The lease is triple net with scheduled annual rent increases. Base rent under the lease commenced on April 1, 2007, with monthly payments of \$19,846 for the first twelve-month period and increases annually by 3.5% thereafter. In addition to base rent, the Company is required to pay its pro rata share of the property’s operating expenses, including property taxes, insurance and non-structural repairs. The lease provides for a security deposit of \$28,576.

In connection with executing the lease for the Company’s new facility, on November 29, 2006, the Company entered into a lease termination agreement with Max King Realty, Inc. (“Max King Realty”), a company controlled by Brett M. Kingstone, the Company’s chairman of the board, to terminate the capital lease with Max King Realty for the Company’s existing facility. The lease had a fifteen-year term extending through June 15, 2021. Max King Realty was willing to accommodate the Company’s desire to terminate its obligations under the lease for its current facility by terminating the lease, repaying the third party indebtedness secured by the premises and selling the premises to an unrelated third party.

In connection with accommodating the Company’s request for early termination of the lease of its existing facility, Max King Realty incurred a prepayment penalty to a third party lender for the early repayment of the indebtedness secured by the leased premises in an amount equal to approximately \$332,800. The Company agreed to pay Max King Realty the amount of the prepayment penalty by delivery of an unsecured promissory note in the amount of \$332,846. The promissory note was paid in full in January 2007.

On November 30, 2006, the Company entered into a four month operating lease with FLIR Systems, Inc., the new owner of the property previously leased from Max King Realty. The lease was for the use of 40,000 square feet of manufacturing and distribution space at a gross monthly amount of \$29,820 through March 31, 2007. A security deposit has been paid in the amount of \$28,000 and is expected to be returned upon inspection of the property.

On February 27, 2007, the Company entered into a new five year operating lease agreement with Floyd Smith Office Park, LLC, commencing approximately June 1, 2007 for the Company’s new corporate headquarters in Charlotte, North Carolina. The Company will lease approximately 2,100 square feet of class A

office space at a gross rental rate of \$3,399.50 per month, including build-out, power and water utilities and the Company's pro rata share of the property's operating expenses, property taxes, insurance and non-structural repairs. After the initial twelve-month period, the rent will increase annually by 3.0%. The lease provides for a security deposit of \$3,399.50.

Item 3. *Legal Proceedings.*

The Company is not currently a party to any pending legal proceedings. In the ordinary course of business the Company may become a party to various legal proceedings generally involving contractual matters, infringement actions, product liability claims and other matters.

A settlement of all disputes between Ocean Bank and Great Eastern Bank of Florida (Ocean Bank) and the Company was reached in October 2006 to the mutual satisfaction of all parties. After costs and expenses, including attorneys' fees and a payment to Brett M. Kingstone, the Company's chairman of the board, pursuant to the Participation Agreement between Super Vision and Mr. Kingstone, as amended, Super Vision received a net amount of approximately \$237,000 from the proceeds of the settlement in November 2006. Pursuant to the Participation Agreement, Mr. Kingstone received approximately \$252,000 from the proceeds of the settlement.

On December 6, 2006, the Company announced that it has entered into a Settlement and License Agreement (the "Agreement") with Color Kinetics Incorporated ("Color Kinetics") dated as of December 4, 2006 ending all pending litigation between the two companies. Under the terms of the Agreement:

- Super Vision agreed to pay Color Kinetics \$825,000 as settlement for all claims that the parties may have against each other to include all patent infringement damages and legal costs and fees that arose prior to the execution of the Agreement and the amount awarded to Color Kinetics in the final judgment issued by the U.S. District Court for the District of Massachusetts (the "Final Judgment"). The Company delivered to Color Kinetics a promissory note in the amount of \$825,000 payable to Color Kinetics. The promissory note is due and payable in full by December 25, 2007, and is payable in equal twelve month installments of \$68,750 beginning January 25, 2007.
- Super Vision agreed to drop its pending claim of infringement against Color Kinetics with respect to U.S. patent #4,962,687, known as the '687 patent, in the U.S. District Court for the Eastern District of Texas.
- Color Kinetics agreed to drop its declaratory judgment claim of non-infringement of the '687 patent filed in the U.S. District Court for the District of Massachusetts.
- Color Kinetics granted the Company a royalty bearing license to its worldwide patent portfolio, allowing the Company to continue the manufacture and sale of its LED-based lighting products, including the Savi™ line.
- Super Vision granted Color Kinetics a royalty free license to the '687 patent.
- Super Vision waived its rights to appeal the Final Judgment granted to Color Kinetics by the U.S. District Court of Massachusetts on November 8, 2006. In its ruling, the Court permanently enjoined Super Vision from manufacturing or selling in the United States any of the Super Vision products that were held to infringe Color Kinetics' patents, and all other Super Vision products which are merely colorable variations of the litigated products. By granting a license, Color Kinetics is allowing Super Vision to continue the sale of all enjoined products.

On May 10, 2006, B&S Plastics, Inc. doing business as Waterway Plastics ("B&S Plastics") filed a law suit against the Company in the Federal District Court of the Central District of California (case number: CV06-2826-GHK (JTLx)) for patent infringement and unfair competition alleging that one of the Company's new waterfall products infringes its patent for a pool/spa waterfall apparatus with an interchangeable outlet cap. Although the Company denied any patent infringement, on February 1, 2007 the Company and B&S Plastics

entered into a settlement agreement whereby the Company agreed to modify the design and installation/instruction sheets of its waterfall product and B&S Plastics agreed to allow the Company to sell off up to 10,000 of the current product design held in inventory.

Item 4. *Submission of Matters to a Vote of Security Holders.*

No matters were submitted to a vote of the security holders of the Company during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. *Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities*

(a) The Company's Class A Common Stock, par value of \$.001 per share, trades on the NASDAQ Capital Market under the symbol SUPVA. The following table sets forth the high and low closing prices of the Class A Common Stock for the fiscal years ended December 31, 2006 and 2005 as reported by NASDAQ.

	2006		2005	
	High	Low	High	Low
First Quarter	3.60	3.14	4.50	3.51
Second Quarter	3.40	2.41	4.65	3.10
Third Quarter	2.46	2.20	6.25	3.63
Fourth Quarter	3.32	2.05	5.20	3.32

(b) The number of holders of record of the Company's Class A Common Stock on March 30, 2007 was 66. This number does not include beneficial owners of our Class A Common Stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

(c) The Company has never paid a cash dividend on its Common Stock (either Class A or Class B) and intends to continue to follow a policy of retaining earnings to finance future growth. Accordingly, the Company does not anticipate the payment of cash dividends to holders of Common Stock in the foreseeable future.

(d) On December 7, 2006, we closed the private offering to a limited number of accredited investors of approximately 40,360 units at a price of \$223.00 per unit, resulting in gross cash subscriptions of approximately \$9 million, and net proceeds to the Company of approximately \$8,350,000. Each unit consisted of 100 shares of Class A common stock, a warrant to purchase 60 shares of Class A common stock exercisable at \$2.23 per share, expiring five years from the date of issuance, and a second warrant to purchase 15 shares of Class A common stock exercisable at \$3.00 per share, expiring five years from the date of issuance. The securities were sold solely to accredited investors in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") under Section 4(2) of the Securities Act and Rule 506 promulgated by the United States Securities and Exchange Commission under the Securities Act.

(e) Effective March 26, 2007, the Company redeemed all of the outstanding shares of Class B Common Stock in exchange for 604,080 shares of Class A Common Stock, or 1.25 shares of Class A Common Stock for each one share of Class B Common Stock exchanged. The transaction was effected pursuant to an Exchange Agreement between the Company and the Kingstone Family Limited Partnership II ("KFLP"), an entity controlled by Brett M. Kingstone, the Company's chairman of the board, dated March 26, 2007. Pursuant to the Exchange Agreement, KFLP exchanged 483,264 shares of the Company's Class B Common Stock, constituting all of the issued and outstanding shares of the Company's Class B Common Stock, for 604,080 shares of the Company's Class A Common Stock (the "Exchange"). The Exchange eliminated the disparity in voting rights between the Class B Common Stock, which is entitled to five votes per share and the Class A Common Stock, which is entitled to one vote per share. The Exchange was effected in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") under Section 4(2) of the Securities Act.

(f) For information regarding securities authorized for issuance under equity compensation plans, see Item 11 of this Annual Report on Form 10-KSB.

Item 6. *Management's Discussion and Analysis or Plan of Operation*

The following discussion and analysis provides information that management believes is useful in understanding our operating results, cash flows and financial condition. The discussion should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and related Notes to

Financial Statements appearing elsewhere in this Annual Report on Form 10-KSB. Except for the historical information contained here, the discussions in this document contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under “Factors that May Affect Future Results and Market Price of Stock” below.

Overview

On March 1, 2007, Super Vision International, Inc. announced that it was changing its name to Nexxus Lighting, Inc. effective in April 2007. The name change symbolizes a significant shift in the strategic direction and market focus of the Company. The shift is designed to capitalize on the emerging market for advanced lighting technology, including Light Emitting Diode (LED) lighting systems and controls as a replacement for conventional incandescent lighting systems for general lighting applications. The Company will focus its resources on designing, manufacturing, marketing and selling new LED lighting products and systems as well as enhancing its fiber optic lighting product line for use in commercial, architectural, signage, swimming pool and OEM lighting applications.

The Company derives its revenues primarily from sales of Savi® brand LED lighting systems and controls including its Digital Lighting System™ (DLS), FlexLED™ and BorderLight™ lighting products, power supplies and control systems. The Company also derives a significant percentage of its revenues from sales of SIDE-GLOW® and END-GLOW® fiber optic lighting cables, and fiber optic lighting sources, accessories, endpoint signs and displays. The Company also designs, manufactures, markets and sells LED and fiber optically lit waterfalls and water features under the Oasis™ water features brand. The Company markets and distributes its products globally primarily through multiple networks of independent sales representatives and distributors.

The twelve months ended December 31, 2006 was a transformational year for the Company. Commencing in January 2006, new management began a process of change that ultimately brought about the restructuring and right-sizing of the Company, the termination of the Company’s long-term capital lease obligation and move to a more cost effective facility, the resolution of all outstanding legal proceedings and, finally in December 2006, the closing of a \$9 million private placement of equity to strengthen the Company’s balance sheet and enable management to execute the Company’s new Nexxus Lighting strategy. Management believes that these long-term strategic actions have positioned the Company well for the future. However, although positive, the number and timing of these one-time events had a significant adverse financial impact on the Company in the 4th quarter of 2006, and had a material negative impact on the year over year variances between 2006 and 2005.

Revenue from LED lighting systems and control products accounted for approximately 50% of our sales in 2006 as compared to approximately 49% in 2005. Sales of fiber optic lighting systems accounted for approximately 45% of the Company’s revenue in 2006 as compared to approximately 47% in 2005. The balance of our sales came from our Oasis™ waterfall and water feature line of products. We believe that our LED product lines are still in their growth mode and offer significant revenue potential for both the commercial/architectural and pool and spa lighting markets.

Revenue from our commercial lighting division led the Company in 2006 with sales of LED products increasing 24% and overall sales increasing 2% over 2005. The LED sales increase was partially offset by a 9% decline in the sale of fiber optic products in our commercial lighting division. Sales of our new Savi® products generated approximately \$1,158,000 of revenue in 2006 compared to \$593,000 in 2005.

Despite the positive trend in commercial lighting and exciting new product introductions, the impact of ongoing litigation prior to settlement, the decrease in international sales resulting from changes in distribution, and the impact of reduced purchases by pool distributors and builders as a result of the slow-down in the residential housing market resulted in a 8% decrease in sales from \$12 million in 2005 to \$11.0 million in 2006.

While we remain optimistic that the fiber optic market will continue to be a major part of our business, we believe that the LED lighting market will drive our growth in the future. Fiber optic lighting sales decreased 11% in 2006, driven by an 18% decline in fiber optic sales in our international market. However, we are planning on introducing new LED light sources that drive light into fiber in 2007, which are expected to serve as a platform for new products and applications for fiber as an advanced lighting system. In 2006, we succeeded in improving our overall direct gross margins on LED products from 47% in 2005 to 50%, which was a critical factor in improving our direct gross margin (revenue less the cost of direct material only) for the year. Historically, our direct gross margins from fiber optic products have been higher than gross margins from LED lighting systems. However, we anticipate an increase in gross margins from LED products as we gain traction in the higher gross margin commercial market with our Savi™ line.

During 2006, we also invested in new product tooling on a number of our new Savi™ products and we introduced six major new products. We believe these new product investments are essential to repositioning the Company to capitalize on the growth potential of the high brightness “white light” LED lighting systems market, and enabling the Company to emerge as one of the leaders in this market going forward.

With the resolution of all pending legal proceedings in 2006, the major product launches of the new Savi® Pool & Spa Light and Savi® Note, the introduction of the new pool and spa catalog in November 2006, and the launch of our new Savi® LED light bulb line in January 2007, management is optimistic that the Company can begin to grow under the new Nexxus Lighting strategy.

We also continue to focus on key indicators in order to measure our performance. In the short-term, (1-3 years), management is working towards obtaining and maintaining positive trends in the following areas:

- Revenue growth
- Profitability
- Operating cash flow
- Gross margin in dollars and percentage of gross sales
- Product and market mix
- Operating expense ratios
- Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
- Liquidity
- Key balance sheet ratios (Accounts Receivable turnover,(AR)/Accounts Payable (AP)/Inventory turnover and working capital)
- Shareholder Value

In the long term (over 3 years), we are striving to generate consistent and predictable net sales growth while incrementally enhancing cash flow from operations.

Significant Events – Fourth Quarter 2006

Resolution of Certain Legal Proceedings

A settlement of all disputes between Ocean Bank and Great Eastern Bank of Florida (Ocean Bank) and the Company was reached in October 2006 to the mutual satisfaction of all parties. After costs and expenses, including attorneys’ fees and a payment to Brett M. Kingstone, the Company’s chairman of the board, pursuant to the Participation Agreement between Super Vision and Mr. Kingstone, as amended, Super Vision received a net amount of approximately \$237,000 from the proceeds of the settlement in November 2006. Pursuant to the Participation Agreement, Mr. Kingstone received approximately \$252,000 from the proceeds of the settlement. The settlement was recorded as a reduction of legal expenses in the fourth quarter of 2006.

On December 6, 2006, the Company announced that it has entered into a Settlement and License Agreement with Color Kinetics Incorporated dated as of December 4, 2006 ending all pending litigation between the two companies. Under the terms of the Settlement Agreement, Super Vision agreed to pay Color Kinetics \$825,000 as settlement for all claims that the parties may have against each other to include all patent infringement damages and legal costs and fees that arose prior to the execution of the Settlement Agreement and the amount awarded to Color Kinetics in the Final Judgment issued by the U.S. District Court for the District of Massachusetts. The Company delivered to Color Kinetics a promissory note in the amount of \$825,000 payable to Color Kinetics. The promissory note is due and payable in full by December 25, 2007, and is payable in equal twelve month installments of \$68,750 beginning January 25, 2007.

The Company incurred costs and additional legal fees in a wrongful termination suit after the appellate court reversed the lower court's decision. The Company was required to pay \$18,000 to the plaintiff in the final judgment, which was paid as of December 31, 2006. In addition, under a stipulation on motion for attorney's fees, the Company agreed to pay an additional \$80,000 under a payment plan with the last payment due July 2007.

Super Vision was paid \$30,000 as of December 31, 2006 in exchange for a satisfaction of judgment for amounts personally and directly owed by a defendant in an unrelated legal proceeding. This settlement was recorded as a reduction of legal expenses in the fourth quarter of 2006.

Capital Lease Termination and Impairment of Fixed Assets / Early Termination Penalty to Max King Realty

On November 29, 2006, the Company entered into a lease termination agreement with Max King Realty, Inc. ("Max King Realty"), a company controlled by Brett M. Kingstone, the Company's chairman of the board, to terminate the capital lease with Max King Realty for the Company's existing facility. The lease had a fifteen-year term extending through June 15, 2012. Max King Realty was willing to accommodate the Company's desire to terminate its obligations under the lease for its current facility by terminating the lease, repaying the third party indebtedness secured by the premises and selling the premises to an unrelated third party.

In connection with accommodating the Company's request for early termination of the lease of its existing facility, Max King Realty incurred a prepayment penalty to a third party lender for the early repayment of the indebtedness secured by the leased premises in an amount equal to approximately \$332,800. The Company agreed to pay Max King Realty the amount of the prepayment penalty by delivery of an unsecured promissory note in the amount of \$332,846. The promissory note was paid in full in January 2007.

Assets recorded under this capital lease included in property and equipment were as follows:

	November 30, 2006	December 31, 2005
Office/Warehouse building	\$ 3,081,000	\$ 3,081,000
Less accumulated amortization	(1,848,600)	(1,745,900)
	<u>\$ 1,232,400</u>	<u>\$ 1,335,100</u>

Upon executing the lease termination agreement, the balance of the capital lease obligation of \$2,312,900, less the promissory note payable to Max King Realty of \$332,800 and the net book value of the related office/warehouse building of approximately \$1,232,400 resulted in a gain on termination of capital lease of approximately \$747,700. This gain was offset in part by an impairment loss of \$241,300 for leasehold improvements made to the facility resulting in a net gain of \$506,400 which is reflected in the accompanying statement of operations as gain on termination of capital lease, net of impairment. Deposits paid under the lease agreement previously included in other assets, was returned to the Company in the amount of \$50,000 as of December 31, 2006.

Private Placement

On December 7, 2006, we closed the private offering to a limited number of accredited investors of approximately 40,360 units at a price of \$223.00 per unit, resulting in gross cash subscriptions of approximately \$9 million, and net proceeds to the Company of approximately \$8,350,000 (the "Private Placement"). Each unit consisted of 100 shares of Class A common stock, a warrant to purchase 60 shares of Class A common stock exercisable at \$2.23 per share, expiring five years from the date of issuance, and a second warrant to purchase 15 shares of Class A common stock exercisable at \$3.00 per share, expiring five years from the date of issuance. The securities were sold solely to accredited investors in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended.

In connection with the Private Placement, the Company entered into a Registration Rights Agreement with the purchasers of the securities pursuant to which the Company agreed to file a registration statement with the Securities and Exchange Commission ("SEC") within 60 days of the closing and use commercially reasonable efforts to obtain effectiveness of the registration statement within 120 days of the closing. A registration statement covering the resale of shares of Class A common stock sold in the Private Placement and the shares of Class A common stock underlying the warrants sold in the Private Placement was filed with the SEC within 60 days of the closing. The Company's failure to abide by the effectiveness covenant will result in the Company's obligation to pay liquidated damages in the form of cash or shares of Class A common stock at the rate of one percent of the subscription amount of each purchaser for each failure continuing more than 30 days (and for each 30-day period thereafter up to 18 months).

Revenues & Gross Margin

	Year Ended December 31,			
	2006	2005	Change	%
Revenues	\$11,001,011	\$11,983,223	\$(982,212)	(8%)
Cost of sales	7,064,461	7,110,595	(46,134)	(1%)
Gross margin	\$ 3,936,550	\$ 4,872,628	(936,078)	(19%)
Gross margin %	36%	41%		

Revenues for 2006 decreased 8% to approximately \$11,001,000 as compared to approximately \$11,983,000 during the preceding year. Commercial lighting sales increased 2%, or \$71,000, driven by a 24%, or \$309,000, increase in LED lighting systems sales offset in part by a 9%, or \$235,000, decrease in fiber optic sales and a \$4,000 decrease in sales of waterfall products. The Company continued to show improvement as sales were more evenly distributed across all of its manufacturer's representatives in the commercial lighting market, reducing its dependence on some historically large one-time projects. Pool and spa sales decreased by 7%, or \$377,500 in 2006 as compared to 2005, with both LED and fiber optic sales declining equally on a percentage basis due to slower than expected 4th quarter early buy purchases than historically received as a result of the slow down in residential pool construction. International sales decreased 22%, or \$675,000, in 2006 as compared to 2005, with LED and fiber optic sales down 25% and 18%, respectively. The decline in international sales was primarily driven by lower sales in the UK, Middle East, Russia and Asia as a result of distribution changes and intense pricing pressure for LED sign lighting in the international market. These decreases were partially offset by increased sales in Mexico, New Zealand and South America.

Gross margins in 2006 decreased to 36% from 41% in 2005. The \$936,000 reduction in gross margin was mainly attributable to lower revenue in the current year combined with increased variable cost of sales of approximately \$42,000. Although revenue decreased 8%, cost of sales remained almost flat at approximately \$7,064,000 in 2006 as compared to approximately \$7,111,000 in 2005. The loss of revenue was attributable in part to pricing pressures in the international markets combined with pricing discounts in the commercial market in order to maintain a competitive advantage, which were not accompanied by reduced costs from suppliers. Increased fuel costs contributed to the higher cost of sales resulting in increased freight in costs and increased

product costs for petroleum based products. Approximately 50% of the Company's annual inventory purchases were from three major suppliers located in Asia. These goods are typically transported to the Company's manufacturing and operating facilities via air freight or sea freight. In addition, the Company saw increased costs in metal products due to pricing increases in the US market.

Operating Loss and Expenses

	Year ended December 31,			
	2006	2005	Change	%
Gross margin	\$ 3,936,550	\$4,872,628	\$ (936,078)	(19%)
Less operating expenses:				
Selling, general & administrative	6,040,523	4,691,905	1,348,618	29%
Research & development	538,298	552,209	(13,911)	(3%)
Gain on disposal of property and equipment	(593)	(6,000)	5,407	90%
Gain on termination of capital lease, net of impairment	(506,367)	—	(506,367)	100%
Total operating expenses	6,071,861	5,238,114	833,747	16%
Operating loss	<u>\$(2,135,311)</u>	<u>\$ (365,486)</u>	<u>\$(1,769,825)</u>	<u>484%</u>

The increased operating loss for the year ended December 31, 2006 was due primarily to increased selling, general and administrative expenses. General and administrative (G&A) expenses increased \$1,273,000 or 55% and selling expense increased \$76,000 or 3% over selling, general and administrative expenses in the prior year. Increases in legal expenses of \$715,000, consulting fees and professional fees of \$331,000 and stock-based compensation expense of \$222,300 contributed to the increase in G&A expenses. The increase in legal fees was primarily due to the negotiated settlement or final resolution of pending litigation. Consulting fees relating to litigation increased as a result of fees payable to Brett M. Kingstone, the Company's chairman of the board, pursuant to the Participation Agreement between the Company and Mr. Kingstone. Mr. Kingstone was paid approximately \$263,000 in fees for his work related to the settlement of the Ocean Bank lawsuit. The consulting fee paid to Mr. Kingstone for the Ocean Bank settlement was a one-time expense in 2006. Professional fees increased relating to expenses for audit fees associated with our 2005 audit and 2006 quarterly reviews of the Company's financial statements. The legal expenses related to the settlement or resolution of pending litigation referenced above were all one time events. Stock-based compensation expense increased due to adoption of Financial Accounting Standard FAS 123R, *Share-Based Payments*, on January 1, 2006.

Sales and marketing expenses increased \$75,600 to approximately \$2,466,000 in 2006 as compared to \$2,390,000 for the same period in 2005 as a result of new marketing and sales materials created to support the introduction of the new Savi Pool and Spa Light, the new DLS-2 System and the new Pool Catalog in 2006.

On November 29, 2006, the Company entered into a lease termination agreement with Max King Realty, Inc. ("Max King Realty"), a company controlled by Brett M. Kingstone, the Company's chairman of the board, to terminate the capital lease with Max King Realty for the Company's existing facility. The lease had a fifteen- year term extending through June 15, 2012. Max King Realty was willing to accommodate the Company's desire to terminate its obligations under the lease for its current facility by terminating the lease, repaying the third party indebtedness secured by the premises and selling the premises to an unrelated third party. Upon executing the lease termination agreement, the balance of the capital lease obligation of \$2,312,900, less the promissory note payable to Max King Realty of \$332,800 and the net book value of the related office/warehouse building of approximately \$1,232,400 resulted in a gain on termination of capital lease of approximately \$747,700. This gain was offset by an impairment loss of \$241,300 for leasehold improvements made to the facility resulting in a net gain of \$506,400 which is reflected in the accompanying statement of operations as gain on termination of capital lease, net of impairment. .

Research and development expenses decreased in 2006 compared to 2005 by approximately \$14,000 or 3% mainly due to a slight reduction in new product engineering and prototype expenses along with wage and benefit related costs. We invested a significant amount of time and resources in new product development projects that we believe will contribute to our growth in the future. Most of these products are now entering production and we anticipate beginning selling efforts in the 2nd quarter of 2007.

Interest

The Company had interest income for the years ended December 31, 2006 and 2005 of approximately \$38,000 and \$56,000, respectively. The Company's interest expense was approximately \$356,000 for the year ended December 31, 2006 as compared to approximately \$368,000 for 2005 relating to the capital lease for the Company's facility in Orlando, Florida, which was terminated in November 2006.

Other Income

Other income for 2006 was approximately \$222,000 compared to approximately \$189,000 for 2005. Other income in 2006 consisted primarily of \$78,100 in license and royalty fees received from a number of manufacturing companies in the lighting industry which licensed the High End Systems (HES) Patent the Company acquired in 2004, proceeds of \$121,000 from sub-leasing part of the Company's facility through September 2006 and approximately \$23,000 from the write-off of old customer credit balances. The increase in other income in 2006 compared to 2005 was primarily due to the \$57,000 increase in subleasing income and the \$13,000 increase in write-offs relating to old customer credit balances. These increases were offset by a \$38,000 decrease in income from licensing and royalty fees related to the HES patent the Company acquired in 2004.

