UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ending December 31, 2011

OR

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

For the transition period from to

Commission File Number 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, NC	**28262**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (704) 405-0416

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value	The NASDAQ Stock Market LLC (NASDAQ Capital Market)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 ☐	(Do not check if a smaller reporting company)	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 ☒

The aggregate market value of common equity held by non-affiliates of the registrant as of June 30, 2011, based upon the last sale price of such equity reported on The NASDAQ Capital Market, was approximately $48,536,000.

As of March 16, 2012, there were 16,452,738 shares of Common Stock, $.001 par value, of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of Form 10-K is incorporated by reference to the Registrant's proxy statement for the 2012 Annual Stockholders Meeting, which will be filed with the Securities and Exchange Commission.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our history of losses and anticipated future losses;
- our dependence on a single customer for a substantial portion of our revenue and the risk that the loss of this key customer or a reduction in sales to this customer could seriously impact our revenue and adversely affect our results of operations and prospects;
- our ability 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, liquidate or divest our assets or businesses, or raise additional capital;
- the risk that demand for our Array® brand of LED light bulbs fails to emerge as anticipated and we are unable to make adjustments to our operating plan necessary as a result of any failure to forecast accurately;
- risks associated with the relative success of our sales, marketing and product development efforts;
- our ability to adequately protect our intellectual property rights;
- competition, including price competition;
- general economic and business conditions; and
- any reorganization of our company, operations and/or product offerings may cause us to incur greater losses and create disruptions to our business.

The factors listed under Item 1A. Risk Factors of this report as well as any other cautionary language in this report, provide examples of risks, uncertainties and events which may cause our actual results to differ materially from the expectations we described in our forward-looking statements. 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. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the objectives or plans of our company will be achieved. We do not undertake any obligation to publicly release the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I

Item 1. Business.

General

We design, manufacture, market and sell high performance, commercial grade, LED replacement light bulbs and LED-based signage, channel letter and contour lighting products. We sell these products under the Array Lighting and Lumificient brand names. With 41 issued patents and 33 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 patented Selective Heat Sink (SHS) technology and patented designs provide 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, institutional, retail and sign markets. We market and distribute products globally through multiple networks of independent sales representatives and distributors as well as through energy savings companies and national accounts. In 2011, we expanded our sales of Array replacement lamps to the consumer market channel through Lowe's Companies, Inc., a large home improvement retailer. In March 2011, the retailer began offering our Array lamps through its website. Beginning in June 2011, our Array lamps became available in approximately 1,100 of the retailer's stores. In December 2011, we continued augmenting our traditional sales channels with the introduction of a commercial web portal to sell our Array product directly to end users.

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 173% to approximately $4,939,000 for the year ended December 31, 2011, compared to approximately $1,808,000 for the year ended December 31, 2010. For the year ended December 31, 2011, revenue from sales of our Array products to Lowe's Companies, Inc. represented approximately 42% of our total revenue.

The initial Array product line included five lamp sizes or types with several options for color temperatures and light beams. Since its introduction we have continued to broaden the product line by adding additional lamp sizes and options, as well as upgrades to the original products. 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 February 2012, our Array R30 lamps were the first LED reflector lamp replacements to earn the full 50,000 hour certification by Energy Star. This 50,000 hour life is equivalent to more than 10 years when the lamp is on for twelve hours per day. 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 (the "Legacy Commercial and Pool Lighting Businesses") for a purchase price of approximately $2.3 million. Of the total consideration, we received $1.0 million in cash in connection with closing and a secured promissory note from the buyer to pay the remaining approximately $1.3 million over the seven month period ending May 28, 2011. 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 businesses where we see more significant long term growth potential. The 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. Throughout this report, we use "Array" to refer to our LED replacement lamps segment and "Lumificient" to refer to our LED signage and lighting strips segment. See Note 14 of our notes to consolidated financial statements for additional information relating to our reportable operating segments for the years ended December 31, 2011 and 2010.

All references in this report to "Nexxus," "Nexxus Lighting," "we," "us," "our company" or "our" refer to Nexxus Lighting, Inc. and our consolidated subsidiary, except where it is clear that such terms mean only Nexxus Lighting, Inc. or our subsidiary, Lumificient Corporation.

The Lighting Industry

The global lighting industry generally is divided between two major product categories: fixtures and light bulbs (also referred to as lamps in the lighting industry). The fixtures category includes all apparatuses, fixtures and systems, while light bulbs consist of the replaceable devices that emit light. Traditional light bulbs include incandescent, fluorescent and high intensity discharge (“HID”) products. For residential applications within the general illumination market, inexpensive incandescent and, to a lesser extent, compact fluorescent (“CFL”) bulbs have been the preferred choice. For commercial applications, we believe more expensive and durable fluorescent and HID bulbs and fixtures have the largest market share.

With rapid advancements in the performance, efficiency and cost of energy-efficient lighting, including LED-based solutions, traditional light sources, such as incandescent lamps, are beginning to be replaced by advanced technologies with lower operating costs over their useful lives. In addition, the energy efficient nature of LED technology makes it an environmentally friendly light source and the compact size of LEDs has created new possibilities in lighting fixture and lamp design. Product selection is influenced by a number of factors, including overall cost, energy efficiency, product life, lumen output and other product features, as well as regulatory and environmental factors. We believe our unique advanced lighting solutions are well positioned to increasingly displace traditional lighting in each of our targeted markets.

In North America, lighting manufacturers typically sell products through manufacturer’s representatives, electrical supply representatives or an internal sales force to electrical wholesale distributors. The distributors then market products to electrical contractors and other end-users. Representatives also have direct contact with lighting designers, electrical engineers, architects and general contractors that influence buying decisions. The manufacturer’s representatives often provide value added services, such as product promotion or design and implementation assistance. The ability of smaller companies to compete against larger more established rivals is heavily rooted in their capacity to leverage their unique product portfolios and customer service to garner maximum productivity from each representative.

Historically, large global competitors focused almost exclusively on the general illumination market because of their advantage in purchasing power, manufacturing volume and distribution efficiency, while smaller industry participants generally competed in niche markets primarily by offering specialized products and superior customer service to their regions. However, the evolution of advanced lighting solutions has enabled smaller companies to penetrate and compete in the larger general illumination market. One of these notable advanced lighting solutions is LED lighting.

LED Lighting Industry Trends

LEDs are semiconductor-based devices that generate light. As the cost of LEDs decreases and their performance improves, we expect that they will continue to compete more effectively in the general illumination market versus traditional lighting. High-brightness LEDs are the core, light producing components within an LED lighting system. We believe the LED lighting industry is experiencing the following trends:

Technological Innovations Expand LED Functionality. Since its introduction in the 1960s, the LED has offered an increasingly wide variety of colored lighting, beginning with red and expanding to green, yellow and orange. Initial rudimentary applications included traffic lights, automotive brake lights and indicator lights. In the mid-1990s, LEDs became capable of emitting blue light. With the advent of blue LEDs combined with phosphor technology, LEDs made another technological leap by emitting white light. This breakthrough enabled LEDs to compete with traditional lighting solutions for applications in residential, industrial and commercial markets.

In an effort to lower energy consumption, lighting companies are focusing on increasing lumens per watt. Lumens per watt is an industry standard measure of the amount of light emitted per watt of power, meaning the more lumens per watt, the more energy efficient the product. Traditional incandescent lighting sources can produce between 10 and 35 lumens per watt, while fluorescent and HID light sources can produce output exceeding 100 lumens per watt. Today’s LEDs are currently exceeding incandescent performance and are approaching over 100 lumens per watt at the LED level, making them comparable to fluorescent and HID light sources.

High Energy Costs Drive LED Adoption. As energy prices continue to rise, businesses and consumers will increasingly adopt new technologies to reduce energy consumption. LED lighting technology is inherently more energy efficient and can result in more than 80% power savings over traditional incandescent solutions. According to Strategies Unlimited, 22% of all energy consumption in the United States is from lighting applications. This combined rate represents approximately 35% of all energy consumption in commercial buildings as compared to approximately 15% for residential users and 5% for industrial companies. Compact fluorescent ("CFL") bulbs are generally favored by today's consumers for lighting energy conservation. However, recent technological advancements to LED lighting have made it more commercially viable in terms of brightness, efficiency, bulb life, and color-rendering ("CRI"). In addition, competitive pressures, declining LED costs and greater manufacturing efficiencies are driving declining LED bulb prices. As a result of these gains, we believe LED adoption should continue to expand. For example, LED bulbs are currently outselling CFL lamps in Japan as the quality of light is far superior to CFLs.

Legislative Influences Spur Market Adoption of Energy Efficient LED Lighting. Government regulations, such as initiatives by the United States Department of Energy and the Environmental Protection Agency's Energy Star Certification Program, are driving adoption of more energy efficient lighting solutions. Energy Star sets industry-wide international standards for lighting products that outline efficiency and performance criteria, helping manufacturers promote their products and purchasers better understand lighting products.

Governments are also adopting or proposing legislation to promote energy efficiency and conservation. Lower energy consumption translates into lower electricity generation, often from coal power plants, and thus can significantly lower carbon emissions. Legislative actions to promote energy efficiency can beneficially impact the LED lighting market in the countries adopting such legislation and other countries as well. For example, several countries have effectively banned the 100 watt light bulb and are expected to progressively apply these restrictions to lower wattage bulbs. In addition, LED lighting solutions are free of hazardous materials such as mercury, which can be harmful to the environment. Any restrictions on the use of hazardous substances could adversely affect one of the LED bulbs primary competitors, the CFL market.

Utility Companies Are Rewarding Conservation Efforts. Demand on the existing power grid in the United States continues to rise. Coupled with this rising demand for energy, utility companies face many challenges to generate more power, including high investment costs to expand capacity or construct new facilities, costly and time-consuming regulatory approval processes, community and environmental protests, and extended construction periods. As a result, many utility companies are seeking ways to curb demand rather than expand capacity. One alternative is to reward customers' conservation efforts with rebates or utility credits. At present utility subsidies are generally geared toward CFLs. Given the greater efficiency and more attractive conservation features of LED lighting, we believe subsidies for LEDs will become increasingly popular to drive up demand.

