

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 March 31, 2011

- 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

(State or other Jurisdiction of
Incorporation or Organization)

59-3046866

(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 May 6, 2011: 16,441,639

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Consolidated Balance Sheets

	(Unaudited) March 31, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,484,607	\$ 5,308,900
Trade accounts receivable, less allowance for doubtful accounts of \$35,789 and \$35,899	668,943	645,254
Inventories, less reserve of \$306,247 and \$270,797	4,544,338	3,543,526
Note receivable	—	1,110,982
Prepaid expenses	160,022	109,648
Other assets	<u>10,742</u>	<u>15,605</u>
Total current assets	10,868,652	10,733,915
Property and equipment	3,211,000	3,172,715
Accumulated depreciation and amortization	<u>(2,203,605)</u>	<u>(2,091,230)</u>
Net property and equipment	1,007,395	1,081,485
Goodwill	2,396,289	2,396,289
Other intangible assets, less accumulated amortization of \$662,670 and \$592,645	2,720,648	2,750,010
Deposits on equipment	31,445	—
Other assets, net	<u>57,038</u>	<u>58,510</u>
	<u>\$ 17,081,467</u>	<u>\$ 17,020,209</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 2,340,567	\$ 1,270,937
Related party payable	14,370	35,212
Accrued compensation and benefits	177,675	213,414
Current portion of deferred rent	82,884	80,131
Other current liabilities	<u>55</u>	<u>3,434</u>
Total current liabilities	2,615,551	1,603,128
Convertible promissory notes to related parties, net of debt discount	2,257,577	2,231,588
Deferred rent, less current portion	<u>4,916</u>	<u>25,882</u>
Total liabilities	4,878,044	3,860,598
Stockholders' Equity:		
Common stock, \$.001 par value, 25,000,000 shares authorized, 16,441,639 and 16,245,503 issued and outstanding	16,442	16,246
Additional paid-in capital	49,759,575	49,386,782
Accumulated deficit	<u>(37,572,594)</u>	<u>(36,243,417)</u>
Total stockholders' equity	<u>12,203,423</u>	<u>13,159,611</u>
	<u>\$ 17,081,467</u>	<u>\$ 17,020,209</u>

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2011	2010
Revenue	\$ 1,553,594	\$ 1,424,417
Cost of sales	1,064,437	917,879
Gross profit	489,157	506,538
Operating expenses:		
Selling, general and administrative	1,602,359	1,639,525
Research and development	194,063	249,686
Total operating expenses	1,796,422	1,889,211
Operating loss	(1,307,265)	(1,382,673)
Non-operating income (expense):		
Interest expense	(27,537)	(159,479)
Debt extinguishment costs	—	(441,741)
Other income	240	298
Total non-operating income, net	(27,297)	(600,922)
Loss from continuing operations	\$ (1,334,562)	\$ (1,983,595)
Discontinued operations:		
Income (loss) from discontinued operations	5,385	(482,042)
Net loss	\$ (1,329,177)	\$ (2,465,637)
Basic and diluted loss per common share:		
Continuing operations	\$ (0.08)	\$ (0.12)
Discontinued operations	\$ 0.00	\$ (0.03)
Net loss	\$ (0.08)	\$ (0.15)
Basic and diluted weighted average shares outstanding	16,270,719	16,240,836

See accompanying notes to unaudited consolidated financial statements.

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

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2010	16,245,503	\$16,246	\$49,386,782	\$(36,243,417)	\$13,159,611
Exercise of warrants	196,136	196	299,804	—	300,000
Stock-based compensation	—	—	72,989	—	72,989
Net loss	—	—	—	(1,329,177)	(1,329,177)
Balance, March 31, 2011	<u>16,441,639</u>	<u>\$16,442</u>	<u>\$49,759,575</u>	<u>\$(37,572,594)</u>	<u>\$12,203,423</u>