Income Tax

The Company has provided a full valuation allowance against income tax benefits resulting from losses incurred on operations and as a result there was no provision for income tax in 2006 or 2005.

Net Loss

The net loss for the year ended December 31, 2006 was approximately \$2,235,000, or \$0.80 per basic and diluted common share, as compared to a net loss of approximately \$488,500, or \$0.19 per basic and diluted common share, for the year ended December 31, 2005. The increase in net loss was primarily due to lower revenues and gross margins and higher legal expenses related to the settlement or resolution of all outstanding litigation and stock based compensation expenses as a result of the adoption of FAS 123(R) offset in part by the gain on termination of capital lease, net of impairment.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

Earnings before interest, taxes, depreciation and amortization (EBITDA) is a non-GAAP ("Generally Accepted Accounting Principle") financial measure provided as additional information to investors. EBITDA is an alternative method for assessing our financial condition and operating results. EBITDA is not in accordance with, or a substitute for, GAAP, and may be different from or inconsistent with non-GAAP financial measures used by other companies. However, the Company's management believes that EBITDA may provide additional information with respect to the Company's performance and its ability to meet future debt service, capital expenditures and working capital requirements.

Whenever we refer to a non-GAAP financial measure we will present the most directly comparable financial measure calculated and presented in accordance with GAAP, along with a reconciliation of the differences between the non-GAAP financial measures we reference with such comparable GAAP financial measure.

For the year ended December 31, 2006, EBITDA was approximately \$(1,307,000) compared to approximately \$467,500 in 2005. The decrease was primarily due to an increase in net operating loss in 2006. The increase in net operating loss was primarily attributable to the \$936,000 decrease in gross margin as a result of lower revenues and the increase in selling, general and administrative costs of approximately \$1,349,000 over prior year expenses primarily as a result of increased legal expenses, professional fees and stock-based compensation expense relating to the adoption of FAS 123(R). Despite the lower EBITDA in 2006 compared to 2005, management anticipates that positive trends in gross margins and continued focus on revenue growth and cost management will yield positive contributions to our EBITDA in 2007.

The following table reconciles the GAAP measure net loss to the non-GAAP financial measure EBITDA:

	Year Ended December 31,			
	2006	2005	Change	%
Net Loss	\$(2,235,003)	\$(488,458)	\$(1,746,545)	358%
Plus:				
Interest expense	356,320	367,992	(11,672)	(3%)
Depreciation and impairment	521,260	549,311	(28,051)	(5%)
Amortization	50,384	38,654	11,730	30%
Taxes	—	—	—	—
EBITDA	\$(1,307,039)	\$ 467,499	\$(1,774,538)	(380%)
% of Revenues	-12%	4%		

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2006, the Company had working capital of approximately \$10,012,500, an increase of approximately 105% from working capital of approximately \$4,316,000 at December 31, 2005. During 2006 and 2005, the Company financed its operations primarily from working capital, including cash on hand and through its \$1.6 million Line of Credit with its bank. In addition, in the fourth quarter of 2006 the Company received net proceeds of approximately \$8,350,000 from the sale of its common stock and warrants in a private placement of equity completed in December 2006.

Cash Flows from Operating Activities

Selected Balance Sheet Items	December 31,			
	2006	2005	Change	%
Cash and investments	\$7,502,581	\$1,274,150	\$6,228,431	489%
Accounts receivable, net	\$1,231,277	\$1,516,979	\$ (285,702)	(19%)
Inventories, net	\$3,463,367	\$3,279,182	\$ 184,185	6%
Accounts payable	\$1,175,862	\$1,484,921	\$ (309,059)	(21)%

Net cash used in operations totaled approximately \$1,470,000 for the year ended December 31, 2006 compared to approximately \$112,000 for the year ended December 31, 2005. The net loss of approximately \$2,235,000 was partially offset by the non-cash expenses for depreciation and amortization (\$572,000), decrease in inventory reserve (\$274,000), loss on legal settlement (\$825,000) and stock based compensation expense (\$222,000). These non-cash expenses were offset in part by the non-cash gain on termination of capital lease, net impairment of approximately \$506,000. The most significant use of cash in operations during 2006 was for the purchase of inventory of approximately \$458,000, the decrease in accounts payable of approximately \$309,000 and the decrease in accrued compensation of approximately \$150,000. Inventory purchases were primarily due to new LED products for the pool, portable spa, OEM and commercial markets. Despite our focus on maintaining low inventory during the year, and implementing better use of inventory planning tools to avoid costly shipping charges, management saw a critical need to build-up our LED based inventory to cater to market demands. We

continue to focus on our need to maintain proper inventory levels to ensure competitive lead times while recognizing the risk of inventory obsolescence due to changing technology and customer requirements. We also continue to make further strides in managing inventory levels through better forecasting and use of historical usage data. The reduction in accounts payable was mainly due to the timing of payments to suppliers. Cash used for compensation and benefits was mainly related to the payment of performance-based bonuses. These uses of cash were offset primarily by a decrease in accounts receivable of \$286,000. The decrease in accounts receivable was due to the Company's collection efforts and lower revenue levels.

Cash Flows from Investing Activities

Net cash used in investing activities for the year ended December 31, 2006 was approximately \$6,393,000 compared to approximately \$480,000 for the year ended December 31, 2005. Capital expenditures for 2006 were approximately \$313,000 compared to approximately \$395,000 for 2005. The majority of the capital expenditures in 2006 were related to investments in new product tooling and upgrading computer systems. Additional expenditures were made for the acquisition of tooling and design equipment, computer hardware and software aimed at enhancing Company-wide operational efficiencies, purchases of furniture and fixtures, and building improvements used for normal business operations. There were also expenditures of approximately \$58,000 related to several patent and trademark applications for our LED product line which we filed in 2006. We believe that all of these investments are essential to enabling the Company to capitalize on the growth potential of the high brightness LED lighting systems market, as we position ourselves at the forefront of LED technology and applications moving forward.

Net purchases of investments were \$6,024,000 during the period. The Company is currently investing a portion of the approximately \$8,350,400 of net proceeds received in the private placement of equity completed in December 2006 in short-term commercial paper, mainly corporate bonds, which are classified as held-to-maturity securities. A portion of the net proceeds received from the private placement was used to reduce accounts payable, reduce the Company's line of credit balance and to pay legal expenses. Management expects that the remainder of the net proceeds will be used for working capital and general corporate purposes, including new product development efforts. The Company may also use a portion of the net proceeds to fund part of the cost of selected acquisitions in the lighting industry that may be considered in the future. The Company does not have any commitments or agreements to make any acquisitions.

Cash Flows from Financing Activities

Net cash provided by financing activities for the year ended December 31, 2006 was approximately \$8,145,000 compared to net cash used in financing activities of approximately \$177,000 for the year ended December 31, 2005. The primary source of cash during 2006 was the net proceeds of approximately \$8,350,000 received from the sale of common stock and warrants in a private placement completed in December 2006. The net proceeds from the private placement were partially offset by payments on the capital lease obligation of \$205,800.

On December 7, 2006, we closed the private offering to a limited number of accredited investors of approximately 40,360 units at a price of \$223 per unit, resulting in gross cash subscriptions of approximately \$9 million, and net proceeds to the Company of approximately \$8,350,000. Each unit consisted of 100 shares of Class A common stock, a warrant to purchase 60 shares of Class A common stock exercisable at \$2.23 per share, expiring five years from the date of issuance, and a second warrant to purchase 15 shares of Class A common stock exercisable at \$3.00 per share, expiring five years from the date of issuance. The securities were sold solely to accredited investors in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended.

On February 10, 2006 the Company obtained a \$1,200,000 revolving line of credit from a financial institution to manage our working capital needs in conjunction with our cash and investments. On June 30, 2006, the revolving line of credit was increased to \$1,600,000 with the requirement that we maintain a minimum

investment balance of \$500,000 in accounts held with the lender. The line of credit expired on February 10, 2007 and was extended to May 10, 2007, at which time we expect that a new agreement will be entered into with the financial institution. As of December 31, 2006, there were no amounts outstanding under this line of credit and there was an available balance of \$1.6 million. The line is secured by substantially all of the assets of the Company. Interest is at LIBOR plus 1.85% per annum (7.19% at December 31, 2006) and is payable monthly. The agreement includes financial covenants related to maintenance of tangible net worth and operating losses and achievement of a debt service coverage ratio. The Company was not in compliance with the debt service coverage ratio for the year ended December 31, 2006. However the financial institution waived this covenant violation for the year ended December 31, 2006.

On November 29, 2006, the Company entered into a lease termination agreement with Max King Realty, Inc., a company controlled by Brett M. Kingstone, the Company's chairman of the board, to terminate the capital lease with Max King Realty for the Company's existing facility. The lease had a fifteen-year term extending through June 15, 2012. Max King Realty was willing to accommodate the Company's desire to terminate its obligations under the lease for its current facility by terminating the lease, repaying the third party indebtedness secured by the premises and selling the premises to an unrelated third party.

Upon executing the lease termination agreement, the balance of the capital lease obligation of \$2,312,900, less the promissory note payable to Max King Realty of \$332,800 and the net book value of the related office/warehouse building of approximately \$1,232,400 resulted in a gain on termination of capital lease of approximately \$747,700. This gain was offset by an impairment loss of \$241,300 for leasehold improvements made to the facility resulting in a net gain of \$506,400 which is reflected in the accompanying statement of operations as gain on termination of capital lease, net of impairment. Deposits paid under the lease agreement previously included in other assets, was returned to the Company in the amount of \$50,000 as of December 31, 2006.

The Company believes that available cash, together with funds expected to be generated from operations and available borrowings under its line of credit, will be sufficient to finance the Company's currently anticipated working capital requirements, as well as planned growth, for the next twelve months.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We use certain accounting policies and procedures to manage changes that occur in our business environment that may affect accounting estimates made in preparation of our financial statements. These estimates relate primarily to our allowance for doubtful accounts receivable, provision for inventory obsolescence and stock-based compensation. Our strategy for managing doubtful accounts includes stringent, centralized credit policies and collection procedures for all customer accounts. We use a credit risk rating system in order to measure the quality of individual credit transactions. We strive to identify potential problem receivables early, take appropriate collection actions, and maintain adequate reserve levels. Our strategy for providing for inventory obsolescence includes the evaluation of existing inventory usage and realizable value. Typically, no provision is recorded for inventory items that are currently used and sold within one year of purchase. We believe that our allowance for doubtful accounts and provision for inventory obsolescence were adequate at December 31, 2006 and 2005.

Effective January 1, 2006, we account for stock-based compensation expense in accordance with SFAS No. 123(R), Share-Based Payment (SFAS No. 123R). SFAS No. 123(R) supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). Under SFAS No. 123R, stock-based compensation expense reflects the fair value of stock-based awards measured at the grant date, is recognized over the relevant service period, and is adjusted each period for anticipated forfeitures. We estimate the fair value of each stock-based award on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to stock price volatility, the expected life of options, a risk-free interest rate and dividend yield. Many of these assumptions are highly subjective and require the exercise of management judgment. Our management must also apply judgment in developing an

estimate of awards that may be forfeited. If our actual experience differs significantly from our estimates and we choose to employ different assumptions in the future, the stock-based compensation expense that we record in future periods may differ materially from that recorded in the current period.

In transitioning from APB No. 25 to SFAS No. 123R, we have applied the modified prospective method. Accordingly, periods prior to adoption have not been restated and are not directly comparable to periods after adoption. Under the modified prospective method, compensation cost recognized in periods after adoption includes (a) compensation cost for all share-based awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, less estimated forfeitures, and (b) compensation cost for all share-based awards granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R, less estimated forfeitures

CONTRACTUAL OBLIGATIONS

Operating Lease Obligations

On November 30, 2006, we entered into a new five year operating lease agreement with EastGroup Properties, L.P. Commencing April 1, 2007, the Company relocated to approximately 34,000 square feet of office, distribution and light manufacturing space in Orlando, Florida for its Orlando operations facility. The lease is triple net with scheduled annual rent increases. Base rent under the lease started on April 1, 2007 with monthly payments of \$19,846 for the first twelve-month period and increases annually by 3.5% thereafter. In addition to base rent, the Company is required to pay its pro rata share of the property's operating expenses, including property taxes, insurance and non-structural repairs. The lease provides for a security deposit of \$28,576.

On November 30, 2006, the Company entered into a four month operating lease with FLIR Systems, Inc., the new owner of the property previously leased from Max King Realty, Inc., through March 31, 2007. The lease was for the use of 40,000 square feet of manufacturing and distribution space at a gross monthly amount of \$29,820 through March 31, 2007. A security deposit has been paid in the amount of \$28,000 and is expected to be returned upon inspection of the property.

On February 27, 2007, the Company entered into a new five year operating lease agreement with Floyd Smith Office Park, LLC, commencing approximately June 1, 2007 for the Company's new corporate headquarters in Charlotte, North Carolina. The Company will lease approximately 2,100 square feet of class A office space for a gross rental rate of \$3,399.50 per month including build-out, power and water utilities and the Company's pro rata share of the property's operating expenses, property taxes, insurance and non-structural repairs. After the initial twelve-month period, the rent will increase annually by 3.0%. The lease provides for a security deposit of approximately \$3,400.

Related Party Funding for Collection Activities

On November 18, 1999, the Company filed a lawsuit (case number CI-99-9392) (the "Lawsuit") in the Circuit Court of the 9th Judicial Circuit in and for Orange County Florida against various defendants (the "Wu Defendants"). The Company is also pursuing litigation against certain parties related to the Wu Defendants (the "Related Litigation"). In June 2003, the Court issued an order of final judgment against all parties in the Lawsuit. Pursuant to the final judgment, the Company was awarded \$38,405,978 and further awarded an additional amount for legal fees and costs of \$834,297. As of the date of entry of the final judgment, these amounts began accruing interest at a rate of six percent per year. As of December 31, 2006, the total amount due including estimated accrued interest was approximately \$48 million. The Company believes that the monetary judgment awarded in the Lawsuit, and any amounts that may be awarded in the Related Litigation, will be very difficult and costly to collect, if collectable at all. The Company may not be successful in collecting any amounts awarded in the Lawsuit or that may be awarded in the Related Litigation. The Company has reached an agreement with

Brett M. Kingstone, the Company's chairman of the board (the "Participation Agreement") regarding funding for collection activities in the Lawsuit or Related Litigation (the "Collection Activities"). Mr. Kingstone has the option of providing personal funds ("Kingstone Funds"), or arranging for funds from third parties ("Third Party Funds"), to pursue Collection Activities. As of December 31, 2006, Mr. Kingstone had provided \$350,000 in the form of a Letter of Credit, and arranged for \$350,000 of Third Party Funds, to further the Collection Activities. The Kingstone Funds and Third Party Funds were subsequently returned after being used for bonding in connection with Collection Activities. Mr. Kingstone has also notified the Company that he has available, on a standby basis, up to an additional \$3,000,000 of bonding capacity to pursue further Collection Activities. In consideration for providing Kingstone Funds and/or Third Party Funds for Collection Activities, and pursuant to the transition agreement between the Company and Mr. Kingstone dated September 9th, 2005, the Company has agreed to pay Mr. Kingstone 50% of amounts actually received by the Company from all Collection Activities less all costs and expenses incurred from time to time by the Company in connection with the Lawsuit, the Related Litigation and the Collection Activities, which have not been recovered by the Company. The Participation Agreement will terminate on December 31, 2009. To date, the Company has incurred approximately \$562,000 in fees and has recovered \$830,000 from Collection Activities. Of the \$830,000 recovered, Mr. Kingstone has been paid a total of \$263,500 pursuant to the Participation Agreement.

Purchase Obligations

We are not a party to any significant long-term service or supply contracts. We refrain from entering into any long-term purchase commitments in the ordinary course of business.

Letters of Credit

We periodically obtain guaranteed letters of credit with a financial institution to enable us to purchase inventory from overseas, primarily from vendors in China. As of December 31, 2006 we had no outstanding letter of credit.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of this standard on its financial statements.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements." SFAS 157 simplifies and codifies guidance on fair value measurements under generally accepted accounting principles. This standard defines fair value, establishes a framework for measuring fair value and prescribes expanded disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the effect, if any, the adoption of SFAS 157 will have on our financial condition, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, "Fair Value Option for Financial Assets and Financial Liabilities", (SFAS No. 159) which upon adoption would allow entities to choose to measure many financial instruments and certain other items at fair value through earnings. The standard allows the fair value measurement to be applied instrument by instrument, is irrevocable for any instruments for which such selection is made, and applies to the entire instrument. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this standard on its financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our investors.

FACTORS THAT MAY AFFECT FUTURE RESULTS AND MARKET PRICE OF STOCK

The following are some of the factors that we believe could cause our actual results to differ materially from expected and historical results. Other factors besides those listed here could also adversely affect the Company.

Forward-Looking Statements. This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Cautionary Safe Harbor Disclosure for Forward Looking Statements under the Private Securities Litigation Reform Act of 1995, which provide that, because of the factors set forth below, as well as other variables affecting the Company's operating results, past financial performance should not be considered a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods. The statements contained herein, which are not historical facts, are forward-looking statements that are subject to meaningful risks and uncertainties, including, but not limited to, the factors set forth below. In some cases, one can identify forward-looking statements by terminology such as "may", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "forecast", "intend", or "potential". Additional information concerning these or other factors which could cause actual results to differ materially from those contained or projected in, or even implied by, such forward-looking statements is contained in this report and also from time to time in the Company's other Securities and Exchange Commission ("SEC") filings. Copies of these filings are available from the Company and/or the SEC. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking information will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved.

The Company Has A History Of Operating Losses And May Not Be Able To Operate Profitably. The Company has experienced annual net losses of (\$2,235,003), (\$488,458), (\$401,432) and (\$414,287) for each of the years ended December 31, 2006, 2005, 2004 and 2003, respectively. Although management believes that in 2006, the Company addressed many of the legacy issues and expenses that have burdened the Company's financial performance, the Company still faces significant challenges in order to reach profitability. In order for the Company to attain profitability and growth, it will need to successfully address these challenges. Most of the Company's expenses are fixed in nature, and the Company is generally unable to reduce expenses significantly in the short-term to compensate for any unexpected delay or decrease in anticipated revenues. As a result, the Company may continue to experience losses on a quarterly or annual basis, which could cause a reduction in cash flows and the market price of the Company's Class A common stock to decline.

We Expect to Acquire other Businesses, Which may Adversely Affect our Operating Results, Financial Condition and Existing Business. To date, we have not made any acquisitions, and we currently have no commitments or agreements to make any acquisitions. However, we plan to use a portion of the net proceeds from the December 2006 private placement to acquire other businesses in the lighting industry. The success of our acquisition program will depend on, among other things:

- the availability of suitable candidates;
- competition from other companies for the purchase of available candidates;
- our ability to value those candidates accurately and negotiate favorable terms for those acquisitions;
- the availability of funds to finance acquisitions; and

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- the availability of management resources to oversee the integration and operation of the acquired businesses.

Financing for the acquisitions may come from several sources, including our existing cash on hand, the proceeds of the December 2006 private placement, proceeds from the exercise of the warrants, the incurrence of indebtedness or the issuance of additional common stock, preferred stock, debt (whether convertible or not) or other securities. Increased indebtedness could negatively affect our liquidity and operating flexibility. The issuance of any additional securities could, among other things:

- result in substantial dilution of the percentage ownership of our stockholders at the time of issuance;
- result in substantial dilution of our earnings per share; and
- adversely affect the prevailing market price for our Class A common stock.

An Adverse Change in Economic Conditions Could Reduce the Demand for New Building Construction and Renovation and, as a Result, could Reduce our Earnings and Adversely affect our Financial Condition. Adverse changes in national and regional economic conditions, as well as international economic conditions, can have a negative impact on our business. In many areas, sales of new and existing homes have slowed in recent months. A downturn in the housing market, adverse changes in employment levels, job growth, consumer confidence, and interest rates and an oversupply of commercial and residential buildings for sale, may reduce demand for our products. This, in turn, can reduce our earnings and adversely affect our financial condition.

Our Inability to Successfully Integrate Businesses we Acquire, if any, Could have Adverse Consequences on Our Business. Acquisitions result in greater administrative burdens and operating costs and, to the extent financed with debt, additional interest costs. If we are successful in acquiring other companies in the lighting business, we cannot assure you that we will be able to manage or integrate acquired companies or businesses successfully. The process of integrating acquired businesses, if any, may be disruptive to our business and may cause an interruption of, or a loss of momentum in, our business as a result of the following factors, among others:

- loss of key employees or customers;
- possible inconsistencies in standards, controls, procedures and policies among the combined companies and the need to implement company-wide financial, accounting, information and other systems;
- failure to maintain the quality of services that the companies have historically provided;
- the need to coordinate geographically diverse organizations; and
- the diversion of management's attention from our day-to-day business as a result of the need to deal with any disruptions and difficulties and the need to add management resources to do so.

These disruptions and difficulties, if they occur, may cause us to fail to realize the cost savings, revenue enhancements and other benefits that we may expect from such acquisition and may cause material adverse short- and long-term effects on our operating results and financial condition.

We are Relocating our Principal Executive Offices, which Could Disrupt our Operations and Harm our Business. Our executive team including corporate finance, human resources, marketing and sales will be relocating to Charlotte, North Carolina beginning in June 2007. As the Company grows, we plan to centralize research and development in Charlotte as well. There are a number of risks associated with the relocation of our principal executive offices, including the risk that our business may be disrupted, possible inconsistencies in standards, controls, procedures and policies in multiple facilities and the need to implement company-wide financial, accounting, information and other systems, the diversion of management's attention from our day-to-day business as a result of the need to deal with any disruptions and difficulties in managing multiple facilities and the need to add management resources to do so, and the risk that we may experience attrition

among our employees who may prefer not to relocate to the new location. Any of these factors could adversely affect our business and results of operations.

General Economic and Industry Conditions May Affect Business. Any general economic, business or industry conditions that cause customers or potential customers to reduce or delay their purchases of lighting products, signs or displays could have a material adverse effect on the Company, its prospects and financial performance. Worldwide economic conditions could have an effect on the demand for the Company's products and could result in declining revenue and earnings. General economic declines or a softening of the economy make it more likely that the Company may experience difficulties collecting accounts receivable, sales and demand for the Company's products may decrease, and the Company's operating results may be adversely affected.

Quarterly Operating Results Fluctuate As A Result Of Many Factors. Quarterly revenues and operating results have fluctuated and are likely to continue to vary from quarter to quarter due to a number of factors, many of which are not within the control of the Company. Factors that could affect revenues include, among others, the following:

- competitive factors, such as competitive pricing pressure and the potential introduction of new products by competitors;
- manufacturing factors, including constraints in the Company's manufacturing and assembly operations and shortages or increases in the prices of raw materials and components;
- sales and distribution factors, such as changes in product mix or distribution channels resulting in lower margins, increases in sales and marketing expenses, the loss of a significant distributor or sales representative, and seasonality of sales;
- product development and introduction problems, such as increased research, development and marketing expenses associated with new product introductions, delays in the introduction of new products and technologies, and adverse effects on sales of existing products;
- the ability to control costs, including levels of expenses relative to revenue levels;
- risk of product returns and exchanges; the Company may experience component problems in the future that could increase warranty reserves and manufacturing costs;
- the ability to develop, introduce, market and gain market acceptance of new products and product enhancements in a timely manner;
- the size, timing, rescheduling or cancellation of significant customer orders;
- the risk of loss of a significant customer;
- changes in the Company's pricing policies and the pricing policies of suppliers and competitors, pricing concessions on volume sales, as well as increased price competition in general;
- success in expanding and implementing our sales and marketing programs;
- relatively small level of backlog at any given time;
- the mix of sales among the Company's products;
- deferrals of customer orders in anticipation of new products, or product enhancements;
- risks and uncertainties associated with international business;
- expenses that may be incurred in litigation;
- personnel changes;
- currency fluctuations and our ability to get currency out of certain foreign countries; and

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- general economic and market conditions, including housing market trends, interest rates, the weather, terrorist activities and the prospect of or the actuality of war.

In addition, sales in any quarter may consist of a relatively small number of large customer orders. As a result, the timing of a small number of orders may impact quarter-to-quarter results. The loss of, or a substantial reduction in, orders from any significant customer could seriously harm the Company's business, financial condition and results of operations.

Quarterly operating results are also substantially affected by the market's acceptance of the Company's products and the level and timing of orders received. Significant portions of the Company's expenses are relatively fixed in advance based upon forecasts of future sales. If sales fall below expectations in any given quarter, operating results will be adversely affected. In addition, certain product development and marketing expenditures may vary significantly from quarter to quarter and are made well in advance of potential resulting revenue.

Due to all of the factors listed above and other risks discussed herein, future operating results could be below the expectations of securities analysts and investors. If that happens, the trading price of the Company's Class A common stock could decline. As a result of these quarterly variations, securities analyst and investors should not rely on quarter-to-quarter comparisons of the Company's operating results as an indication of the Company's future performance.

