U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2010

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

For the transition period from __________ to __________

Commission File No. 0-23590

NEXXUS LIGHTING, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	**59-3046866**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

124 FLOYD SMITH DRIVE, SUITE 300, CHARLOTTE, NORTH CAROLINA 28262
(Address of Principal Executive Offices) (Zip Code)

(704) 405-0416
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

Number of shares of Common Stock, $.001 par value, outstanding on August 6, 2010: 16,245,503

Nexxus Lighting, Inc.
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Nexxus Lighting, Inc.
Consolidated Balance Sheets

	(Unaudited) June 30, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,752,707	$ 15,167,496
Trade accounts receivable, less allowance for doubtful accounts of $209,478 and $150,633	2,300,256	1,888,417
Inventories, less reserve of $900,011 and $682,750	5,474,969	4,904,578
Prepaid expenses	210,855	195,434
Other assets	13,218	7,367
Total current assets	15,752,005	22,163,292
Property and equipment	5,934,332	5,765,665
Accumulated depreciation and amortization	(4,291,796)	(4,025,419)
Net property and equipment	1,642,536	1,740,246
Goodwill	2,402,200	2,396,289
Other intangible assets, less accumulated amortization of $660,731 and $557,289	3,052,113	3,049,194
Deposits on equipment	36,323	6,463
Other assets, net	61,471	197,560
	$ 22,946,648	$ 29,553,044
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 3,491,528	$ 2,500,858
Related party payable	85,598	—
Accrued compensation and benefits	334,765	303,736
Payable to related party under acquisition agreement	—	100,000
Current portion of deferred rent	73,976	58,065
Customer deposits	3,411	2,782
Other current liabilities	4,926	9,291
Total current liabilities	3,994,204	2,974,732
Convertible promissory notes to related parties, net of debt discount	2,203,375	2,153,191
Promissory notes, net of debt discount	—	1,978,135
Promissory notes to related parties, net of debt discount	—	1,438,644
Deferred rent, less current portion	67,161	113,733
Other liabilities	851	6,582
Total liabilities	6,265,591	8,665,017
Stockholders' Equity:		
Common stock, $.001 par value, 25,000,000 shares authorized, 16,245,503 and 16,240,503 issued and outstanding	16,246	16,241
Additional paid-in capital	49,246,429	49,103,733
Accumulated deficit	(32,581,618)	(28,231,947)
Total stockholders' equity	16,681,057	20,888,027
	$ 22,946,648	$ 29,553,044

See accompanying notes to unaudited consolidated financial statements.

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Nexxus Lighting, Inc.
Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue	$ 3,735,938	$ 2,605,044	$ 6,897,997	$ 5,641,726
Cost of sales	2,862,874	1,955,065	5,313,566	3,936,593
Gross profit	873,064	649,979	1,584,431	1,705,133
Operating Expenses:				
Selling, general and administrative	2,431,283	2,048,494	4,718,517	4,400,244
Research and development	299,451	130,379	588,299	238,103
Total operating expenses	2,730,734	2,178,873	5,306,816	4,638,347
Operating Loss	(1,857,670)	(1,528,894)	(3,722,385)	(2,933,214)
Non-Operating Income (Expense):				
Interest income	—	197	—	2,406
Interest expense	(26,943)	(27,968)	(186,422)	(28,626)
Debt extinguishment costs	—	—	(441,741)	—
Other income	579	—	877	—
Total non-operating income, net	(26,364)	(27,771)	(627,286)	(26,220)
Net Loss	$ (1,884,034)	$ (1,556,665)	$ (4,349,671)	$ (2,959,434)
Preferred stock dividends:				
Accretion of the preferred stock beneficial conversion feature and preferred stock discount	—	(144,835)	—	(268,311)
Accrual of preferred stock dividends	—	(178,065)	—	(338,258)
Net loss attributable to common stockholders	$ (1,884,034)	$ (1,879,565)	$ (4,349,671)	$ (3,566,003)
Basic and diluted loss per common share attributable to common shareholders	$ (0.12)	$ (0.22)	$ (0.27)	$ (0.43)
Basic and diluted weighted average shares outstanding	16,245,503	8,373,995	16,243,183	8,267,605

See accompanying notes to unaudited consolidated financial statements.

Nexxus Lighting, Inc.
Consolidated Statements of Stockholders' Equity (Unaudited)

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance, December 31, 2009	16,240,503	$ 16,241	$49,103,733	$(28,231,947)	$20,888,027
Exercise of employee stock options	5,000	5	14,895	—	14,900
Stock-based compensation	—	—	177,755	—	177,755
Expenses associated with the sale of common stock	—	—	(49,954)	—	(49,954)
Net loss	—	—	—	(4,349,671)	(4,349,671)
Balance, June 30, 2010	16,245,503	$ 16,246	$49,246,429	$ (32,581,618)	$ 16,681,057

See accompanying notes to unaudited consolidated financial statements

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Nexxus Lighting, Inc.
Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2010	2009
Cash Flows from Operating Activities:		
Net loss	$ (4,349,671)	$ (2,959,434)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	278,772	274,016
Amortization of intangible and other assets	139,438	133,920
Amortization of debt discount and debt issuance costs	127,753	15,031
Debt extinguishment costs	441,741	—
Amortization of deferred rent	(30,661)	(25,637)
Loss on disposal of property and equipment	9,116	1,790
Increase in inventory reserve	217,261	32,621
Stock-based compensation	177,755	219,841
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Trade accounts receivable, net	(411,839)	623,608
Inventories	(787,652)	(215,718)
Prepaid expenses	(15,421)	(37,157)
Other assets	(5,851)	18,867
Increase (decrease) in:		
Accounts payable and related party payable	1,076,268	(864,654)
Accrued compensation and benefits	31,029	(82,399)
Customer deposits	629	(59,608)
Other liabilities	(10,096)	—
Total adjustments	1,238,242	34,521
Net cash used in operating activities	(3,111,429)	(2,924,913)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(226,638)	(206,508)
Proceeds from the sale of property and equipment	6,600	—
Acquisition costs of Lumificient Corporation, net of cash acquired	(105,911)	(115,285)
Acquisition costs of Advanced Lighting Systems, LLC, net of cash acquired	—	(107,539)
Trademark and patent development costs	(142,357)	(75,729)
Net cash used in investing activities	(468,306)	(505,061)
Cash Flows from Financing Activities:		
Proceeds from promissory notes	—	3,800,000
Payments on promissory notes	(3,800,000)	(113,724)
Proceeds from exercise of employee stock options and warrants, net	14,900	685,671
Fees related to follow-on equity offering	(49,954)	—
Deferred financing costs	—	(63,353)
Issuance cost of preferred stock and warrants	—	(16,661)
Net cash (used in) provided by financing activities	(3,835,054)	4,291,933
Net (Decrease) Increase in Cash and Cash Equivalents	(7,414,789)	861,959
Cash and Cash Equivalents, beginning of period	15,167,496	2,948,632
Cash and Cash Equivalents, end of period	$ 7,752,707	$ 3,810,591
Supplemental Cash Flow Information:		
Cash paid for interest	$ 262,356	$ —
Non-cash Investing and Financing Activities:		
Issuance of common stock to related party for settlement of lease and severance obligations	$ —	$ 565,500
Fair value of warrants recorded as a debt discount	$ —	$ 570,325
Issuance of common stock for achievement of Lumificient earnouts	$ —	$ 297,242
Issuance of common stock to promissory notes placement agent	$ —	$ 133,000
Accrual of dividends on preferred stock	$ —	$ 338,258