Our Competitive Advantages

We believe the following strengths of our company provide us with competitive advantages in the marketplace:

Industry Leading, Energy Efficient and Environmentally Conscious Lighting Solutions. Our product offerings feature our Array brand of LED light bulbs, which we believe to be one of the highest efficacy LED lighting systems in the industry. Based upon our review of publicly available performance data from competitors, our Array product can provide over 20% more lumens per watt than competitive products, and as much as 80% energy savings versus incandescent lamps. We have designed our Array product line to be Restriction of Hazardous Substances (RoHS) compliant, to contain no mercury or lead and to utilize minimal metal content with a housing of recycled plastic. Four of our Array lamps were among the first lamps to be certified under the Energy Star program which began accepting applications in September 2010. In February 2012, our Array R30 lamps were the first LED reflector lamp replacements to earn the full 50,000 hour certification by Energy Star. This 50,000 hour life is equivalent to more than 10 years when the lamp is on for twelve hours per day. We expect that sales of our Array products will continue to grow and increase as a percentage of total revenues.

Proprietary Technology and Intellectual Property. We have 41 issued and 33 pending patents. Of these patents, we have 37 issued and 30 pending patents related to our Array brand of LED light bulbs. This portfolio of intellectual property has been commercialized into a broad range of advanced lighting solutions. We plan to continue making strategic investments in intellectual property through ongoing engineering expenditures, and potentially industry partnerships and licensing arrangements. These initiatives are designed to allow us to enhance our intellectual property portfolio, improve existing products, rapidly introduce new products to fill identified needs, and address new applications and markets. We believe our ability to successfully develop and produce new products will allow us to magnify our market opportunity and enhance our market position.

Reliable, High Quality and Cost Competitive Solutions. We design, manufacture and sell high quality and reliable products with demonstrable performance advantages that are cost competitive. Our Array products are designed and certain Array lamps have been certified, to operate for up to 50,000 hours. We achieve this, in part, through a combination of sourcing high quality LEDs, utilizing proprietary thermal management techniques and conducting rigorous product testing. To deliver cost competitive solutions, we are investing in technology advancements, leveraging purchasing volume, capitalizing on strategic vendor relationships and migrating high volume products to our proprietary automated manufacturing process. Additionally, certain of our Array lamps have qualified for conservation-driven incentives with utilities, and we plan to apply for rebate programs with other utilities in the U.S. as they become available. This could translate into additional economic incentives for our customers to purchase Array products.

Experienced Management Team. Our senior management team includes individuals with diverse backgrounds and broad experience. We are led by our Chief Executive Officer, Michael Bauer, an industry veteran with over 20 years of lighting experience and our Chief Financial Officer, Gary Langford, with 20 years of finance and manufacturing experience. Our management team has demonstrated the ability to drive organic growth and pursue and integrate strategic acquisitions.

Our Growth Strategy

Our objective is to become the leading provider of advanced lighting solutions. Key elements of our growth strategy include:

Expanding our White Light LED Product Portfolio. Based on our proprietary Selective Heat Sink technology platform, a new and innovative approach to thermal management which uses proprietary design and materials to lower thermal resistance, we are expanding our white light LED product portfolio for general illumination. Our first offering based on this technology is our Array product line. We believe this product has some of the most unique features and one of the highest efficacy levels in the industry. It also incorporates dimming capabilities that work with standard commercial dimmers. We intend to expand our product offerings by leveraging the technological advancements of Array. We expect that our white light LED solutions will be highly attractive alternatives to traditional lighting solutions and other competitive LED offerings.

Developing and Protecting Our Intellectual Property. We have devoted significant resources to building an advanced research and development team for developing complimentary intellectual property to expand our portfolio of advanced lighting technologies. Securing and defending intellectual property related to the design, manufacture and application of advanced lighting technology is expected to be a key element of our existing and future business. The strength of our intellectual property portfolio allows us to compete on the basis of our technology, which we believe gives us an advantage over many of our larger competitors.

Capitalizing on Opportunities in Our Target Markets. We believe there is a growing need for unique advanced lighting solutions across our target markets. We expect to continue to introduce innovative advanced lighting products as we believe there exists significant opportunities to grow market share. By introducing new products and expanding sales of existing products, we believe that we can significantly improve operational efficiency by reducing our cost of materials, components and manufacturing. Expanding our products and increasing our sales also allows us to gain additional leverage from sales representatives within our distribution network.

Products

Our company is organized by division, each with a specific market focus in order to broaden the adoption of our advanced lighting solutions. Our products are marketed primarily under the Array Lighting and Lumificient brands.

Array LED Replacement Lamps: We offer a broad line of LED replacement lamps in multiple color temperatures, electrical currents and optic/lens options, including:

- G4 puck lamp
- MR16
- MR16 *High-Output*
- R16
- GU10
- R30
- PAR38

In addition, we began initial shipments of our new PAR20 and PAR30 lamps in January 2012.

Lumificient Signage and Strip Lighting: Our Lumificient subsidiary targets the sign market primarily with its Hyperion R-Lite™ products. Increasingly, these products are expanding into non-signage applications, such as vending machines, illuminated display tables and architectural applications. These products are energy efficient, relatively easy to install and highly dependable with limited defective experience.

Competition

We currently face competition from both traditional lighting companies that provide general lighting products, such as incandescent, fluorescent and neon lighting, and from specialized lighting companies that are engaged in providing LED products. In general, we compete with both groups on the basis of design, innovation, quality of light, maintenance costs, safety issues, energy consumption, price, product quality and brightness.

We compete with traditional lighting companies, including Acuity Brands Lighting, Inc., Cooper Lighting (a division of Cooper Industries, Inc.), Hubbell Lighting, Inc. (a division of Hubbell Incorporated), Juno Lighting Group (a division of Schneider Electric SA), Osram Sylvania and Royal Philips Lighting (a division of Koninklijke Philips Electronics N.V.) in the general illumination market. Our LED products tend to be alternatives to traditional lighting sources for applications within the commercial market. In these markets, we compete on the basis of energy savings, lamp life and durability.

We also compete with providers of LED replacement lamps and other energy efficient lighting products and fixtures. These companies include traditional lighting companies such as Sylvania and Philips; specialized lighting companies such as Lighting Science Group Corporation; certain packaged LED suppliers such as Cree, which is primarily a manufacturer of LEDs; as well as multiple low cost offshore providers. In the market for LED lighting products, we compete on the basis of design, innovation, light quality, maintenance costs, safety issues, energy consumption, price, product quality, Energy Star and UL certifications and brightness.

We believe that we can compete favorably in our markets, based on the following factors:

- unique and proprietary technology;
- breadth and diversity of high-quality product offerings;
- Energy Star certification of certain products;
- ability to offer standard and custom products that meet customers’ needs at a competitive price;
- excellence in customer service and support; and
- recruitment and retention of qualified personnel, particularly engineers.

We expect our markets to remain competitive and to reflect rapid technological evolution and continuously evolving customer and regulatory requirements. Our ability to remain competitive depends in part upon our success in developing new and enhanced advanced lighting solutions and introducing these products at competitive prices on a timely basis.

Sales and Marketing

We believe our sales and marketing efforts have established our reputation for providing innovative solutions that meet our customers’ needs in a timely, cost-efficient manner. The sales and marketing of our products largely depends upon the type of offering, location and target market. We organize our sales approach by market: Array replacement lamps for commercial applications and to retail companies selling to the consumer market, and Lumificient sign lighting.

We market and sell our LED products through our Array Lighting division and through our subsidiary, Lumificient. We maintain a salaried team of industry-experienced sales professionals dedicated to promoting and selling our Array brand of LED light bulbs through our network of lighting agencies. These independent lighting agencies provide assistance in the lighting specification process, provide local customer and project management support and direct the customer to purchase products from us. Array replacement lamps also are sold through independent energy savings companies which assist customers with improved energy usage and to retail customers through a large home improvement retailer. Lumificient products are sold primarily through independent local sign and lighting manufacturers and distributors, as well as select national accounts. We compensate our selling agents on a commission basis.

Manufacturing and Suppliers

We outsource a significant portion of the manufacture and assembly of our products, including all of the production of our Array brand of products. We currently depend on a small number of contract manufacturers to manufacture our products at plants in the U.S., Mexico and China. These manufacturers supply raw materials (in some cases we procure and provide our contract manufacturers with certain components, such as LEDs) and provide necessary facilities and labor to manufacture our products.

We design and engineer our Array line of LED replacement lamps and purchase all of the finished units from third-party manufacturers. Some initial Array lamps also use a custom LED package which we source from a vendor in Asia. Although we currently are dependent on these suppliers, we believe that, if necessary, alternative sources of supply could be found. However, any interruption or delay at our third-party manufacturers or in the supply of the components, or our inability to obtain components from alternate sources at acceptable prices in a timely manner, could harm our business, financial condition and results of operations.

Research and Product Development

The general focus of our research and development team is the design and integration of electronics, optics and thermal management solutions to create advanced lighting products. Through these efforts, we seek to enhance our existing products, design new products and develop solutions for customer applications. We believe that our responsiveness to customer demands and our ability to achieve industry certifications such as Energy Star for certain products differentiates us from many of our competitors, as we rapidly introduce new products to address market needs. During 2011, we spent approximately $834,000 on engineering and product development activities, as compared to approximately $944,000 in 2010. We continue to invest in our research and development team as we believe that increased levels of spending on research and development will be necessary to successfully develop advanced lighting products that will have the brightness of traditional lighting systems while being offered at acceptable prices.

Patents and Proprietary Rights

The proprietary nature of, and protection for, our products, product candidates, processes and know-how are important to our business. To protect our intellectual property, both domestically and abroad, we rely on a combination of patents, copyrights, trademarks, service marks, trade secrets, and confidentiality provisions to establish and protect our proprietary rights. We have established and continue to build proprietary positions for our products and technology in the United States and abroad. We currently hold 41 patents related to our LED lighting intellectual property and have 33 patent applications currently filed with the United States Patent and Trademark Office or with the World Intellectual Property Organization. Included in these figures are 37 patents and 30 patent applications related to our Array brand of LED light bulbs. We believe our extensive intellectual property portfolio provides us with considerable advantage relative to new entrants to the industry and smaller LED providers in serving sophisticated customers.