If Fiber Optic Lighting Products and LED Lighting Products Do Not Gain Wider Market Acceptance Business and Financial Performance May Suffer. The Company derives net sales and income primarily from selling SIDE-GLOW® and END GLOW® fiber optic cables, light sources, lighting accessories, fiber optically lit waterfalls and water features, as well as new LED lighting products. The Company's fiber optic lighting products and LED lighting products compete with traditional lighting technologies such as neon, incandescent and florescent lighting. Traditional lighting technologies have the advantage of a long history of market acceptance and familiarity as compared to the Company's products. The initial purchase price of the Company's fiber optic lighting products and LED lighting products are typically higher than conventional lighting and due to the nature of the technology the Company's products tend to be less bright than conventional alternatives, but more energy efficient. The Company's continued success will depend upon both the increased acceptance of fiber optic lighting products and LED lighting systems as an alternative to neon and other traditional lighting technologies and the development of higher lumen producing products to meet traditional lighting applications. The Company's future results are dependent upon continued growth of fiber optic and LED lighting products in the commercial, pool and spa and OEM lighting markets. As part of the Company's sales and marketing strategy, the Company actively seeks to educate its target markets as to the advantages of fiber optic lighting systems and LED lighting systems. The Company believes that achievement of this objective is critical to its future success. Fiber optic lighting products and LED lighting products may not continue to gain market share within the overall lighting market or competitors may introduce better lighting technologies, displacing fiber optic lighting products and LED lighting products in the market. Either of these occurrences could have a material adverse effect on the Company's business, results of operations, and the value of its securities.

Sales Are Dependent Upon New Construction Levels and Are Subject To Seasonal Trends. Sales of the Company's lighting products depend significantly upon the level of new building construction and renovation. Construction levels are affected by housing market trends, interest rates and the weather. Sales of the Company's pool and spa lighting products depend substantially upon the level of new pool construction. Because of the seasonality of construction, the Company's sales of swimming pool and lighting products, and thus the Company's overall revenues and income, have tended to be significantly lower in the first quarter of each year. Various economic and other trends may alter these seasonal trends from year to year, and the Company cannot predict the extent to which these seasonal trends will continue.

Future Success Depends On The Successful Development And Market Acceptance Of New Products. The Company believes revenue growth and future operating results will depend in part on its ability to complete development of new products and enhancements to existing products, introduce these products in a timely, cost-

effective manner, achieve broad market acceptance of these products and enhancements, and reduce the Company's product costs. The Company may not be able to introduce any new products or any enhancements to its existing products on a timely basis, if at all. In addition, the introduction of any new products could adversely affect the sales of certain of the Company's existing products. Market acceptance of the Company's new products depends upon many factors, including the Company's ability to accurately predict market requirements and evolving industry standards, the Company's ability to resolve technical challenges in a timely and cost-effective manner and achieve manufacturing efficiencies, the perceived advantages of the Company's new products over traditional products, and the marketing capabilities of the Company's independent distributors and strategic partners.

The Company Has Significant International Sales And Is Subject To Risks Associated With Operating In International Markets.

International product sales represented approximately 26% and 40% of the Company's total revenues for the years ended December 31, 2006 and 2005, respectively. The Company believes its international distributors are better able to service international markets due to their understanding of local market conditions and best business practices. International business operations are subject to inherent risks, including, among others:

- unexpected changes in regulatory requirements, tariffs and other trade barriers or restrictions;
- longer accounts receivable payment cycles;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences;
- the burdens of compliance with a wide variety of foreign laws;
- import and export license requirements and restrictions of the United States and each other country in which the Company operates;
- exposure to different legal standards and reduced protection for intellectual property rights in some countries;
- currency fluctuations and restrictions; and
- political, social and economic instability including war and the threat of war.

Any of these factors may adversely affect the Company's future international sales and, consequently, the Company's business and operating results. Furthermore, as the Company increases its international sales, total revenues may also be affected to a greater extent by seasonal fluctuations resulting from lower sales that typically occur during the summer months in Europe and other parts of the world.

The Company believes that international sales will continue to represent a significant portion of its revenues, and that continued growth and profitability may require further expansion of the Company's international operations. All of the Company's international sales are currently denominated in U.S. dollars. As a result, an increase in the relative value of the dollar could make the Company's products more expensive and potentially less price competitive in international markets. The Company does not engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations.

Competition Is Increasing In A Number Of The Company's Markets. The lighting industry is highly competitive. The Company's product lines span major segments within the lighting industry and, accordingly, compete in a number of different markets with a number of different competitors. The Company competes with independent distributors, importers, manufacturers, and suppliers of lighting fixtures and other consumer products. The Company's competitors include some very large and well-established companies. Many of the Company's competitors have far greater name recognition and greater financial, technological, marketing and customer service resources than the Company. This may allow them to respond more quickly to new or emerging technologies and changes in customer requirements. It may also allow them to devote greater resources to the development, promotion, sale and support of their products than the Company can. The Company's competitors

market products that compete with the Company's products on the basis of price and other factors. Some of these competitors do not maintain warehouse operations or do not perform all of the services the Company provides, which requires the Company to charge higher prices. The relatively low barriers to entry into the lighting industry and the limited proprietary nature of many lighting products also permit new competitors to enter the industry easily. The Company's ability to compete successfully in this highly competitive market depends upon its ability to manufacture and purchase quality components on favorable terms, ensure the Company's products meet safety standards, deliver the Company's products promptly at competitive prices, and provide a wide range of services. The Company anticipates that any future growth in fiber optic lighting and LED lighting will be accompanied by continuing increases in competition. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could seriously harm the Company's business, financial condition and results of operations.

The Company May Not Be Able To Adequately Protect Or Enforce Its Intellectual Property Rights. The Company considers its technology and procedures proprietary. If the Company is not able to adequately protect or enforce the proprietary aspects of its technology, competitors could be able to access the Company's proprietary technology and the Company's business, financial condition and results of operations could be harmed. The Company currently attempts to protect its technology through a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and similar means. Despite the Company's efforts, other parties may attempt to disclose, obtain or use the Company's technologies. The Company's competitors may also be able to independently develop products that are substantially equivalent or superior to the Company's products or design around its patents. In addition, the laws of some foreign countries do not protect the Company's proprietary rights as fully as do the laws of the United States. As a result, the Company may not be able to protect its proprietary rights adequately in the United States or abroad.

The Company may receive notices that claim it has infringed upon the intellectual property of others. Even if these claims are not valid, they could subject the Company to significant costs. The Company has engaged in litigation and litigation may be necessary in the future to enforce its intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be necessary to defend against claims of infringement or invalidity by others. An adverse outcome in litigation or any similar proceedings could subject the Company to significant liabilities to third parties, require the Company to license disputed rights from others or require the Company to cease marketing or using certain products or technologies. The Company may not be able to obtain any licenses on acceptable terms, if at all. The Company also may have to indemnify certain customers or strategic partners if it is determined that it has infringed upon or misappropriated another party's intellectual property. Any of these results could adversely affect the Company's business, financial condition and results of operations. In addition, the cost of addressing any intellectual property litigation claim, both in legal fees and expenses, and the diversion of management resources, regardless of whether the claim is valid, could be significant and could seriously harm the Company's business, financial condition and results of operations.

Reliance On Third Parties For A Significant Portion Of Sales; Terms And Conditions Of Sales Are Subject To Change With Very Little Notice. The Company relies significantly on indirect sales channels to market and sell its products. Most of the Company's products are sold through independent distributors and agents. The Company's current agreements with indirect sales channels are non-exclusive with regard to lighting products in general, but exclusive with respect to fiber optic and LED lighting products. The Company anticipates that any such agreements it enters into in the future will be on similar terms. Furthermore, the Company's agreements are generally short-term, and can be cancelled by these sales channels without significant financial consequence. The Company cannot control how these sales channels perform and cannot be certain that either its customers or the Company will be satisfied by their performance. If these distributors and agents significantly change their terms with the Company, or change their historical pattern of ordering products from the Company, there could be a significant impact on the Company's revenues and profits.

Dependence on Third-Party Suppliers. The Company depends on others to manufacture a significant portion of the component parts incorporated into its products. The Company purchases its component parts from third- party manufacturers and believes that numerous alternative sources of supply are readily available for most

component parts. The Company depends on its suppliers to satisfy performance and quality specifications and to dedicate sufficient production capacity for components within scheduled delivery times. The Company does not maintain contracts with any of its suppliers; instead, it purchases components pursuant to purchase orders placed from time to time in the ordinary course of business. This means the Company is vulnerable to unanticipated price increases.

In an effort to reduce manufacturing costs, the Company has outsourced the production of certain parts and components as well as finished goods in its LED lighting product lines to a number of overseas suppliers. While the Company believes alternative sources for the production of these products are available, the Company has selected these particular manufacturers based on their ability to consistently produce these products per the Company's specifications ensuring the best quality product at the most cost effective price. The Company depends on these manufacturers to satisfy performance and quality specifications and to dedicate sufficient production capacity for finished products within scheduled delivery times. Accordingly, the loss of all or one of these suppliers or delays in obtaining shipments could have a material adverse effect on the Company's operations until such time as an alternative supplier(s) could be found.

The Company purchases fiber optic strands from a single Japanese supplier. While the Company believes alternative sources for fiber optic strands are available to enable it to produce its endpoint signs and displays, the *SIDE-GLOW*® and *END GLOW*® cables require fiber optic material of a higher quality than the Company believes is generally available elsewhere. Accordingly, the loss of this supplier or delays in obtaining shipments could have a material adverse effect on the Company's operations until such time as an alternative supplier could be found.

The Company may be subject to various import duties applicable to materials manufactured in foreign countries and, in addition, may be affected by various other import and export restrictions, as well as other considerations or developments impacting upon international trade, including economic or political instability, shipping delays and product quotas. These international trade factors will, under certain circumstances, have an impact both on the cost of components (which will, in turn, have an impact on the cost to the Company of the manufactured product) and the wholesale and retail prices of its products.

The Company May Be Subject To Additional Risks. The risks and uncertainties described above are not the only ones facing the Company. Additional risks and uncertainties not presently known or currently deem immaterial may also adversely affect the Company's business operations.

Item 7. Financial Statements

The following financial statements are filed as part of this Annual Report on Form 10-KSB. This information appears in a separate section of this Annual Report on Form 10-KSB following the Index to Financial Statements on page F-1:

Report of Independent Registered Public Accounting Firm

Balance Sheets as of December 31, 2006 and 2005

Statements of Operations for the years ended

December 31, 2006 and 2005

Statements of Stockholders' Equity for the years ended

December 31, 2006 and 2005

Statements of Cash Flows for the years ended

December 31, 2006 and 2005

Notes to Financial Statements

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 8A. Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our reports we file under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's ("SEC's") rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and principal financial officer or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) and 15d-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and principal financial officer, or persons performing similar functions, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon the evaluation of our disclosure controls and procedures as of December 31, 2006, they have concluded that, as of such date, our disclosure controls and procedures were effective in reaching a level of reasonable assurance that the information required to be disclosed in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and principal financial officer, or persons performing similar functions, to allow timely decisions regarding required disclosure except as set forth below. The Company's management nevertheless has concluded that the financial statements included in this Annual Report on Form 10-KSB present fairly, in all material respects, the Company's financial position, and results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

Cross, Fernandez and Riley LLP, the Company's independent registered public accounting firm, advised the Audit Committee and management that they identified certain deficiencies in our physical inventory controls and procedures that they considered to be significant deficiencies as that term is defined under standards established by the Public Company Accounting Oversight Board. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Cross, Fernandez and Riley LLP identified improper control of inventory count tags, lack of controls over inventory transfers and lack of cycle counts as significant deficiencies. The Company is implementing enhanced procedures and controls to ensure the accuracy and completeness of its physical inventory controls and procedures. The Company is committed to addressing its control environment and reporting procedures.

The Company's management, including its chief executive officer and its principal financial officer, or persons performing similar functions, does not expect that disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. There can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

There has been no significant changes in our internal control over financial reporting during the quarter ended December 31, 2006, identified in connection with the evaluation referred to above, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 8B *Other Information*

None

PART III

Item 9. *Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act*

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2007 annual meeting of stockholders and is incorporated herein by reference. Information relating to our Code of Business Conduct and Ethics and to compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, will be set forth in our definitive proxy statement relating to our 2007 annual meeting of stockholders and is incorporated herein by reference.

Item 10. *Executive Compensation*

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2007 annual meeting of stockholders and is incorporated herein by reference.

Item 11. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2007 annual meeting of stockholders and is incorporated herein by reference, except for Equity Compensation Plan Information which follows:

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth additional information as of December 31, 2006, concerning shares of our Class A common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to our stockholders for approval. The information includes the number of shares covered by and the weighted average exercise price of, outstanding options and other rights and the number of shares remaining available for future grants excluding the shares to be issued upon exercise of outstanding options, warrants, and other rights.

For additional information regarding our stock option plans and the accounting effects of our stock-based compensation, please see Notes 1 and 8 of our Notes to financial statements.

Equity Compensation Plan Information

Plan Category	(a)	(b)	(c)
	Number of common shares to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of common shares available for future issuance (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	514,465	\$ 3.74	101,215
Equity compensation plans not approved by stockholders	3,638,958	\$ 2.52	—
Totals	4,153,423	\$ 2.67	101,215

Item 12. *Certain Relationships and Related Transactions*

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2007 annual meeting of stockholders and is incorporated herein by reference.

Item 13. Exhibits

- 3.1 Certificate of Incorporation of the Company⁽¹⁾
- 3.2 Amendment to Certificate of Incorporation⁽¹⁾
- 3.3 Amendment to Certificate of Incorporation⁽³⁾
- 3.4 Amendment to Certificate of Incorporation⁽²⁾
- 3.5 Bylaws⁽¹⁾
- 4.1 Form of Class A Common Stock Certificate⁽⁴⁾
- 4.2 Form of Common Stock Purchase Warrant issued to certain accredited investors and the placement agent to purchase shares of the Company's Class A Common Stock at an exercise price of \$2.23 per share⁽¹¹⁾
- 4.3 Form of Common Stock Purchase Warrant issued to certain accredited investors to purchase shares of the Company's Class A Common Stock at an exercise price of \$3.00 per share⁽¹²⁾
- 10.1† Form of Indemnification Agreement⁽¹⁾
- 10.2† Super Vision International, Inc. 1994 Stock Option Plan, as amended and restated⁽²⁾
- 10.3† Super Vision International, Inc. 2003 Stock Incentive Plan⁽⁷⁾
- 10.4† Warrant Agreement dated as of December 21, 2005 between the Company and the Kingstone Family Ltd Partnership II⁽⁸⁾
- 10.5.1† Employment Agreement between the Company and Michael A. Bauer dated September 9, 2005⁽⁹⁾
- 10.5.2† Amendment to Employment Agreement between the Company and Michael A. Bauer dated January 19, 2007⁽¹³⁾
- 10.6† Transition Agreement between the Company and Brett M. Kingstone dated September 9, 2005⁽²⁰⁾
- 10.7† Contingent Proceeds Participation Agreement between Brett M. Kingstone and the Company dated September 19, 2003⁽⁵⁾
- 10.8 Business Loan Agreement between the Company and RBC Centura Bank dated February 10, 2006⁽²¹⁾
- 10.9 Lease for Southridge Park Court facility⁽¹⁴⁾
- 10.10* Lease for Floyd Smith Office Park facility
- 10.11 Form of Common Stock and Warrant Purchase Agreement by and between the Company and each purchaser in the private placement dated as of December 7, 2006⁽¹⁵⁾
- 10.12 Form of Registration Rights Agreement by and between the Company and each purchaser in the private placement, dated as of December 7, 2006⁽¹⁶⁾
- 10.13 Registration Rights Agreement between the Company and Cooper Lighting, Inc., dated as of November 23, 1998, included as Exhibit C to the Stock Purchase Agreement between the Company and Cooper Lighting, Inc. dated as of November 23, 1998⁽¹⁷⁾
- 10.14 Escrow Agreement between the Company and RBC Centura Bank, dated as of November 30, 2006⁽¹⁸⁾
- 10.15 Exchange Agreement between the Company and Brett M. Kingstone dated March 26, 2007⁽¹⁹⁾
- 10.16#* Settlement and License Agreement between the Company and Color Kinetics Incorporated dated December 4, 2006
- 14.1 Code of Business Conduct and Ethics⁽⁶⁾
- 23.1* Consent of Cross, Fernandez & Riley LLP, Independent Registered Public Accounting Firm
- 31.1* Certifications by chief executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certifications by chief executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith

Application has been made to the Securities and Exchange Commission for confidential treatment of certain provisions. Omitted provisions for which confidential treatment has been requested has been filed separately with the Securities and Exchange Commission.

† Management contract or compensatory plan or agreement

⁽¹⁾ Incorporated by Reference to the Company's Registration Statement on Form SB-2 (File No. 33-74742)

⁽²⁾ Incorporated by Reference to the Company's Definitive Proxy Statement filed April 29, 1997

⁽³⁾ Incorporated by Reference to the Company's Definitive Proxy Statement filed April 22, 1998

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- (4) Incorporated by Reference to the Company's Registration Statement on Form SB-2 (File No. 333-73804)
 - (5) Incorporated by Reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003
 - (6) Incorporated by Reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003
 - (7) Incorporated by Reference to the Company's Definitive Proxy Statement filed April 16, 2004
 - (8) Incorporated by Reference to the Company's Definitive Proxy Statement filed November 3, 2005
 - (9) Incorporated by Reference to the Company's Current Report on Form 8-K filed September 14, 2005
 - (10) Incorporated by Reference to the Company's Current Report on Form 8-K filed October 18, 2005
 - (11) Incorporated by Reference to the Company's Current Report on Form 8-K filed December 8, 2006
 - (12) Incorporated by Reference to the Company's Current Report on Form 8-K filed December 8, 2006
 - (13) Incorporated by Reference to the Company's Current Report on Form 8-K filed January 19, 2007
 - (14) Incorporated by Reference to the Company's Current Report on Form 8-K filed December 5, 2006
 - (15) Incorporated by Reference to the Company's Current Report on Form 8-K filed December 8, 2006
 - (16) Incorporated by Reference to the Company's Current Report on Form 8-K filed December 8, 2006
 - (17) Incorporated by Reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1998
 - (18) Incorporated by Reference to the Company's Registration Statement on Form S-3 (File No. 333-140286)
 - (19) Incorporated by Reference to the Company's Current Report on Form 8-K filed March 29, 2007
 - (20) Incorporated by Reference to the Company's Current Report on Form 8-K filed September 14, 2005
 - (21) Incorporated by Reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005

Item 14. *Principal Accountant Fees and Services*

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2006 annual meeting of stockholders and is incorporated herein by reference.

SUPER VISION INTERNATIONAL, INC.

INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Super Vision International, Inc.
Orlando, Florida

We have audited the accompanying balance sheets of Super Vision International, Inc. ("the Company") as of December 31, 2006 and 2005, and the related statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Super Vision International, Inc. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123(R), *Share-Based Payment*.

/s/ Cross, Fernandez & Riley LLP

Orlando, Florida
April 1, 2007

SUPER VISION INTERNATIONAL, INC.

BALANCE SHEETS

	December 31,	
	2006	2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 531,181	\$ 248,080
Restricted cash	—	82,943
Restricted investments	500,000	—
Investments	6,471,400	943,127
Trade accounts receivable, less allowance for doubtful accounts of \$121,535 and \$98,688	1,231,277	1,516,979
Inventories, less reserve of \$274,128 and \$221,286	3,463,367	3,279,182
Prepaid expenses	261,852	235,692
Other assets	21,751	5,187
Total current assets	<u>12,480,828</u>	<u>6,311,190</u>
Property and Equipment:		
Machinery and equipment	2,297,239	2,079,491
Furniture and fixtures	420,374	403,674
Computers and software	797,077	739,812
Leasehold improvements	213,595	1,141,047
Property held under capital lease	—	3,081,000
	3,728,285	7,445,024
Accumulated depreciation and amortization	<u>(2,699,239)</u>	<u>(4,737,067)</u>
Net property and equipment	<u>1,029,046</u>	<u>2,707,957</u>
Deposits on equipment	—	4,200
Patents and trademarks, less accumulated amortization of \$122,747 and \$100,075	213,131	177,892
Other intangible assets, less accumulated amortization of \$84,627 and \$56,915	60,359	62,151
Other assets	67,020	60,418
	<u>\$13,850,384</u>	<u>\$ 9,323,808</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,155,162	\$ 1,484,921
Related party payable	20,700	—
Accrued compensation and benefits	111,932	261,652
Notes payable	1,157,846	—
Deposits	22,697	23,143
Current portion of obligation under capital lease with related party	—	225,814
Total current liabilities	<u>2,468,337</u>	<u>1,995,530</u>
Obligation under capital lease with related party, less current portion	—	2,292,856
Total liabilities	<u>2,468,337</u>	<u>4,288,386</u>
Stockholders' Equity:		
Preferred stock, \$.001 par value, 5,000,000 shares authorized, none issued	—	—
Class A common stock, \$.001 par value, 16,610,866 shares authorized, 6,097,476 and 2,061,299 issued and outstanding	6,098	2,061
Class B common stock, \$.001 par value, 3,389,134 shares authorized, 483,264 issued and outstanding. Each share of Class B common stock is entitled to five votes per share.	483	483
Additional paid-in capital	19,142,231	10,572,958
Accumulated deficit	(7,766,765)	(5,531,762)
Accumulated other comprehensive loss, net of deferred income taxes	—	(8,318)
Total stockholders' equity	<u>11,382,047</u>	<u>5,035,422</u>
	<u>\$13,850,384</u>	<u>\$ 9,323,808</u>

See accompanying notes to financial statements.

SUPER VISION INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS

	Year Ended December 31	
	2006	2005
Revenues	\$11,001,011	\$11,983,223
Cost of sales	<u>7,064,461</u>	<u>7,110,595</u>
Gross margin	3,936,550	4,872,628
Operating expenses:		
Selling, general and administrative	6,040,523	4,691,905
Research and development	538,298	552,209
Gain on disposal of property and equipment	(593)	(6,000)
Gain on termination of capital lease, net of impairment	<u>(506,367)</u>	<u>—</u>
Total operating expenses	<u>6,071,861</u>	<u>5,238,114</u>
Operating loss	(2,135,311)	(365,486)
Non-operating income (expense):		
Interest income	38,488	55,540
Other income	221,622	189,480
Loss on investments	(3,482)	—
Interest expense	<u>(356,320)</u>	<u>(367,992)</u>
Total non-operating expense, net	<u>(99,692)</u>	<u>(122,972)</u>
Net loss	<u>\$ (2,235,003)</u>	<u>\$ (488,458)</u>
Basic and diluted loss per common share	\$ (0.80)	\$ (0.19)
Basic and diluted weighted average shares outstanding	<u>2,810,187</u>	<u>2,542,579</u>

See accompanying notes to financial statements.

SUPER VISION INTERNATIONAL, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2006 and 2005

	Common Stock				Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss)	Total Stockholders' Equity	Comprehensive (Loss)
	Class A		Class B						
	Shares	Amount	Shares	Amount					
Balance, January 1, 2005	2,058,814	\$ 2,059	483,264	\$ 483	\$10,564,357	\$ (5,043,304)	\$ (7,101)	\$ 5,516,494	
Exercise of employee stock options	2,485	2			8,601			8,603	
Net loss						(488,458)		(488,458)	(488,458)
Unrealized loss on available-for-sale securities							(1,217)	(1,217)	(1,217)
Comprehensive loss									\$ (489,657)
Balance, December 31, 2005	2,061,299	\$ 2,061	483,264	\$ 483	\$10,572,958	\$ (5,531,762)	\$ (8,318)	\$ 5,035,422	
Exercise of employee stock options	300	1	—	—	629			630	
Stock-based compensation					222,283			222,283	
Sale of common stock and warrants	4,035,877	4,036	—	—	8,346,361			8,350,397	
Net loss						(2,235,003)		(2,235,003)	(2,235,003)
Realized gain on available-for-sale securities							8,318	8,318	8,318
Comprehensive loss									\$ (2,226,685)
Balance, December 31, 2006	6,097,476	\$ 6,098	483,264	\$ 483	\$19,142,231	\$ (7,766,765)	\$ —	\$ 11,382,047	

See accompanying notes to financial statements.

SUPER VISION INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2006	2005
Cash Flows from Operating Activities:		
Net loss	\$ (2,235,003)	\$ (488,458)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	521,260	549,311
Amortization of intangible assets and other assets	50,384	38,654
Gain on disposal of property and equipment	(593)	(6,000)
Gain on termination of capital lease, net of impairment	(506,367)	—
Loss on legal settlement	825,000	—
Increase (Decrease) in inventory reserve	274,128	34,218
Realized gain on available-for-sale securities	8,318	—
Bond discount amortization	(4,771)	—
Stock-based compensation	222,283	—
Changes in operating assets and liabilities		
(Increase) decrease in:		
Restricted cash	82,943	(82,943)
Accounts receivable, net	285,702	391,404
Inventories	(458,313)	(597,668)
Prepaid expenses	(26,160)	(147,484)
Other assets	(49,086)	36,009
Increase (decrease) in:		
Accounts payable and related party payable	(309,059)	(38,837)
Accrued compensation and benefits	(149,720)	193,312
Deposits	(446)	6,756
Total adjustments	765,503	376,732
Net cash used in operating activities	<u>(1,469,500)</u>	<u>(111,726)</u>
Cash Flows from Investing Activities:		
Purchase of investments	(8,000,860)	(35,587)
Proceeds from sale of investments	1,977,358	—
Purchase of property and equipment	(312,509)	(394,754)
Proceeds from disposal of property and equipment	1,278	6,000
Acquisition of patents and trademarks	(57,911)	(69,662)
Return of deposits on equipment	—	13,800
Net cash used in investing activities	<u>(6,392,644)</u>	<u>(480,203)</u>
Cash Flows from Financing Activities:		
Proceeds from sale of common stock and warrants	8,350,397	—
Proceeds from exercise of employee stock options	630	8,603
Payments on capital lease obligation	(205,782)	(185,879)
Net cash provided by (used in) financing activities	<u>8,145,245</u>	<u>(177,276)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	283,101	(769,205)
Cash and Cash Equivalents, beginning of period	248,080	1,017,285
Cash and Cash Equivalents, end of period	<u>\$ 531,181</u>	<u>\$ 248,080</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during period for Interest	<u>\$ 356,320</u>	<u>\$ 367,992</u>
Non-cash investing activities:		
Unrealized loss on available for sale securities		\$ (1,217)
Capital lease termination	\$ 2,312,888	—
Note payable issued in exchange for lease termination	332,846	—

See accompanying notes to financial statements.