See accompanying notes to unaudited consolidated financial statements.

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Nexxus Lighting, Inc.
Notes to Consolidated Financial Statements (unaudited)

The accompanying consolidated financial statements of Nexxus Lighting, Inc. and subsidiaries (the "Company") are unaudited, but in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) necessary to fairly state the Company's financial position, results of operations, and cash flows as of and for the dates and periods presented. The financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information.

These unaudited financial statements should be read in conjunction with the Company's audited financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission (SEC). The results of operations for the six month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2010 or for any future period.

1. Summary of Significant Accounting Policies

FASB Codification – In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168, "The FASB Accounting Standard Codification™ ("Codification") and the Hierarchy of Generally Accepted Accounting Principles", effective for interim and annual reporting periods ending after September 15, 2009. This statement replaces SFAS 162, "The Hierarchy of Generally Accepted Accounting Principles" and establishes the Codification as the source of authoritative accounting principles used in the preparation of financial statements in conformity with generally accepted accounting principles. The Codification does not replace or affect guidance issued by the SEC or its staff. As a result of the Codification, the references to authoritative accounting pronouncements included herein in this Quarterly Report on Form 10-Q now refer to the Codification topic section rather than a specific accounting rule as was past practice.

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 warranty that ranges from two to five years and includes replacement of defective parts. A warranty reserve is recorded for estimated costs associated with potential warranty expenses on previous sales.

Financial instruments – FASB Accounting Standards Codification (ASC) 820 "Fair Value Measurements and Disclosures" (ASC 820) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable.

Level 3 - Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of June 30, 2010. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities, which includes cash equivalents of approximately $7,519,000 at June 30, 2010. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, trade receivables, related party payables, accounts payable and accrued liabilities. Fair values were assumed to approximate carrying values for these financial instruments since they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand.

Derivative financial instruments – The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible promissory note instruments are reviewed to determine whether or not they contain embedded derivative instruments that are required under FASB ASC 815 "Derivatives and Hedging" (ASC 815) to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results.

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Freestanding warrants issued by the Company in connection with the issuance or sale of debt and equity instruments are considered to be derivative instruments, and are evaluated and accounted for in accordance with the provisions of FASB ASC 815 "Derivatives and Hedging" (ASC 815). Pursuant to ASC 815, an evaluation of specifically identified conditions is made to determine whether the fair value of warrants issued is required to be classified as equity or as a derivative liability.

Beneficial conversion and warrant valuation – In accordance with FASB ASC 470-20, "Debt with Conversion and Other Options" the Company records a beneficial conversion feature (BCF) related to the issuance of convertible debt or preferred stock instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value, and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion feature. The discount recorded in connection with the BCF and warrant valuation is recognized as non-cash implied preferred dividends from the date of issuance to the earliest conversion date, using the effective yield method.

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

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.

Inventories – Inventories, excluding inventories at Lumificient Corporation, are stated at the lower of cost (average cost) or market. Inventories at Lumificient Corporation are stated at the lower of cost (first-in, first-out) or market. A reserve is recorded 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	5 years

Intangible assets and goodwill – The Company accounts for its intangible assets and goodwill under FASB ASC 350 "Intangibles – Goodwill and Other" and FASB ASC 360 "Property, Plant, and Equipment".

Deferred rent – The Company accounts for certain operating leases containing predetermined fixed increases of the base rental rate during the lease term as rental expense on a straight-line basis over the lease term. The Company has recorded the difference between the amounts charged to operations and amounts payable under the leases as deferred rent in the accompanying consolidated balance sheets.

Long lived assets – The Company periodically evaluates the recoverability of its long-lived assets in accordance with FASB ASC 360, "Property, Plant, and Equipment", 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.

Customer deposits – Payments received by the Company for products to be provided in the following period are deferred and recognized as revenue in the period the products are shipped.

Shipping and handling costs – Shipping and handling costs related to the acquisition of goods from vendors are included in cost of sales.

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.

The Company accounts for uncertain tax positions under the provisions of FASB ASC 740-10 "Uncertainty in Income Taxes" (ASC 740-10). The Company has not recognized a liability as a result of the implementation of ASC 740-10. A reconciliation of the beginning and ending amount of unrecognized tax benefits has not been provided since there is no unrecognized benefit since the date of adoption. The Company has not recognized interest expense or penalties as a result of the implementation of ASC 740-10. If there were an unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

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.

Loss per share – Basic loss per share is computed by dividing net loss attributable to common stockholders by the weighted average 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 and the conversion of outstanding convertible securities. In periods in which a net loss has been incurred, all potentially dilutive common shares are considered anti-dilutive and thus are excluded from the calculation. At June 30, 2010 and 2009, the Company had 7,795,863 and 6,730,432, respectively, common shares which may be acquired pursuant to outstanding employee stock options, warrants and convertible securities that were not included in the computation of loss per share at June 30, 2010 and 2009 because to do so would have been anti-dilutive.