Although we expect that several of our patent applications will issue, we cannot be sure that patents will be granted with respect to any of our pending patent applications or with respect to any patent applications filed by us in the future, nor can we be sure that any patents that may be granted to us in the future will be commercially useful in protecting our technology. In addition, despite our efforts to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary.

Regulations, standards and conventions

Our products are generally required to meet the electrical codes of the jurisdictions in which they are sold. Meeting the typically more stringent codes established in the United States and the European Union usually allows our products to meet the codes in other geographic regions.

Many of our customers require our products to be listed by UL. UL is a United States independent, nationally recognized testing laboratory and certification organization. UL develops standards and test procedures for products, materials, components, assemblies, tools and equipment, chiefly dealing with product safety. UL evaluates products, components, materials and systems for compliance to specific requirements, and permits acceptable products to carry a UL certification mark, as long as they remain compliant with the standards. UL offers several categories of certification. Products that are "UL Listed," are identified by the distinctive UL mark. We have undertaken to have certain of our products meet UL standards and be UL listed. There are alternatives to UL certifications but customers and end-users tend to favor UL listing. Because LED lighting products are relatively new in the market, UL's specifications and standards for LED lighting products such as ours are not well established and the prior established specifications and standards for traditional lighting products are sometimes difficult to achieve for LED lighting devices.

Many of our customers and end-users also expect our products to meet the applicable Energy Star requirements. Energy Star is a standard for energy efficient products. To qualify for Energy Star certification, LED lighting products must pass a variety of tests to prove that the products have certain characteristics. 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.

Royalties

In connection with our acquisition of Lumificient Corporation, in April 2008 we agreed to pay annual royalties to Zdenko Grajcar, the founder of Lumificient Corporation. Subject to, and upon, the terms and conditions set forth in an agreement between us and Mr. Grajcar dated March 25, 2009, royalties are payable as follows: (i) 25% of royalties (as defined in such agreement) received by us from licensing certain intellectual property specified in the agreement (the "Array IP") and (ii) 2% of the revenue (as defined in the agreement) received by us from the sale of products incorporating the Array IP. The obligation to pay these royalties terminates after calendar year 2014, or earlier as set forth in the agreement.

Employees

As of March 16, 2012, we had a total of 29 full-time employees and 1 part-time employee. We enjoy good employee relations. None of our employees are members of any labor union, and we are not a party to any collective bargaining agreement.

Corporate Information

We were incorporated in Delaware on December 16, 1993. We are the successor by merger to a Florida corporation named Super Vision International, Inc., which was incorporated in January 1991. In April 2007, we changed our name from Super Vision International, Inc. to Nexxus Lighting, Inc. Our principal executive offices are located at 124 Floyd Smith Drive, Suite 300, Charlotte, North Carolina 28262. Our telephone number is (704) 405-0416 and our website is located at *www.nexxuslighting.com*.

Item 1A. Risk Factors.

The following are some of the factors that we believe could cause our actual results to differ materially from expected and historical results. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known or currently deemed immaterial may also adversely affect our company.

We have a history of losses and may incur losses in the future. We have limited revenues and may be unable to continue operations unless we can generate sufficient operating income from the sale of our products, or raise additional capital through the divesture of assets or businesses or debt or equity financing.

We have experienced net losses of approximately $5,469,000 and $8,011,000 for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011, we had an accumulated deficit of approximately $41,712,000 and working capital of approximately $5,326,000, including cash and cash equivalents of approximately $3,015,000. Although management addressed many of the issues and expenses associated with the Legacy Commercial and Pool Lighting Businesses with the sale of those businesses in October 2010, we still face significant challenges in order to reach profitability, particularly in light of the challenging economic environment that we now face. In order for us to attain profitability and growth, we will need to successfully address these challenges, including executing our production, marketing and sales plans for our Array product line and improving our supply chain performance. We cannot estimate when or if we will achieve profitability in the future, and our business may not be as successful as we envision. Continuing losses may exhaust our capital resources and force us to scale back, suspend or discontinue our operations.

Our development and growth have caused significant strain on our financial resources resulting in losses, deficits and negative operating cash flows. We plan on continuing to make significant expenditures in administration, sales, marketing and product development to support our growth strategy, which we expect will result in operating losses for 2012 and potentially future periods. These expenditures may include costs associated with hiring additional personnel, expanding our sales and marketing activities, continuing our research and development relating to new products and enhancing existing products and manufacturing activities for our existing and new products, including our Array product line. We expect that our operating expenses will continue to increase as we spend resources on growing our business, and if our revenue does not correspondingly increase, our operating results and financial condition will suffer. The amount of these expenditures is difficult to forecast accurately and cost overruns may occur. We cannot be certain of the timing and extent of revenue receipts and expense disbursements. To become profitable, we will have to generate sufficient revenue while controlling our costs and expenses. If we are unable to generate sufficient revenue to become profitable, our ability to achieve our business objectives may be negatively impacted and the market price of our common stock could decline.

If we are unable to obtain sufficient capital when needed, our business and future prospects will be adversely affected and we could be forced to suspend or discontinue operations.

Our operations have not generated positive cash flow for the years ended December 31, 2011 or 2010, and we have funded our operations primarily through the issuance of common and preferred stock and from debt. The actual amount of funds that we will need to meet our operating needs will be determined by a number of factors, many of which are beyond our control. These factors include the timing and volume of sales transactions, the success of our marketing strategy, market acceptance of our products, the success of our manufacturing and research and development efforts (including any unanticipated delays), the costs associated with obtaining and enforcing our intellectual property rights, regulatory changes, competition, technological developments in the market, evolving industry standards and the amount of working capital investments we are required to make.

Our operations and growth are expected to place significant strain on our limited research and development, sales and marketing, operational and administrative resources. To manage any future growth, we must continue to improve our operational and financial systems and expand, train and manage our employee base. We also need to improve our supply chain management and quality control operations and hire and train new employees, including sales and customer service representatives and operations managers. If we are unable to manage our growth effectively, our profitability and liquidity could be adversely affected.

Our ability to continue to operate will depend on our ability to achieve and sustain positive cash flow from operations, liquidate or divest assets or businesses, or raise funds through public or private sales of shares of our capital stock or through debt. We do not have any committed sources of outside capital. During the recent economic downturn, we experienced limited access to the capital and credit markets, and it remains uncertain whether we will be able to obtain outside capital when we need it or on terms that would be acceptable to us. If we raise funds by selling additional shares of our common stock or securities convertible or exercisable into our common stock, the ownership interest of our existing stockholders will be diluted. If we are unable to obtain sufficient outside capital when needed, our business and future prospects will be adversely affected and we could be forced to scale back, suspend or discontinue operations.

We rely on our relationship with a key customer and a significant decrease in business from, or the loss of our relationship with, this key customer would have a material adverse effect on our results of operations, our future growth prospects and our ability to distribute our products to the consumer market.

We derive a significant amount of our revenues from a major customer. During the year ended December 31, 2011, sales to Lowe’s Companies, Inc. accounted for approximately 42% of our revenue. However, based on our experience, we do not anticipate that our sales to this customer will be as significant in 2012 as they were in 2011. A significant decrease in business from or loss of this major customer could harm our financial condition by causing a significant decline in revenues. We do not have long-term contracts with any of our customers and purchases generally occur on an order-by-order basis. None of our customers are required to purchase a minimum quantity of products from us. Our customers could curtail or cease their business with us because of changes in their strategic and operational initiatives, such as an increased focus on private label, changes in our customer’s buying patterns and other reasons. If Lowe’s Companies, Inc. ceases business with us, our revenues could significantly decrease and we may have excess inventory levels.

In partnership with this customer, we are exploring additional opportunities to increase retail sales and in-store inventory turns. These opportunities may include utility rebate programs, price concessions, sales initiatives, marketing programs, advertising campaigns, training sessions and point-of-sale educational materials. We may face increased expenses to meet these initiatives, which would reduce our margins. In addition, we generally have little or no influence on the customer's promotional or pricing policies, which may impact our sales volume to this customer. Our sales are materially affected by fluctuations in the buying patterns of the customer and such fluctuations may result from general economic conditions or other factors.

The current downturn in economic and market conditions and construction trends could materially and adversely affect our business.

We may continue to be adversely impacted by downturns in general economic and market conditions, both nationally and internationally. The markets in which we sell our lighting products have been negatively impacted by the downturn in general economic and market conditions. Economic downturns, particularly those affecting renovation or that cause end-users to reduce or delay their purchases of lighting products, signs or displays, would have a material adverse effect on our business, cash flows, financial condition and results of operations. We expect sales of our Array products to be affected by energy costs, the extent of utility and government rebates for energy conservation, levels of cost savings initiatives and "green" environmental trends. Our future results of operations may experience substantial fluctuations from period to period as a consequence of these factors, and such conditions and other factors affecting capital spending may affect the timing of orders. In addition, the persistence of the economic downturn may also cause reductions or elimination of utility and government energy efficiency incentive programs used to partially offset the costs of some of our products. Continued economic downturn coupled with a decline in our revenue could adversely affect our ability to meet our capital requirements, support our working capital requirements and growth objectives, or otherwise adversely affect our business, financial condition and results of operations.

We may reorganize our company, operations and product offerings, including liquidating or divesting assets or businesses, which may cause us to incur greater losses and create disruptions to our business.

We routinely review our operations for additional opportunities to reduce costs. Our analysis may lead to the determination to sell, close, eliminate, rationalize or reduce operations, assets or businesses 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 connections with such changes in the future, and such charges and losses may be material. In addition, we could experience difficulties, disruptions or delays in the implementation of any such changes and there can be no assurance that we will be able to implement these programs successfully or on a timely basis.

Our ability to maintain adequate liquidity and achieve long-term viability is dependent upon successfully managing our costs and expenses and increasing revenue.