SUPER VISION INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business—Super Vision International, Inc. designs, manufactures, markets and sells LED and fiber optic lighting products for use in applications in the commercial, architectural, signage, swimming pool and OEM markets. The Company derives its revenues primarily from sales of Savi™ brand LED lighting products and control systems along with its SIDE-GLOW® and END-GLOW® fiber optic lighting cables, and fiber optic lighting sources, accessories, endpoint signs and displays. The Company also designs, manufactures, markets and sells LED and fiber optically lit waterfalls and water features under the Oasis™ brand. The Company markets and distributes products globally principally through multiple networks of independent sales representatives and distributors.

Revenue recognition—Generally, the Company recognizes revenue for its products upon shipment to customers, provided no significant obligations remain and collection is probable. For sales that include customer acceptance terms, revenue is recorded after customer acceptance. Our products typically carry a two-year warranty that includes replacement of defective parts. The annual expenses associated with such warranties were not material to our operations and we do not record a reserve for future warranty costs.

Cash equivalents—Temporary cash investments with an original maturity of three months or less are considered to be cash equivalents.

Restricted Cash—Restricted cash represented cash serving as collateral for a letter of credit issued by our bank to enable purchase of inventory from an overseas vendor.

Accounts receivable—Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers' financial condition. The Company records an allowance for doubtful accounts based on specifically identified amounts that it believes to be uncollectible. Recovery of bad debt amounts previously written off is recorded as a reduction of bad debt expense in the period the payment is collected. If the Company's actual collection experience changes, revisions to its allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Investments—Marketable equity securities and debt securities are classified either as available-for-sale or held to maturity. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity. The amortized costs of debt securities in this category are adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in investment income. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in investment income. The costs of securities sold are based on the specific identification method. Interest and dividends on securities classified as available-for-sales are included in investment income. The Company accounts for investments in debt securities as held-to-maturity and records the investments at amortized cost when the Company has the positive intent and ability to hold those securities to maturity.

The lender for our revolving line of credit requires that we maintain a minimum investment balance of \$500,000 in accounts held at our lender which is classified as restricted investments.

During the quarter ended March 31, 2006, the Company received proceeds from the sale of available-for-sale securities in the amount of \$943,128 and recognized realized gain on available for sale securities of \$8,318. During the same quarter, purchases of debt securities in the amount of \$433,470 were

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(continued):

classified as held-to-maturity securities and subsequent purchases of securities were also treated as held-to-maturity securities. At December 31, 2006, the Company held investments in marketable securities that were classified as held-to-maturity with varying maturity dates up to one year and consisted of the following:

	December 31, 2006		
	Net Carrying Amount	Unrecognized Holding Gains	Unrecognized Holding Losses
Corporate Bonds	\$6,971,400	\$ —	\$ 209
			Estimated Fair Value
			\$6,950,671

The amortized cost, unrealized gains, and fair values of the Company's investments held at December 31, 2005 are summarized as follows:

	Cost	Unrealized Gains (losses)	Fair Value
Available-for-sale securities:			
Fixed Income Funds	\$882,820	\$ (2,810)	\$880,010
Money Market Funds	61,625	1,593	63,117
	<u>\$944,344</u>	<u>\$ (1,217)</u>	<u>\$943,127</u>

Inventories—Inventories are stated at the lower of cost (average cost), or market. Provision is made for any inventory deemed excessive or obsolete.

Property and equipment—Property and equipment are stated at cost. Depreciation is computed by the straight-line method and is charged to operations over the estimated useful lives of the assets. Amortization expense related to property held under capital lease is included with depreciation in the accompanying statements of operations and accumulated depreciation in the accompanying balance sheets. Maintenance and repairs are charged to expense as incurred. The carrying amount and accumulated depreciation of assets sold or retired are removed from the accounts in the year of disposal and any resulting gain or loss is included in results of operations. The estimated useful lives of property and equipment are as follows:

	Estimated useful lives
Machinery and equipment	3-20 years
Furniture and fixtures	5-7 years
Computers and software	3-7 years
Leasehold improvements	3 months

Intangible assets and goodwill—The Company accounts for its intangible assets and goodwill under Financial Accounting Standards Board ("FASB") Statement No. 142, Goodwill and Other Intangible Assets ("SFAS 142" and Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"). There were no impairment charges of intangible assets during the years ended December 31, 2006 and 2005. Patents and trademarks are amortized using the straight-line method over their useful lives, which range from 12-17 years. Amortization expense on patents and trademarks was \$22,672 and \$17,049 during 2006 and 2005, respectively.

Other intangible assets consist primarily of costs associated with the acquisition of product safety certifications (UL certifications) and technology licensing costs for certain fiber optic lighting products and

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(continued):

systems and LED lighting products and systems. Other intangible assets are amortized using the straight-line method over their useful lives, which range from 1-17 years and are periodically evaluated for recoverability in accordance with SFAS No. 142. Amortization expense on other intangible assets was \$27,712 and \$21,605 during 2006 and 2005, respectively.

As of December 31, 2006, amortization expense on intangible assets for the next five years and thereafter is as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Thereafter</u>	<u>Totals</u>
Patents	21,890	21,423	21,382	21,000	20,892	96,225	202,812
Trademarks	1,006	1,006	1,006	1,006	1,006	5,289	10,319
Product certification	23,395	14,868	6,385	3,921	3,867	7,923	60,359
Total	<u>46,291</u>	<u>37,297</u>	<u>28,773</u>	<u>25,927</u>	<u>25,765</u>	<u>109,437</u>	<u>273,490</u>

Long lived assets—The Company periodically evaluates the recoverability of its long-lived assets in accordance with SFAS No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets,” based on expected undiscounted cash flows and will recognize impairment of the carrying value of long-lived assets, if any is indicated, based on the fair value of such assets. No impairment losses have been recognized during the year ended December 31, 2005. However, there was an impairment of leasehold improvements of approximately \$241,300 during the year ended December 31, 2006 which was netted against the gain on termination of capital lease as further discussed in Note 3.

Deposits—Payments received by the Company for services to be provided in the following year are deferred and recognized as revenue in the period the services are provided.

Shipping and handling costs—The Company accounts for certain shipping and handling costs related to the acquisition of goods from its vendors as cost of sales.

Research and development—Research and development costs to develop new products are charged to expense as incurred.

Advertising—Advertising costs, included in selling, general and administrative expenses, are expensed when the advertising first takes place. The Company promotes its product lines primarily through print media and trade shows, including trade publications, and promotional brochures. Advertising expenses were approximately \$263,000 and \$264,000 for the years ended December 31, 2006 and 2005, respectively.

Income taxes—Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes resulting from temporary differences. Such temporary differences result from differences in the carrying value of assets and liabilities for tax and financial reporting purposes. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(continued):

Loss per share—Basic loss per share is computed by dividing net loss by the weighted average Class A and Class B common shares outstanding for the period. Diluted loss per share is computed giving effect to all potentially dilutive common shares. Potentially dilutive common shares may consist of incremental shares issuable upon the exercise of stock options and warrants. In periods in which a net loss has been incurred, all potentially dilutive common shares are considered antidilutive and thus are excluded from the calculation. Employee stock options and warrants were not included in the computation of loss per share for 2006 and 2005 because to do so would have been anti-dilutive. At December 31, 2006 and 2005, the Company had 4,274,239 and 1,093,807 potentially dilutive common shares, respectively.

Stock-based compensation—On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 123(R), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) requires the measurement and recognition of compensation expenses for all share-based payment awards made to employees and directors including employee stock options and restricted stock based on estimated fair values. SFAS No. 123(R) supersedes the Company’s previous accounting under Accounting Principles Board (“APB”) Opinion No. 25, Accounting for Stock Issued to Employees. The Company adopted SFAS No. 123(R) using the modified prospective method. Under the modified prospective method, compensation costs are recognized beginning with the effective date based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. In accordance with the modified prospective transition method, the Company’s financial statements for the prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

We estimate the fair value of each option award issued under our stock option plans on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the following table in accordance with FAS 123(R). The Company estimates the volatility of its common stock at the date of grant based on the historical volatility of its common stock. These historical periods may exclude portions of time when unusual transactions occurred. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and post-vesting forfeitures. For shares that vest contingent upon achievement of certain performance criteria, it is assumed the goal will be achieved or an estimate of the probability of achievement is applied in the estimate of fair value. If the goals are not met, no compensation cost is recognized and any recognized compensation cost is reversed. The Company bases the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award. The Company has never paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. In addition, the Company separates the grants into homogeneous groups and analyzes the assumptions for each group. The Company then computes the expense for each group utilizing these assumptions.

	Years Ended December 31,	
	2006	2005
Expected volatility	71% – 87%	40.0%
Weighted-average volatility	86.4%	40.0%
Risk-free interest rate	4.35% – 5.09%	3.7%
Expected dividend yield	0%	0%
Expected life in years	3.2 – 9.1	7.0

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(continued):

Under the SFAS No. 123(R), stock-based compensation expenses recognized in the accompanying audited statement of operations for the year ended December 31, 2006 was \$222,283 which caused net loss to increase by that amount and basic and diluted loss per share for 2006 to increase by \$0.08, respectively. Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB Opinion No. 25 as allowed under SFAS No. 123. Under the intrinsic value method, no stock-based compensation expenses have been recognized in the Company's statement of operations for stock options because the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant. If the Company had elected to recognize compensation expense for stock options based on the fair value at grant date, consistent with the method prescribed by SFAS No. 123(R), net loss and loss per share for 2005 would have been increased to the pro forma amounts shown below:

	Years Ended December 31, 2005
Net loss, as reported	\$ (488,458)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(1,005,783)
Pro forma net loss	<u><u>\$(1,494,241)</u></u>
Basic and Diluted Loss per share:	
As reported	\$ (0.19)
Pro forma	<u><u>\$ (0.59)</u></u>

Comprehensive income—Pursuant to SFAS No. 130, "Reporting Comprehensive Income," the Company is required to report comprehensive income and its components in its financial statements, which includes unrealized gains and losses on available for sale securities, net of applicable deferred taxes.

Business segments—Pursuant to SFAS No. 131, "Disclosure about Segments of a Business Enterprise and Related Information," the Company is required to report segment information. As the Company only operates in principally one business segment, no additional reporting is required.

Major Suppliers—The Company made purchases from three major suppliers representing approximately 29%, 11% and 10% of total net purchases for the year ended December 31, 2006 compared to purchases from two major suppliers representing approximately 37% and 15% of total net purchases for the year ended December 31, 2005.

Reclassifications—Certain items in the financial statements of the prior period have been reclassified to conform to current period classification.

Recent accounting pronouncements—In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of this standard on its financial statements.

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(continued):

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements." SFAS 157 simplifies and codifies guidance on fair value measurements under generally accepted accounting principles. This standard defines fair value, establishes a framework for measuring fair value and prescribes expanded disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the effect, if any, the adoption of SFAS 157 will have on our financial condition, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, "Fair Value Option for Financial Assets and Financial Liabilities", (SFAS No. 159) which upon adoption would allow entities to choose to measure many financial instruments and certain other items at fair value through earnings. The standard allows the fair value measurement to be applied instrument by instrument, is irrevocable for any instruments for which such selection is made, and applies to the entire instrument. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this standard on its financial statements.

2. INVENTORIES:

Inventories consist of the following:

	December 31,	
	2006	2005
Raw materials	\$2,603,353	\$2,385,118
Work in process	7,771	—
Finished goods	<u>1,126,371</u>	<u>1,115,350</u>
	3,737,495	3,500,468
Less reserve for obsolescence	<u>(274,128)</u>	<u>(221,286)</u>
Net inventories	<u>\$3,463,367</u>	<u>\$3,279,182</u>

3. TERMINATION OF CAPITAL LEASE OBLIGATION WITH RELATED PARTY:

On November 29, 2006, the Company entered into a lease termination agreement with Max King Realty, Inc. ("Max King Realty"), a company controlled by Brett M. Kingstone, the Company's chairman of the board, to terminate the capital lease with Max King Realty for the Company's existing facility. The lease had a fifteen-year term extending through June 15, 2012. Max King Realty was willing to accommodate the Company's desire to terminate its obligations under the lease for its current facility by terminating the lease, repaying the third party indebtedness secured by the premises and selling the premises to an unrelated third party.

In connection with accommodating the Company's request for early termination of the lease of its existing facility, Max King Realty incurred a prepayment penalty to a third party lender for the early repayment of the indebtedness secured by the leased premises in an amount equal to approximately \$332,800. The Company agreed to pay Max King Realty the full amount of the prepayment penalty by delivery of an unsecured promissory note in the principal amount of \$332,846. The promissory note was paid in full in January 2007. The termination of the lease releases Super Vision and Max King Realty from all duties and obligations to each other under the capital lease.

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

3. TERMINATION OF CAPITAL LEASE OBLIGATION WITH RELATED PARTY—(continued):

Upon executing the lease termination agreement, the balance of the capital lease obligation of \$2,312,900, less the promissory note payable to Max King Realty of approximately \$332,800 and the net book value of the related office/warehouse building of approximately \$1,232,400 resulted in a gain on termination of capital lease of approximately \$747,700. This gain was offset in part by an impairment loss of \$241,300 for leasehold improvements made to the facility resulting in a net gain of \$506,400 which is reflected in the accompanying statement of operations as gain on termination of capital lease, net of impairment. Deposits paid under the lease agreement previously included in other assets, was returned to the Company in the amount of \$50,000 as of December 31, 2006.

Assets recorded under this capital lease as of December 31, 2005 included in property and equipment were as follows:

	December 31, 2005
Office/Warehouse building	\$ 3,081,000
Less accumulated amortization	(1,745,900)
	<u>\$ 1,335,100</u>

4. OPERATING LEASES:

On November 30, 2006, the Company entered into a new five year operating lease agreement with EastGroup Properties, L.P., an unrelated party. Pursuant to the lease, on April 1, 2007, the Company relocated to approximately 34,000 square feet of office, distribution and light manufacturing space at a new location in Orlando, Florida, which will be used for its Orlando operations facility. Base rent under the lease starts on April 1, 2007 at monthly payments of \$19,846 for the first twelve-month period and increases annually by 3.5% thereafter. In addition to base rent, the Company is required to pay its pro rata share of the property's operating expenses, including property taxes, insurance and non-structural repairs. The lease provides for a security deposit of \$28,576.

On November 30, 2006, the Company entered into a four month operating lease with FLIR Systems, Inc., the new owner of the property previously leased from Max King Realty, Inc.. The lease was for the use of 40,000 square feet of manufacturing and distribution space at a gross monthly amount of \$29,820 through March 31, 2007. A security deposit has been paid in the amount of \$28,000 and is expected to be returned upon inspection of the property. The Company was not required to lease the premises from the new owner in connection with the capital lease termination agreement with Max King Realty. The sale of the building was a separate transaction between Max King Realty, Inc. and FLIR Systems, Inc.

On February 27, 2007, the Company entered into a new five year operating lease agreement with Floyd Smith Office Park, LLC, commencing approximately June 1, 2007 for the Company's new corporate headquarters in Charlotte, North Carolina. The Company will lease approximately 2,100 square feet of class A office space for a gross rental rate of \$3,400 per month including build-out, power and water utilities and the Company's pro rata share of the property's operating expenses, property taxes, insurance and non-structural repairs. After the initial twelve-month period, the rent will increase annually by 3.0%. The lease provides for a security deposit of \$3,400.

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

4. OPERATING LEASES—(continued):

At December 31, 2006, future payment obligations under the operating leases described above were as follows:

2007	\$ 328,719
2008	360,100
2009	372,494
2010	385,314
2011 and thereafter	507,628
Total future payment obligations	<u>\$ 1,954,255</u>

5. FINANCIAL INSTRUMENTS AND CREDIT RISKS:

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. The Company's financial instruments that are exposed to concentrations of credit risk consist of cash, cash equivalents, investment and accounts payable. The Company places its cash and cash equivalents with high credit quality institutions. At times such balances may be in excess of the FDIC insurance limit. The Company also places its investments with a major brokerage firm. These funds are uninsured. The Company purchases all of its fiber optic strands from a single Japanese supplier. While the Company believes alternative sources for fiber optic strands are available to enable it to produce endpoint signs and displays, the *SIDE-GLOW*® and *END GLOW*® cables require fiber optic material of a higher quality than the Company believes is generally available elsewhere. Accordingly, the loss of this supplier or delays in obtaining shipments could have a material adverse effect on the Company's operations until such time as an alternative supplier could be found.

All of the Company's LED lighting products and systems are manufactured by select overseas suppliers in an effort to reduce production costs. While the Company believes alternative sources for the production of these products are available, the Company has selected these particular suppliers based on their ability to consistently produce these products per the Company's specifications ensuring the best quality product at the most cost effective price. The Company depends on these suppliers to satisfy performance and quality specifications and to dedicate sufficient production capacity for finished products within scheduled delivery times. Accordingly, the loss of one or more of these suppliers or delays in obtaining shipments could have a material adverse effect on the Company's operations until such time as an alternative supplier could be found.

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

6. INCOME TAXES:

As of December 31, 2006, the Company had approximately \$6,866,000 and \$4,188,000 in net operating loss carry forwards for federal and state income tax purposes, respectively, which expire between 2010 and 2026.

Components of deferred tax assets (liabilities) are as follows:

	December 31,	
	2006	2005
Accounts receivable	46,000	\$ 37,000
Inventories	103,000	83,000
Accrued expenses	73,000	35,000
Depreciation	(192,000)	268,000
Stock warrants	137,000	53,000
Other	4,000	7,000
Net operating loss carry forwards	2,584,000	1,511,000
	2,755,000	1,994,000
Valuation allowance	(2,755,000)	(1,994,000)
	<u>\$ —</u>	<u>\$ —</u>

In accordance with SFAS No. 109, "Accounting for Income Taxes", valuation allowances are provided against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has evaluated the realizability of the deferred tax assets on its balance sheet and has established a valuation allowance in the amount of \$2,755,000 at December 31, 2006, an increase of approximately \$761,000 over December 31, 2005.

The following is a reconciliation of tax computed at the statutory federal rate to the income tax expense in the statements of operations for the years ended December 31, 2006 and 2005:

	2006		2005	
	Amount	%	Amount	%
Tax benefit computed at statutory federal rate	\$(759,901)	(34.0)	\$(166,076)	(34.0)
Deferred state tax expense (benefit)	(73,262)	(3.3)	4,152	0.8
Change in valuation allowance	761,000	34.0	(45,000)	41.8
Restatement impact and adjustment to net operating loss carry forwards	—	—	204,252	41.8
Non-deductible expenses	6,728	0.3	7,626	1.6
Other, net	65,435	3.0	(4,954)	(1.0)
Income tax expense	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>

7. CAPITAL STOCK:

Class A common stock—At December 31, 2006 the Company has reserved Class A Common Stock for issuance in relation to the following:

Employee Stock Options	514,465
Shares Subject to Warrants	3,638,958
Conversion of Class B Common Stock	604,080

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

7. CAPITAL STOCK—(continued):

Class B common stock—Each share of Class B Common Stock is entitled to five votes on all matters on which stockholders may vote, including the election of directors. Shares of Class B Common Stock are automatically convertible into an equivalent number of shares of Class A Common Stock upon the sale or transfer of such shares. Effective March 26, 2007, the Company redeemed all of the outstanding shares of Class B Common Stock in exchange for 604,080 shares of Class A Common Stock, or 1.25 shares of Class A Common Stock for each share of Class B Common Stock exchanged. The transaction was effected pursuant to an Exchange Agreement between the Company and the Kingstone Family Limited Partnership II (“KFLP”), an entity controlled by Brett M. Kingstone, the Company’s chairman of the board, dated March 26, 2007. Pursuant to the Exchange Agreement, KFLP exchanged 483,264 shares of the Company’s Class B Common Stock, constituting all of the issued and outstanding shares of the Company’s Class B Common Stock, for 604,080 shares of the Company’s Class A Common Stock (the “Exchange”). The Exchange eliminated the disparity in voting rights between the Class B Common Stock, which is entitled to five votes per share and the Class A Common Stock, which is entitled to one vote per share.

Stock warrants—The Company has 3,638,958 warrants outstanding in connection with the transactions described below.

The Company has granted a 10-year warrant for 289,187 shares of Class A Common Stock at an exercise price of \$4.30 per share to Brett Kingstone. Mr. Kingstone is the chairman of the board of the Company and was chief executive officer of the Company until December 31, 2005. The warrant was granted on September 9, 2005 and has been assigned by Mr. Kingstone to the Kingstone Family Ltd Partnership II, an entity controlled by Mr. Kingstone.

On December 7, 2006, the Company closed the private offering to a limited number of accredited investors of approximately 40,360 units at a price of \$223 per unit, resulting in gross cash subscriptions of approximately \$9 million, and net proceeds to the Company of approximately \$8,350,000 (the “Private Placement”). Each unit consisted of 100 shares of Class A common stock, a warrant to purchase 60 shares of Class A common stock exercisable at \$2.23 per share, expiring five years from the date of issuance (the “Base Warrants”) and a second warrant to purchase 15 shares of Class A common stock exercisable at \$3.00 per share, expiring five years from the date of issuance (the “Additional Warrants”). The securities were sold solely to accredited investors in a private placement offering exempt from registration under the Securities Act of 1933, as amended.

In connection with the Private Placement, the placement agent was paid \$630,000 in cash and received a warrant (the “Placement Agent Warrant”) to purchase 322,870 shares of the Company’s Class A Common Stock equal to 8% of the quotient obtained by dividing (a) the aggregate gross proceeds received by the Company from the sale of units in the Private Placement, by (b) the exercise price of the Base Warrants issued to purchasers in the Private Placement. The Placement Agent Warrant has the same terms and conditions as the Base Warrants issued to purchasers in the Private Placement.

In connection with the Private Placement, the Company entered into a Common Stock and Warrant Purchase Agreement with purchasers of the securities that contains customary representations, warranties and covenants. The warrants issued in the Private Placement have a term of five years and contain customary provisions for adjustment to the exercise price in the event of stock splits, combinations and dividends and, in the case of the Base Warrants, include certain cashless-exercise provisions.

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)
December 31, 2006

7. CAPITAL STOCK—(continued):

The total number of shares under the warrants is listed in the table below:

<u>Base Warrants</u>	<u>Additional Warrants</u>	<u>Placement Agent Warrants</u>
2,421,525	605,376	322,870

In connection with the Private Placement, the Company entered into a Registration Rights Agreement with the purchasers of the securities pursuant to which the Company agreed to file a registration statement with the Securities and Exchange Commission ("SEC") within 60 days of the closing and use commercially reasonable efforts to obtain effectiveness of the registration statement within 120 days of the closing. A registration statement covering the resale of shares of Class A common stock sold in the Private Placement and the shares of Class A common stock underlying the warrants sold in the Private Placement was filed with the SEC within 60 days of the closing. The Company's failure to abide by the effectiveness covenant will result in the Company's obligation to pay liquidated damages in the form of cash or shares of Class A common stock at the rate of one percent of the subscription amount of each purchaser for each failure continuing more than 30 days (and for each 30-day period thereafter up to 18 months).

8. STOCK OPTION PLAN:

The Company adopted a stock option plan in 1994 (the "1994 Plan") that provided for the grant of incentive stock options and nonqualified stock options, and reserved 450,000 shares of the Company's Class A Common Stock for future issuance under the plan. The option price must have been at least 100% of market value at the date of the grant and the options have a maximum term of 10 years. Options granted typically vest ratably over a three-year period or based on achievement of performance criteria. The Company typically grants selected executives and other key employees share option awards, whose vesting is contingent upon meeting various departmental and company-wide performance goals including meeting sales targets and net profit targets. As of December 31, 2006, options to purchase 86,232 shares of Class A common stock were vested and exercisable under the 1994 Plan. The 1994 Plan terminated in 2004.

On September 18, 2003, the Company adopted a new stock option plan (the "2003 Plan") that provides for the grant of incentive stock options and nonqualified stock options, and reserved 450,000 additional shares of the Company's Class A Common Stock for future issuance under the plan. The option price of incentive stock options must be at least 100% of market value at the date of the grant and incentive stock options have a maximum term of 10 years. Options granted typically vest ratably over a three-year period or based on achievement of performance criteria. The Company typically grants selected executives and other key employees share option awards, whose vesting is contingent upon meeting various departmental and company-wide performance goals including meeting sales targets and net profit targets. As of December 31, 2006, 313,881 shares of Class A common stock were vested and exercisable under the 2003 Plan.