Stock-based compensation – The Company accounts for stock-based compensation under the provisions of FASB ASC 718 "Compensation – Stock Compensation" (ASC 718), which requires the recognition of the cost of employee or director services received in exchange for an award of equity instruments in the financial statements and is measured based on the grant date fair value of the award. ASC 718 also requires the stock option compensation expense to be recognized over the period during which an employee is required to provide service in exchange for the award (typically, the vesting period).

The Company estimates the fair value of each option award issued under its stock option plans on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted below in accordance with ASC 718. 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, 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 previously 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.

	Six Months Ended June 30,	
	2010	2009
Expected volatility	65.9 – 88.1 %	71.6 – 86.6 %
Weighted-average volatility	83.1 %	82.8 %
Risk-free interest rate	1.3 – 2.6 %	0.4 – 1.9 %
Expected dividend	0 %	0 %
Expected life in years	3.5 – 8.7	2.7 – 8.9

Under ASC 718, stock-based compensation expenses recognized in the accompanying unaudited statements of operations for the three months ended June 30, 2010 and 2009 was $75,014 and $99,078, respectively, which caused net loss to increase by that amount and basic and diluted loss per share attributable to common stockholders for the three months ended June 30, 2010 and 2009 to increase by $0.00 and $0.01, respectively. Stock-based compensation expenses recognized in the accompanying unaudited statements of operations for the six months ended June 30, 2010 and 2009 was $177,755 and $219,841, respectively, which caused net loss to increase by that amount and basic and diluted loss per share attributable to common stockholders for the six months ended June 30, 2010 and 2009 to increase by $0.01 and $0.03, respectively.

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Business segments – Pursuant to FASB ASC 280 “Segment Reporting”, the Company is required to report segment information. As the Company only operates in principally one business segment, no additional reporting is required.

2. Inventories:

Inventories consist of the following:

	(Unaudited) June 30, 2010	December 31, 2009
Raw materials	$ 3,828,825	$ 3,034,675
Finished goods	2,546,155	2,552,653
	6,374,980	5,587,328
Less: Reserve for obsolescence	(900,011)	(682,750)
Net inventories	$ 5,474,969	$ 4,904,578

3. Goodwill and Other Intangible Assets:

At June 30, 2010, the Company had the following intangible assets:

	June 30, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:			
Patents	$ 1,529,058	$ (192,820)	$ 1,336,238
Trademarks	926,217	(121,988)	804,229
Customer relationships	1,010,000	(218,833)	791,167
Non-compete agreement	60,000	(32,500)	27,500
Product certification and licensing costs	187,569	(94,590)	92,979
	$ 3,712,844	$ (660,731)	$ 3,052,113
Intangible assets not subject to amortization:			
Goodwill	$ 2,402,200	$ —	$ 2,402,200

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At December 31, 2009, the Company had the following intangible assets:

	December 31, 2009			
	Gross Carrying Amount	Impairment Recognized	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:				
Patents	$ 1,434,597	$ —	$ (151,956)	$ 1,282,641
Trademarks	924,394	—	(95,159)	829,235
Customer relationships	1,170,000	(124,003)	(204,330)	841,667
Non-compete agreement	60,000	—	(25,000)	35,000
Product certification and licensing costs	141,495	—	(80,844)	60,651
	$ 3,730,486	$ (124,003)	$ (557,289)	$ 3,049,194
Intangible assets not subject to amortization:				
Goodwill	$ 3,008,921	$ (612,632)	$ —	$ 2,396,289

Remaining estimated annual amortization expense is approximately as follows:

Year Ending December 31:	
2010	$ 146,235
2011	287,027
2012	263,331
2013	247,832
2014	237,223
Thereafter	1,615,203
	$2,796,851

At June 30, 2010, the Company had $255,262 of patent applications and pending patents and trademarks. Estimated annual amortization for these patent applications and pending patents and trademarks is not included in the table above.

4. Stock-Based Compensation:

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 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 sales targets and net profit targets. As of June 30, 2010, options to purchase 18,000 shares of 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 common stock for future issuance under the plan. The 2003 Plan was subsequently amended to increase the number of shares reserved for issuance thereunder to 670,000. During 2008, the 2003 Plan was further amended to increase the number of shares reserved for issuance to 810,000. In the first quarter of 2010, the 2003 Plan was further amended to increase the number of shares reserved for issuance thereunder to 1,160,000. 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 sales targets and net profit targets. As of June 30, 2010, options to purchase 492,735 shares of common stock were vested and exercisable under the 2003 Plan. In 2009, the Company amended the 2003 Plan to extend the post-service termination exercise period of nonstatutory stock options granted to directors for their service to the Company as directors from three months after the director's termination date to the tenth anniversary of the date of grant.

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The following table summarizes activity in the stock option plans for the six months ended June 30, 2010:

	Shares Available for Future Grant	Number of Shares Outstanding Under Option	Weighted Average Exercise Price
Balance, January 1, 2009	231,569	589,551	$ 4.87
Options granted at market	(251,950)	251,950	6.76
Options exercised	—	(66,397)	4.96
Options forfeited or expired	184,917	(187,667)	6.76
Balance, December 31, 2009	164,536	587,437	$ 5.06
Increase in options under the 2003 Plan	350,000	—	—
Options granted at market	(288,800)	288,800	3.23
Options exercised	—	(5,000)	2.98
Options forfeited or expired	54,364	(54,364)	4.70
Balance, June 30, 2010	280,100	816,873	$ 4.44

The weighted average fair value of options granted at market during the six months ended June 30, 2010 and 2009 was $2.41 and $5.07 per option, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2010 and 2009 was $2,300 and $107,796, respectively. The aggregate intrinsic value of the outstanding exercisable options at June 30, 2010 and 2009 was $2,042 and $773,433, respectively.

5. Convertible Promissory Notes and Warrants:

On December 21, 2009, the Company issued $2,400,000 in principal of convertible promissory notes (the Exchange Notes) and warrants to purchase an aggregate of 935,040 shares of the Company’s common stock (the Exchange Warrants) in exchange for 480 shares of outstanding Series A Preferred Stock (the Exchange). The Preferred Shareholders holding the 480 shares of Preferred Stock, which had a stated value of $2,400,000, were entities affiliated with Mariner Private Equity, LLC, of which Patrick Doherty, one of the Company’s directors, is president, and Michael Brown, one of the Company’s directors. The Exchange Notes bear interest at 1% per annum, mature three years from the date of issuance and are convertible into 450,281 shares of common stock at a fixed conversion price of $5.33. The Exchange Warrants have an exercise price of $5.08 and expire three years from issuance. There are no price-based anti-dilution provisions in the Exchange Notes or Exchange Warrants.