See accompanying notes to unaudited consolidated financial statements

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

	Three Months Ended	
	March 31,	
	2011	2010
Cash Flows from Operating Activities:		
Net loss	\$(1,329,177)	\$ (2,465,637)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	113,502	136,930
Amortization of intangible and other assets	70,025	68,464
Amortization of debt discount and debt issuance costs	27,461	100,940
Debt extinguishment costs	—	441,741
Amortization of deferred rent	(18,213)	(13,099)
Loss on sale of businesses	648	—
Loss on disposal of property and equipment	7,323	774
Increase in inventory reserve	35,450	20,331
Stock-based compensation	72,989	102,741
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Trade accounts receivable, net	(23,689)	(288,350)
Inventories	(1,036,262)	(297,054)
Prepaid expenses	(50,374)	(88,494)
Other assets	4,863	(18,792)
Increase (decrease) in:		
Accounts payable, accrued liabilities and related party payable	1,048,788	42,764
Accrued compensation and benefits	(35,739)	133,910
Other liabilities	(3,379)	(11,704)
Total adjustments	<u>213,393</u>	<u>331,102</u>
Net cash used in operating activities	<u>(1,115,784)</u>	<u>(2,134,535)</u>
Cash Flows from Investing Activities:		
Proceeds from the sale of businesses, net of transaction costs	1,110,334	—
Purchase of property and equipment	(78,180)	(75,261)
Proceeds from the sale of property and equipment	—	6,450
Acquisition costs of Lumificient Corporation, net of cash acquired	—	(105,911)
Patents and trademark costs	(40,663)	(34,125)
Net cash provided by (used in) investing activities	<u>991,491</u>	<u>(208,847)</u>
Cash Flows from Financing Activities:		
Payments on promissory notes	—	(3,800,000)
Proceeds from exercise of employee stock options and warrants, net	300,000	14,900
Fees related to follow-on equity offering	—	(49,954)
Net cash provided by (used in) financing activities	<u>300,000</u>	<u>(3,835,054)</u>
Net increase (decrease) in Cash and Cash Equivalents	175,707	(6,178,436)
Cash and Cash Equivalents, beginning of period	<u>5,308,900</u>	<u>15,167,496</u>
Cash and Cash Equivalents, end of period	<u>\$ 5,484,607</u>	<u>\$ 8,989,060</u>
Supplemental Cash Flow Information:		
Cash paid for interest	\$ —	\$ 262,356

See accompanying notes to unaudited consolidated financial statements.

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Nexus Lighting, Inc.

Notes to Consolidated Financial Statements (unaudited)

The accompanying consolidated financial statements of Nexus Lighting, Inc. and subsidiary (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, 2010 filed with the Securities and Exchange Commission ("SEC"). The results of operations for the three month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2011 or for any future period.

1. Summary of Significant Accounting Policies:

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 March 31, 2011. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities, which includes cash equivalents of approximately \$4,534,000 at March 31, 2011 and \$5,024,000 at December 31, 2010, respectively. 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.

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 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.

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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. 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:

	<u>Estimated useful lives</u>
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.

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

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

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.

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Loss per share – Basic loss per share is computed by dividing net loss 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 March 31, 2011 and 2010, the Company had 7,289,340 and 7,740,296, 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 March 31, 2011 and 2010 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.

	Three Months Ended March 31,	
	2011	2010
Expected volatility	72.0%	67.2 – 86.5%
Weighted-average volatility	72.0%	83.1%
Risk-free interest rate	1.3%	2.2%
Expected dividend	0%	0%
Expected life in years	3.5 – 8.6	3.6 – 8.9

Under ASC 718, stock-based compensation expenses recognized in the accompanying unaudited statements of operations for the three months ended March 31, 2011 and 2010 was \$72,989 and \$102,741, respectively, which caused net loss to increase by that amount and basic and diluted loss per share for the three months ended March 31, 2011 and 2010 to increase by \$0.00 and \$0.01, respectively.

Business segments – Pursuant to FASB ASC 280 “Segment Reporting”, the Company is required to report segment information. In October of 2010, the Company sold substantially all of the assets of its legacy commercial/architectural lighting and pool and spa lighting businesses (the “Legacy Commercial and Pool Lighting Businesses”). As a result of the sale of the Company’s Legacy Commercial and Pool Lighting Businesses, the Company reorganized its reporting structure into two reportable segments: LED replacement lamps and LED signage and lighting strips.