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

8. STOCK OPTION PLAN—(continued):

The following table summarizes activity of the stock option plans for the years ended December 31, 2006 and 2005:

	Shares Available for Future Grant	Number of Shares Outstanding Under Option	Weighted Average Exercise Price
Balance, January 1, 2005	406,471	391,650	\$ 5.05
Reserved for New Plan			
Options granted at market	(346,800)	346,800	\$ 4.25
Options exercise	—	(2,485)	\$ 3.50
Options forfeited or expired	31,933	(81,033)	\$ 4.43
Balance, December 31, 2005	91,604	654,932	\$ 4.71
Options granted at market	(86,050)	86,050	\$ 2.56
Options exercise	—	(300)	\$ 2.10
Options forfeited or expired	95,661	(226,217)	\$ 4.27
Balance, December 31, 2006	101,215	514,465	\$ 3.74

The weighted average fair value of options granted at market during 2006 and 2005 was \$2.06 and \$2.03 per option, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006 and 2005 was \$366 and \$513, respectively. The aggregate intrinsic value of the outstanding options at December 31, 2006 was \$168,346. At December 31, 2006, the 514,465 options outstanding under both plans are summarized as follows:

Option Shares	Range of Exercise Prices	Weighted Average Exercise Price	Weighted Average Remaining Life
301,415	\$1.81—\$3.98	\$ 3.00	8.3 years
174,050	\$4.00—\$6.00	\$ 4.39	7.8 years
39,000	\$6.05—\$9.31	\$ 6.50	2.8 years

A summary of the non-vested shares as of December 31, 2006 and changes during the year ended December 31, 2006 is presented below:

Non-vested Shares	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2006	210,617	\$ 3.56
Granted	86,050	\$ 2.06
Vested	(86,654)	\$ 2.14
Forfeited	(95,661)	\$ 3.58
Non-vested at December 31, 2006	114,352	\$ 3.59

As of December 31, 2006, the total compensation cost related to non-vested awards will be approximately \$13,000, \$4,000 and \$1,000 for the years ended December 31, 2007, 2008, and 2009 respectively.

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

8. STOCK OPTION PLAN—(continued):

The aggregate intrinsic value of the exercisable options was \$81,841 at December 31, 2006. The total fair value of shares vested during the year was approximately \$185,000. As of December 31, 2006, 400,113 options were vested and exercisable under both plans as summarized below.

<u>Option Shares</u>	<u>Range of Exercise Prices</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u>
214,431	\$1.81—\$3.98	\$ 3.26	8.1 years
146,782	\$4.00—\$6.00	\$ 4.40	7.6 years
38,900	\$6.05—\$9.31	\$ 6.50	2.8 years

The Company granted options during 2005 whose vesting is contingent on meeting certain goals such as revenue growth and net income levels for fiscal years 2006 and 2007. In addition, the Company's CEO was granted 50,000 shares during 2006 based on the Company's ability to raise equity which was vested upon the successful completion of the Private Placement in December 2006. The grant date fair value of performance options granted during 2006 and 2005 was \$1.84 and \$3.59, respectively. As of December 31, 2006, there was no unrecognized compensation cost related to non-vested performance options since the performance objectives for 2007 had not been determined. A summary of activity of options that vest contingent upon achievement of certain performance criteria under the 2003 Plan as of December 31, 2006 and changes during the year then ended is presented below. These shares were also included in the summary of activity of stock option plans for the year ended December 31, 2006 above.

<u>Performance Based Shares</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at January 1, 2005	—	—		
Granted	<u>170,000</u>	\$ 3.37		
Outstanding at December 31, 2005	170,000	\$ 3.37		
Granted	50,000	\$ 2.20		
Exercised	—	—		
Forfeited or expired	<u>(70,000)</u>	\$ 4.30		
Outstanding at December 31, 2006	<u>150,000</u>	<u>\$ 2.55</u>	<u>9.1</u>	<u>\$140,000</u>
Exercisable at December 31, 2006	<u>50,000</u>	<u>\$ 2.20</u>	<u>9.9</u>	<u>\$ 56,000</u>

A summary of the non-vested shares that vest contingent upon achievement of certain performance criteria under the 2003 Plan as of December 31, 2006 and changes during the year then ended is presented below. These shares were also reflected in the summary above.

<u>Performance Based Non-vested Shares</u>	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Non-vested at January 1, 2006	170,000	\$ 3.59
Granted	50,000	\$ 1.84
Vested	(50,000)	\$ 1.84
Forfeited	<u>(70,000)</u>	<u>\$ 3.59</u>
Non-vested at December 31, 2006	<u>100,000</u>	<u>\$ 3.59</u>

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

9. EXPORT SALES:

Sales to foreign markets as a percentage of the Company's total revenues were as follows:

	2006	% of Sales	2005	% of Sales
Foreign markets:				
Americas (excluding USA)	\$1,839,089	17%	\$1,936,637	16%
Europe, the Middle East and Africa	1,144,085	10%	1,630,259	14%
Asia Pacific	700,286	6%	1,026,269	9%
Japan	126,802	1%	139,691	1%

10. BENEFIT PLANS:

The Company has established a profit sharing plan that permits participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. The Company made matching contributions equal to 50% of the participants' contributions, to a maximum of 3% of the participants' salary. Total matching contributions paid by the Company were approximately \$40,000 and \$32,000 for the years ended December 31, 2006 and 2005, respectively.

11. CONTINGENCIES:

The Company is not currently a party to any pending legal proceedings. In the ordinary course of business the Company may become a party to various legal proceedings generally involving contractual matters, infringement actions, product liability claims and other matters.

A settlement of all disputes between Ocean Bank and Great Eastern Bank of Florida (Ocean Bank) and the Company was reached in October 2006 to the mutual satisfaction of all parties. After costs and expenses, including attorneys' fees and a payment to Brett M. Kingstone, the Company's chairman of the board, pursuant to the Participation Agreement between Super Vision and Mr. Kingstone, as amended, Super Vision received a net amount of approximately \$237,000 from the proceeds of the settlement in November 2006. Pursuant to the Participation Agreement, Mr. Kingstone received approximately \$252,000 from the proceeds of the settlement.

On December 6, 2006, the Company announced that it has entered into a Settlement and License Agreement (the "Agreement") with Color Kinetics Incorporated ("Color Kinetics") dated as of December 4, 2006 ending all pending litigation between the two companies. Under the terms of the Agreement:

- Super Vision agreed to pay Color Kinetics \$825,000 as settlement for all claims that the parties may have against each other to include all patent infringement damages and legal costs and fees that arose prior to the execution of the Agreement and the amount awarded to Color Kinetics in the final judgment issued by the U.S. District Court for the District of Massachusetts (the "Final Judgment"). The Company delivered to Color Kinetics a promissory note in the amount of \$825,000 payable to Color Kinetics. The promissory note is due and payable in full by December 25, 2007, and is payable in equal twelve month installments of \$68,750 beginning January 25, 2007.
- Super Vision agreed to drop its pending claim of infringement against Color Kinetics with respect to U.S. patent #4,962,687, known as the '687 patent, in the U.S. District Court for the Eastern District of Texas.

SUPER VISION INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 2006

11. CONTINGENCIES —(continued):

- Color Kinetics agreed to drop its declaratory judgment claim of non-infringement of the '687 patent filed in the U.S. District Court for the District of Massachusetts.
- Color Kinetics granted the Company a royalty bearing license to its worldwide patent portfolio, allowing the company to continue the manufacture and sale of its LED-based lighting products, including the Savi™ line.
- Super Vision granted Color Kinetics a royalty free license to the '687 patent.
- Super Vision waived its rights to appeal the Final Judgment granted to Color Kinetics by the U.S. District Court of Massachusetts on November 8, 2006. In its ruling, the Court permanently enjoined Super Vision from manufacturing or selling in the United States any of the Super Vision products that were held to infringe Color Kinetics' patents, and all other Super Vision products which are merely colorable variations of the litigated products. By granting a license, Color Kinetics is allowing Super Vision to continue the sale of all enjoined products.

On May 10, 2006, B&S Plastics, Inc. doing business as Waterway Plastics ("B&S Plastics") filed a law suit against the Company in the Federal District Court of the Central District of California (case number: CV06-2826-GHK (JTLx)) for patent infringement and unfair competition alleging that one of the Company's new waterfall products infringes its patent for a pool/spa waterfall apparatus with an interchangeable outlet cap. Although the Company denied any patent infringement, on February 1, 2007 the Company and B&S Plastics entered into a settlement agreement whereby the Company agreed to modify the design and installation/instruction sheets of its waterfall product and B&S Plastics agreed to allow the Company to sell off up to 10,000 of the current product design held in inventory.

12. REVOLVING LINE OF CREDIT:

On February 10, 2006 the Company obtained a \$1,200,000 revolving line of credit from a financial institution to manage our working capital needs in conjunction with our cash and investments. On June 30, 2006, the revolving line of credit was increased to \$1,600,000 with the requirement that we maintain a minimum investment balance of \$500,000 in accounts held with the lender. The line of credit expired on February 10, 2007 and was extended to May 10, 2007, at which time we expect that a new agreement will be entered into with the financial institution. As of December 31, 2006, there were no amounts outstanding under this line of credit and there was an available balance of \$1.6 million. The line is secured by substantially all of the assets of the Company. Interest is at LIBOR plus 1.85% per annum (7.19% at December 31, 2006) and is payable monthly. The agreement includes financial covenants related to maintenance of tangible net worth and operating losses and achievement of a debt service coverage ratio. The Company was not in compliance with the debt service coverage ratio for the year ended December 31, 2006. However the financial institution waived this covenant violation for the year ended December 31, 2006.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUPER VISION INTERNATIONAL, INC.

Date: March 31, 2006

By: /s/ Michael Bauer
Michael Bauer, President,
Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>/s/ Michael Bauer</u> Michael Bauer – President Chief Executive Officer / Director (Principal Executive Officer; Principal Financial Officer)	March 31, 2006
<u>/s/ Deidre Fraser</u> Deidre Fraser – Corporate Controller (Principal Accounting Officer)	March 31, 2006
<u>/s/ Brett M. Kingstone</u> Brett M. Kingstone—Chairman of the Board of Directors	March 31, 2006
<u>/s/ Brian McCann</u> Brian McCann – Director	March 31, 2006
<u>/s/ Anthony Nicolosi</u> Anthony Nicolosi – Director	March 31, 2006
<u>/s/ Edgar Protiva</u> Edgar Protiva – Director	March 31, 2006
<u>/s/ Fritz Zeck</u> Fritz Zeck – Director	March 31, 2006
<u>/s/ Anthony Castor</u> Anthony Castor – Director	March 31, 2006

EXHIBIT INDEX

3.1	Certificate of Incorporation of the Company ⁽¹⁾
3.2	Amendment to Certificate of Incorporation ⁽¹⁾
3.3	Amendment to Certificate of Incorporation ⁽³⁾
3.4	Amendment to Certificate of Incorporation ⁽²⁾
3.5	Bylaws ⁽¹⁾
4.1	Form of Class A Common Stock Certificate ⁽⁴⁾
4.2	Form of Common Stock Purchase Warrant issued to certain accredited investors and the placement agent to purchase shares of the Company's Class A Common Stock at an exercise price of \$2.23 per share ⁽¹¹⁾
4.3	Form of Common Stock Purchase Warrant issued to certain accredited investors to purchase shares of the Company's Class A Common Stock at an exercise price of \$3.00 per share ⁽¹²⁾
10.1†	Form of Indemnification Agreement ⁽¹⁾
10.2†	Super Vision International, Inc. 1994 Stock Option Plan, as amended and restated ⁽²⁾
10.3†	Super Vision International, Inc. 2003 Stock Incentive Plan ⁽⁷⁾
10.4†	Warrant Agreement dated as of December 21, 2005 between the Company and the Kingstone Family Ltd Partnership II ⁽⁸⁾
10.5.1†	Employment Agreement between the Company and Michael A. Bauer dated September 9, 2005 ⁽⁹⁾
10.5.2†	Amendment to Employment Agreement between the Company and Michael A. Bauer dated January 19, 2007 ⁽¹³⁾
10.6†	Transition Agreement between the Company and Brett M. Kingstone dated September 9, 2005 ⁽²⁰⁾
10.7†	Contingent Proceeds Participation Agreement between Brett M. Kingstone and the Company dated September 19, 2003 ⁽⁵⁾
10.8	Business Loan Agreement between the Company and RBC Centura Bank dated February 10, 2006 ⁽²¹⁾
10.9	Lease for Southridge Park Court facility ⁽¹⁴⁾
10.10*	Lease for Floyd Smith Office Park facility
10.11	Form of Common Stock and Warrant Purchase Agreement by and between the Company and each purchaser in the private placement dated as of December 7, 2006 ⁽¹⁵⁾
10.12	Form of Registration Rights Agreement by and between the Company and each purchaser in the private placement, dated as of December 7, 2006 ⁽¹⁶⁾
10.13	Registration Rights Agreement between the Company and Cooper Lighting, Inc., dated as of November 23, 1998, included as Exhibit C to the Stock Purchase Agreement between the Company and Cooper Lighting, Inc. dated as of November 23, 1998 ⁽¹⁷⁾
10.14	Escrow Agreement between the Company and RBC Centura Bank, dated as of November 30, 2006 ⁽¹⁸⁾
10.15	Exchange Agreement between the Company and Brett M. Kingstone dated March 26, 2007 ⁽¹⁹⁾
10.16#*	Settlement and License Agreement between the Company and Color Kinetics Incorporated dated December 4, 2006
14.1	Code of Business Conduct and Ethics ⁽⁶⁾

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- 23.1* Consent of Cross, Fernandez & Riley LLP, Independent Registered Public Accounting Firm
- 31.1* Certifications by chief executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certifications by chief executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith

Application has been made to the Securities and Exchange Commission for confidential treatment of certain provisions. Omitted provisions for which confidential treatment has been requested has been filed separately with the Securities and Exchange Commission.

† Management contract or compensatory plan or agreement

- (1) Incorporated by Reference to the Company's Registration Statement on Form SB-2 (File No. 33-74742)
- (2) Incorporated by Reference to the Company's Definitive Proxy Statement filed April 29, 1997
- (3) Incorporated by Reference to the Company's Definitive Proxy Statement filed April 22, 1998
- (4) Incorporated by Reference to the Company's Registration Statement on Form SB-2 (File No. 333-73804)
- (5) Incorporated by Reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003
- (6) Incorporated by Reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003
- (7) Incorporated by Reference to the Company's Definitive Proxy Statement filed April 16, 2004
- (8) Incorporated by Reference to the Company's Definitive Proxy Statement filed November 3, 2005
- (9) Incorporated by Reference to the Company's Current Report on Form 8-K filed September 14, 2005
- (10) Incorporated by Reference to the Company's Current Report on Form 8-K filed October 18, 2005
- (11) Incorporated by Reference to the Company's Current Report on Form 8-K filed on December 8, 2006
- (12) Incorporated by Reference to the Company's Current Report on Form 8-K filed on December 8, 2006
- (13) Incorporated by Reference to the Company's Current Report on Form 8-K filed on January 19, 2007
- (14) Incorporated by Reference to the Company's Current Report on Form 8-K filed on December 5, 2006
- (15) Incorporated by Reference to the Company's Current Report on Form 8-K filed on December 8, 2006
- (16) Incorporated by Reference to the Company's Current Report on Form 8-K filed on December 8, 2006
- (17) Incorporated by Reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1998
- (18) Incorporated by Reference to the Company's Registration Statement on Form S-3 (File No. 333-140286)
- (19) Incorporated by Reference to the Company's Current Report on Form 8-K filed on March 29, 2007
- (20) Incorporated by Reference to the Company's Current Report on Form 8-K filed on September 14, 2005
- (21) Incorporated by Reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005

LEASE AGREEMENT

Suite # 300Sq Ft 2092\$/Sq Ft 19.50

THIS LEASE AGREEMENT (this "Lease") is made effective this 27th day of February, 2007, by and between Floyd Smith Office Park LLC, as landlord ("Landlord"), and Super Vision International, Inc. as tenant ("Tenant").

FOR AND IN CONSIDERATION of the mutual agreements contained herein, Landlord and Tenant agree as follows:

1. **DEFINITIONS.** Capitalized terms appearing in this Lease, unless defined elsewhere in this Lease, shall have the following definitions:

- a. "Additional Rent" shall mean all sums of money in addition to Base Rent which shall become due from Tenant under this Lease.
- b. "Building" shall mean that certain multi-story office building having a street address of 124 Floyd Smith Blvd., Charlotte, North Carolina 28262 and located on the Land.
- c. "Common Areas" shall mean all areas, improvements, space and special services within the Building or on the Land provided by Landlord from time to time in its sole discretion for the common or joint use and benefit of all tenants, customers and invitees of the Building, including, without limitation, any parking areas, access roads, service drives, service areas, driveways, entrances and exits, retaining walls, landscaped areas, truck serviceways, loading docks or ramps, pedestrian walkways, overstreet walkways, connecting malls, atriums, walls, ceilings, patios, courtyards, garden areas, plaza areas, park areas, concourses, ramps, sidewalks, corridors, washrooms, signs, maintenance buildings, utility buildings, hallways, lobbies, elevators, elevator foyers, escalators, stairs, common window areas, and trash, garbage or rubbish areas.
- d. "Land" shall mean the real property upon which the Building is situated as more particularly described on Exhibit A attached hereto and incorporated herein.
- e. "Net Useable Area" shall mean the number of square feet of enclosed floor area within the Building (or any portion thereof) intended for the exclusive use by the tenant or occupant thereof measured from the outside finished surface of the exterior walls or permanent outer building walls and from the mid-point of any interior or party wall. As of the execution date of this Lease, the Total Useable Area of the Building is 35,492 square feet.
- f. "Premises" shall mean the space shown cross-hatched on the floor plan attached hereto as Exhibit B and incorporated herein.
- g. "Rules and Regulations" means the rules and regulations adopted by Landlord for the Building, the Land and the Common Areas and attached hereto as Exhibit C and incorporated herein, as well as any other rules and regulations which Landlord may adopt in the future for the Building, the Land and the Common Areas.

2. **PREMISES.** Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, upon the terms and conditions and for the purposes set forth in this Lease, the Premises.

3. **TERM.**

- a. This Lease shall commence upon signed certificate of occupancy ("Commencement Date"), and shall continue for an initial term of 60 months ("Initial Term"), terminating at midnight of the last day of the 60th month unless modified or earlier terminated pursuant to the terms hereof.

4. **BASE RENT.**

a. As agreed, the first five (5) months are rent free. Following the first five (5) rent free months, Tenant shall pay annual Base Rent in advance, in twelve (12) equal monthly installments \$3,399.50 on or before the first (1st) day of each calendar month during the Term, without notice, deduction, demand, abatement, counterclaim or set off, at the rates set forth below. Base Rent for any partial month shall be paid in advance and prorated based on the number of days in such partial calendar month. The first (1st) payment of Base Rent shall be due and payable on or before the execution of this Lease. Base Rent and all other sums of money due from Tenant hereunder shall be collectively referred to hereinafter as "Rent".

Year Start Date	Year End Date	Monthly Rent	Annual Rent
2007	2008	\$3,399.50	\$40,794.00
2008	2009	\$3,501.49	\$42,017.88
2009	2010	\$3,606.53	\$43,278.36
2010	2011	\$3,714.73	\$44,576.76
2011	2012	\$3,826.17	\$45,914.04

b. Checks for all Rent shall be made payable to Landlord and mailed or delivered to the address set forth in Section 32 below or such other address as Landlord may designate to Tenant in writing. To defray administrative and handling expenses, Tenant agrees to pay an additional charge of Fifty and No/100 Dollars (\$50) for each returned check. If any payment of Rent is not received by Landlord within five (5) days of the due date, then Tenant shall pay Landlord the greater of (i) five percent (5%) of the late Rent; or (ii) Two Hundred Fifty and No/00 Dollars (\$250.00). In addition, if any payment of Rent is not received within ten (10) days of when due, such late Rent shall bear interest at the lesser of ten percent (10%) per annum, compounded monthly, or the maximum rate permitted under law, from the due date of such Rent until such late Rent and all interest accrued thereon is paid in full. Tenant acknowledges that the aforementioned late charge and interest are in addition to Landlord's other rights and remedies available under this Lease, at law or in equity, and that such late charge and interest shall in no way limit Landlord's other rights and remedies. If Landlord shall at any time accept any such Rent or other sums after the same shall become due and payable, such acceptance shall not excuse a delay upon subsequent occasions, or constitute or be construed as a waiver of any of Landlord's rights hereunder, at law or in equity.

5. **ADJUSTMENTS IN BASE RENT.**

a. Beginning with the first (1st) day of the thirteenth (13th) full calendar month following the Commencement Date and annually thereafter during the entire Term (the "Adjustment Dates"), a cost of living adjustment shall be made to Base Rent of 3%.

6. **COMMON AREAS.** Subject to the terms and conditions of this Lease and the Rules and Regulations, Tenant and its employees and invitees shall have the non-exclusive right to use, in common with other tenants and occupants of the Building, the Common Areas, as they may be designated by Landlord from time to time. Landlord or its successors or assigns may change or modify the size, use, shape, location or nature of any of the Common Areas, or eliminate them altogether, all without any liability to Tenant. There is 4762 sq ft of Common area at the time of this lease signature.

7. **UTILITIES AND OTHER SERVICES.**

a. Landlord agrees to furnish the following services:

- i. Hot and cold water at those points of supply provided for general use of all the tenants in the Building and within the Premise;
- ii. Central heat and air conditioning sufficient for the comfortable occupancy of the Premises; provided, however, heating and air conditioning service at times other than during "Normal

Business Hours” for the Building (which are 8:00 a.m. to 6:00 p.m., Monday through Friday, and 8:00 a.m. to 1:00 p.m. on Saturday, exclusive of normal business holidays) shall be furnished only on seventy-two (72) hours advance written request by Tenant to Landlord. Tenant shall bear the entire cost of such additional service as such costs are determined by Landlord from time to time. If Tenant shall use any equipment in the Premises which affects the temperature otherwise maintained by the central heating and air conditioning system, then Landlord shall have the right, in its sole discretion, to install supplemental air conditioning units and the cost thereof, including the cost of installation, maintenance and operation of such units, shall be paid by Tenant to Landlord upon demand;

- iii. Reasonable janitorial service, Monday through Friday only, exclusive of normal business holidays and
- iv. Facilities to provide electricity for routine lighting and the operation of general office equipment. Tenant shall not use any electrical equipment which in Landlord’s opinion will overload the Building’s electrical systems or circuits.

b. Landlord shall have the right to require Tenant to separately meter all non -standard or additional utilities and any or all of the utilities set forth above, in which case Tenant shall pay, prior to delinquency and directly to the appropriate utility company, all costs and expenses of such utility services, including all hook-up, user and tap fees and all other similar fees and charges.

c. Landlord shall not be obligated to furnish any services or utilities other than as set forth in this Section 7; provided, however, if Landlord elects to furnish additional services or utilities, and the Tenant agrees to accept them for the Premise, then Tenant shall pay Landlord the costs of such additional services or utilities, or Tenant’s pro-rata share thereof, as determined by Landlord and presented to the Tenant as an signed and agreed to addendum to the Lease. Notwithstanding the foregoing, Landlord shall have the right to interrupt any utilities or other services provided for in this Section 7 for such periods of time as Landlord deems necessary for repairs, alterations and improvements, and Landlord shall not be responsible for the stoppage or interruption of any such utilities or other services and no such interruption shall result in an abatement of Rent. The failure by Landlord to furnish, or the interruption or termination of such utilities or other services in whole or in part resulting from causes beyond the reasonable control of Landlord (including, without limitation, Force Majeure (as defined below)) shall not render Landlord liable in any respect or be construed as an eviction of Tenant, or work an abatement of Rent, or relieve Tenant from any of its obligations hereunder. If Tenant fails to pay for any utilities or services provided by Landlord hereunder within 3 calendar days of when the invoice for utilities/services is due, then Landlord shall have the right, without any notice to Tenant and in addition to Landlord’s other rights and remedies hereunder, to discontinue any or all of such utilities or services.

8. **TAXES AND ASSESSMENTS.** Landlord shall pay all ad valorem taxes assessed on the Land and/or the Building. Tenant shall pay, prior to delinquency, all taxes, assessments, impositions and charges assessed against or attributable to Tenant’s use and occupancy of the Premises, and assessed against all personal property, equipment, inventory and trade fixtures located within the Premises and owned by the Tenant. Tenant shall pay Landlord upon demand all taxes and assessments and other governmental impositions and charges of every kind and nature whatsoever, extraordinary as well as ordinary, whether or not now customary or within the contemplation of the parties hereto, which are levied upon or measured by the rental or any other sum payable hereunder, including, without limitation, any excise tax levied by any governmental body with respect to the receipt of such rental or such other sum. Any taxes, assessments, impositions or charges assessed with respect to the Land, the Premises or the Building as a result of alterations, additions or improvements to the Premises made by, for or at the direction of Tenant shall be reimbursed by Tenant to Landlord upon receipt by Tenant of written demand therefore from Landlord.

9. **USE OF THE PREMISES.** Tenant shall continuously use and occupy the Premises only for general business office purposes and for no other purpose. Tenant shall, at its own cost, promptly comply with all

applicable laws, rules, regulations and ordinances with respect to the use and occupancy of the Premises. Tenant shall comply with, and shall cause its employees, invitees, customers and agents to comply with, all Rules and Regulations, and Landlord shall have no liability to Tenant for the non-compliance by other tenants and occupants of the Building of the Rules and Regulations, however, Landlord shall have a duty to endeavor to cause all other tenants to comply with the Buildings Rules and Regulations to the best of their ability. Tenant shall not use or permit the use of the Premises for any purpose that is illegal, immoral or improper, or is in violation of any Rule or Regulation or any applicable legal, governmental or quasi-governmental requirement, law, ordinance or rule, or that, in Landlord's opinion, creates a nuisance, disturbs any other tenant of the Building or injures the reputation of the Building. Tenant acknowledges and agrees that Landlord has made no representation or warranty (either expressed or implied) as to the suitability of the Premises for Tenant's intended use of the Premises.

10. **PARKING.** During the Term, Tenant shall have the non-exclusive right to use, in common with Landlord and other tenants and occupants of the Building and their respective guests, employees and invitees, the non-reserved common automobile parking areas, driveways and footways located adjacent to the Building, as such areas are designated and/or modified by Landlord from time to time in its sole discretion. Landlord shall have the right to reserve parking spaces as it elects and condition the use thereof on such terms as it elects, all in its sole discretion. Tenant shall always have a minimum of fifteen (15) parking spaces in reasonable proximity to the building available to the Tenant for its employees and visitors.