We face significant challenges in order to achieve profitability. 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 capital, as needed, through public or private debt or equity financing, or other sources of financing to fund operations. The disruption of the capital markets and a continued decline in economic conditions could negatively impact our ability to achieve profitability or raise additional capital when needed. In addition, continuing losses may exhaust our capital resources and, as a result, our 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 also need to seek to raise additional debt or equity capital or liquidate or divest assets or businesses. There can be no assurance that we will be able to identify a source of such financing, or that such financing will be available on terms acceptable to us, if at all. Moreover, should the opportunity to raise additional capital arise, any additional debt or equity financing could result in significant dilution of the existing holders of common stock.

We risk being delisted from the NASDAQ Capital Market if our stock fails to maintain a $1.00 minimum closing bid price for 30 consecutive trading days. Our ability to publicly or privately sell equity securities and the liquidity of our common stock could be adversely affected if we are delisted from the NASDAQ Capital Market.

Our common stock is listed for trading on the NASDAQ Capital Market and has recently traded below $1.00 for a significant period of time. NASDAQ has adopted a number of continued listing standards that are applicable to the common stock, including a requirement that the bid price of the common stock be at least $1.00 per share. Failure to maintain the minimum bid price can result in the delisting of the common stock from the NASDAQ Capital Market.

There can be no assurance that we will meet the continued listing requirements for the NASDAQ Capital Market, or that our common stock will not be delisted from the NASDAQ Capital Market in the future. If our common stock is delisted from NASDAQ, it may be eligible to trade on the over-the-counter market, which may be a less liquid market, or on the pink sheets. In such case, our stockholders' ability to trade, or obtain quotations of the market value of, shares of our common stock would be severely limited because of lower trading volumes and transaction delays. These factors could contribute to lower prices and larger spreads in the bid and ask prices for our common stock. There can be no assurance that our common stock, if delisted from the NASDAQ Capital Market, will be eligible to trade on the OTC Bulletin Board maintained by NASDAQ, or another over-the-counter market. Delisting from NASDAQ, or even the issuance of a notice of potential delisting, could also result in negative publicity, make it more difficult for us to raise additional capital, adversely affect the market liquidity of our common stock, reduce security analysts' coverage of us and diminish investor, supplier, customer and employee confidence.

If demand for our Array brand of LED light bulbs in the general lighting market fails to emerge or we fail in the execution of the manufacture or distribution of our Array product line, we may not be able to carry out our long-term business strategy.

Our long-term business strategy includes the penetration of the general lighting market with our Array brand of white light LED light bulbs. We have devoted, and intend to continue to devote, substantial resources to the development of our Array product line and technologies suitable for use in the general lighting market. If demand for these products and technologies in the general lighting market does not develop and we do not receive sufficient revenue to offset these expenditures, our profitability would be harmed and our ability to carry out our long-term business strategy would be adversely affected.

We outsource all of the production of our Array brand of products. We depend on three contract manufacturers to produce our Array product line at plants located in Mexico, China and Minnesota. Maintaining an adequate supply to meet demand for our Array products depends on our ability to execute on our production plan. We cannot be sure that we will meet our production schedule or that sales will meet our expectations. Any significant problems in the production process, including the operations of our contractors' manufacturing facilities, could result in cancellation of shipments, loss of product in the process of being manufactured, or unplanned increases in production costs, any of which could have a material adverse affect on our business. In addition, there are inherent uncertainties associated with forecasting future demand for our new Array brand of products, and as a consequence, we may have inadequate capacity to meet actual demand. Alternatively, we may have an excess of inventory and available capacity, which could lead to charges and an increase in our cost of sales.

If our advanced lighting products do not gain wider market acceptance, prospects for our growth and profitability may be limited.

We face competition from both traditional lighting technologies, such as incandescent, florescent and neon lighting, and from competitors engaged in providing LED lighting products. Traditional lighting technologies have the advantage of a long history of market acceptance and familiarity as compared to our LED lighting solutions. Potential customers for our LED products may be reluctant to adopt these as alternatives to traditional lighting technologies because of their higher initial cost to achieve comparable light output, although our LED lighting products tend to be more energy efficient and require less maintenance.

Our success will depend upon both the increased acceptance of our LED products as an alternative to traditional lighting technologies and the development of higher lumen producing products to meet traditional lighting applications. Obstacles to adoption of LED lighting in the general lighting market include the high initial cost of high brightness white LEDs and the need for further advances in brightness, color characteristics, efficiency and the predicted life of the LEDs before they require replacement. Our future results are dependent upon sales growth in the commercial, hospitality, institutional, retail and sign markets. As part of our sales and marketing strategy, we actively seek to educate our target markets as to the advantages of our LED lighting solutions. We believe that achievement of this objective is critical to our future success. Our lighting products may not continue to gain market share within the overall lighting market or competitors may introduce better lighting technologies, displacing our LED and other lighting products in the market. If acceptance of our lighting products in general does not continue to grow, then opportunities to increase our revenue and operate profitably may be limited.

If we are unable to respond effectively as new lighting technologies and market trends emerge, our competitive position and our ability to generate revenue and profits may be harmed.

To be successful, we will need to keep pace with rapid changes in LED technology, changing customer requirements, new product introductions by competitors and evolving industry standards, any of which could render our existing products obsolete if we fail to respond in a timely manner. Development of new products incorporating advanced technology is a complex process subject to numerous uncertainties. We have in the past experienced, and could in the future experience, delays in introduction of new products. If effective new sources of light other than LEDs are discovered, our current products and technologies could become less competitive or obsolete. If others develop innovative proprietary lighting technology that is superior to ours, or if we fail to accurately anticipate technology and market trends, respond on a timely basis with our own development of new products and enhancements to existing products, and achieve broad market acceptance of these products and enhancements, our competitive position may be harmed and we may not achieve sufficient growth in our revenue to attain, or sustain, profitability.

If we are not able to compete effectively against companies with greater resources, our prospects for future success will be jeopardized.

The lighting industry is highly competitive. In the high performance lighting markets in which we sell our LED lighting solutions, our products compete with lighting products utilizing traditional lighting technology provided by many vendors. In the replacement lamp market where we sell our Array line of LED products, we expect to encounter competition from an even greater number of companies. Our competitors are expected to include the large, established companies in the general lighting industry, such as General Electric, Osram Sylvania and Royal Philips Electronics. We believe each of these competitors has undertaken initiatives to develop white light LED technology. These companies have global marketing capabilities and substantially greater resources to devote to research and development and other aspects of the development, manufacture and marketing of LED lighting products than we do. We may also face increased competition from traditional lighting fixture companies, such as Acuity Brands Lighting, Cooper Lighting, Hubbell Lighting, Lithonia Lighting and Royal Philips Electronics. The relatively low barriers to entry into the lighting industry and the limited proprietary nature of many lighting products also permit new competitors to enter the industry easily.

In each of our markets, we also anticipate the possibility that LED manufacturers, including those that currently supply us with LEDs, may seek to compete with us by introducing more complete systems that might not infringe on our patents. Our competitors' lighting technologies and products may be more readily accepted by customers than our products. Additionally, to the extent that competition in our markets intensifies, we may be required to reduce our prices in order to remain competitive. If we do not compete effectively, or if we reduce our prices without making commensurate reductions in our costs, our revenue and profitability, and our future prospects for success, may be harmed.

If we are unable to obtain and adequately protect our intellectual property rights, our ability to commercialize our products could be substantially limited.

We consider our technology and processes proprietary. If we are not able to adequately protect or enforce the proprietary aspects of our technology, competitors may utilize our proprietary technology and our business, financial condition and results of operations could be harmed. We currently attempt to protect our technology through a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and similar means. Despite our efforts, other parties may attempt to disclose, obtain or use our technologies. Our competitors may also be able to independently develop products that are substantially equivalent or superior to our products or design around our patents. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. As a result, we may not be able to protect our proprietary rights adequately in the United States or abroad.

As of March 16, 2012, we have 41 issued patents and 33 combined U.S. and foreign patent applications pending relating to our Array Lighting and Lumificient product offering. Because our patent position involves complex legal, scientific, and factual questions, the issuance, scope, validity and enforceability of our patents cannot be predicted with certainty. Our issued patents may be invalidated or their enforceability challenged, they may be designed around, and they may not provide us with competitive advantages against others with similar products and technology. Furthermore, others may independently develop similar products or technology or duplicate or design around any technologies that we have developed.

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

If critical components that we currently purchase from a small number of third-party suppliers become unavailable, or third-party manufacturers otherwise experience delays, we may incur delays in shipment, which would damage our business.

We depend on a small number of third-party suppliers for a significant portion of the component parts incorporated into our products. We purchase these component parts from third-party suppliers that serve the advanced lighting systems market and we believe that alternative sources of supply are readily available for most component parts. However, consolidation in the LED lighting industry could result in one or more current suppliers being acquired by a competitor, rendering us unable to continue purchasing necessary amounts of key components at competitive prices. In addition, for certain of our customized components, arrangements for additional or replacement suppliers will take time and result in delays. We purchase products and components pursuant to purchase orders placed from time to time in the ordinary course of business. This means we are vulnerable to unanticipated price increases and product shortages. Any interruption or delay in the supply of components, or our inability to obtain components from alternate sources at acceptable prices in a timely manner, could harm our business, financial condition and results of operations.

In an effort to reduce manufacturing costs, we outsource the production of certain parts and components as well as finished goods in our product lines to a number of suppliers. We outsource all of the production for our Array brand of products to third-party manufacturers. We used an additional third-party manufacturer during 2011, however, this third-party manufacturer ceased operations during 2011. There is no production overlap between our third party manufacturers. Except for four types of Array bulbs, all of our Array products are produced by a single third-party manufacturer located in Mexico. While we believe alternative manufacturers for these products are available, we have selected these particular manufacturers based on their ability to consistently produce these products per our specifications ensuring the best quality product at the most cost effective price. We depend on our third-party manufacturers to satisfy performance and quality specifications and to dedicate sufficient production capacity within scheduled delivery times. Accordingly, the loss of all or one of these manufacturers or delays in obtaining shipments could have a material adverse effect on our operations until such time as an alternative manufacturer could be found.

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

If the companies to which we outsource the manufacture of our products fail to meet our requirements for quality, quantity and timeliness, our revenue and reputation in the marketplace could be harmed.