2. Discontinued Operations:

On October 28, 2010, the Company signed an Asset Purchase Agreement (the “Purchase Agreement”) with Next Step Products, LLC (the “Buyer”). Pursuant to the Purchase Agreement, the Company sold substantially all of the assets (the “Asset Sale”) of the Legacy Commercial and Pool Lighting Businesses. The financial condition and results of operations of the Legacy Commercial and Pool Lighting Businesses have been reflected as discontinued operations for all periods presented.

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Pursuant to the Purchase Agreement, the Buyer paid \$1.0 million in cash in connection with closing the Asset Sale and agreed to pay approximately \$1.3 million over the seven month period ending May 28, 2011. Of the total purchase price of approximately \$2.3 million, approximately \$1.3 million accounted for the purchase of inventory.

The \$1.0 million portion of the purchase price paid in connection with closing included \$750,000 of non-refundable deposits previously paid by the Buyer. Subject to the terms of the Purchase Agreement and a secured promissory note, the remaining approximately \$1.3 million was to be paid to the Company over the seven month period ending May 28, 2011 as the Buyer sold the purchased inventory, with 50% of the agreed upon value of the inventory being paid no later than February 28, 2011 and the balance being paid no later than May 28, 2011. As of March 4, 2011, the \$1.3 million balance of the purchase price was paid in full. In addition, the Buyer assumed certain liabilities related to the Legacy Commercial and Pool Lighting Businesses.

The components of discontinued operations for the three months ended March 31, 2011 and 2010 are as follows:

	Three Months Ended March 31,	
	2011	2010
Revenue	\$ 6,423	\$ 1,737,642
Income (loss) from operations	\$ 6,033	\$ (482,042)
Loss on sale of divisions	(648)	—
Discontinued operations	\$ 5,385	\$ (482,042)

The loss on sale of divisions includes \$648 of transaction and legal costs related to the Asset Sale.

3. Inventories:

Inventories consist of the following:

	(Unaudited)	December 31,
	March 31, 2011	2010
Raw materials	\$2,803,159	\$2,186,639
Finished goods	2,047,426	1,627,684
	4,850,585	3,814,323
Less: Reserve for obsolescence	(306,247)	(270,797)
Net inventories	\$4,544,338	\$3,543,526

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4. Goodwill and Other Intangible Assets:

At March 31, 2011, the Company had the following intangible assets:

	March 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:			
Patents	\$ 1,269,289	\$ (145,375)	\$1,123,914
Trademarks	908,148	(152,437)	755,711
Customer relationships	1,010,000	(294,583)	715,417
Non-compete agreement	60,000	(43,750)	16,250
Product certification and licensing costs	135,881	(26,525)	109,356
	<u>\$ 3,383,318</u>	<u>\$ (662,670)</u>	<u>\$2,720,648</u>
Intangible assets not subject to amortization:			
Goodwill	<u>\$ 2,396,289</u>	<u>\$ —</u>	<u>\$2,396,289</u>

At December 31, 2010, the Company had the following intangible assets:

	December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:			
Patents	\$ 1,233,701	\$ (128,771)	\$1,104,930
Trademarks	907,998	(139,148)	768,850
Customer relationships	1,010,000	(269,333)	740,667
Non-compete agreement	60,000	(40,000)	20,000
Product certification and licensing costs	130,956	(15,393)	115,563
	<u>\$ 3,342,655</u>	<u>\$ (592,645)</u>	<u>\$2,750,010</u>
Intangible assets not subject to amortization:			
Goodwill	<u>\$ 2,396,289</u>	<u>\$ —</u>	<u>\$2,396,289</u>

Remaining estimated annual amortization expense is approximately as follows:

Year Ending December 31:	
2011	\$ 211,660
2012	272,213
2013	251,822
2014	222,111
2015	221,920
Thereafter	<u>1,290,418</u>
	<u>\$2,470,144</u>

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At March 31, 2011, the Company had \$250,504 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.

5. 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 March 31, 2011, 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. During 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 March 31, 2011, options to purchase 555,102 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.