11. **MAINTENANCE BY LANDLORD.** Landlord shall be responsible for maintaining and repairing the roof, foundations, exterior walls, all structural parts of the Building and all electrical, plumbing and heating, air conditioning and ventilation systems not exclusively serving the Premises including all common areas. Landlord shall not be responsible for any inconvenience or annoyance to Tenant caused by any such repairs or maintenance, and Tenant shall not reduce or withhold any portion of any Rent payment without a prior final judicial determination of Tenant's right to do so. However, Landlord shall diligently endeavor to avoid interrupting service for maintenance during the buildings operating hours. In the event any of the foregoing repairs or maintenance is required because of any act or omission of Tenant or its employees, agents, invitees or representatives, then Tenant shall pay Landlord upon demand all costs and expenses incurred by Landlord in performing such repairs or maintenance. Neither Landlord nor its agents have made any representations or warranties (either express or implied) with respect to the Premises or the condition thereof, and Tenant accepts the Premises in "AS IS" and "WHERE IS" condition. Tenant agrees that, by leasing the Premises, Tenant has examined the Premises and has approved all matters concerning the Premises which Tenant deems material to Tenant's leasing and use of the Premises. Landlord shall have no obligation to make any improvements, alterations, repairs or maintenance to the Premises prior to or during the Term except as specifically set forth herein.

12. **ALTERATIONS.**

a. Tenant shall not make any alterations, additions or improvements to any portion of the Premises, either inside or outside, without Landlord's prior written consent in each instance. Upon any request by Tenant to make any alterations, additions or improvements, Landlord reserves the right to require Tenant to submit to Landlord plans and specifications for Landlord's approval. Any alterations, additions or improvements (except for movable equipment and furniture owned by Tenant) installed in the Premises by or on behalf of Tenant shall, at Landlord's option, become a part of the Premises and Landlord's property upon the expiration or earlier termination of this Lease unless otherwise stated by Landlord in writing; provided, however, Landlord shall have the right to require Tenant to remove any such alteration, addition or improvement at Tenant's expense upon the expiration or earlier termination of this Lease. In the event that Landlord so elects, and Tenant fails to remove such alteration, addition or improvement, Landlord may remove such alteration, addition or improvement at Tenant's cost, and Tenant shall pay Landlord on demand the cost of restoring the Premises to the condition it existed as of the Commencement Date, ordinary wear and tear excepted. Tenant shall reimburse Landlord upon demand for all costs and expenses incurred by

Landlord in repairing or replacing any damage to the Building, Premises or Common Areas caused by Tenant or Tenant's agents, employees, invitees, or visitors except to the extent covered by insurance.

b. If any such alterations, additions or improvements are consented to by Landlord, Tenant, at its sole cost and expense, shall perform such work in a good and workmanlike manner, and shall obtain all necessary governmental permits and certificates necessary for the commencement and completion of such alterations, additions and improvements, and shall cause such alterations, additions and improvements to be performed in compliance therewith and with all applicable laws, ordinances, requirements, orders, rules and regulations.

13. **ASSIGNMENT AND SUBLETTING.** Tenant shall not assign or otherwise transfer this Lease or sublet any or all of the Premises without Landlord's prior written consent, which consent Landlord may withhold in its sole discretion. Such consent shall not be unreasonably withheld. The sale, transfer or issuance of the stock, membership interest or partnership interest of Tenant shall be deemed an assignment of this Lease which shall require Landlord's written consent, which will not be unreasonably withheld. If Landlord consents to any such assignment, sublet or transfer, (i) Tenant shall not be released from any obligations or liabilities under this Lease; (ii) Landlord shall receive all sums and other consideration paid or payable to Tenant by such assignee, transferee or subtenant; and (iii) Tenant shall reimburse Landlord for all costs and expenses incurred by Landlord in reviewing any such request. The acceptance of Rent by Landlord shall not be deemed to be a consent by Landlord to any such assignment, sublet or other transfer, nor shall the same be deemed a waiver of any right or remedy of Landlord under this Lease, at law or in equity. Consent to one assignment or sublease by Landlord shall not be deemed a consent to future assignments or subleases.

14. **DAMAGE AND LOSS.** Tenant shall use the Premises and all facilities of the Premises at Tenant's risk. Landlord shall not be liable to Tenant or Tenant's employees, licensees, invitees or guests or any other person for any loss, injury or damage to any property or person occasioned by theft, Force Majeure or any other cause beyond the control of Landlord, whether or not due to negligent acts or omissions of Tenant or Tenant's employees, licensees, invitees or guests or by any other third parties. All property placed on, in or about the Premises by, at the direction of, or with the consent of Tenant or its employees, agents, licensees or invitees shall be at the risk of Tenant or the owner thereof, and Landlord shall not be liable for any loss of or damage to said property resulting from any cause whatsoever.

15. **INSURANCE.**

a. Throughout the Term, Tenant shall maintain, at its own expense, the following types of insurance:

- i. commercial general public liability insurance, which shall include coverage for personal liability, contractual liability, Tenant's legal liability, bodily injury (including death) and property damage, all on an occurrence basis, with respect to the business carried on from the Premises and Tenant's use and occupancy of the Premises in an amount not less than \$1,000,000.00 per occurrence, with an umbrella liability policy of \$3,000,000.00 in excess of said liability insurance, with Landlord, Landlord's mortgagee (if any) and Landlord's designees named as additional insureds thereunder;
- ii. special extended coverage form property damage insurance with respect to Tenant's property, equipment, inventory and fixtures located in or about the Premises, at the full replacement cost thereof;
- iii. worker's compensation insurance as required by law; and
- iv. any other insurance which Landlord reasonably requires.

b. All such insurance policies shall:

- i. provide that they shall not be canceled or the coverage reduced without thirty (30) days prior written notice to Landlord and Landlord's designees and mortgagee (if any);

- ii. provide that such insurance shall be primary with respect to any policies carried by Tenant and that any coverage by Landlord shall be excess insurance;
- iii. be issued by insurance companies authorized and licensed to do business in the State where the Premises are located and approved by Landlord, with a policy holders rating of no less than "A-VIII" in the most current edition of Best's Insurance Reports;
- iv. contain a waiver of subrogation endorsement acceptable to Landlord; and
- v. contain deductible amounts acceptable to Landlord, but in no event greater than \$5,000.00.

c. A copy of each insurance policy required to be maintained hereunder shall be delivered to Landlord prior to the Commencement Date and not less than thirty (30) days prior to any renewal of such insurance policy. If Tenant fails to procure any of the insurance required under this Section 15 and fails to maintain the same in full force and effect continuously during the Term, then Landlord shall have the right to obtain such insurance, and Tenant shall immediately reimburse Landlord for all costs and expenses of obtaining such insurance.

d. Anything in this Lease to the contrary notwithstanding, Landlord and Tenant each hereby waive any and all rights of recovery, claims, actions or causes of action against the other, its agents, officers, or employees, for any loss or damage that may occur to the Premises or a part thereof, or any improvements thereto, or any personal property of such party therein, by reason of fire, the elements, or any other cause which is insured against under the terms of the insurance policies referred to in this Section 15, regardless of cause or origin, including negligence of the other party hereto, its agents, officers, or employees. All insurance policies carried with respect to this Section 15, if permitted under applicable law, shall contain a provision whereby the insurer waives all rights of subrogation against Landlord and Tenant.

16. **INDEMNIFICATION.** Tenant agrees to indemnify, defend and hold Landlord and its employees, agents, officers or representatives harmless from and against any and all suits, actions, claims, costs, damages, liabilities and expenses (including attorney's fees and court costs) caused in whole or in part, or arising directly or indirectly out of any negligent act or omission or willful misconduct of Tenant or Tenant's agents, employees, customers, invitees or contractors; or (iii) any breach by Tenant of its obligations under this Lease.

17. **CASUALTY.**

a. In case of damage to or destruction of the Building or the Premises by fire or other casualty, Tenant shall give immediate written notice to Landlord. In such event, Landlord may terminate this Lease upon written notice to Tenant within ninety (90) days of the date of such casualty. In the event Landlord does not elect to terminate this Lease, after receipt of sufficient insurance proceeds, Landlord shall restore, repair and rebuild the Premises as nearly as practical to the condition the Premises was in immediately prior to such casualty, and Base Rent shall equitably abate based on the nature and extent of the Premises so damaged from the date of the casualty until the date that the Premises is substantially repaired or restored. All insurance proceeds in connection with any casualty shall be payable to Landlord. In no event shall Landlord be required to repair or restore any damage to Tenant's equipment, trade fixtures or other personal property.

b. Notwithstanding anything to the contrary contained in this Section 17, in the event the Building and/or the Premises are damaged by fire or other casualty, Landlord shall have the right to terminate this Lease upon thirty (45) days written notice to Tenant if (i) any lender holding a mortgage or deed of trust encumbering the Building or the Land requires that any portion of the insurance proceeds be applied to such indebtedness; (ii) a material portion of the Building or the Premises is damaged such that Landlord determines it would not be feasible to repair such damage; or (iii) Landlord does not (or will not (as determined by Landlord in its sole discretion) actually receive sufficient insurance proceeds to pay for all such repairs and restoration.

18. **EMINENT DOMAIN.** In the event all or any portion of the Building, Parking or the Premises is taken by eminent domain or pursuant to other governmental authority (including a deed in lieu thereof) (each, a "Taking"), then Landlord shall have the right to terminate this Lease upon written notice to Tenant given within sixty (60) days of the date of such Taking. If Landlord does not elect to terminate this Lease, Landlord, after receipt of the condemnation award, shall repair and restore the Premises as nearly as practical to the condition of the Premises immediately prior to such Taking (less the portion of the Premises so taken). In the event a portion of the Premises is taken, Base Rent shall equitably abate based on the nature and extent of the Premises so taken. Tenant shall have no claim against any award or proceeds for any such Taking, and Tenant hereby assigns all of its right and interest to such award and proceeds to Landlord, except that Tenant shall have the right to make a separate award for its moving expenses and trade fixtures, provided such award to Tenant does not diminish Landlord's award. If any portion of the Premises, Tenant has the right to terminate the lease without notice.

19. **SURRENDER.**

a. Upon the expiration or earlier termination of this Lease, Tenant shall (i) quit and surrender the Premises to Landlord; (ii) remove from the Premises all of Tenant's property and repair any damage caused by such removal; (iii) clean the Premises and restore them to their original condition, ordinary wear and tear excepted; and (iv) perform all other obligations required of Tenant under the terms of this Lease.

b. If Tenant fails to vacate the Premises upon the expiration or earlier termination of this Lease and no intent to hold over has been communicated in writing to the Landlord, then the Landlord may remove and/or store any such property at Tenant's expense without liability to Tenant for any loss or damage thereto. If Tenant does not claim and take delivery of any of Tenant's property that remains in the Premises or in storage within ten (10) days after the expiration or earlier termination of this Lease, including paying Landlord all amounts due under this Lease, including, without limitation, all costs of removal and storage of such property, Landlord may sell all or any portion of such property at a public or private sale after having given Tenant ten (10) days prior written notice. Landlord may apply the proceeds of such sale to the costs of removal, storage and sale of the property, and then to all amounts due Landlord under this Lease. Any amount remaining shall be paid to Tenant upon Tenant's written demand, without interest.

20. **HOLDING OVER.** If Tenant holds over and remains in possession of the Premises beyond the expiration of the Term or other termination of this Lease, such holding over shall not be deemed or construed to be a renewal of this Lease, but shall constitute the creation of a month-to-month tenancy which may be terminated by either Landlord or Tenant upon thirty (30) days prior written notice the other party. By such holding over, Tenant shall be deemed to have agreed to be bound by the terms and conditions of this Lease, except that during such month-to-month tenancy, Tenant shall pay a monthly rental rate equal to one hundred twenty five percent (125%) of the Rent for the immediately preceding month. Tenant shall indemnify Landlord for any costs and expenses incurred by Landlord as a result of any holdover by Tenant, including any costs or expenses incurred in connection with a successor tenant of the Premises.

21. **DEFAULT.**

- a. The following events or occurrences shall constitute events of default by Tenant under this Lease (each, an "Event of Default"):
- i. Tenant's failure to pay any installment of Base Rent, Additional Rent or other sum due hereunder within five (5) days of when due;
 - ii. Tenant's failure to perform any material covenant or condition of this Lease (except as set forth in (i) above) if such failure is not cured within thirty (30) days of Tenant's notice of such default;

-
- iii. Tenant's general assignment of all or substantially all of its assets for the benefit of creditors; or
 - iv. Tenant's filing a petition for relief of any kind under the provisions of Title 11 or Title 7 of the United States Code, as amended (the "Bankruptcy Code"), or an involuntary petition under the Bankruptcy Code is filed against Tenant, or a receiver or trustee is appointed for all or substantially all of Tenant's assets.

b. Upon any Event of Default, in addition to any other rights and remedies under this Lease, at law or in equity, and with or without terminating this Lease, Landlord and its agents and representatives may exercise any or all of the following rights and remedies : (i) bring suit for the collection of any amounts for which Tenant may be in default, or for the performance of any covenant or agreement required to be performed by Tenant hereunder; (ii) terminate this Lease or terminate Tenant's right to possession of the Premises, in which case Tenant shall pay Landlord upon demand for all damages suffered by Landlord as a result of such default, including, without limitation, all past due Rent, all Rent due under this Lease from the date of such termination until the earlier of the end of the Term or the date upon which the Premises is completely relet, and all costs and expenses incurred by Landlord in connection with reletting the Premises; and/or (iii) cure any such breach or default on behalf of Tenant, in which case Tenant shall pay Landlord upon demand for all the damages suffered by Landlord and for all the costs and expenses incurred by Landlord in curing such default. Notwithstanding anything to the contrary contained in this Lease, in the event of an emergency, Landlord shall have the immediate right to cure any such breach or default by Tenant prior to the expiration of the applicable notice and cure period if reasonably necessary to protect the Premises or the Building, to prevent injury or damage to persons or property or in the event of any other emergency, and Tenant shall pay to Landlord all amounts expended by Landlord to cure such default within ten (10) days of written notice to Tenant of such amount. In the event Landlord shall terminate this Lease, Landlord shall have the right to relet the Premises to such persons and upon such terms as Landlord shall determine in its sole discretion, and Tenant shall pay Landlord upon demand all costs and expenses associated with such reletting, including, without limitation, attorneys' fees, brokerage commissions and all costs and expenses for any alterations, improvements or upfitting performed to the Premises. Tenant shall also pay to Landlord all reasonable attorneys' fees and court costs incurred by Landlord as a result of any default by Tenant hereunder. All amounts due from Tenant to Landlord hereunder shall bear interest at the lesser of ten percent (10%) per annum, compounded monthly, or the maximum interest rate allowable under law, until paid in full.

22. **SUBORDINATION.** Tenant's interest under this Lease and in the Premises is and shall remain subordinate to every present and future mortgage, deed of trust or other security instrument encumbering the Building and/or the Premises and any extensions, modifications or renewals thereof, and to all advances made thereunder. This provision is self-operative; provided, however, fifteen (15) days after Landlord's request, Tenant agrees to execute any additional documents as may be required by Landlord or by any third party (including any lender of Landlord), including any additional document to evidence such subordination. If Tenant fails to execute any such document within fifteen (15) days of request, such failure shall constitute an Event of Default as set forth in Section 21. In the event Landlord sells or transfers the Premises, or in the event the Premises is acquired by any person or entity through a foreclosure sale (or deed in lieu thereof), then (i) Tenant agrees to attorn to such purchaser or transferee as Tenant's landlord under this Lease; (ii) Tenant agrees to continue to perform all of Tenant's obligations under this Lease for such purchaser or transferee; and (iii) Tenant shall look solely to such purchaser or transferee as the landlord under this Lease, and Landlord shall be released from all its liabilities and obligations hereunder, and Tenant's remedies for any breach of this Lease shall be solely against such purchaser or transferee.

23. **HAZARDOUS MATERIALS.**

a. Throughout the Term, Tenant and its employees, agents, invitees, licensees or contractors shall not cause, permit or allow any substances, chemicals, materials or pollutants (whether solid, liquid or gaseous) deemed to be toxic or hazardous or the manufacture, storage, transport or disposal of which is regulated,

governed, restricted or prohibited by any federal, state or local agency or authority, or under any federal, state or local law, ordinance, rule or regulation related to the environment, health or safety (collectively, the "Environmental Laws"), including, without limitation, any oil, gasoline, petroleum, petroleum by-products, asbestos or asbestos containing materials (collectively, the "Hazardous Materials"), to be handled, placed, stored, dumped, dispensed, released, discharged, deposited, manufactured, generated, treated, processed, used, transported or located on, in, under or about the Premises. Upon the expiration or earlier termination of this Lease, Tenant, at Tenant's expense, shall remove all Hazardous Materials from the Premises, except to the extent placed upon the Premises by Landlord.

b. Tenant shall give Landlord immediate written notice of any problem, spill, discharge, threatened discharge or discovery of any Hazardous Materials on or about the Premises or claim thereof. If such problem, spill, discharge, threatened discharge or discovery was caused, in whole or in part, by Tenant or its employees, agents, contractors, invitees or licensees, such notice shall include a description of measures proposed to be taken by Tenant to contain and/or remediate the release of such Hazardous Materials and any resultant damage to or impact on property, persons and/or the environment (which term includes, without limitation, soil, surface water or groundwater). Upon Landlord's approval and at Tenant's own expense, Tenant shall promptly take all steps necessary to clean up and remediate any release of such Hazardous Materials, comply with all Environmental Laws and otherwise report and/or coordinate with Landlord and all appropriate governmental agencies.

c. Tenant agrees to indemnify, release and hold Landlord harmless from and against all Liabilities (as defined below) suffered by, incurred by or assessed against Landlord or its agents, employees, officers or representatives, whether incurred as a result of legal action taken by any governmental entity or agency, taken by any private claimant or taken by Landlord, as a result of the presence, disturbance, discharge, release, removal or cleanup of any Hazardous Materials upon or under, on or off site, associated with or flowing from the Premises. Tenant's obligations and liabilities under this Section 23 shall survive the expiration or earlier termination of this Lease.

d. The term "Liabilities" as used herein is hereby defined as any and all liabilities, expenses, demands, damages (including punitive, exemplary and consequential damages), costs, cleanup costs, response costs, losses, causes of action, claims for relief, attorneys' and other legal fees, other professional fees, penalties, fines, assessments and charges.

24. **QUIET ENJOYMENT.** Subject to the terms and conditions of this Lease, and provided Tenant is not in default hereunder, Landlord agrees that Tenant shall hold and enjoy the Premises throughout the Term, free from any interference.

25. **NON-LIABILITY OF LANDLORD.** Any judgment obtained by Tenant against Landlord with respect to this Lease shall be satisfied only against the equity interest of Landlord in the Premises. Landlord shall not be liable for any deficiency, and Tenant shall have no right to levy execution of such judgment against any property of Landlord other than its equity interest in the Premises, and in no event shall any officer, director, member, manager, agent or representative of Landlord have any personal liability with respect to this Lease.

26. **LIENS.** Tenant shall keep the Premises and Tenant's leasehold estate free from any liens arising out of any work performed, material furnished or obligations incurred with respect to the Premises by Tenant. In the event any such lien is filed against the Premises, Tenant shall cause such lien to be discharged by payment or bonding off within ten (10) days notice of the filing of the lien, failing which Landlord may pay and discharge such lien and Tenant shall reimburse Landlord upon demand for all costs and expenses incurred by Landlord in paying and discharging such lien.

27. **ENTRY.** Landlord and its agents, representatives, employees and mortgagees may enter the Premises at all reasonable times with notice for the purpose of inspecting the Premises, performing alterations and repairs to the Premises or adjacent premises, exhibiting the Premises to prospective buyers, mortgages or tenants or for any other reasonable purpose. Any such entry by Landlord shall not materially or unreasonably interfere with Tenant's business and Tenant shall have the right to accompany the Landlord unless in the case of emergency.

28. **SIGNAGE.** Tenant shall have space on the external building stand up sign, on the suite door and on the building directory; provided any such signage shall comply with all applicable laws, ordinances and regulations.

29. **ESTOPPEL.** Tenant shall, from time to time, upon fifteen (15) days prior notice, deliver to Landlord or its designee, a written statement certifying the following: (i) this Lease is unmodified and is in full force and effect; (ii) the amount of Rent then payable under this Lease and the date to which Rent has been paid; (iii) there are no defaults under this Lease by Landlord or Tenant, or a detailed description of such default; (iv) Tenant is in possession of the Premises; and (v) any other information reasonably requested. If Tenant shall fail to execute such document within ten (10) days of request, Tenant shall be deemed to have approved such document and all the information contained therein.

30. **SECURITY DEPOSIT.** Simultaneously with the execution of this Lease, Tenant shall deposit with Landlord the sum of **\$3,399.50** ("Security Deposit") as security for the performance by Tenant of all the terms, covenants and conditions of this Lease upon Tenant's part to be performed. The Security Deposit shall be returned to Tenant sixty (60) days after the expiration or earlier termination of this Lease, provided Tenant has fully performed all obligations to be performed by Tenant hereunder and no default by Tenant exists hereunder. Landlord, without prejudice to any other remedy, shall have the right to apply all or any part of the Security Deposit to cure any default of Tenant. If Landlord so uses any part of the Security Deposit, Tenant shall, upon demand, deposit with Landlord the amount so applied so that Landlord shall have the full Security Deposit on hand at all times during the Term. In the event of a sale of the Premises, Landlord shall have the right to transfer or credit the Security Deposit to the purchaser of the Premises. Landlord shall thereupon be released from all liability for the return of the Security Deposit and Tenant shall look solely to the new landlord for the return of the Security Deposit. The Security Deposit shall not be assigned or encumbered by Tenant without the prior written consent of Landlord. The Security Deposit shall bear interest which will be paid to the Landlord to cover expenses of maintaining the Security Deposit Account and the security deposits may be commingled with other funds of Landlord. The Security Deposit is not an advance rental deposit or a measure of Landlord's damages in the event of Tenant's default under this Lease.

31. **LANDLORD'S LIEN.** In addition to any statutory lien in Landlord's favor, Tenant hereby grants to Landlord a continuing security interest for the timely payment of all Base Rent, Additional Rent and other sums of money becoming due hereunder from Tenant and for the timely performance of all of Tenant's other obligations hereunder, upon all goods, wares, equipment, fixtures, furnishings, furniture, inventory, and other personal property of Tenant which are or may be put into the Premises during the Term and all proceeds of the foregoing, and such property shall not be removed from the Premises during the Term without the consent of Landlord other than in the ordinary course of business. Upon the occurrence of an Event of Default under this Lease, Landlord shall have, in addition to any other remedies provided herein or at law, all rights and remedies of a secured creditor under the Uniform Commercial Code, as adopted in North Carolina, including, without limitation, the right to sell the property described in this Section 31 at public or private sale upon ten (10) days written notice to Tenant, and Landlord shall have the right to become the purchaser of such property, upon being the highest bidder at the sale. Tenant agrees to execute and deliver to Landlord, and authorizes Landlord to prepare and record in the appropriate recording offices, financing statements or other necessary documents requested by Landlord to effect and/or perfect such security interest, and Tenant agrees that this Lease may be recorded by Landlord in the appropriate recording offices as a financing statement. Any statutory lien for rent is not hereby waived, the express contractual lien herein granted being in addition and supplementary thereto.

32. **NOTICES.** All notices, requests and communications given pursuant to the terms of this Lease shall be in writing, and given by: a) registered or certified U.S. mail, postage prepaid, return receipt requested, b) hand delivery or c) national overnight delivery service, and in all cases sent to the following addresses:

To Landlord: Floyd Smith Office Park LLC
125 Floyd Smith Drive
Suite 280
Charlotte, NC 28262
Attn: Bob Rourke

To Tenant: Super Vision International, Inc.
8210 Presidents Drive
Orlando, FL 32809
Attn: Mike Bauer

with a copy to:
Parker, Poe, Adams & Bernstein L.L.P.
Three Wachovia Center
Suite 3000
401 S. Tryon Street
Charlotte, North Carolina 28202-1935
Attn: Craig T. Lynch, Esq.

All such notices, requests and communications shall be deemed given upon the earlier of (i) actual receipt, or (ii) three (3) business days after deposit with the U.S. Mail or national overnight delivery service (as applicable). Either party may designate a different address by written notice given to the other in accordance with this Section 32.

33. **NOTICE REQUIREMENT REGARDING MOLD.** If at any point during the Term of this Lease, Tenant sees, discovers or detects the presence of mold in or about the Premises, Tenant shall promptly deliver written notice thereof to Landlord. In the event that as a result of the presence of mold in or about the Premises, any repair or maintenance is required because of any act of Tenant or its employees, agents, invitees or representatives, then Tenant shall pay Landlord upon demand all costs and expenses incurred by Landlord in performing such repairs or maintenance.