The fair value of the Exchange Notes at issuance was estimated based upon the present value of their future cash flows, using credit risk adjusted rates, as enhanced by the fair value of the embedded conversion feature (ECF). Since the Company does not have an established credit rating, the credit risk adjusted yield of 10.3% was determined by reference to comparable instruments in public markets. The fair value of the ECF was determined using the Monte Carlo Simulation (MCS). MCS is an option-based model that embodies assumptions that would likely be considered by market participants who trade the financial instrument. In addition to more traditional assumptions, such as trading market values, trading volatilities and risk-free rates, MCS assumptions include credit risk, interest risk and redemption considerations. The fair value of the Exchange Warrants was determined using the Black-Scholes-Merton valuation technique over the term to contractual expiration. Significant assumptions included in these valuation techniques were as follows:

	Assumption
Credit-risk adjusted rates (based upon comparables):	
Exchange of Notes	10.3%
ECF Range of Rates	8.5% - 10.3%
Volatility (based upon historical trading volumes and prices):	
ECF Range of Periods	53.2% - 68.9 %
Exchange Warrants	65.6%

In evaluating the accounting for the Exchange, the Company also considered current classification and measurement standards associated with the ECF and the Exchange Warrants. The ECF is an equity-linked feature that is not clearly and closely related to the risks of the host debt instrument. However, current accounting standards afforded an exemption to bifurcation of the ECF because it is both indexed to the Company's own stock and otherwise met the definition of Conventional Convertible based upon the fixed conversion price. The Exchange Warrants are both indexed to the Company's own stock and met all other conditions necessary for their classification in stockholders' equity. Finally, the Company's consideration of whether a beneficial conversion feature (BCF) was present in the hybrid debt agreement indicated that the effective conversion price was higher than the trading market price on the date of issuance. Accordingly, the Exchange Notes did not embody a BCF.

The final value allocated to the Exchange Notes on the issuance date of $2,150,448 is less than the face value of $2,472,000. This original issue discount of $321,552 is amortized to interest expense using the effective interest method. For the six months ended June 30, 2010, the Company recorded amortization charges of $50,184.

6. Promissory Notes and Warrants:

On June 18, 2009, the Company entered into a Note and Warrant Purchase Agreement (the Note Purchase Agreement), with a limited number of accredited investors. Pursuant to the Note Purchase Agreement, the Company sold an aggregate of $3,800,000 in principal amount of secured promissory notes (the Notes) and 285,000 warrants (the Note Warrants) to purchase shares of the Company's common stock. The Notes were payable in full on January 5, 2011 and incurred simple interest at the rate of 10.0% per year. The interest was payable a year after the closing date and at maturity. The Notes were secured by all of the assets of the Company.

The Note Warrants are immediately exercisable at an exercise price of $6.43 per share and expire three years after the date of issuance. Note Warrants to purchase 0.075 shares of the Company's common stock were issued for each $1.00 in principal amount of the Notes sold to each purchaser. The Note Purchase Agreement required additional warrants (the Additional Warrants) to be issued at the earlier of a year after the issuance date of the Notes, or the date on which the principal and interest on the Notes is paid in full. The Additional Warrants accrued ratably over the 365 day period at a rate of 7.5% of the aggregate principal amount of all Notes issued pursuant to the Note Purchase Agreement, and otherwise carry the same terms as the Note Warrants issued upon closing of the Note Purchase Agreement. If the Notes remained outstanding for a year, 285,000 Additional Warrants would have been issued. Since the Notes were redeemed prior to one year after the date the Notes were issued, the number of Additional Warrants issued was prorated for the time the Notes were outstanding.

Using a simulation model of discounted cash flows, the relative fair value of the Notes was calculated to be $3,229,675. The fair value of the Note Warrants and Additional Warrants was calculated to be $570,325. The fair value of the Note Warrants was calculated using the Black-Scholes model with the following assumptions: Expected life in years: 3; Estimated volatility: 30%; Risk-free interest rate: 1.86%; Dividend yield: 0%. The fair value of the Additional Warrants was calculated using the Black-Scholes model with a probability matrix for the number of warrants issued and the vesting date of the warrants: Expected life in years: 3; Estimated volatility: 30%; Dividend yield: 0%; Risk-free interest rate: weighted average based on the time to expiration with the 5 year US Treasury bill rate of 2.86%.

The proceeds from the Notes have been discounted for the relative fair value of the Note Warrants and Additional Warrants of $570,325, which was recorded as additional paid-in capital. The discount was amortized over the life of the Notes using the effective interest method. For the six months ended June 30, 2010, $55,433 of the discount was amortized to interest expense.

The Company incurred $196,353 of debt issuance costs which were being amortized over the life of the Notes using the effective interest method. The Company issued 20,684 shares of common stock to the placement agent for services in connection with the private placement of the Notes. The Company estimated the fair value of the services received to be $133,000, based on the agreement with the placement agent. For the six months ended June 30, 2010, $19,293 of the debt issuance costs was amortized to interest expense.

The Note and Warrant Purchase Agreement contained certain financial covenant requirements and other provisions, the failure of which would result in an Event of Default, resulting in the holders of the Notes ability to declare all amounts outstanding under the Notes immediately due.

In the first quarter of 2010, the Company repaid the principal and $262,356 of accrued interest outstanding on the Notes in full. Pursuant to the Note and Warrant Purchase Agreement, the Company issued 196,766 Additional Warrants on February 25, 2010. The Additional Warrants are immediately exercisable at an exercise price of $6.43 per share and expire three years after the date of issuance. As of June 30, 2010, the Company has expensed $113,954 of unamortized debt issuance costs and $327,787 of unamortized discount, resulting in a loss on early extinguishment of debt of $441,741.

The holders of the Notes included certain directors or entities affiliated with them. Patrick Doherty, one of the Company's directors, is president of Mariner Private Equity, LLC. The Company paid entities affiliated with Mariner Private Equity, LLC, $1,500,000 in principal and $103,562 in accrued interest. The Company paid Michael Brown, one of the Company's directors, $100,000 in principal and $6,904 in accrued interest.