We outsource a significant portion of the manufacture and assembly of our products, including all of the production of our Array brand of products. We currently depend on a small number of contract manufacturers to manufacture our products at plants in the U.S., Mexico and China. These manufacturers supply raw materials (in some cases we procure and provide our contract manufacturers with certain components, such as LEDs) and provide necessary facilities and labor to manufacture our products. If these companies were to terminate their arrangements with us without adequate notice, or fail to provide the required capacity and quality on a timely basis, we would be unable to manufacture and ship our lighting products until replacement manufacturing services could be obtained. To qualify a new contract manufacturer, familiarize it with our products, quality standards and other requirements, and commence volume production is a costly and time-consuming process. If it became necessary to do so, we may not be able to establish alternative manufacturing relationships on acceptable terms.

Our reliance on contract manufacturers involves certain additional risks, including the following:

- lack of direct control over production capacity and delivery schedules;
- lack of direct control over quality assurance, manufacturing yields and production costs;
- risk of loss of inventory while in transit from China and Mexico; and
- risks associated with international commerce, particularly with China and Mexico, including unexpected changes in legal and regulatory requirements, changes in tariffs and trade policies, risks associated with the protection of intellectual property and political and economic instability.

Any interruption in our ability to manufacture and distribute products could result in delays in shipment, lost sales, reductions in revenue and damage to our reputation in the market, all of which would adversely affect our business.

If we are unable to increase production capacity for our products in a cost effective and timely manner, we may incur delays in shipment and our revenues and reputation in the marketplace could be harmed.

As customer demand for our products changes, we must be able to adjust our production capacity to meet demand while keeping costs down. In order to fulfill anticipated demand for our products, we invest in capacity in advance of actual customer orders, typically based on preliminary, non-binding indications of future demand. We outsource a significant portion of the manufacture and assembly of our products, including all of the production of our Array brand of products. We currently depend on a small number of contract manufacturers to manufacture our products at plants in the U.S., Mexico and China. Uncertainty is inherent within our capacity expansion, and unforeseen circumstances could offset the anticipated benefits, disrupt our ability to provide products to our customers and impact product quality.

Our ability to successfully increase production capacity in a cost effective and timely manner will depend on a number of factors, including the following:

- the ability of contract manufacturers to allocate more of their existing capacity to us or their ability to add new capacity quickly;
- the availability of critical components and subsystems used in the manufacture of our products;
- our ability to effectively establish adequate management information systems, financial controls and supply chain management and quality control procedures; and
- equipment failures, power outages, environmental risks or variations in the manufacturing process.

If we are unable to increase production capacity for our products in a cost effective and timely manner while maintaining adequate quality, we may incur delays in shipment or be unable to meet increased demand for our products which could harm our revenues and operating margins and damage our reputation and our relationships with current and prospective customers.

We depend on distributors and independent sales representatives for a substantial portion of our revenue and sales, and the failure to successfully manage our relationships with these third parties, or the termination of these relationships, could cause our revenue to decline and harm our business.

We rely significantly on indirect sales channels to market and sell our products. Most of our products are sold through independent distributors and agents. In addition, these parties provide technical sales support to end-users. Our current agreements with indirect sales channels are non-exclusive. We anticipate that any such agreements we enter into in the future will be on similar terms. Furthermore, our agreements are generally short-term, and can be cancelled by these sales channels without significant financial consequence. We cannot control how these sales channels perform and cannot be certain that we or end-users will be satisfied by their performance. If these distributors and agents significantly change their terms with us, or change their historical pattern of ordering products from us, there could be a significant impact on our revenue and profits.

Quarterly operating results fluctuate as a result of many factors.

Most of our expenses are fixed in nature and cannot be significantly reduced in the short-term if we experience an unexpected delay or decrease in our anticipated revenue in any quarter. In addition, forecasting our revenue is difficult, as we generally do not enter into agreements with our customers obligating them to purchase our LED lighting; instead, our business is characterized by short-term purchase orders and shipment schedules and we generally permit orders to be cancelled or rescheduled without significant penalty**.** If we, our manufacturers' representatives, distributors or customers fail to accurately forecast the demand for our products, or fail to accurately forecast the timing of such demand, we might not meet our forecasts, or those of investors or analysts**.** In addition, we forecast our revenue and plan our production and inventory levels based upon our manufacturers' representatives, distributors and customers' demand forecasts, which are highly unpredictable and can fluctuate substantially. As a result, we may continue to experience losses on a quarterly or annual basis, which could cause a reduction in cash flows and the market price of our common stock to decline.

Quarterly revenue and operating results have fluctuated and are likely to continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. Factors that could affect revenue and operating results include, among others, the following:

- competitive factors, such as competitive pricing pressure and the potential introduction of new products by competitors;
- manufacturing factors, including constraints in our manufacturing and assembly operations and shortages or increases in the prices of raw materials and components;
- sales and distribution factors, such as changes in product mix or distribution channels resulting in lower margins, increases in sales and marketing expenses, the loss of a significant distributor, customer or sales representative and seasonality of sales;
- product development and introduction problems, such as increased research, development and marketing expenses associated with new product introductions, delays in the introduction of new products and technologies, and adverse effects on sales of existing products;
- developments in trade secrets, patent or other proprietary rights by us or our competitors;
- the ability to control costs, including levels of expenses relative to revenue levels;
- risk of product returns and exchanges, such as component problems, that could increase warranty reserves and manufacturing costs;
- the ability to develop, introduce, market and gain market acceptance of new products and product enhancements in a timely manner;
- the size, timing, rescheduling or cancellation of significant customer orders;
- the risk of loss of a significant customer;
- changes in our pricing policies and the pricing policies of suppliers and competitors, pricing concessions on volume sales, as well as increased price competition in general;
- success in expanding and implementing our sales and marketing programs;
- relatively small level of backlog at any given time;
- the mix of sales among our products;

- deferrals of customer orders in anticipation of new products or product enhancements;
- risks and uncertainties associated with international business;
- expenses that may be incurred in litigation;
- personnel changes;
- currency fluctuations and our ability to get currency out of certain foreign countries; and
- general economic and market conditions, including housing market trends, interest rates, the weather, terrorist activities and the prospect or actuality of war.

In addition, sales in any quarter may consist of a relatively small number of large customer orders. As a result, the timing of a small number of orders may impact quarter-to-quarter results. The loss of, or a substantial reduction in, orders from any significant customer could materially harm our business, financial condition and results of operations. Quarterly operating results are also substantially affected by the market's acceptance of our products and the level and timing of orders received. Significant portions of our expenses are relatively fixed in advance based upon forecasts of future sales. If sales fall below expectations in any given quarter, operating results will be adversely affected. In addition, certain product development and marketing expenditures may vary significantly from quarter to quarter and are made well in advance of potential resulting revenue.

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

We have made strategic acquisitions in the past and may do so in the future, which may adversely affect our operating results, financial condition and existing business.

We have historically sought to grow through strategic acquisitions in order to complement and expand our business. On April 30, 2008, we acquired Lumificient Corporation and on September 28, 2007, we acquired Advanced Lighting Systems, Inc. In order to reduce operating expenses and increase synergies across our business lines, in the first quarter of 2009, we integrated the operations of Advanced Lighting Systems with other company operations. The success of any acquisition will depend on, among other things:

- the availability of suitable candidates;
- competition from other companies for the purchase of available candidates;
- our ability to value those candidates accurately and negotiate favorable terms for those acquisitions;
- the availability of funds to finance acquisitions;
- the ability to establish new informational, operational and financial systems to meet the needs of our business;
- the ability to achieve anticipated synergies, including with respect to complementary products or services; and
- the availability of management resources to oversee the integration and operation of the acquired businesses.

We may not be successful in integrating acquired businesses and completing acquisitions in the future. We also may incur substantial expenses and devote significant management time and resources in seeking to complete acquisitions. Acquired businesses may fail to meet our performance expectations. If we do not achieve the anticipated benefits of an acquisition as rapidly as expected, or at all, investors or analysts may not perceive the same benefits of the acquisition as we do. If these risks materialize, our stock price could be materially adversely affected.

Our inability to successfully integrate businesses we acquire could have adverse consequences on our business.

Acquisitions result in greater administrative burdens and operating costs and, to the extent financed with debt, additional interest costs. We cannot assure you that we will be able to manage or integrate acquired companies or businesses successfully. The process of integrating acquired businesses may be disruptive to our business and may cause an interruption of, or a loss of momentum in, our business as a result of the following factors, among others:

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

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

Our products could contain defects or they may be installed or operated incorrectly, which could reduce sales of those products or result in claims against us.

Despite testing by us, errors have been found and may be found in the future in our existing or future products. This could result in, among other things, a delay in the recognition or loss of revenue, loss of market share or failure to achieve market acceptance. These defects could cause us to incur significant warranty, support and repair costs, divert the attention of our engineering personnel from our product development efforts and harm our relationships with our customers. The occurrence of these problems could result in the delay or loss of market acceptance of our lighting products and would likely harm our business. Defects, integration issues or other performance problems in our lighting products could result in personal injury or financial or other damages to end-users or could damage market acceptance of our products. Our customers and end-users could also seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend.

If we are unable to attract or retain qualified personnel, our business and product development efforts could be harmed.

Our success depends on our continued ability to identify, attract, hire, train, retain and motivate highly skilled technical, managerial, manufacturing, administrative and sales and marketing personnel. To a significant extent, our success will depend on our senior management team. In particular, the loss of the services of Michael A. Bauer, our president and chief executive officer, would harm our business. Competition for these individuals is intense and we may not be able to successfully recruit, assimilate or retain sufficiently qualified personnel. In particular, we may encounter difficulties in recruiting and retaining a sufficient number of qualified technical personnel, which could harm our ability to develop new products and adversely impact our relationships with existing and future customers. The inability to attract and retain necessary technical, managerial, manufacturing, administrative and sales and marketing personnel could harm our ability to obtain new customers and develop new products and could adversely affect our business and operating results.

We have international sales and are subject to risks associated with operating in international markets.