34. **RIGHTS RESERVED TO LANDLORD.** Landlord shall have the following rights exercisable without notice and without liability to Tenant for damage or injury to property, person or business (all claims for damage being hereby waived and released by Tenant) and without effecting an eviction or disturbance of Tenant's use or possession of the Premises or giving rise to any claim for set-offs or abatement of Rent:

- a. To install and maintain signs on the exterior and interior of the Building;
- b. To designate all sources furnishing sign painting and lettering, towels, coffee cart service, vending machines or toilet supplies used or consumed in the Premises and the Building;
- c. To have pass keys to the Premises;
- d. To grant to anyone the exclusive right to conduct any business or render any service in the Building, provided such exclusive right shall not operate to exclude Tenant from the use expressly permitted by this Lease;
- e. To have access to all mail chutes or boxes according to the rules of the United States Postal Service;
- f. To require all persons entering or leaving the Building during such hours as Landlord may from time to time determine in its sole discretion to identify themselves to security personnel by registration or otherwise, and to establish such persons' right to enter or leave the Building, and to exclude or expel any peddler, solicitor or beggar at any time from the Premises or the Building; and

g. To close the Building at 6:00 p.m. on weekdays, and all day on Saturdays, Sundays and business holidays, or at such other times as Landlord may determine in its sole discretion, subject, however, to Tenant's right to admittance under such rules and regulations as shall be prescribed from time to time by Landlord in its sole discretion.

35. MISCELLANEOUS.

a. *Accord and Satisfaction.* No payment by Tenant or receipt by Landlord of a lesser amount than any installment or payment of Rent due shall be deemed to be other than on account of the amount due, and no endorsement or statement on any check or payment of Rent shall be deemed an accord and satisfaction.

b. *Attorneys' Fees.* If any action is taken to enforce any provision of this Lease, prevailing party shall be entitled to recover from the other its reasonable attorneys' fees and all costs incurred in such enforcement.

c. *Authority.* Each of the persons executing this Lease on behalf of Tenant does hereby covenant and warrant that Tenant is a duly authorized and existing corporation, limited liability company or partnership, as the case may be, that Tenant has and is qualified to do business in the State where the Premises are located, that Tenant has full right and authority to enter into this Lease and that each and all of the persons signing on behalf of Tenant are authorized to do so. Upon Landlord's request, Tenant shall provide Landlord with evidence reasonably satisfactory to Landlord supporting the foregoing representations. In addition Landlord shall provide Tenant with copy of warrant deed / proof of ownership of the Building.

d. *Brokers.* Landlord and Tenant each represent and warrant to the other that they have not dealt with any real estate agent or broker in connection with this transaction, other than TC Carolinas, LC, whose commission shall be payable by Landlord. Landlord and Tenant each hereby indemnify and save the other harmless from and against all loss, cost and expense incurred by reason of a breach of such representation or warranty.

e. *Counterparts.* This Lease may be executed in two (2) or more counterparts with all being deemed collectively as one (1) lease.

f. *Cumulative Remedies.* All rights and remedies of Landlord created under this Lease or rights and remedies otherwise existing at law or in equity are cumulative, and the exercise of one or more rights or remedies shall not be taken to exclude or waive the right to the exercise of any other.

g. *Entire Agreement.* This Lease represents the entire agreement between Landlord and Tenant with respect to the Premises, and all prior and contemporaneous discussions and documents are superseded by this Lease. Any statement or representation not contained herein shall not be binding on either party. All subsequent amendments hereto must be in writing and signed by the parties hereto.

h. *Force Majeure.* Whenever a period of time is herein prescribed for the taking of any action by either party, neither party shall not be liable or responsible for, and there shall be excluded from the computation of such period of time, any delays due to acts of God, strikes, accidents, casualties, shortage of materials or supplies, labor disputes, wars, riots, storms or any other cause whatsoever beyond the reasonable control said party ("Force Majeure").

i. *Governing Law.* This Lease shall be construed and enforced in accordance with the laws of the State in which the Premises are located.

j. *Invalidity.* The invalidity or unenforceability of any term herein shall not affect the validity or enforceability of any other term.

k. *Memorandum.* This Lease shall not be filed or recorded on the public record; provided, however, a memorandum thereof may be recorded at Tenant's sole cost upon prior written consent of Landlord.

l. *Non-Waiver.* No right or remedy under this Lease shall be waived unless the waiver is in writing and signed by the party claimed to have made the waiver, and such waiver shall not be interpreted as a continuing waiver.

m. *Successors and Assigns*. This Lease shall inure to the benefit of, and shall be binding upon, the parties hereto and their respective successors and assigns.

n. *Time*. Time is of the essence in each and every provision regarding either party's performance under this Lease.

o. *Speedway Club Membership*. Landlord agrees to pay one initial fee for one membership to the Lowe's Speedway Club. Tenant may, if he wishes, renew his club membership yearly for a cost of \$400.00 to be paid by tenant. If other members of the firm wish to have their own membership to the club, they may join for an initial fee of \$400.00 paid for by the firm member.

36. **EFFECT OF DELIVERY**. Landlord has delivered a copy of this Lease to Tenant for Tenant's review only, and the delivery hereof does not constitute an offer to Tenant. This Lease shall not be effective until a copy executed by both Landlord and Tenant is delivered to and accepted by Landlord.

IN WITNESS WHEREOF, Tenant and Landlord duly execute this Lease as of the day and year first above written.

Witness

/s/ _____

Witness

/s/ _____

LANDLORD:

Floyd Smith Office Park LLC
By: Sonic Financial Corp

/s/ William R. Brooks
Vice President

TENANT:

Super Vision International, Inc.

/s/ Michael Bauer
President / Chief Executive Officer

EXHIBIT A

LEGAL DESCRIPTION OF LAND

Lying and being in the Mallard Creek Township, Mecklenburg County, North Carolina and lying to the northwest of US Highway 29 (120' public right-of-way) and lying to the northeast of Floyd Smith Office Park Drive (60' public right-of-way, Map Book 37, Page 495) and being the property of Floyd Smith Office Park, LLC (Deed Book 12361, Page 859, Lot 1, Map Book 37, Page 495) and being more particularly described as follows:

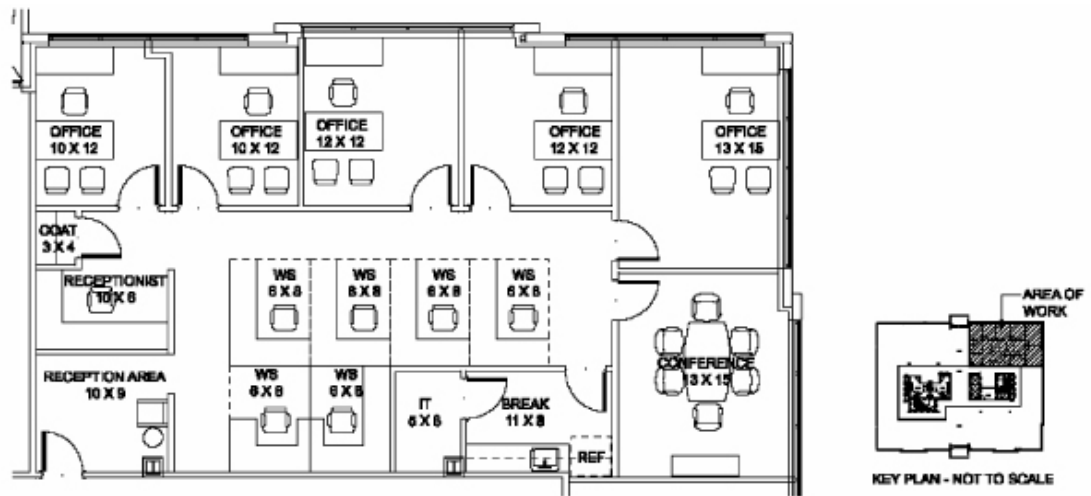
BEGINNING at an existing #4 rebar at the intersection of the right-of-way margins of US Highway 29 and Floyd Smith Office Park Drive; thence with the right-of-way margin of Floyd Smith Office Park Drive the following six courses and distances: 1) with the arc of a curve to the right having a radius of 30.00 feet, an arc length of 44.91 feet, and a chord bearing and distance of N 85°34'50" W 40.83 feet to an existing #4 rebar; 2) N 42°41'42" W 261.54 feet to an existing #4 rebar; 3) with the arc of a curve to the left having a radius of 530.00 feet, an arc length of 124.33 feet, and a chord bearing and distance of N 49°24'56" W 124.05 feet to an existing bent #4 rebar; 4) N 56°08'10" W 329.90 feet to a point; 5) with the arc of a curve to the right having a radius of 470.00 feet, an arc length of 114.70 feet and a chord bearing and distance of N 49°08'41" W 114.42 feet to a point; 6) N 38°41'27" W 56.16 feet to a point, a corner of Floyd Smith Office Park, LLC (Deed Book 12361, Page 859, Lot 3, Map Book 37, Page 495); thence with Floyd Smith Office Park, LLC. N 42°09'11" W 45.66 feet; thence with Floyd Smith Office Park, LLC and along a creek the following fifteen courses and distances:

1) N 42°22'13" E 41.53 feet to a point; 2) N 00°28'28" W 50.17 feet to a point; 3) N 06°03'37" E 37.32 feet to a point; 4) N 34°44'08" E 77.34 feet to a point; 5) N 8°44'30" E 80.69 feet to a point; 6) N 50°50'32" E 19.62 feet to a point; 7) N 07°04'39" E 38.96 feet to a point; 8) N 60°01'13" E 38.29 feet to a point; 9) N 20°31'13" E 44.96 feet to a point; 10) N 27°08'12" E 34.83 feet to a point; 11) N 40°42'05" E 28.64 feet to a point; 12) N 53°25'49" E 41.71 feet to a point; 13) N 12°52'32" E 19.66 feet to a point; 14) N 07°45'01" W 30.04 feet to a point; 15) N 46°18'25" E 25.63 feet to a point in the line of P.M. Christenbury & wife Henrietta C. Christenbury (Deed Book 5208, Page 974); thence with the line of Christenbury S 50°51'07" E 1203.89 feet to an existing iron pin in the northwestern right-of-way margin of US Highway 29; thence with the right-of-way margin of US Highway 29 the following two courses and distances: 1) S 50°46'55" W 464.14 feet to an existing 1/2" rod; 2) S 51°39'45" W 118.37 feet to the point of BEGINNING, containing 14.311 acres.

EXHIBIT B
FLOOR PLAN OF PREMISES

Build-out specifications – third floor.

Timing to be determined upon city/county's acceptance of architectural CD's.



ai DESIGN GROUP ARCHITECTS / INTERIORS 301 West College Road, Fayetteville, NC 28401 Phone: (919) 485-1100 Fax: (919) 485-1101 www.aigdesign.com	REFERENCE: Super Vision	US Land Management 128 Floral South Drive, Suite 100, Charlotte, North Carolina 28203 Phone: (704) 548-8888 Fax: (704) 548-8125 Email: info@usland.com	SHEET TITLE: SPACE PLAN SCALE: 1/8"=1'-0"
	PROJ. NO.: 07114		PROJECT NAME: Super Vision Suite 303 2,000 sq ft
	DATE: 02.08.07		DO NOT SCALE DIMENSIONS. VERIFY DIMENSIONS PRIOR TO CONSTRUCTION. REPORT DIMENSIONS AND COMMENTS TO THE ARCHITECT IMMEDIATELY.
	DRAWN BY: MM/AJ		SUPPLEMENTAL DRAWING NO.: I-SP02
	CHECKED BY: MM		

EXHIBIT C
RULES AND REGULATIONS

1. Sidewalks, doorways, vestibules, halls, stairways and similar areas shall not be obstructed nor shall refuse, furniture, boxes or other items be placed therein by Tenant or its officers, agents, servants, and employees, or used for any purpose other than ingress and egress to and from the Premises, or for going from one part of the Building to another part of the Building. Canvassing, soliciting and peddling in the Building are prohibited.
2. Plumbing systems, fixtures and appliances shall be used only for the purposes for which constructed, and no unsuitable material shall be placed therein.
3. No signs, directories, posters, advertisements or notices shall be painted or affixed on or to any of the windows or doors, or in corridors or other parts of the Building, except in such color, size, and style, and in such places, as shall be first approved in writing by Landlord in its sole discretion. Building standard suite identification signs shall be prepared by Landlord at Tenant's expense. Landlord shall have the right to remove all unapproved signs without notice to Tenant, at the expense of Tenant.
4. Tenants shall not do, or permit anything to be done, in or about the Building, or bring or keep anything therein, that will in any way increase the rate of fire or other insurance on the Building, or on property kept therein or otherwise increase the possibility of fire or other casualty.
5. Landlord shall have the power to prescribe the weight and position of heavy equipment or objects. All damage done to the Building by the improper placing of such heavy items will be repaired at the expense of Tenant.
6. Tenant shall notify the Building manager when safes or other heavy equipment are to be taken in or out of the Building, and the moving shall be done after written permission is obtained from Landlord on such conditions as Landlord shall require.
7. Corridor doors, when not in use, shall be kept closed.
8. All deliveries must be made via the service entrance and service elevator, when provided, during Normal Business Hours. Landlord's written approval must be obtained for any delivery during non-Normal Business Hours.
9. Tenant shall cooperate with Landlord's employees in keeping the Premises neat and clean and in the performance of janitorial service to the Premises.
10. Tenants shall not cause or permit any improper noises in the Building, or allow any unpleasant odors to emanate from the Premises, or otherwise interfere, injure or annoy in any way other tenants in the Building or their invitees, customers, guests and employees.
11. No animals shall be brought into or kept in or about the Building.
12. No machinery of any kind, other than ordinary office machines such as typewriters, information processing systems, copy machines, communications equipment and calculators, shall be operated on the Premises without the prior written consent of Landlord, not shall a Tenant use or keep in the Building any inflammable or explosive fluid or substance (including Christmas trees and ornaments), or any illuminating materials. No space heaters or fans shall be operated in the Building.
13. No bicycles, motorcycles or similar vehicles will be allowed in the Building.

14. No nails, hooks, or screws shall be driven into or inserted in any part of the Building (other than the hanging of pictures and or decorations on interior walls of Premises), nor shall Tenant perform any boring, cutting or installation of any wirings in any part of the Building, without the prior written approval of Landlord.

15. Landlord has the right to evacuate the Building in the event of an emergency or catastrophe.

16. No food and/or beverages shall be distributed from Tenant's office without the prior written approval of the Landlord; provided that Tenant may prepare coffee and similar beverages and warm typical luncheon items for the consumption by Tenant's employees and invitees.

17. No additional locks shall be placed upon any doors without the prior written consent of Landlord. All necessary keys shall be furnished by Landlord. Tenant shall make duplicates of the keys for the Premises without the consent of Landlord. Additional keys shall be obtained only from Landlord, at a reasonable, competitive fee to be determined by Landlord.

18. Tenants will not locate equipment, cabinets or furniture adjacent to mechanical or electrical access panels or over air conditioning outlets so as to prevent Landlord's personnel and employees from servicing such units. All costs of moving such equipment, cabinets or furniture for Landlord's access will be at Tenant's expense.

19. Tenant shall comply with such parking rules and regulations as may be posted and distributed from time to time by Landlord.

20. No portion of the Building shall be used for lodging rooms, gambling or any illegal, immoral or improper purpose.

21. Tenant shall not install any window shades, blinds, drapes or any other window treatment of any kind whatsoever without Landlord's prior written consent.

22. Landlord reserves the right to rescind any of these Rules and Regulations, and make such other and further Rules and Regulations as it deems necessary from time to time for the benefit of the Building, which Rules and Regulations shall be binding upon Tenant.

CONFIDENTIAL TREATMENT HAS BEEN REQUESTED FOR PORTIONS OF THIS EXHIBIT. THE COPY FILED HERewith OMITs THE INFORMATION SUBJECT TO THE CONFIDENTIALITY REQUEST. OMISSIONS ARE DESIGNATED AS [XXXXX]. A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

SETTLEMENT and LICENSE AGREEMENT

THIS SETTLEMENT and LICENSE AGREEMENT (the "Agreement") dated as of the 4th day of December 2006 (the "Effective Date"), is entered into between Color Kinetics Incorporated, a Delaware corporation ("CK" or "Color Kinetics") and Super Vision International, Inc., a Delaware corporation ("SV" or "Super Vision"), (collectively the "parties").

WHEREAS, Color Kinetics develops, manufactures, and/or distributes certain technology relating to semi-conductor lighting;

WHEREAS, Super Vision develops, manufactures and distributes semi-conductor lighting products;

WHEREAS, Super Vision has been found to infringe five patents in a suit that was brought by Color Kinetics in the United States District Court, District of Massachusetts;

WHEREAS, Super Vision is currently asserting patent infringement against Color Kinetics in the United States District Court, Eastern District of Texas and Color Kinetics is currently asserting non-infringement and invalidity of the same patent in a declaratory judgment action brought in the United States District Court, District of Massachusetts;

WHEREAS, the parties wish to settle all claims that both parties may have against each other and enter into a license agreement under which Super Vision will develop, distribute and sell Licensed Products, as defined below;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants herein contained, the parties hereby agree as follows:

ARTICLE 1 — DEFINITIONS

For purposes of the Agreement, the terms defined in this article shall have the respective meanings set forth below:

1.1 "Affiliate" shall mean, with respect to any Person, any other Person that directly or indirectly controls, is controlled by, or is under common control with, such Person. Without limitation, a Person shall be regarded as in control of another Person if it owns, or directly or indirectly controls, more than fifty percent (50%) of the voting stock or other ownership interest of the other Person.

1.2 "CK Patent Rights" shall mean all CK United States and foreign utility patents that have been issued as of the Effective Date. A complete list of these issued patents is provided on Schedule A.

1.3 "Direct Copy Licensed Product" shall mean a Licensed Product marketed by Super Vision that is substantially similar, in terms of its size, shape, and appearance, to a product that Color Kinetics is marketing at the time that Super Vision proposes to introduce the Licensed Product. It being understood however that such "Direct Copy Licensed Products" shall not include standard light form factors such as an MR16, Edison-style bulb, etc.

1.4 “End Users” shall mean the ultimate owners or users of a product and shall not include intermediate distributors or sales representatives.

1.5 “Excluded Field” shall mean (i) all consumer products, excluding automotive aftermarket products, (ii) color-changing or color temperature variable LED-based lighting fixtures, controllers, and software for use in an aircraft, and (iii) color-changing or color temperature variable LED-based lighting fixtures, controllers, and software to be sold directly or indirectly to Pentair, Inc., its subsidiaries or affiliates.

1.6 “Licensed Products” shall mean the Direct Copy Licensed Products and the Other (Non-Direct Copy) Licensed Products listed in Schedule B and additional products added to Schedule B from time to time as provided in Article 4.2. Licensed Products shall only include integrated, stand-alone products and shall not include OEM components that are intended to be integrated into a Third Party finished product.

1.7 “Net Revenue” shall mean (a) the greater of (i) the revenue that Super Vision receives in connection with the use, sale, rental, or other distribution of a Licensed Product from a Third Party, without reduction for discounts, allowances or commissions, or (ii) the cost incurred in manufacturing the Licensed Product, (b) minus any and all transportation and insurance charges and all sales, excise or similar taxes and duties billed to the purchaser of the Licensed Product.

1.8 “Person” shall mean an individual, corporation, partnership, trust, business trust, association, joint-stock company, joint venture, pool, syndicate, sole proprietorship, unincorporated organization, governmental authority or any other form of entity not specifically listed herein.

1.9 “Term” shall mean eleven (11) years from the Effective Date.

1.10 “Third Party” shall mean any Person other than Super Vision, Color Kinetics and their respective Affiliates.

1.11 “Trademarks” shall mean the CK Trademarks listed on Schedule A.

1.12 Certain Additional Definitions. As used in this Agreement, “herein,” “hereunder” and “hereof” shall refer to this Agreement as a whole, and “including” shall mean “including but not limited to” and “including, without limitation.”

ARTICLE 2 — SETTLEMENT OF ALL OUTSTANDING CLAIMS

2.1 Super Vision shall file a motion for dismissal with the Eastern District of Texas Court to dismiss with prejudice the Super Vision patent infringement lawsuit filed against Color Kinetics, Case No. 2-06CV-146-TJW, within ten (10) days of the Effective Date of this Agreement.

2.2 Color Kinetics shall file a notice of dismissal with the District of Massachusetts Court to dismiss without prejudice the Color Kinetics declaratory judgment lawsuit filed against Super Vision and High End Systems Inc., Case No. 1:06-cv-10641-RCL, within ten (10) days of the Effective Date of this Agreement.

2.3 Super Vision shall waive, and hereby waives, any and all right to appeal the Final Judgment and Order entered in the District of Massachusetts Court, Case No. 02-CV-11137-MEL (the "Final Judgment"). Color Kinetics shall be entitled to seek immediately enforcement of the permanent injunction if the licenses granted under this Agreement for any patent-in-suit is terminated for any reason.

2.4 Super Vision shall pay Color Kinetics \$825,000 as settlement for all claims that the parties may have against each other to include all patent infringement damages and legal costs and fees that arose prior to the execution of this Agreement and the award specified in the Final Judgment. Super Vision shall deliver to Color Kinetics a promissory note at the time of this execution of this Agreement in the amount of \$825,000 payable to Color Kinetics. Such promissory note shall be due and payable in full by December 25, 2007, to be paid in equal twelve (12) month installments of \$68,750 beginning January 25, 2007 and payable by the 25th of each month following until paid in full. The promissory note to be provided to Color Kinetics is provided in Schedule D. On satisfaction of the last payment by Super Vision under this paragraph and provided that Super Vision has not otherwise breached this Agreement, Color Kinetics shall waive payment of the amount awarded in the Final Judgment.

2.5 Super Vision shall not disparage or challenge the validity of any Color Kinetics issued patents during the Term nor take any actions that are likely to impair such Color Kinetics patents.

ARTICLE 3 — RIGHTS AND LICENSES GRANTED BY COLOR KINETICS

3.1 Color Kinetics hereby grants to Super Vision a royalty-bearing, non-exclusive license under the CK Patent Rights to develop Licensed Products during the Term and to manufacture, have made, use, distribute, import, sell and offer to sell Licensed Products worldwide during the Term; provided, however, that this license grant shall not include a license to manufacture, have made, use, distribute, import, sell and offer to sell Licensed Products within the Excluded Field. The license granted to Super Vision provides no right to sublicense, except that Super Vision shall be entitled to subcontract the development and manufacture of Licensed Products, in whole or in part for sale or distribution solely to Super Vision.

3.2 Super Vision hereby grants to Color Kinetics a royalty-free, non-exclusive license under U.S. Patent 4,962,687 ("‘687 patent") to develop, manufacture, have made, use, distribute, import, sell and offer to sell products during the entire life of the ‘687 patent, i.e., from the time in which the ‘687 patent was granted until it expires. The license granted to Color Kinetics provides no right to sublicense, except that Color Kinetics shall be entitled to subcontract the development and manufacture of products, in whole or in part for sale or distribution solely to Color Kinetics.

ARTICLE 4 — OBLIGATIONS OF SUPER VISION

4.1 Manufacture; Quality Control; Warranty and Liability Claims. Super Vision shall assume full responsibility for the manufacture of Licensed Products, for the maintenance of reasonable quality control standards, and for all warranty and liability claims by any Third Party with respect to the Licensed Products. CK reserves the right to review and approve Licensed Products in order to determine whether they meet CK's reasonable quality standards; if CK has objections to the quality of a Licensed Product,

CK shall notify Super Vision of there concern in writing and Super Vision shall have 45 days to remedy any quality standard concern. If Super Vision does not reasonably remedy the quality control concern, then CK shall be entitled to prohibit use of the Trademarks in respect of such Licensed Product by giving Super Vision notice to that effect in writing.

4.2 Licensed Products. Super Vision shall be entitled to add products to Schedule B as Licensed Products from time to time by providing written notice to CK, describing the product in reasonable detail and providing photographs or drawings of the product, no later than thirty calendar days prior to its first use, marketing, offer for sale, sale or other disposal. Within thirty calendar days from receiving the product information CK shall notify Super Vision whether CK has determined that the proposed product is to be treated as a Direct Copy Licensed Product.

4.3 Sales, Marketing, Advertising and Marking. Super Vision shall be solely responsible for the marketing and sales of the Licensed Products and all advertising of the Licensed Products. Super Vision will mark the Licensed Products, and packaging for the Licensed Products, with the "Licensed by Color Kinetics" logo as specified in the CK Licensing Partner Program Style Guide, as it may be amended from time to time (Super Vision shall be responsible for compliance with amendments only upon reasonable prior notice). Super Vision will mark the front of the packaging of the Licensed Products and the front of the Licensed Products with U.S. Patent Nos. which will be identified by CK from time to time.

4.4 Public Announcements. The parties shall announce the existence of this Agreement in a mutually agreeable press release or otherwise within ten days of the Effective Date, unless otherwise required by law. The mutually agreed to press release shall not disclose the financial terms of the Agreement. The parties shall be entitled to disclose the amount of the settlement, but not the royalty rates (unless required by law), in later S.E.C. filings and company earnings calls.

ARTICLE 5 — PAYMENT OBLIGATIONS OF SUPER VISION

5.1 For Licensed Products, Super Vision will pay the royalties on Net Revenue set forth in Schedule C of this Agreement. Payment of Royalties is required only in respect of such Patent Rights which have been granted and which are in force at any time and from time to time. Thus, for example and without limitation, no Royalties shall be payable in respect of patent or utility model applications which have not yet been granted or in respect of patents or utility models which have been granted, but which are invalidated or held unenforceable (by a decision not subject to or subjected to appeal) or which cease to exist for any other reason. Further, for example and without limitation, no Royalties shall be payable in respect of Licensed Products which do not utilize Patent Rights granted and in force. A Licensed Product shall be subject to payment of Royalties when sold or otherwise distributed only when such Licensed Product has been made, assembled (to include the manufacturing and/or assembling of a component which is integrated into the Licensed Product) or sold in a jurisdiction where CK has at least one valid and enforceable patent included in the "CK Patent Rights" which is utilized in the Licensed Product.