The following table summarizes activity in the stock option plans for the three months ended March 31, 2011:

	Shares Available for Future Grant	Number of Shares Outstanding Under Option	Weighted Average Exercise Price
Balance, January 1, 2010	164,536	587,437	\$ 5.06
Increase in options under the 2003 Plan	350,000	—	—
Options granted at market	(299,100)	299,100	3.24
Options exercised	—	(5,000)	2.98
Options forfeited or expired	<u>208,182</u>	<u>(211,182)</u>	<u>3.98</u>
Balance, December 31, 2010	423,618	670,355	\$ 4.60
Options granted at market	(500)	500	3.98
Options forfeited or expired	<u>24,182</u>	<u>(24,182)</u>	<u>5.28</u>
Balance, March 31, 2011	<u>447,300</u>	<u>646,673</u>	<u>\$ 4.58</u>

The weighted average fair value of options granted at market during the three months ended March 31, 2011 and 2010 was \$2.03 and \$2.37 per option, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2011 and 2010 was \$0 and \$2,300, respectively. The aggregate intrinsic value of the outstanding exercisable options at March 31, 2011 and 2010 was \$80,802 and \$83,121, respectively.

6. 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.

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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:

	<u>Assumption</u>
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 three months ended March 31, 2011, the Company recorded amortization charges of \$25,989.

7. 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%.

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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. During the three months ended March 31, 2011 and 2010, \$0 and \$55,433, respectively, 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. During the three months ended March 31, 2011 and 2010 \$0 and \$19,293, respectively, 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. In 2010, the Company 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.

8. Segment Reporting:

As a result of the sale of the Company's Legacy Commercial and Pool Lighting Businesses in October of 2010, the Company reorganized its reporting structure into two reportable segments: LED replacement lamps and LED signage and lighting strips. The Company's operations are principally managed on a product basis. The Array product line consists of white light LED replacement lamps. The Lumifluent product line consists of LED signage and lighting strips.

Financial information relating to the reportable operating segments for the three months ended March 31, 2011 and 2010 is presented below:

	Three Months Ended March 31,	
	2011	2010
Revenues from external customers:		
LED replacement lamps	\$ 379,053	\$ 501,190
LED signage and lighting strips	<u>1,174,541</u>	<u>923,227</u>
Total revenues from external customers	<u>\$ 1,553,594</u>	<u>\$ 1,424,417</u>
Segment (loss) income:		
LED replacement lamps	\$ (302,628)	\$ (340,741)
LED signage and lighting strips	<u>86,204</u>	<u>(57,580)</u>
Segment loss	(216,424)	(398,321)
Unallocated amounts:		
Corporate expenses	(1,090,917)	(984,590)
Interest income	240	298
Debt extinguishment costs	—	(441,741)
Interest expense	<u>(27,461)</u>	<u>(159,241)</u>
Loss from continuing operations	<u>\$(1,334,562)</u>	<u>\$(1,983,595)</u>
Depreciation and amortization:		
LED replacement lamps	\$ 64,932	\$ 51,978
LED signage and lighting strips	<u>62,645</u>	<u>62,136</u>
Segment depreciation and amortization	127,577	114,114
Corporate depreciation and amortization	55,950	49,941
Depreciation and amortization associated with discontinued operations	—	41,339
Total depreciation and amortization	<u>\$ 183,527</u>	<u>\$ 205,394</u>

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9. 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.

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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, 2010. 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 subsidiary, except where it is clear that such terms mean only Nexxus Lighting, Inc. or our subsidiary Lumificient Corporation ("Lumificient").

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, including the recent divestiture of our Legacy Commercial and Pool Lighting Businesses, may cause us to incur greater losses and create disruptions in our business, the risk that we may be unable to obtain sufficient capital when needed, 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 and our ability to adequately protect our intellectual property rights. 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, 2010. 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 high performance, commercial grade, LED replacement light bulbs and LED-based signage, channel letter and contour lighting products. These products are sold under the Array™ Lighting and Lumificient brand names. With 33 issued patents and 34 combined U.S. and foreign patent applications pending related to our Array Lighting and Lumificient product offerings, our products incorporate many proprietary and innovative features. Our patent pending Selective Heat Sink (SHS) technology and patented designs provide the market with opportunities for significant savings in energy and maintenance costs without compromising the environment. We generate revenue by selling products for use in the commercial, hospitality, entertainment, institutional, retail and sign markets. We serve these markets through our Array Lighting division and through our subsidiary, Lumificient. Each division markets and distributes products globally through multiple networks of independent sales representatives and distributors.