7. Contingencies:

In the ordinary course of business the Company may become a party to various legal proceedings generally involving collection actions, contractual matters, infringement actions, product liability claims and other matters.

8. Subsequent Events:

No material subsequent events have occurred since June 30, 2010 that require recognition or disclosure in these financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Forward Looking Statements

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 unaudited Consolidated Financial Statements and Notes thereto appearing elsewhere in this report and the audited Financial Statements and related Notes to Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2009. All references in this report on Form 10-Q to "Nexxus," "Nexxus Lighting," "we," "us," "our company," or "our" refer to Nexxus Lighting, Inc. and its consolidated subsidiaries, except where it is clear that such terms mean only Nexxus Lighting, Inc. or our subsidiaries, Advanced Lighting Systems, LLC and Lumificient Corporation.

Except for the historical information contained herein, the discussions in this report contain certain forward-looking statements within the meaning of the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995, as amended, the attainment of which involve various risks and uncertainties. Forward-looking statements may be identified by the use of forward-looking terminology such as "may", "should", "expect", "plan", "believe", "estimate", "anticipate", "continue", "predict", "forecast", "intend", "potential", or similar terms, variations of those terms or the negative of those terms. Our actual results may differ materially from those described in these forward-looking statements due to, among other factors, our history of losses and anticipated future losses, including the risk that any reorganization of our company, operations and/or product offerings may cause us to incur greater losses and create disruptions in our business, the risk that we may not be able to maintain adequate liquidity or achieve long-term viability if we are unable to successfully manage our costs and expenses and increase revenue, the risk that demand for our Array ™ brand of LED light bulbs fails to emerge as anticipated and the potential failure to make adjustments to our operating plan necessary as a result of any failure to forecast accurately, competition in each of our product areas, including price competition, dependence on suppliers and third-party manufacturers, the success of our sales, marketing and product development efforts, the condition of the international marketplace, general economic and business conditions, the evolving nature of our LED lighting technology, the success of our strategic acquisitions, if any, and our ability to successfully integrate businesses we acquire, if any. 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 our other Securities and Exchange Commission filings. Readers should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2009. Although we believe 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. Neither our company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. We are under no duty to update any of the forward-looking statements after the date of this report on Form 10-Q to conform our prior statements to actual results.

Overview

We design, manufacture, market and sell advanced lighting solutions, including light emitting diode (LED) and fiber optic lighting. We offer a broad range of technically innovative white light, color-changing and fixed-color lighting solutions that are used for applications in commercial/architectural, retail, hospitality, entertainment and consumer markets. We believe that we offer one of the broadest portfolios of advanced lighting solutions. Our LED products include replacement lamps, flood lights and linear strips. Our fiber optic products include fixtures, cable and light sources.

We generate revenue from selling our products into two primary markets: commercial/architectural and pool and spa. Commercial sales include fixtures, systems and lamp (light bulb) products used for architectural, retail, hospitality, entertainment, signage and consumer applications. In the first quarter of 2009, we integrated the operations of our Advanced Lighting Systems, LLC (ALS) subsidiary into our SV Lighting Division, creating the new Nexxus Commercial Lighting Division. We now serve the commercial markets through our Nexxus Commercial Lighting Division, with select employees dedicated to Array sales, and through our subsidiary, Lumificient Corporation (Lumificient). Pool and spa sales include products used for pool, spa and water feature applications served by the Nexxus Lighting Pool and Spa Division. Each of our divisions markets and distributes products globally through multiple networks of independent sales representatives and distributors.

In December 2008, we began shipments of our new line of Array LED replacement lamps and continued the launch in 2009. Since its introduction, sales of our Array LED replacement lamps have grown significantly and contributed approximately $932,000 to revenue for the six months ended June 30, 2010, compared to $290,000 for the same period in 2009. We market our Array products through our Nexxus Commercial Lighting Division to end-users through our network of independent sales representatives and distributors, as well as to energy savings companies and national accounts. The Array launch was consistent with a new product offering, including an introductory period with additional sales and marketing expenses and additional inventory investments. The initial Array product line included R30, R16, MR16, GU10 and GU4 lamps. In the second and third quarters of 2009, we expanded the product line to include a 230 volt/50 megahertz R30 for use in certain international markets and 25º narrow optic versions for the R30 and R16/MR16 lamps. In the first half of 2010, we upgraded the design of our R30 lamp and expanded its optical package with a new quantum dot lens technology and also introduced a new PAR38 lamp. We intend to continue making investments to expand the Array product offering and grow our market share.

Results of Operations

Revenue: Revenue is derived from sales of our advanced lighting products. These products consist of solid-state LED lighting systems and controls as well as fiber optic lighting cables and fiber optic lighting sources and accessories. We also design, manufacture, market and sell LED and fiber optically lit waterfalls and water features. Revenue is subject to both quarterly and annual fluctuations as a result of product mix considerations.

We sell our products pursuant to purchase orders and do not have any long-term contracts with our customers. We recognize revenue upon shipment to our customers. Delays in product orders or changes to the timing of shipments could cause our quarterly revenue to vary significantly. The majority of our sales are to the North American market (which includes Canada, but excludes Mexico for our purposes), and we expect that region to continue to be a major source of revenue for us. However, we also derive a portion of our revenue from customers outside of the North American market. All of our revenue is denominated in U.S. dollars.

Cost of Goods Sold: Our cost of goods sold consists primarily of raw materials, labor, manufacturing-related overhead such as utilities, depreciation, rent, provisions for excess and obsolete inventory reserves, freight and warranties. We manufacture our products based on customer orders. We purchase materials and supplies to support such demand.

Gross Profit: Our gross profit has been and will continue to be affected by a variety of factors, including average sales prices of our products, product mix, our ability to reduce manufacturing costs and fluctuations in the cost of our purchased components. We define direct gross margin as revenue less direct material cost.

Operating Expenses: Operating expenses consist primarily of salaries and associated costs for employees in sales, engineering, finance, and administrative activities. In addition, operating expenses include charges relating to accounting, legal, insurance and stock-based compensation under the Financial Accounting Standards Board Accounting Standards Codification 718, “Compensation – Stock Compensation”.