5.2 All Royalties will be paid on a quarterly basis during the Term, with the first payment due January 25, 2007 for sales that occur after the Effective Date and prior to December 31, 2006. Thereafter, the payment shall be made by the 25th of month following the end of the calendar quarter. Each royalty report shall set forth the calculation of the royalties due, including the number and type of Licensed Products sold during the three month (or shorter, if applicable) period. Royalties shall be payable in US Dollars using the average exchange rate between USD and the foreign currency during the relevant three (3) month period according to the Wall Street

Journal. CK shall have the right upon reasonable notice not more twice per year to have an independent auditor examine the books and records of Super Vision to ensure compliance with the payment provisions of this Agreement. Underpaid amounts shall be paid applying a late fee of 1.5% above the prime rate per month (according to the Wall Street Journal on the date that the amount in question became overdue) from original due date until all overdue amounts, including accrued late charges, are paid in full. If Super Vision has underpaid the amount due for any period by more than five percent (5%) of the amount due, then Super Vision shall pay for that audit and the next two subsequent audits.

ARTICLE 6 — CONFIDENTIALITY

6.1 During the Term and thereafter, except as otherwise provided in this Agreement, neither of the parties hereto shall disclose any terms or conditions of the Agreement, or performance thereunder, to any Third Party without the prior consent of the other party except (i) its auditors, attorneys, insurance carriers and Affiliates, (ii) as required by law, order or regulation of a governmental agency or a court of competent jurisdiction, or (iii) in connection with a change in control or financing; and the party making any such disclosure in case (i), (ii) or (iii) shall seek reasonable safeguards to maintain the confidentiality of the disclosure. The foregoing shall not otherwise prevent disclosure of (A) information that is now in the public domain or subsequently enters the public domain by publication or otherwise through no action or fault of the other party; (B) information that is known to either party without restriction, prior to receipt from the other party under this Agreement, from its own independent sources as evidenced by such party's written records, and which was not acquired, directly or indirectly, from the other party; (C) information that either party receives from any third party reasonably known by such receiving party to have a legal right to transmit such information, and not under any obligation to keep such information confidential; and (D) information independently developed by either party's employees or agents provided that either party can show that those same employees or agents had no access to the confidential information received hereunder.

6.2 No Use of Name. Except as otherwise required by applicable law, regulation or order of a governmental agency or court of competent jurisdiction, or as expressly permitted by this Agreement, neither party shall use the name of the other party or the other party's directors, officers or employees in any advertising, news release or other unrestricted publication, without the prior express written consent of the other party. The foregoing shall not preclude the mentioning in general terms of the existence of this Agreement (without details of Royalty Rates or term) by a party in its governmental security filings or related earnings announcements.

ARTICLE 7 — INTELLECTUAL PROPERTY OWNERSHIP

Color Kinetics shall retain the entire, right, title and interest worldwide in the CK Patent Rights and Trademarks, subject to the licenses granted herein.

Super Vision shall retain the entire, right, title and interest worldwide in the Super Vision Patent Rights and Trademarks, subject to the license granted herein.

ARTICLE 8 — REPRESENTATIONS AND WARRANTIES

8.1 Mutual Representations. Each party hereby represents and warrants to the other party as follows:

8.1.1 Corporate Existence and Power. Such party (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, and (b) has the power and authority and the legal right to own and operate its property and assets, and to carry on its business as it is now being conducted.

8.1.2 Authorization and Enforcement of Obligations. Such party (a) has the power and authority and the legal right to enter into the Agreement and to perform its obligations hereunder and (b) has taken all necessary action on its part to authorize the execution and delivery of the Agreement and the performance of its obligations hereunder. The Agreement has been duly executed and delivered on behalf of such party, and constitutes a legal, valid, binding obligation, enforceable against such party in accordance with its terms.

8.1.3 No Consents. All necessary consents, approvals and authorizations of all governmental authorities and other Persons required to be obtained by such party in connection with the Agreement and the performance hereof have been obtained.

8.1.4 No Conflict. The execution and delivery of the Agreement and the performance of such party's obligations hereunder (a) do not conflict with or violate any requirement of applicable laws, and (b) do not conflict with, or constitute a default under, any of its contractual or other obligations of it.

8.2 Super Vision Representations. Super Vision hereby represents and warrants to Color Kinetics as follows:

8.2.1 Super Vision is not aware, as of the Effective Date, of any Color Kinetics' products or activities that would infringe any existing Super Vision patents rights (to include issued patents and currently pending patent applications).

8.2.2 Super Vision has sufficient ownership rights and the authority to grant the license of the '687 patent provided in Article 3.2.

8.2.3 Super Vision shall not disparage or challenge the validity of any Color Kinetics issued patents during the Term nor take any actions that are likely to impair such Color Kinetics patents. Any violation of this representation and warranty shall constitute an immediate and non-remediable breach of this Agreement.

8.3 Nothing in this Agreement may be construed as

8.3.1 a warranty or representation by either party as to the validity or scope of any Patent Rights;

8.3.2 a warranty or representation that anything made, used, sold, or otherwise disposed of under any license granted in this Agreement is or will be free from infringement of patents or other intellectual property rights of third persons;

8.3.3 a requirement that either party file any patent application, secure any patent, or maintain any patent in force;

8.3.4 an obligation to bring or prosecute actions or suits against third parties for infringement of any patent;

8.3.5 an obligation to furnish any manufacturing or technical information, or any information concerning pending patent applications;

8.3.6 conferring a right to use in advertising, publicity, or otherwise any trademark or trade name of the party from which a license is received under the Agreement (other than as is required by Article 4.3); or

8.3.7 granting by implication, estoppel, or otherwise any licenses or rights under patents other than Patent Rights.

8.3.8 agreeing that any products infringe any of the listed patents other than those products that have been ruled to infringe by a court of law prior to this agreement.

8.4 Disclaimer of Warranties. EXCEPT AS SET FORTH IN THIS ARTICLE 8, NEITHER PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES, EXPRESS, IMPLIED OR STATUTORY WITH RESPECT TO THE PATENT RIGHTS, THE TRADEMARKS, OR THE LICENSED PRODUCTS. THE PARTIES SPECIFICALLY DISCLAIM ANY AND ALL IMPLIED WARRANTIES, INCLUDING, WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY, NON-INFRINGEMENT AND FITNESS FOR A PARTICULAR PURPOSE.

ARTICLE 9 — TERM AND TERMINATION

9.1 Term. This Agreement shall be effective beginning on the Effective Date and shall remain in effect for the Term, unless earlier terminated as provided below.

9.2 Termination for Cause. In case either party breaches any of the terms and conditions hereof, the aggrieved party shall notify the breaching party in writing of such failure or default, and the breaching party shall then remedy such failure or default by complying with the terms of this Agreement. If the breaching party has not cured such breach within thirty (30) days of receipt of such notice, the aggrieved party may, in addition to any other remedies available at equity or in law, terminate this Agreement immediately by a further notice in writing; provided, that a breach by Super Vision that threatens to or in fact affects Color Kinetics' rights to the Patent Rights shall immediately and irreparably harm Color Kinetics, and, Color Kinetics in such case shall be without adequate remedy in damages and shall be entitled to temporary and permanent injunctive relief and such additional remedy as may be determined by any court of competent jurisdiction. Color Kinetics may terminate this license immediately if (i) Super Vision sues Color Kinetics for patent infringement anywhere in world, or (ii) a third party sues Color Kinetics anywhere in the world asserting a patent that is owned by Super Vision. Color Kinetics will be entitled to seek enforcement of the permanent injunction if the license granted to Super Vision is terminated.

9.3 Effect of Expiration or Termination. Expiration or termination of the Agreement shall not relieve the parties of any obligation accruing prior to such expiration or termination, and all terms of this Agreement which by their nature extend beyond its termination remain in effect until fulfilled and apply to respective successors and assigns. Upon termination of the Agreement for any reason, the license granted to Super Vision hereunder shall terminate. Termination of the Agreement shall have no effect on either party's control and ownership of its respective intellectual property rights in its technology.

ARTICLE 10 — INDEMNIFICATION; LIMITATION ON LIABILITY

10.1 Indemnification by Super Vision. Super Vision shall indemnify, defend and hold harmless Color Kinetics and its directors, officers, Affiliates, employees and agents (collectively “Agents”) from all losses, liabilities, damages and expenses (including reasonable attorneys’ fees and costs) (collectively, “Damages”) that they may suffer as a result of any claims, demands, actions or other proceedings (collectively, “Actions”) made or instituted by any Third Party against any of them and arising out of (i) any claim that any Licensed Product made, used or sold by or under authority of Super Vision is defective, or has caused damage to any Third Party, and (ii) any inaccurate representation or breach of warranty by Super Vision.

10.2 Indemnification by CK. CK shall indemnify, defend and hold harmless Super Vision and its Agents from all Damages that they may suffer as a result of any Actions made or instituted by any Third Party against any of them and arising out of any inaccurate representation or breach of warranty by CK.

10.3 Indemnification Procedure. If an indemnified party intends to claim indemnification under this article, it shall promptly notify the indemnifying party of any Damage or Action with respect to which the indemnified party intends to claim such indemnification. The indemnifying party’s indemnity obligations under this article shall not apply to amounts paid in any settlement if effected without the consent of the indemnifying party, which consent shall not be unreasonably withheld or delayed. The indemnifying party shall not settle or consent to an adverse judgment in any such Action that adversely affects the rights or interests of the indemnified party or any of its Agents or imposes additional obligations on the indemnified party or any of its Agents, without the prior express written consent of the indemnified party, which consent shall not be unreasonably withheld or delayed. The indemnified party shall cooperate fully with the indemnifying party and its legal representatives in the investigation of any action, claim or liability covered by this indemnification.

10.4 Limited Liability. IN NO EVENT SHALL ANY PARTY HERETO BE LIABLE TO ANY OTHER PARTY OR ANY THIRD PARTY FOR ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL OR PUNITIVE DAMAGES ARISING OUT OF OR RELATED TO THIS AGREEMENT OR WITH RESPECT TO ANY CLAIM, DEMAND, ACTION OR OTHER PROCEEDING RELATING TO THIS AGREEMENT HOWEVER CAUSED, AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE), WHETHER OR NOT THE PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. IN NO EVENT SHALL A PARTY BE LIABLE TO THE OTHER FOR DAMAGES IN EXCESS OF THE FEES ACTUALLY RECEIVED BY COLOR KINETICS HEREUNDER. HOWEVER, THE LIMITATIONS IN THE PRECEEDING TWO SENTENCES SHALL NOT APPLY EITHER TO THIRD PARTY CLAIMS FOR WHICH A PARTY HAS AGREED TO INDEMNIFY THE OTHER UNDER THIS AGREEMENT, TO VIOLATIONS OF COLOR KINETICS’S INTELLECTUAL PROPERTY RIGHTS, OR TO BREACHES OF A PARTY’S CONFIDENTIALITY OBLIGATIONS.

ARTICLE 11 — FORCE MAJEURE

No party shall be held liable or responsible to the other party nor be deemed to have defaulted under or breached the Agreement for failure or delay in fulfilling or performing any term of the Agreement to the extent, and for so long as, such failure or delay

is caused by or results from causes beyond the reasonable control of the affected party including but not limited to fires, earthquakes, floods, embargoes, wars, acts of war (whether war is declared or not), insurrections, riots, civil commotions, strikes, lockouts or other labor disturbances, acts of God or acts, omissions or delays in acting by any governmental authority or other party. This provision shall not apply to payment obligations.

ARTICLE 12 — MISCELLANEOUS

12.1 Notices. Any consent, notice or report required or permitted to be given or made under the Agreement by one party to the other party shall be in writing, delivered personally or by facsimile (and promptly confirmed by personal delivery, first class mail, courier or internationally-recognized delivery service), and addressed to the other party at the address indicated above, or to such other address as the addressee shall have last furnished in writing to addressor, with copies to their respective attorneys:

If to Color Kinetics:	Color Kinetics Incorporated 10 Milk Street Boston, MA 02108 Attention: General Counsel
If to Super Vision:	Super Vision International Inc. 8210 Presidents Drive Orlando, FL 32809 Attention: Mike Bauer – President / CEO

Except as otherwise provided in the Agreement, such consent, notice or report shall be effective upon receipt by the addressee.

12.2 Governing Law. The Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts, without regard to the conflicts of law principles thereof, and shall not be governed by the United Nations Convention on Contracts for the International Sale of Goods. Each party hereby consents to the personal jurisdiction of the Commonwealth of Massachusetts, acknowledges that venue is proper in any state or Federal court in the Commonwealth of Massachusetts, agrees that any action arising out of or related to this Agreement must be brought exclusively in a state or Federal court in the Commonwealth of Massachusetts, and waives any objection it has or may have in the future with respect to any of the foregoing.

12.3 Export Laws and Regulations. Each party hereby acknowledges that the rights and obligations of the Agreement are subject to the laws and regulations of the United States relating to the export of products and technical information. Without limitation, each party shall comply with all such laws and regulations.

12.4 Waivers and Amendments. No change, modification, extension, termination or waiver of the Agreement, or any of the provisions herein contained, shall be valid unless made in writing and signed by duly authorized representatives of the parties hereto.

12.5 Entire Agreement. The Agreement and the Schedules attached hereto embody the entire understanding between the parties and supersede any prior understanding and agreements between and among them respecting the subject matter hereof. There are no representations, agreements, arrangements or understandings, oral or written, between the parties hereto relating to the subject matter of the Agreement that are not fully expressed herein.

12.6 Independent Contractors. The parties hereto are independent contractors and are not, and shall not represent themselves as, principal and agent, partners or joint venturers. No party shall attempt to act, or represent itself as having the power, to bind another party or create any obligation on behalf of another party. Each party shall be solely responsible for the employment, direction and control of its employees and their acts.

12.7 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law. The parties agree that (i) the provisions of this Agreement shall be severable in the event that any of the provisions hereof are for any reason whatsoever invalid, void or otherwise unenforceable, (ii) such invalid, void or otherwise unenforceable provisions shall be automatically replaced by other provisions which are as similar as possible in terms to such invalid, void or otherwise unenforceable provisions but are valid and enforceable, and (iii) the remaining provisions shall remain enforceable to the fullest extent permitted by law.

12.8 No Assignment. No party may assign its rights or delegate its duties under this Agreement without the prior written consent of the other party, which will not be unreasonably withheld, including in connection with a merger, consolidation, acquisition, Change of Control, asset sale or similar transaction; provided, however, that the foregoing shall not restrict either party from assigning and delegating all of its rights and duties without the other party's consent in connection with a merger, acquisition, Change of Control, consolidation, sale of substantially all of its assets or other reorganization, provided that the assignee agrees in writing to be bound by the terms of this Agreement and assumes the outstanding obligations of the agreement. For purposes of this Agreement, a "Change of Control" with respect to a party means (a) the direct or indirect acquisition, whether in one or a series of transactions, by any person or related person constituting a group, of (i) beneficial ownership of issued and outstanding shares of stock of such party, the result of which is that such person or such group possesses in excess of fifty percent (50%) of the combined voting power of all then-issued and outstanding stock of such party, or (ii) the power to elect, appoint, or cause the election or appointment of at least a majority of the members of the board of directors (or equivalent governing body) of such party; (b) a merger or consolidation of a party with a person, or a reorganization or recapitalization of a party, provided that the result of such transaction, whether in one or a series of related transactions, is that the holders of the outstanding voting stock of such party immediately prior to such consummation do not possess in excess of fifty percent (50%) of the combined voting power of all of the then-issued and outstanding stock of such party or surviving person of such party, whether directly or indirectly, immediately after the consummation of such transaction; or (c) the sale or disposition, whether directly or indirectly, in one or a series of related transactions, of substantially all of the assets of a party. For purposes of the preceding sentence, the terms "person," "group" and "beneficial ownership" shall have the meanings given to such terms under the Securities Exchange Act of 1934, as amended.

12.9 Captions. The captions herein have been inserted solely for convenience of reference and in no way define or limit the scope or substance of any provision of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered by their duly authorized officers, as of the date first above written.

SUPER VISION INTERNATIONAL INC.

COLOR KINETICS INCORPORATED

By: /s/ Michael A. Bauer

By: /s/ William J. Sims

Its: President and Chief Executive Officer

Its: President and Chief Executive Officer

Schedule A

To

License Agreement

Color Kinetics Incorporated and Super Vision International Inc.

PATENT RIGHTS:

U.S. Utility Patents:

6,016,038
6,150,774
6,166,496
6,211,626
6,292,901
6,340,868
6,459,919
6,528,954
6,548,967
6,577,080
6,608,453
6,624,597
6,636,003
6,717,376
6,720,745
6,774,584
6,777,891
6,781,329
6,788,011
6,801,003
6,806,659
6,869,204
6,883,929
6,888,322
6,897,624
6,936,978
6,965,205
6,967,448
6,969,954
6,975,079
7,014,336
7,031,920
7,038,398
7,038,399
7,042,172
7,064,498
7,113,541
7,132,635
7,132,785
7,132,804
7,135,824

Canadian Patent:

CA 2,302,227

Hong Kong Patent:

HK 1025416

Australian Patent:

AU 757000

AU 2003203584

European Patents:

EP 1 016 062 B1

EP 1 224 845 B1

EP 1 234 140 B1

DE 698 07 092 C0

DE 600 21 911 C0

DE 600 23 730 C0

US Design Patents:

D463,610

D468,035

D518,218

Schedule A

To

Settlement and License Agreement

Color Kinetics Incorporated and Super Vision International Inc.

TRADEMARKS:

LICENSED BY COLOR KINETICS

COLOR KINETICS

The Color Kinetics Logo

Schedule B

To

Settlement and License Agreement

Color Kinetics Incorporated and Super Vision International Inc.

DIRECT COPY LICENSED PRODUCTS:

SaVi Flood

SaVi Spot

SaVi Tube

SaVi Accent

NON-DIRECT COPY LICENSED PRODUCTS:

Savi Pool and Spa Lights

Savi SHO

and the IGP, IGS, AGS, EVPL, EV-213-WS and CL light Bar product lines

[XXXXXX] = CERTAIN INFORMATION ON THIS PAGE HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

Schedule C

To

Settlement and License Agreement

Color Kinetics Incorporated and Super Vision International Inc.

ROYALTY RATES:

The royalty rates quoted below (“Royalty Rates”) are to be applied to the [XXXXXX] from the sale of Licensed Products by Super Vision to its sales channels as provided in Article 4.1. The [XXXXXX] amounts represented herein are in United States dollars.

[XXXXXX] Licensed Products:

For each sale of (i) [XXXXXX], or (ii) [XXXXXX], the Royalty Rate shall be [XXXXXX].

For each sale of a [XXXXXX], the Royalty Rate shall be [XXXXXX].

Other ([XXXXXX]) Licensed Products:

For each sale of [XXXXXX], the Royalty Rate shall be [XXXXXX].

For each sale of [XXXXXX], the Royalty Rate shall be [XXXXXX].

Schedule D

To

Settlement and License Agreement

Color Kinetics Incorporated and Super Vision International Inc.

SENIOR PROMISSORY NOTE

\$825,000
Massachusetts

Boston,

December 4, 2006

FOR VALUE RECEIVED, Super Vision International Inc. (the "Maker"), promises to pay to Color Kinetics Incorporated (the "Payee"), the principal sum of EIGHT HUNDRED TWENTY FIVE THOUSAND and 00/100 DOLLARS.

The principal hereunder shall be payable in 12 equal monthly installments of \$68,750 each, commencing January 25, 2007 and continuing thereafter until December 25, 2007.

All future indebtedness and other payment obligations of the Maker shall be subordinate to the indebtedness evidenced by this Senior Promissory Note. At all times during which this Senior Promissory Note is outstanding, (i) the Maker shall not incur any future debt or other payment obligation that (a) is on par with or senior to the indebtedness evidenced by this Senior Promissory Note, or (b) is secured by any or all of the assets of the Maker, and (ii) the Maker shall subordinate in writing, in form reasonably satisfactory to the Payee, any such future indebtedness or other payment obligations to the indebtedness evidenced by this Senior Promissory Note.

Each of the following events shall constitute an "Event of Default" hereunder: (a) the Maker shall fail to pay when due any amount owed under either the Settlement and License Agreement dated as of the date hereof (the "License Agreement") or this Senior Promissory Note or otherwise fail to satisfy its obligations, or to comply with or to perform any term, obligation, representation, covenant, or condition, under either the License Agreement or this Senior Promissory Note; or (b) the Maker shall (i) apply for or consent to the appointment of a receiver, trustee or liquidator of it or substantially all its property, (ii) admit in writing its inability to pay its debts as they mature, (iii) make a general assignment or trust mortgage for the benefit of creditors or (iv) file a petition seeking relief under any foreign, federal or state bankruptcy, reorganization, insolvency, readjustment of debt or other similar law or statute, or an answer or consent admitting the material allegations of a petition filed against it in any proceeding under any such law; or (c) entry against the Maker of an order, judgment or decree by any court of competent jurisdiction, approving a petition seeking

bankruptcy, reorganization, readjustment of debt or other similar action with respect to the Maker, or appointing a receiver, trustee or liquidator of the Maker or of all or substantially all the assets of the Maker, or if any petition seeking such relief is filed against the Maker and is not stayed or dismissed within sixty (60) days after the date of such filing.

If an Event of Default under clause (a) of the preceding paragraph shall occur and be continuing, then the holder hereof may, by notice to the Maker, declare the unpaid principal amount then outstanding under this Senior Promissory Note immediately due and payable, whereupon all such amounts shall become and be immediately due and payable, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Maker. If an Event of Default under clause (b) or (c) of the preceding paragraph shall occur and be continuing, the unpaid principal amount then outstanding under this Senior Promissory Note shall automatically become and be immediately due and payable, without presentment, demand, protest or any notice of any kind, all of which are expressly waived by the Maker.

If suit is brought to collect this Senior Promissory Note, the holder shall be entitled to collect all reasonable costs and expenses of the suit, including, but not limited to, reasonable attorneys' fees.

The Maker shall not sell, assign, pledge, mortgage or otherwise dispose of or transfer this Senior Promissory Note without the prior written consent of the holder hereof, including in connection with a merger, consolidation, acquisition, Change of Control (as such term is defined in the License Agreement), asset sale or similar transaction. This note shall be binding upon the Maker and its permitted successor and assigns, and shall inure to the benefit of the Payee, and its successors, endorsees and assigns.

No delay by the holder hereof in exercising any right with respect to any of the obligations evidenced hereby shall operate as a waiver thereof, nor shall the exercise of any right with respect to such obligations waive or preclude the later exercise of any other right with respect to such obligations or the later exercise of any right with respect to any other obligations evidenced hereby.

No provision of this Senior Promissory Note may be amended or waived except by a writing executed by the Maker and the holder hereof.

By executing this Senior Promissory Note, the Maker represents to the Payee that (i) the Maker has the power to execute and deliver this Senior Promissory Note, (ii) this Senior Promissory Note constitutes the legal and binding obligation of the Maker, enforceable against the Maker in accordance with its terms, (iii) all necessary consents, approvals and authorizations of all governmental authorities and other Persons (as such term is defined in the License Agreement) required to be obtained by such party in connection with this Senior Promissory Note the performance hereof have been obtained, and (iv) the execution and delivery of this Senior Promissory Note and the performance of Maker's obligations hereunder (a) do not conflict with or violate any requirement of applicable laws, and (b) do not conflict with, or constitute a default under, any of its contractual or other obligations of it.

All rights, liabilities and obligations hereunder, including matters of construction, validity, and performance, shall be governed by, and this Senior Promissory Note shall be construed and enforced in accordance with, the substantive laws of The Commonwealth of Massachusetts, without regard to its principles of conflict of laws. Each party hereby consents to the personal jurisdiction of the Commonwealth of Massachusetts, acknowledges that venue is proper in any state or Federal court in the Commonwealth of Massachusetts, agrees that any action arising out of or related to this Senior Promissory Note must be brought exclusively in a state or Federal court in the Commonwealth of Massachusetts, and waives any objection it has or may have in the future with respect to any of the foregoing. This Senior Promissory Note is delivered in Boston, Massachusetts, and shall take effect as a sealed instrument.

Attest:

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-23689, Form S-8 No. 333-32007, Form S-8 No. 333-70781, Form S-8 No. 333-123984 and Form S-3 No. 333-140286) of our report dated April 1, 2007, relating to the financial statements of Super Vision International, Inc. which appears in this Annual Report on Form 10-KSB for the year ending December 31, 2006.

/s/ Cross, Fernandez & Riley LLP

Orlando, Florida
April 1, 2007

CERTIFICATIONS

I, Michael A. Bauer, President and Chief Executive Officer of Super Vision International, Inc., certify that:

1. I have reviewed this annual report on Form 10-KSB of Super Vision International, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 31, 2007

/s/ Michael A. Bauer

Michael A. Bauer

President and Chief Executive Officer

(Principal Executive Officer; Principal Financial Officer)

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF SARBANES-OXLEY ACT OF 2002

This Certificate is being filed pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. This Certification is included solely for the purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose. In connection with the accompanying Annual Report on Form 10-KSB of Super Vision International, Inc. for the year ended December 31, 2006, the undersigned hereby certifies in his capacity as an officer of Super Vision International, Inc. that to such officer's knowledge:

1. such Annual Report on Form 10-KSB of Super Vision International, Inc. for the year ended December 31, 2006, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in such Annual Report on Form 10-KSB of Super Vision International, Inc. for the year ended December 31, 2006, fairly presents, in all material respects, the financial condition and results of operations of Super Vision International, Inc.

SUPER VISION INTERNATIONAL, INC.

Dated: March 31, 2007

/s/ Michael A. Bauer

Michael A. Bauer,
President and Chief Executive Officer
(Principal Executive Officer; Principal Financial Officer)