We began shipping our line of Array LED replacement lamps in December 2008 and continued the launch in 2009. Since its introduction, sales of our Array LED replacement lamps have grown significantly. Revenue from the Array line increased 32% to approximately \$1,808,000 for the year ended December 31, 2010, compared to approximately \$1,366,000 for the year ended December 31, 2009. We market our Array products to end-users through our network of independent sales representatives and distributors, as well as to energy savings companies and national accounts. In March 2011, we began offering our Array lamps through Lowes.com and announced that they will be offered through approximately 1,100 Lowe's stores beginning in June 2011.

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The initial Array product line included R30, R16, MR16, GU10 and G4 lamps. In 2009, we expanded the product line to include a 230 volt/50 megahertz R30 for use in certain international markets and 25° narrow optic versions for the R30 and R16/MR16 lamps. In 2010, we upgraded the design of our R30 lamp and introduced a new PAR38 lamp. Recently, we introduced the new MR16-HO (High Output) which uses only 6.5 watts to provide over 325 lumens. We have successfully certified a number of our Array lamps under the Energy Star program, and expect to continue seeking certification of our Array lamps under the Energy Star program as new products are introduced. Four of our Array lamps were among the first lamps to be certified under the Energy Star program which began accepting applications for lamps in September 2010. In March, we added our PAR38 lamp to the Energy Star list. We intend to continue making investments to expand the Array product offering and grow our market share.

On October 28, 2010, we sold substantially all of the assets of our legacy commercial/architectural lighting and pool and spa lighting businesses (“Legacy Commercial and Pool Lighting Businesses”) for a purchase price of approximately \$2.3 million, with approximately \$1.3 million accounting for the purchase of inventory. Of the total consideration, we received \$1.0 million in cash in connection with closing. This cash payment included \$750,000 of non-refundable deposits previously paid by the buyer. Subject to the terms of the purchase agreement and a secured promissory note, the buyer was obligated to pay the remaining approximately \$1.3 million over the seven month period ending May 28, 2011 as the buyer sold the purchased inventory. As of March 4, 2011, the \$1.3 million balance of the purchase price was paid in full. Our Legacy Commercial and Pool Lighting Businesses consisted of the manufacture, marketing and sale of LED and fiber optic lighting products used for applications in commercial, architectural and pool and spa markets, excluding our Array business and the business of Lumificient. The divestiture of these businesses fits with our strategic plans to focus our resources on our Array replacement lamp and Lumificient businesses, where we see more significant long term growth potential. The financial condition and results of operations of the Legacy Commercial and Pool Lighting Businesses have been reflected as discontinued operations for all periods presented.

As a result of the sale of our Legacy Commercial and Pool Lighting Businesses in October 2010, we reorganized our reporting structure into two reportable segments: LED replacement lamps and LED signage and lighting strips. Our operations are principally managed on a product basis. The Array product line consists of white light LED replacement lamps. The Lumificient product line consists of LED signage and lighting strips.

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. 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.

As we have accounted for the Legacy Commercial and Pool Lighting Businesses as discontinued operations, sales of LED products represent 100% of our revenue from continuing operations for the three months ended March 31, 2011 and 2010.

Cost of Goods Sold: Our cost of goods sold consists primarily of raw materials, production costs from our contract manufacturers and manufacturing-related overhead such as depreciation, rent and utilities. In addition, our cost of goods sold includes provisions for excess and obsolete inventory reserves, freight and warranties. We manufacture our products based on sales projections and 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 costs.

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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 March 31, 2011 vs. 2010

Revenue

	(Unaudited)			
	Quarter Ended March 31,			
	2011	2010	Change	% Change
Array LED lamps	\$ 379,053	\$ 501,190	\$(122,137)	-24%
Lumificient	1,174,541	923,227	251,314	27%
Total revenue	<u>\$1,553,594</u>	<u>\$1,424,417</u>	<u>\$ 129,177</u>	<u>9%</u>

Total revenue for the three months ended March 31, 2011 increased 9%, or approximately \$129,000, to approximately \$1,554,000 as compared to approximately \$1,424,000 for the three months ended March 31, 2010. Sales of Lumificient products in the first quarter of 2011 and 2010 were approximately \$1,175,000 and \$923,000, respectively. This increase reflects growth in national sign programs and other commercial applications.