Three months ended June 30, 2010 vs. 2009

Revenue

	(Unaudited) Quarter Ended June 30,			
	2010	2009	Change	%
Array LED lamps	$ 430,473	$ 196,950	$ 233,523	119 %
Legacy commercial	408,507	593,983	(185,476)	-31%
Lumificient	896,554	837,707	58,847	7%
Pool and spa	2,000,404	976,404	1,024,000	105%
Total revenue	$ 3,735,938	$ 2,605,044	$ 1,130,894	43%

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Total revenue for the three months ended June 30, 2010 increased 43%, or approximately $1,131,000, to $3,736,000 as compared to approximately $2,605,000 for the three months ended June 30, 2009.

Sales of our Array LED lamps were approximately $430,000 in the second quarter of 2010 compared to approximately $197,000 in the second quarter of 2009. Sales of our legacy commercial products were approximately $409,000 in the second quarter of 2010, a 31% decrease from approximately $594,000 for the same quarter in 2009. Sales of Lumificient products in the second quarter of 2010 and 2009 were approximately $897,000 and $838,000, respectively.

Overall, revenue from sales of commercial lighting products increased by approximately $107,000, or 7%, from approximately $1,629,000 in the second quarter of 2009 to approximately $1,736,000 in the second quarter of 2010. This increase primarily relates to increased sales of our new Array LED lamps.

Revenue from sales of pool and spa lighting products was approximately $2,000,000 in the second quarter of 2010, as compared to approximately $976,000 for the same period of 2009, an increase of approximately $1,024,000, or 105%. This revenue growth reflects an increase in market share as we expanded our pool and spa lighting product offering, including adding Melody Blanco, a white-light-only product. In addition, by the beginning of 2010, we completed moving production to additional domestic contract manufacturers allowing us to respond more timely to increased demand. In the second quarter of 2009, we had a larger backlog of orders that we were unable to ship until the third quarter of 2009. With the improvements made in operations and shipments, we did not experience the build up of backlog in 2010, which translated to higher sales in the period.

Sales of LED products continue to represent a growing percentage of our business, accounting for 84% and 74% of our revenue, while sales of fiber optic lighting products accounted for 9% and 20% of our revenue for the quarters ended June 30, 2010 and 2009, respectively. The balance of the revenue mix consisted primarily of sales of water feature products. We expect sales of our fiber optic lighting products will continue to decline and believe that sales of our LED lighting products will increase as a percentage of our total revenue and drive our growth in the future.

Gross Profit

	(Unaudited) Quarter Ended June 30,			
	2010	2009	Change	%
Revenue	$ 3,735,938	$ 2,605,044	1,130,894	43%
Cost of Sales	2,862,874	1,955,065	907,809	46%
Gross Profit	$ 873,064	$ 649,979	223,085	34%
Gross Margin %	23.4%	25.0%		

Gross profit for the quarter ended June 30, 2010 was approximately $873,000, or 23% of revenue, as compared to approximately $650,000, or 25% of revenue, for the comparable period of 2009. Direct gross margin for the second quarter of 2010, which is revenue less material cost, decreased to approximately 49% as compared to 51% in the same period of 2009. The decline in direct gross margins during the period reflects a shift in product mix, specifically lower sales of historically higher margin legacy commercial products and higher sales of lower margin pool products.

In the second quarter of 2010, production costs increased to approximately $942,000, or 25% of revenue, as compared to approximately $678,000, or 26% of revenue, in the second quarter of 2009. The increase of approximately $264,000 in production costs includes increases of approximately $63,000 in freight costs on the higher volume and approximately $60,000 in warranty expense primarily related to our pool and spa lighting products. We also continued to write-down legacy inventories in the second quarter of 2010 as reflected by the increase of approximately $209,000 in expenses for obsolete inventory, scrap and inventory reserves. Offsetting these costs were savings of approximately $92,000 in lower expense related to the release of capitalized labor, overhead and freight costs.

We continue to review our operations for opportunities to reduce costs, especially those related to our legacy commercial and pool and spa businesses. Our analysis may lead to the determination to sell, close, eliminate, rationalize or reduce operations and divisions and/or alter our sales, manufacturing and/or distribution structure. Should we decide to pursue any such changes, we may incur additional charges and losses in connection with such changes in the future, and such charges and losses may be material.

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Operating Loss and Expenses

	(Unaudited) Quarter Ended June 30,			
	2010	2009	Change	% Change
Gross profit	$ 873,064	$ 649,979	$ 223,085	34%
Less operating expenses:				
Selling, general and administrative	2,431,283	2,048,494	382,789	19%
Research and development	299,451	130,379	169,072	130%
Total operating expenses	2,730,734	2,178,873	551,861	25%
Operating loss	$ (1,857,670)	$ (1,528,894)	$ (328,776)	22%

Selling, general and administrative (SG&A) expenses were approximately $2,431,000 for the quarter ended June 30, 2010 as compared to approximately $2,048,000 for the same period in 2009, an increase of approximately $383,000, or 19%. This increase is primarily the result of higher expense dedicated to the sales and marketing of our Array and Lumificient product offerings and increased commission expense as the result of higher pool product sales.

Research and development costs were approximately $299,000 during the three months ended June 30, 2010 as compared to approximately $130,000 during the same period in 2009. This increase of approximately $169,000 was primarily due to higher employee costs and project-related costs in the second quarter of 2010, as compared to the same period of 2009, as we increased our investment in resources to expand the Array product offering.

Income Taxes

We have provided a full valuation allowance against income tax benefits resulting from losses incurred and accumulated on operations. As a result, there was no provision for income tax recorded during the three months ended June 30, 2010 and 2009, respectively.

Net Loss

Net loss for the three months ended June 30, 2010 and 2009 was approximately $1,884,000 and $1,557,000, respectively. After including the effects of the dividends related to the preferred stock and warrants issued in November 2008, net loss attributable to common stockholders was approximately $1,884,000 and $1,880,000 for the three months ended June 30, 2010 and 2009, respectively. Basic and diluted loss per common share attributable to common stockholders was $0.12 and $0.22 for the three months ended June 30, 2010 and 2009, respectively.

Six months ended June 30, 2010 vs. 2009

Revenue

	(Unaudited) Six Months Ended June 30,			
	2010	2009	Change	%
Array LED lamps	$ 931,663	$ 289,853	$ 641,810	221 %
Legacy commercial	896,651	1,443,588	(546,937)	-38%
Lumificient	1,819,781	1,914,811	(95,030)	-5%
Pool and spa	3,249,902	1,993,474	1,256,428	63%
Total revenue	$ 6,897,997	$ 5,641,726	$ 1,256,271	22%

Total revenue for the six months ended June 30, 2010 was approximately $6,898,000 as compared to approximately $5,642,000 for the six months ended June 30, 2009, an increase of approximately $1,256,000, or 22%.