In each of 2011 and 2010, revenue from sales of our products internationally (for our purposes, outside of the United States and Canada) represented approximately 4% and 8%, respectively, of our total revenue. We generally provide technical expertise and limited marketing support, while our independent international distributors generally provide sales staff, local marketing and product service. We believe our international distributors are better able to service international markets due to their understanding of local market conditions and best business practices. International business operations are subject to inherent risks, including, among others:

- unexpected changes in regulatory requirements, tariffs and other trade barriers or restrictions;
- longer accounts receivable payment cycles and the difficulty of enforcing contracts and collecting receivables through certain foreign legal systems;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences;

- the burdens of compliance with a wide variety of foreign laws;
- import and export license requirements and restrictions of the United States and each other country in which we operate;
- exposure to different legal standards and reduced protection for intellectual property rights in some countries;
- currency fluctuations and restrictions;
- political, social and economic instability, including war and the threat of war, acts of terrorism, pandemics, boycotts, curtailment of trade or other business restrictions;
- periodic foreign economic downturns; and
- sales variability as a result of transacting our foreign sales in U.S. dollars.

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

We believe that continued growth and profitability may require expansion of our international operations. All of our international sales are currently denominated in U.S. dollars. As a result, an increase in the relative value of the dollar could make our products more expensive and potentially less price competitive in international markets. We do not engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations.

The reduction or elimination of investments in, or incentives to adopt, LED lighting or the elimination of, or changes in, policies, incentives or rebates in certain states or countries that encourage the use of LEDs over some traditional lighting technologies could cause the growth in demand for our products to slow, which could materially and adversely affect our revenues, profits and margins.

We believe the near-term growth of the LED market will be accelerated by government policies in certain countries that either directly promote the use of LEDs or discourage the use of some traditional lighting technologies. Today, the upfront cost of LED lighting exceeds the upfront cost for some traditional lighting technologies that provide similar lumen output in many applications. However, some governments around the world have used policy initiatives to accelerate the development and adoption of LED lighting and other non-traditional lighting technologies that are seen as more environmentally friendly compared to some traditional lighting technologies. Reductions in (including as a result of any budgetary constraints), or the elimination of, government investment and favorable energy policies could result in decreased demand for our products and decrease our revenues, profits and margins. Further, if our products fail to qualify for any financial incentives or rebates provided by governmental agencies or utilities for which our competitors' products qualify, such programs may diminish or eliminate our ability to compete by offering products at lower prices than our competitors.

We believe that certification and compliance issues are critical to adoption of our lighting systems, and failure to obtain such certification or compliance would harm our business.

We are required to comply with certain legal requirements governing the materials in our products. Although we are not aware of any efforts to amend any existing legal requirements or implement new legal requirements in a manner with which we cannot comply, our revenue might be materially harmed if such an amendment or implementation were to occur.

Moreover, although not legally required to do so, we strive to obtain certification for substantially all our products. In the United States, we seek, and to date have obtained, certification of substantially all of our products from Underwriters Laboratories (UL) or Intertek (ETL) and in Europe we seek, and to date have appropriately self certified substantially all of our products from Conformité Européenne (CE). Where appropriate in jurisdictions outside the United States and Europe, we seek to obtain other similar national or regional certifications for our products, such as Canadian Underwriters Laboratories (CUL) in Canada and Product Safety Electrical (PSE) in Japan. Although we believe that our broad knowledge and experience with electrical codes and safety standards have facilitated certification approvals, we cannot ensure that we will be able to obtain any such certifications for our new products or that, if certification standards are amended, that we will be able to maintain any such certifications for our existing products, especially since existing codes and standards were not created with our lighting products in mind. Moreover, although we are not aware of any effort to amend any existing certification standard or implement a new certification standard in a manner that would render us unable to maintain certification for our existing products or obtain certification for new products, our revenue might be materially harmed if such an amendment or implementation were to occur.

We must comply with regulatory requirements regarding internal control over financial reporting, corporate governance and public disclosure, which will cause us to incur significant costs and our failure to comply with these requirements could cause our stock price to decline.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we annually evaluate and report on our systems of internal controls. These rules and regulations have increased our legal and compliance costs and made certain activities more time-consuming and costly. In the future, there may be material weaknesses in our internal controls that would be required to be reported in future Annual Reports on Form 10-K and/or Quarterly Reports on Form 10-Q. A negative reaction by the equity markets to the reporting of a material weakness could cause our stock price to decline. In addition, if we acquire a company with weak internal controls, it will take time to improve the internal controls of the acquired company to the same level of operating effectiveness as ours. Any failure to improve an acquired company's financial systems could result in delays or inaccuracies in reporting financial information.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The following table summarizes information with respect to our facilities, which are all leased:

	Location	Area (sq. feet)	Year of Lease Expiration
Corporate Headquarters:	Charlotte, North Carolina	5,100	2012
Office and Warehouse:	Orlando, Florida	34,000	2012
Office, Distribution and Light Manufacturing:	Maple Grove, Minnesota	13,200	2013

We consider our facilities adequate for our current needs and believe that suitable additional space would be available if necessary. Through March 2012, we are subleasing approximately 14,500 square feet of our facility in Orlando, Florida to the buyer of our Legacy Commercial and Pool Businesses.

Item 3. Legal Proceedings.

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

On March 26, 2012, Koninklijke Philips Electronics N.V. and Philips Solid-State Lighting Solutions, Inc. (collectively, "Philips") filed a lawsuit (civil action no. 12-cv-10549) in the United States District Court for the District of Massachusetts against the Company alleging that the Company's Array and certain other products infringe certain of Philips' patents for LED lighting. The plaintiff is seeking injunctive relief, monetary damages and reimbursement of its attorney's fees and costs. The Company has not yet been served in this matter and is evaluating Phillips' claims. The Company intends to vigorously defend its intellectual property.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Our common stock is quoted on The NASDAQ Capital Market under the symbol "NEXS." The following table sets forth the high and low sales prices for our Common Stock for the periods indicated as reported by The NASDAQ Capital Market:

	2011		2010	
	High	Low	High	Low
First Quarter	$4.36	$2.01	$3.62	$2.66
Second Quarter	3.35	2.50	6.18	2.21
Third Quarter	2.99	1.18	2.45	1.54
Fourth Quarter	1.88	0.84	2.95	1.66

(b) The number of holders of record of our Common Stock on March 16, 2012 was 46. This number does not include beneficial owners of our Common Stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

(c) We have never paid a cash dividend on our Common Stock and intend to continue to follow a policy of retaining earnings to finance future growth. Accordingly, we do not anticipate the payment of cash dividends to holders of our Common Stock in the foreseeable future.

(d) Equity Compensation Plan Information as of December 31, 2011

The following table provides information as of December 31, 2011 with respect to shares of our Common Stock that may be issued under our equity compensation plans.

For additional information regarding our stock option plans and the accounting effects of our stock-based compensation, please see Notes 1 and 10 of our Notes to consolidated financial statements.

Plan Category	(a) Number of common shares to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of common shares available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	1,026,207	$ 4.27	353,953
Equity compensation plans not approved by stockholders	—	—	—
Totals	1,026,207	$ 4.27	353,953

Item 6. Selected Financial Data.

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

The following discussion of our results of operations and financial condition is based upon, and should be read in conjunction with, our consolidated financial statements and accompanying notes thereto included elsewhere in this report. This discussion contains forward-looking statements. Actual results could differ materially from the results discussed in the forward-looking statements. Please see "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" for a discussion of some of the uncertainties, risks and assumptions associated with these statements.

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 41 issued patents and 33 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 patented Selective Heat Sink (SHS) technology and patented designs provide 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, institutional, retail and sign markets. We market and distribute products globally through multiple networks of independent sales representatives and distributors as well as through energy savings companies and national accounts. In 2011, we expanded our sales of Array replacement lamps to the consumer market channel through a large home improvement retailer. In March 2011, the retailer began offering our Array lamps through its website. Beginning in June 2011, our Array lamps became available in approximately 1,100 of its stores. In December 2011, we continued augmenting our traditional sales channels with the introduction of a commercial web portal to sell our Array product directly to end users.

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.

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 years ended December 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.

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".

Results of Operations

Revenue

	Year Ended December 31,			
	2011	2010	Change	%
Array LED lamps	$4,938,762	$1,807,744	$3,131,018	173%
Lumificient	4,049,086	3,614,699	434,387	12%
Total revenue	$8,987,848	$5,422,443	$3,565,405	66%

Total revenue for the year ended December 31, 2011 increased 66% to approximately $8,988,000 as compared to the year ended December 31, 2010. As a result of our growth in national sign programs and other commercial applications, sales of Lumificient products increased approximately 12% from approximately $3,615,000 for the year ended December 31, 2010 to approximately $4,049,000 for the year ended December 31, 2011.

Sales of our Array LED lamps increased 173% to approximately $4,939,000 for the year ended December 31, 2011 compared to approximately $1,808,000 for the year ended December 31, 2010. The sales increase of approximately $3,131,000 reflects the launch of Array products for sale through the consumer market channel. In the second quarter of 2011, we completed our initial shipments of Array products to approximately 1,100 home improvement stores across the United States. The home improvement retailer offers seventeen different Array products, including our PAR38, R30, R16, MR16 and GU10 lamps that have qualified for the Energy Star rating.

We believe the 2011 launch of our Array products into the consumer market channel represents an important step in our company's strategy and demonstrates our ability to respond operationally to significant growth in a cost effective manner. Sales of our products to the consumer market channel are affected by the resale of these products by our customer to the consumer. While we do not provide specific information on consumer demand due to confidentiality and other obligations, sales of Array products to the consumer have been slower than anticipated. In partnership with our major customer, we are exploring additional opportunities to increase retail sales and in-store inventory turns. These opportunities may include utility rebate programs, price concessions, sales initiatives, marketing programs, advertising campaigns, training sessions and point-of-sale educational materials. Based on our experience we also are working with this customer to identify other products to add to their offering in response to customer demand for existing products. However, based on our experience, we do not anticipate that our sales to this customer will be as significant in 2012 as they were in 2011.