Sales of our Array LED lamps were approximately \$379,000 in the first quarter of 2011 compared to approximately \$501,000 in the first quarter of 2010. The decline reflects, in part, the timing of larger projects. Looking forward, we are modifying our market strategy to target higher direct sale opportunities, including major Energy Service Companies ("ESCOs"), and expanding into the consumer-retail channel. In March 2011 we began offering our Array lamps through Lowes.com. We also announced that the lamps will be offered in approximately 1,100 Lowe's stores across the United States beginning in June 2011. Lowe's will offer seventeen different Array products, including our PAR 38, R30, R16, MR16 and GU10 lamps that have qualified for the Energy Star rating.

Gross Profit

	(Unaudited)			
	Quarter Ended March 31,			
	2011	2010	Change	% Change
Revenue	\$1,553,594	\$1,424,417	\$129,177	9%
Cost of Sales	<u>1,064,437</u>	<u>917,879</u>	<u>146,558</u>	<u>16%</u>
Gross Profit	<u>\$ 489,157</u>	<u>\$ 506,538</u>	<u>\$(17,381)</u>	<u>-3%</u>
Gross Margin %	31%	36%		

Gross profit for the quarter ended March 31, 2011 was approximately \$489,000, or 31% of revenue, as compared to approximately \$507,000, or 36% of revenue, for the comparable period of 2010. Direct gross margin for the first quarter of 2011, which is revenue less material cost, remained consistent at approximately 47% in each period.

In the first quarter of 2011, distribution costs, which includes some light assembly, increased to approximately \$243,000, or 16% of revenue, as compared to approximately \$168,000, or 12% of revenue, in the first quarter of 2010. Depreciation expense included in production costs was approximately \$63,000, or 4% of revenue, in the first quarter of 2011 as compared to approximately \$51,000 in the first quarter of 2010, an increase of approximately \$12,000, or 24%. The increase in distribution costs also includes higher freight expenses of approximately \$32,000 and an increase in the inventory reserve of approximately \$17,000 over the comparable period of 2010.

We continue to review our operations for opportunities to reduce costs. Our analysis may lead to the determination to 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. Any reorganization of our company, operations and/or product offerings, including the divestiture of our Legacy Commercial and Pool Lighting Businesses during 2010, may cause us to incur greater losses and create disruptions in our business.

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Operating Loss and Expenses

	(Unaudited)			
	Quarter Ended March 31,			
	2011	2010	Change	% Change
Gross profit	\$ 489,157	\$ 506,538	\$(17,381)	-3%
Less operating expenses:				
Selling, general and administrative	1,602,359	1,639,525	(37,166)	-2%
Research and development	194,063	249,686	(55,623)	-22%
Total operating expenses	1,796,422	1,889,211	(92,789)	-5%
Operating loss	\$(1,307,265)	\$(1,382,673)	\$ 75,408	-5%

Selling, general and administrative (SG&A) expenses were approximately \$1,602,000 for the quarter ended March 31, 2011 as compared to approximately \$1,640,000 for the same period in 2010, a decrease of approximately \$37,000, or 2%. This decrease is primarily the result of lower selling expense related to tradeshowes of approximately \$30,000 for the quarter ended March 31, 2011 as compared to the same period in 2010. Travel expenses also decreased by approximately \$15,000 in the first quarter of 2011, as compared to the same period of 2010.

Research and development costs were approximately \$194,000 during the three months ended March 31, 2011 as compared to approximately \$250,000 during the same period in 2010. This decrease of approximately \$56,000 was primarily due to lower payroll expenses of approximately \$35,000 and lower project-related costs of approximately \$21,000, in the first quarter of 2011, as compared to the same period of 2010.

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 March 31, 2011 and 2010, respectively.