Sales of our Array LED lamps were approximately $932,000 in the first six months of 2010 compared to approximately $290,000 in the same period of 2009. Sales of our legacy commercial products were approximately $897,000 in the first six months of 2010, a 38% decrease from approximately $1,444,000 for the same period in 2009. Sales of Lumificient products in the first six months of 2010 and 2009 were approximately $1,820,000 and $1,915,000, respectively.

Overall, revenue from sales of commercial lighting products remained flat at approximately $3,648,000 in the first six months of 2010 and 2009. Sales of our new Array LED lamps offset the decline in sales of our legacy commercial and Lumificient products which primarily resulted from significant decreases in commercial construction and much lower new signage activity across the US.

Revenue from sales of pool and spa lighting products was approximately $3,250,000 in the first half of 2010, as compared to approximately $1,993,000 for the same period of 2009, an increase of approximately $1,256,000, or 63%. This increase reflects a slight rebound in the pool market and higher penetration into this market in 2010.

Sales of LED products continued to represent a growing percentage of our business, accounting for 84% and 74% of our revenue, while sales of fiber optic lighting products accounted for 10% and 21% of our revenue for the six months ended June 30, 2010 and 2009, respectively. The balance of the revenue mix consisted primarily of sales of water feature products. We expect sales of our fiber optic lighting products will continue to decline and believe that sales of our LED lighting products will increase as a percentage of our total revenue and drive our growth in the future.

Gross Profit

	(Unaudited) Six Months Ended June 30,			
	2010	2009	Change	%
Revenue	$ 6,897,997	$ 5,641,726	$ 1,256,271	22%
Cost of Sales	5,313,566	3,936,593	1,376,973	35%
Gross Profit	$ 1,584,431	$ 1,705,133	$ (120,702)	-7%
Gross Margin %	23.0%	30.2%		

Gross profit for the six months ended June 30, 2010 was approximately $1,584,000, or 23% of revenue, as compared to approximately $1,705,000, or 30% of revenue, for the comparable period of 2009. Direct gross margin for the first half of 2010, which is revenue less material cost, decreased to approximately 47% as compared to 52% in the same period of 2009. The decline in direct gross margins reflects a shift in sales away from historically higher margin legacy commercial products, a higher percentage of pool product sales, and margin erosion in the first quarter due to an increase in material costs for certain pool lighting products and the liquidation of certain legacy commercial products at lower prices.

Production costs increased to approximately $1,684,000, or 24% of revenue, in the first half of 2010 as compared to approximately $1,239,000, or 22% of revenue, in the first half of 2009. The increase of approximately $445,000 in production costs includes increases of approximately $133,000 in warranty expense primarily related to our pool lighting products and approximately $93,000 in freight costs in the six months ended June 30, 2010 as compared to the same period in 2009. The increase also reflects an increase of approximately $290,000 in expenses for obsolete inventory, scrap and inventory reserves in the first half of 2010.

We continue to review our operations for opportunities to reduce costs, especially those related to our legacy commercial and pool and spa businesses. Our analysis may lead to the determination to sell, close, eliminate, rationalize or reduce operations and divisions and/or alter our sales, manufacturing and/or distribution structure. Should we decide to pursue any such changes, we may incur additional charges and losses in connection with such changes in the future, and such charges and losses may be material.

Operating Loss and Expenses

	(Unaudited) Six Months Ended June 30,			
	2010	2009	Change	% Change
Gross profit	$ 1,584,431	$ 1,705,133	$ (120,702)	-7%
Less operating expenses:				
Selling, general and administrative	4,718,517	4,400,244	318,273	7%
Research and development	588,299	238,103	350,196	147%
Total operating expenses	5,306,816	4,638,347	668,469	14%
Operating loss	$ (3,722,385)	$ (2,933,214)	$ (789,171)	27%

Selling, general and administrative (SG&A) expenses were approximately $4,719,000 for the six months ended June 30, 2010 as compared to approximately $4,400,000 for the same period in 2009, an increase of approximately $318,000, or 7%. This increase is primarily the result of higher expense dedicated to the sales of our Array and Lumificient product offerings and increased commission expense due to higher Array and pool product sales.

In the first quarter of 2010, we recognized bad debt expense relating to a dispute with a customer. We shipped Array product to the customer in the fourth quarter of 2009 and the first quarter of 2010. A portion of the product has been installed in a hotel. The balance of the product shipped to the customer has not been installed, including excess product relating to the hotel project and product purchased for a university project. The customer is claiming a right to return all unused product without charge. Although we dispute the customer's claim, and have filed a lawsuit to collect the unpaid balance, as a result of the uncertainty over the collection of the receivable of approximately $300,000, we have increased our allowance for doubtful accounts by approximately $85,000 with respect to the disputed receivable and we have deducted commission expense that we previously recognized upon shipment of the unused product.

Research and development costs were approximately $588,000 during the six months ended June 30, 2010 as compared to approximately $238,000 during the same period in 2009. This increase of approximately $350,000 was primarily due to higher employee costs and project-related costs in the first half of 2010, as compared to the same period of 2009, as we increased our investment in resources to expand the Array product offering.

Income Taxes

We have provided a full valuation allowance against income tax benefits resulting from losses incurred and accumulated on operations. As a result, there was no provision for income tax recorded during the six months ended June 30, 2010 and 2009, respectively.

Net Loss

Net loss for the six months ended June 30, 2010 and 2009 was approximately $4,350,000 and $2,959,000, respectively. After including the effects of the dividends related to the preferred stock and warrants issued in November 2008, net loss attributable to common stockholders was approximately $4,350,000 and $3,566,000 for the six months ended June 30, 2010 and 2009, respectively. Basic and diluted loss per common share attributable to common stockholders was $0.27 and $0.43 for the six months ended June 30, 2010 and 2009, respectively.