Gross Profit and Cost of Goods Sold

	Year Ended December 31,			
	2011	2010	Change	%
Revenue	$ 8,987,848	$ 5,422,443	$3,565,405	66%
Cost of sales	7,075,063	4,059,756	3,015,307	74%
Gross profit	$ 1,912,785	$ 1,362,687	$ 550,098	40 %
Gross margin %	21%	25%		

Gross profit for the years ended December 31, 2011 and 2010 was approximately $1,913,000 and $1,363,000, respectively. Gross margins decreased from approximately 25% of sales in 2010 to approximately 21% of sales in 2011. Direct gross margin, which is revenue less material cost, decreased from 45% for the year ended December 31, 2010 to 41% for the same period of 2011, reflecting a shift in sales mix to Array products and the impact of launching the Array product line into the consumer market channel. We do not expect that we will be able to command our historical margins for sales through the consumer market channel. However, the additional unit volume generated by sales through this channel has allowed us to significantly lower our costs, leverage our investment in equipment and compete more effectively across all market channels.

For the year ended December 31, 2011, distribution costs, which include some light assembly costs, increased to approximately $1,774,000, or 20% of revenue, as compared to approximately $1,075,000, or 20% of revenue, for the year ended December 31, 2010. The increase of approximately $699,000 in distribution costs for the year ended December 31, 2011, as compared to the year ended December 31, 2010, includes an increase of approximately $424,000 in our inventory reserves for excess Array and Lumificient product. The reserves relate primarily to our 230v Array product for sale in international markets, certain Array products made with natural white and cool white LEDs, and inventory purchased in anticipation of launching a new product for Lumificient which was subsequently abandoned.

As a result of the increased revenue, in 2011 we incurred higher freight expenses of approximately $235,000 and an increase in warranty costs of approximately $38,000 as compared to 2010. However, we were able to leverage our sales growth across our supply chain assets. In particular, depreciation expense decreased from 11% of Array sales for the year ended December 31, 2010 to 5% of Array sales for the year ended December 31, 2011.

Operating Loss and Expenses

	Year Ended December 31,			
	2011	2010	Change	%
Operating expenses:				
Selling, general and administrative	$ 5,981,212	$ 6,096,585	$(115,373)	-2%
Research and development	833,876	943,606	(109,730)	-12%
Impairment expense	407,369	—	407,369	—
Total operating expenses	7,222,457	7,040,191	182,266	3%
Operating loss	$(5,309,672)	$(5,677,504)	$ 367,832	-6%

Operating Expenses

Selling, general and administrative ("SG&A") expenses were approximately $5,981,000 for the year ended December 31, 2011 as compared to approximately $6,097,000 for the same period in 2010, a decrease of approximately $115,000, or 2%. The decrease in SG&A primarily reflects a reduction in payroll, bad debt and advertising expenses for the year ended December 31, 2011 as compared to the same period in 2010. Offsetting these lower expenses was an increase of approximately $126,000 in net expenses relating to our Orlando facility. We subleased a portion of this facility to the purchaser of our Legacy Commercial and Pool Lighting Businesses, but we continue to incur expenses for the remainder of the leased space. The lease for this facility expires on March 31, 2012, at which time we expect to have vacated the facility. We also incurred approximately $111,000 of expenses related to the closure of one of our contract manufacturers in China.

Research and development costs were approximately $834,000 for the year ended December 31, 2011 as compared to approximately $944,000 for the year ended December 31, 2010. This decrease of approximately $110,000 was primarily due to lower project-related costs of approximately $83,000 and lower payroll expenses of approximately $29,000, in 2011 as compared to 2010.

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We recorded a goodwill impairment charge of approximately $407,000 for the year ended December 31, 2011 as a result of lowering the projected revenue growth and cashflows for Lumificient compared to previous projections. See Critical Accounting Policies and Estimates for a fuller description of this charge.

Interest

Interest expense of approximately $127,000 for 2011 primarily related to borrowing costs under approximately $2,400,000 of indebtedness incurred in December 2009. For 2010, interest expense of approximately $248,000 primarily related to borrowing costs under approximately $3,800,000 of indebtedness incurred in June 2009 and $2,400,000 of indebtedness incurred in December 2009.

Other Income and Debt Extinguishment Costs

We recognized debt extinguishment costs of approximately $442,000 in the first quarter of 2010 relating to the write off of our unamortized debt discount and debt issuance costs as a result of the early extinguishment of promissory notes issued in June 2009.

Income Tax

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 2011 and 2010.

Net Loss

Net loss for the years ended December 31, 2011 and 2010 was approximately $5,469,000 and $8,011,000, respectively, including a loss from discontinued operations related to the Legacy Commercial and Pool Lighting Businesses of approximately $44,000 and $1,646,000 in 2011 and 2010, respectively. Basic and diluted loss per common share was $0.33 and $0.49 for the years ended December 31, 2011 and 2010, respectively. Basic and diluted loss per common share from continuing operations was $0.33 and $0.39 for the years ended December 31, 2011 and 2010, respectively. Basic and diluted loss per common share from discontinued operations was $0.00 and $0.10 for the years ended December 31, 2011 and 2010, respectively.

Non-GAAP Financial Measures

Although our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), we believe the following non-GAAP financial measures provide additional information that is useful to the assessment of our operating performance and trends. These non-GAAP financial measures are not in accordance with, nor are they a substitute for, the comparable GAAP financial measures and are intended to supplement our financial results that are prepared in accordance with GAAP.

	Year Ended December 31, 2011	2010
Revenue	$ 8,987,848	$ 5,422,443
Cost of sales	7,075,063	4,059,756
Less: Provisions for inventory valuation	(689,241)	(265,678)
Depreciation and amortization	(267,937)	(231,736)
Adjusted cost of sales	6,117,885	3,562,342
Adjusted gross profit	2,869,963	1,860,101
GAAP gross margin percentage	21%	25%
Adjusted gross margin percentage	32%	34%
Total operating expenses	7,222,457	7,040,191
Less: Depreciation and amortization	(486,255)	(462,636)
Impairment expense	(407,369)	—
Noncash stock-based compensation	(301,037)	(318,108)
Adjusted operating expense	6,027,796	6,259,447
Adjusted operating results	$(3,157,833)	$(4,399,346)
GAAP operating results as a percentage of revenue	-59%	-105%
Adjusted operating results as a percentage of revenue	-35%	-81%
GAAP operating expenses as a percentage of revenue	80%	130%
Non-GAAP operating expenses as a percentage of revenue	67%	115%

Our results for the years ended December 31, 2011 and 2010 reflect actual product requirements and rates of LED lamp adoption that differed from what was anticipated. These differences resulted in higher expenses relative to sales results. Specifically, our provisions for inventory valuations for 2011 and 2010 represent 8% and 5% of sales, respectively. These reserves primarily reflect challenges penetrating international markets and issues relating to product specification. In addition, noncash expenses such as depreciation and amortization, impairment and stock-based compensation expense for 2011 and 2010 represent 16% and 19% of sales, respectively. The depreciation expense primarily relates to tooling and other investments made for the Array products. The amortization expense primarily relates to Array intellectual property and intangibles associated with the Lumificient acquisition. Noncash expenses for depreciation, amortization and stock-based compensation totaled approximately $1.0 million in both 2011 and 2010. We expect that our existing level of noncash expenses will remain relatively flat in 2012.

Going forward, we believe that the inventory risk associated with anticipating the market's specification of products will decrease. Since the launch of the Array product, we believe the market has formed into a narrower band of color temperatures ranging between 2700° and 3000° Kelvin, with some lower levels of demand in the 5000° Kelvin range. We do not anticipate this range changing. However, we will continue to face challenges managing product mix and product evolution given the fast pace of advancement in LEDs and lighting.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2011, we had working capital of approximately $5,326,000, including cash and cash equivalents of approximately $3,015,000, a decrease of approximately $3,805,000 compared to working capital of approximately $9,131,000, including cash and cash equivalents of approximately $5,309,000, at December 31, 2010. The decline in working capital primarily represents cash used to fund operations in 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 operations decreased approximately $3,084,000 to approximately $3,369,000 for the year ended December 31, 2011, compared to approximately $6,453,000 in 2010. The decrease in net cash used in operating activities over the comparable period of 2010 is due to a decrease of approximately $2,700,000 in net loss adjusted for non-cash items for the year ended December 31, 2011, as compared to the same period in 2010. In addition, cash used for inventories decreased by approximately $299,000 and cash used for accounts payable, accrued liabilities and related party payable decreased by approximately $538,000 for the year ended December 31, 2011 as compared to the same period in 2010. The decrease in net cash used in operating activities over the comparable period in 2010 was partially offset by a decrease in cash provided by trade accounts receivable of approximately $567,000.

Net cash provided by investing activities for the year ended December 31, 2011 was approximately $755,000 as compared to net cash provided by investing activities of approximately $429,000 in the comparable period of 2010. This increase in cash provided by investing activities of approximately $326,000 is primarily the result of a decrease in cash used for patent and trademark costs of approximately $172,000, a decrease in cash used for acquisition costs of Lumificient of $100,000 due to the payment of the indemnity holdback in the first quarter of 2010 and a decrease in the purchase of property and equipment of approximately $90,000 for the year ended December 31, 2011 as compared to the same period in 2010.

Net cash provided by financing activities for the year ended December 31, 2011 was approximately $320,000 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 $4,155,000 as compared to 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 employee stock options and warrants increased by approximately $305,000 in the year ended December 31, 2011 as compared to the same period of 2010.

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, liquidate or divest assets or businesses, 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We use certain accounting policies and procedures to manage changes that occur in our business environment that may affect accounting estimates made in preparation of our financial statements. These estimates relate primarily to our allowance for doubtful accounts receivable, reserve for product returns, provision for inventories, stock-based compensation, goodwill and intangible assets. Our strategy for managing doubtful accounts includes stringent, centralized credit policies and collection procedures for all customer accounts. We use a credit risk rating system in order to measure the quality of individual credit transactions. We strive to identify potential problem receivables early, take appropriate collection actions, and maintain adequate reserve levels. As revenue is recorded, we accrue an estimated amount for product returns as a reduction of revenue. Our estimate for product returns is based on our historical return experience and our expectation of future returns. Our strategy for providing for inventory obsolescence includes the evaluation of existing inventory usage and realizable value. Typically, no provision is recorded for inventory items that are currently used and sold within one year of purchase. We believe that our allowance for doubtful accounts, reserve for product returns and provision for inventory obsolescence were adequate at December 31, 2011 and 2010.