Net Loss

Net loss for the three months ended March 31, 2011 and 2010 was approximately \$1,329,000 and \$2,466,000, respectively, including a gain from discontinued operations related to the Legacy Commercial and Pool Lighting Businesses of approximately \$5,000 in 2011 and a loss of approximately \$482,000 in 2010. Basic and diluted loss per common share was \$0.08 and \$0.15 for the three months ended March 31, 2011 and 2010, respectively. Basic and diluted loss per common share from continuing operations was \$0.08 and \$0.12 for the three months ended March 31, 2011 and 2010, respectively. Basic and diluted loss per common share from discontinued operations was \$0.00 and \$0.03 for the three months ended March 31, 2011 and 2010, respectively.

Liquidity and Capital Resources

At March 31, 2011, we had cash and cash equivalents of approximately \$5,485,000, compared to cash and cash equivalents of approximately \$5,309,000 at December 31, 2010. Working capital at March 31, 2011 was approximately \$8,253,000, a decrease of approximately 10% compared to working capital of approximately \$9,131,000 at December 31, 2010. The decline in working capital primarily represents cash used to fund operations in the first three months of 2011, net of the collection of the note receivable of approximately \$1,111,000 from the sale of our Legacy Commercial and Pool Lighting Businesses.

Net cash used in operating activities amounted to approximately \$1,116,000 for the three months ended March 31, 2011, as compared to approximately \$2,135,000 for the three months ended March 31, 2010. This decrease of approximately \$1,019,000 in net cash used in operating activities over the comparable period of 2010 is primarily due to an approximately \$587,000 decrease in net loss adjusted for non-cash items for the three months ended March 31, 2011, as compared to the same period in 2010. In addition, cash provided by accounts receivables increased by approximately \$265,000 and cash used for accounts payable decreased by approximately \$1,006,000. The decrease in net cash used in operating activities over the comparable period in 2010 was partially offset by the increase in cash used for the purchase of inventories of approximately \$739,000.

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Net cash provided by investing activities for the three months ended March 31, 2011 was approximately \$991,000 as compared to net cash used in investing activities of approximately \$209,000 in the same period of 2010. This increase in cash provided by investing activities of approximately \$1,200,000 is primarily the result of the collection of approximately \$1,111,000 of the note receivable related to the sale of the Legacy Commercial and Pool Lighting Businesses. In addition, cash used for acquisition costs decreased by approximately \$106,000 due to the payment of the Lumificient indemnity holdback in the first quarter of 2010.

Net cash provided by financing activities for the three months ended March 31, 2011 was \$300,000 as compared to net cash used in financing activities of approximately \$3,835,000 for the comparable period of 2010. This increase in cash provided by financing activities of approximately \$4,135,000 as compared to the same period in 2010 is mostly attributable to our use of \$3,800,000 in the first quarter of 2010 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 increased by approximately \$285,000 in the three months ended March 31, 2011 as compared to the same period of 2010.

Nexus' 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. There can be no assurance such financing will be available on terms acceptable to us, if at all, or that any financing transaction will not be dilutive to our current stockholders. 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 or discontinued. 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. Our review of operations for additional opportunities to reduce costs may lead to changes in 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 March 31, 2011, 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, 2010.

Critical Accounting Policies

As of March 31, 2011, 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, 2010.

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.

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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 March 31, 2011, 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, 2010.

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. 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 three month period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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.

<u>Exhibit Number</u>	<u>Document Description</u>
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

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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: May 13, 2011

Michael A. Bauer, Chief Executive Officer
(Principal Executive Officer)

By: /s/ Gary R. Langford

Date: May 13, 2011

Gary R. Langford, Chief Financial Officer
(Principal Financial and Accounting Officer)

**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 March 31, 2011 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 financial 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: May 13, 2011

/s/ Michael A. Bauer

Michael A. Bauer
President and Chief Executive Officer

**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 March 31, 2011 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 financial 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: May 13, 2011

/s/ Gary R. Langford

Gary R. Langford
Chief Financial Officer

**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 March 31, 2011, 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.

Dated: May 13, 2011

By: /s/ Michael A. Bauer

Michael A. Bauer
Chief Executive Officer

Dated: May 13, 2011

By: /s/ Gary R. Langford

Gary R. Langford
Chief Financial Officer