Liquidity and Capital Resources

At June 30, 2010 we had working capital of approximately $11,758,000, a decrease of approximately 39% compared to working capital of approximately $19,189,000 at December 31, 2009. The decline in working capital primarily represents our use of cash to fund operations and to extinguish the principal and accrued interest outstanding on the promissory notes we issued in June 2009. At June 30, 2010 we had cash and cash equivalents of approximately $7,753,000, compared to cash and cash equivalents of approximately $8,989,000 and $15,167,000 at March 31, 2010 and December 31, 2009, respectively.

Net cash used in operating activities amounted to approximately $3,111,000 for the six months ended June 30, 2010, as compared to approximately $2,925,000 for the six months ended June 30, 2009. This increase of approximately $186,000 in net cash used in operating activities over the comparable period of 2009 is primarily due to an approximately $681,000 increase in net loss adjusted for non-cash items for the six months ended June 30, 2010, as compared to the same period in 2009. In addition, cash provided by accounts receivables decreased by approximately $1,035,000 and cash used for inventories increased by approximately $572,000 for the six months ended June 30, 2010, as compared to the same period of 2009. These increases in net cash used in operating activities over the comparable period in 2009 were partially offset by decreases in cash used for accounts payable and related party payables of approximately $1,941,000.

Net cash used in investing activities for the six months ended June 30, 2010 was approximately $468,000 as compared to approximately $505,000 in the same period of 2009. This decrease in cash used in investing activities of approximately $37,000 is primarily the result of a decrease in cash used for acquisition costs of approximately $117,000, which was partially offset by an increase in investment in trademark and patent development costs of approximately $67,000 for the six months ended June 30, 2010, as compared to the same period in 2009.

Net cash used in financing activities for the six months ended June 30, 2010 was approximately $3,835,000 as compared to net cash provided by financing activities of approximately $4,292,000 for the comparable period of 2009. This increase of approximately $8,127,000 in cash used in financing activities over the comparable period of 2009 is primarily due to our use of approximately $3,800,000 to extinguish the principal outstanding on the promissory notes we issued in June 2009. In addition, cash provided by proceeds from the exercise of warrants and employee stock options decreased by approximately $671,000 in the six months ended June 30, 2010 as compared to the same period of 2009.

Nexxus' liquidity is affected by many factors. Some of these factors are based on operations of the business and others relate to the uncertainties of national and global economies and the lighting industry. Our ability to maintain adequate liquidity and achieve long-term viability is dependent upon successfully managing our costs and expenses and increasing revenue. There can be no assurance that we will be able to maintain adequate liquidity or achieve long-term viability. Our ability to meet our obligations in the ordinary course of business is dependent upon our ability to establish profitable operations or raise additional capital through public or private debt or equity financing, or other sources of financing to fund operations. In the event that we experience unforeseen increases in expenditures or should estimated revenues not materialize, these conditions could significantly impair our ability to fund future operations. If we are unable to maintain adequate liquidity, future operations will need to be scaled back. Accordingly, we have identified certain operating measures that can be taken to conserve liquidity if circumstances warrant. These measures could include further reductions in costs and re-timing or eliminating certain capital spending.

We face significant challenges in order to achieve profitability and there can be no assurance that we will achieve or sustain positive cash flows from operations or profitability. The disruption of the capital markets and decline in economic conditions could negatively impact our ability to achieve profitability or raise additional capital when needed and, accordingly, we may need to pursue a streamlined operating plan. Our streamlined operating plan could include, among other cost cutting measures, reductions in marketing and capital expenditures, delaying new hires and being more selective in inventory purchases.

We may reorganize our company, operations and product offerings which may cause us to incur losses. We derive most of our revenue from sales of products other than Array. Although most of these products are well established in the marketplace and we have sold them for many years, we have a history of operating losses in these businesses. Furthermore, current economic conditions have adversely affected demand for certain products. Our review of operations for additional opportunities to reduce costs may lead to the determination to sell, close, eliminate, rationalize or reduce operations and divisions and/or alter our sales, manufacturing and/or distribution structure. Should we decide to pursue any such changes, we may incur additional charges and losses in connection with such changes in the future, and such charges and losses may be material.

Contractual Obligations

As of June 30, 2010, there have been no material changes to our contractual obligations disclosed in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2009.

Critical Accounting Policies

As of June 30, 2010, there have been no material changes to our critical accounting policies disclosed in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2009.

Critical Accounting Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, income taxes, intangibles, accounts receivable, inventory, stock-based compensation and warranty obligations. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The critical accounting estimates are those that we believe are the more significant judgments and estimates used in the preparation of our financial statements. As of June 30, 2010, there have been no material changes to the critical accounting estimates as described in our Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

ITEM 4 (T). CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to provide reasonable assurance that information required to be disclosed by us in our reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 13a-15(b), our company carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, management concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There were no changes in our internal control over financial reporting that occurred during the six month period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

In the ordinary course of business we may become a party to various legal proceedings involving collection actions, contractual matters, infringement actions, product liability claims and other matters.

Item 6. Exhibits

(a) Exhibits.

Exhibit Number	Document Description
31.1	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

*Filed herewith

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEXXUS LIGHTING, INC.

By: /s/ Michael A. Bauer ____________________ Date: August 11, 2010

Michael A. Bauer, Chief Executive Officer

(Principal Executive Officer)

By: /s/ Gary R. Langford ____________________ Date: August 11, 2010

Gary R. Langford, Chief Financial Officer

(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael A. Bauer, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended June 30, 2010 of Nexxus Lighting, Inc.;
2. Based on my knowledge, this 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers 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)) and internal control over financing reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant'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;
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 11, 2010

/s/ Michael A. Bauer
Michael A. Bauer
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gary R. Langford, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended June 30, 2010 of Nexxus Lighting, Inc.;
2. Based on my knowledge, this 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers 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)) and internal control over financing reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant'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;
    d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 11, 2010

/s/ Gary R. Langford
Gary R. Langford
Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

This Certification 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 Quarterly Report on Form 10-Q of Nexxus Lighting, Inc. for the quarter ended June 30, 2010, each of the undersigned hereby certifies in his capacity as an officer of Nexxus Lighting, Inc. that to such officer's knowledge:

(1) The Report 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 the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

	By:	/s/ Michael A. Bauer
Dated: August 11, 2010		Michael A. Bauer
		Chief Executive Officer
	By:	/s/ Gary R. Langford
Dated: August 11, 2010		Gary R. Langford
		Chief Financial Officer