We account for stock-based compensation under the provisions of FASB ASC 718 "Compensation-Stock Compensation". Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service period, which is typically the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating volatility and expected lives. In addition, judgment is also required in estimating the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from our estimates, our results of operations could be materially impacted.

The Company records goodwill as the excess of purchase price over the fair value of the identifiable net assets acquired. FASB ASC 350 "Intangibles – Goodwill and Other" ("ASC 350"), prescribes a two-step process for annual impairment testing of goodwill. The first step tests for impairment, while the second step, if necessary, measures the impairment. Step one compares the fair value of our reporting units to their carrying amount. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount exceeds its fair value, then the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit as calculated in step one. In this step, the fair value of the reporting unit is allocated to all of the reporting unit's assets and liabilities in a hypothetical purchase price allocation as if the reporting unit had been acquired on that date. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss will be recognized in an amount equal to the excess. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates, strategic plans and future market conditions, among others. There can be no assurance that our estimates and assumptions made for purposes of the goodwill impairment testing will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenue or margin growth rates are not achieved or changes in strategy or market conditions occur, we may be required to record goodwill impairment charges in future periods.

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.

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations at December 31, 2011:

	Payments due by period		
	2012	2013 - 2014	2015 - 2016
Exchange notes	$ —	$2,400,000	$ —
Operating lease obligations	259,393	34,428	—
Total	$259,393	$2,434,428	$ —

Note and Warrant Purchase Agreement

On June 18, 2009, we 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, we sold an aggregate of $3,800,000 in principal amount of secured promissory notes (the "Notes") and 285,000 warrants to purchase shares of our common stock at an exercise price of $6.43 per share, expiring three years after issuance. The Notes were payable in full on January 5, 2011 and incurred simple interest at the rate of 10% per year. The interest was payable a year after the closing date and at maturity. The Notes were secured by all of our assets.

In the first quarter of 2010, we repaid the principal and accrued interest outstanding on the Notes in full. Pursuant to the Note Purchase Agreement, we have issued to the noteholders 196,766 additional warrants to purchase shares of our common stock at an exercise price of $6.43 per share, expiring three years after the date of the warrants.

Preferred Stock and Warrants; Exchange Notes

On October 29, 2009, we entered into an agreement (the "Exchange Agreement") with the holders (the "Preferred Shareholders") of all of our outstanding Series A preferred stock, $.001 par value per share (the "Series A preferred stock"), including certain of our directors or entities affiliated with such directors, to exchange all 1,571.15 outstanding shares of our Series A preferred stock for other securities (the "Exchange"). The Exchange was contingent upon consummation of a Qualified Public Offering, as such term is defined in the Exchange Agreement. Pursuant to the Exchange Agreement, the holders of the Series A preferred stock waived receipt of dividend payments on the Series A preferred stock and dividends in excess of 10% per annum until the earlier of the Exchange Date (as such term is defined in the Exchange Agreement), the termination of a Qualified Public Offering, or May 1, 2010. Also on October 29, 2009, we filed a registration statement with the Securities and Exchange Commission relating to a proposed follow-on offering of our common stock (the "Follow-on Offering"), which closed on December 21, 2009.

The Exchange was effected simultaneously with the closing of the Follow-on Offering. Preferred Shareholders holding an aggregate of 1,091.15 shares of Series A preferred stock elected to receive an aggregate of 1,731,994 shares of common stock in the Exchange. The number of shares of common stock delivered in the Exchange was determined by dividing approximately $5,456,000 (which represented the stated value of the Series A preferred stock exchanged for common stock) by the greater of (i) $3.15 or (ii) the $3.00 per share public offering price in the Follow-on Offering.

The Preferred Shareholders holding the remaining 480 shares of Series A preferred stock, which had a stated value of $2,400,000, were Michael Brown, one of our directors, and entities affiliated with Mariner Private Equity, LLC, of which Patrick Doherty, one of our former directors, is president. In the Exchange, these Preferred Shareholders received convertible promissory notes (the "Exchange Notes") with an aggregate principal amount of $2,400,000 and warrants to purchase an aggregate of 935,040 shares of our common stock (the "Exchange Warrants"). The Exchange Notes provided for interest at 1% per annum, were originally to 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.

On February 28, 2012, the Company and the holders of the Exchange Notes amended the Exchange Notes. As of the amendment date, the Exchange Notes bear interest at 10% per annum and mature on June 30, 2013. Interest on the outstanding principal amount of the Exchange Notes will be due and payable on the maturity date. The Exchange Notes remain convertible into 450,281 shares of common stock at a fixed conversion price of $5.33.

Operating Lease Obligations

On November 30, 2006, we entered into a five year operating lease agreement with EastGroup Properties, L.P., an unrelated party ("Eastgroup"). Pursuant to the lease, on April 1, 2007, we relocated to approximately 34,000 square feet of office, distribution and light manufacturing space at a new location in Orlando, Florida, which we used for our Orlando operations facility. Base rent under the lease started on April 1, 2007 at monthly payments of $19,486 for the first twelve-month period and increases annually by 3.5% thereafter. In addition to base rent, we are required to pay our pro rata share of the property's operating expenses, including property taxes, insurance and non-structural repairs. The lease provides for a security deposit of $28,576. Pursuant to this lease, Eastgroup provided a credit of $269,160 for tenant improvements. This amount has been recorded as deferred rent on our consolidated balance sheets and is being amortized straight-line as a reduction of rent expense over the life of the lease. On July 31, 2009, we entered into an amendment to the lease agreement which reduced base rent by approximately $700 per month for the period of August 2009 through March 2010.

On October 28, 2010, we sold to Next Step Products, LLC ("Next Step") substantially all of the assets of our Legacy Commercial and Pool Lighting Businesses, which were operated from our Orlando facility. In addition, we entered into a sublease agreement to sublet a portion of the facility to Next Step for six to nine months from the date of the sale. During 2011, we extended the sublease through March 2012. We will continue to use the remainder of the Orlando facility for certain administrative functions through the termination of the lease in March 2012.

On February 27, 2007, we entered into a five year operating lease agreement with Floyd Smith Office Park, LLC, commencing approximately June 1, 2007 for our corporate headquarters in Charlotte, North Carolina. We originally leased approximately 2,100 square feet of office space for a gross rental rate of $3,400 per month including build-out, power and water utilities and our pro rata share of the property's operating expenses, property taxes, insurance and non-structural repairs. After the initial twelve-month period, the rent increases annually by 3.0%. The lease provides for a security deposit of $3,400. On August 24, 2007, we leased an additional 3,000 square feet in this facility for an additional gross rental rate of $4,972 per month on the same basis and with the same provisions as the original lease with an additional security deposit of $4,972.

Lumificient has entered into an operating lease with Schany Family Limited Partnership for approximately 13,200 square feet of office and warehouse space. We acquired Lumificient on April 30, 2008. Base rent under the lease at April 30, 2008 was $5,202 per month and increases 2% annually each July. In addition to base rent, Lumificient is required to pay its pro rata share of the property's operating expenses, including property taxes, insurance and non-structural repairs. The lease had a termination date of February 28, 2010. On December 28, 2009, Lumificient entered into a lease extension agreement with Schany Family Limited Partnership that extends the lease until February 28, 2013. Base rent under the lease at March 1, 2010 is $5,412 and increases 2% annually each March.

Purchase Obligations

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

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 to the consolidated financial statements in Part 1 of this Annual Report on Form 10-K for information related to new accounting pronouncements.

OFF-BALANCE SHEET ARRANGEMENTS

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

Item 7A. Quantitative and Qualitative Disclosures 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 8. Financial Statements and Supplementary Data.

The following report of independent registered public accounting firm and financial statements are filed as part of this Annual Report on Form 10-K. This information appears in a separate section of this Annual Report on Form 10-K following the Index to Financial Statements on page 36:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2011 and 2010

Consolidated Statements of Operations for the years ended December 31, 2011 and 2010

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2011 and 2010

Consolidated Statements of Cash Flows for the years ended December 31, 2011 and 2010

Notes to Consolidated Financial Statements

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in the reports we file under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission'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 timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, our 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, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Furthermore, our controls and procedures can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control and misstatements due to error or fraud may occur and not be detected on a timely basis.

An evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our management concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of our assets are made in accordance with management's authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Furthermore, our controls and procedures can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control and misstatements due to error or fraud may occur and not be detected on a timely basis.

Management conducted its evaluation of the effectiveness of our company's internal controls over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that our company's internal control over financial reporting was effective at a reasonable assurance level as of December 31, 2011.

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Item 9B. Other Information.

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2012 annual meeting of stockholders and is incorporated herein by reference. Information relating to our Code of Business Conduct and Ethics and to compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, will be set forth in our definitive proxy statement relating to our 2012 annual meeting of stockholders and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2012 annual meeting of stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2012 annual meeting of stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2012 annual meeting of stockholders and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2012 annual meeting of stockholders and is incorporated herein by reference.

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Item 15. Exhibits and Financial Statement Schedules.

Exhibit Number	Description
3.1	Certificate of Incorporation(1)
3.2	Amendment to Certificate of Incorporation(1)
3.3	Amendment to Certificate of Incorporation(2)
3.4	Amendment to Certificate of Incorporation(3)
3.5	Amendment to Certificate of Incorporation(28)
3.6	Bylaws(1)
4.1	Form of Common Stock Certificate(4)
4.2	Form of Common Stock Purchase Warrant issued to certain accredited investors to purchase shares of Nexxus Lighting, Inc. common stock at an exercise price of $6.43 per share(24)
4.3	Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Nexxus Lighting, Inc. (21)
4.4	Form of Common Stock Purchase Warrant issued to certain accredited investors to purchase shares of Nexxus Lighting, Inc. common stock(1)
4.5	Form of Convertible Promissory Note(1)
10.1	Form of Indemnification Agreement(25)†
10.2	1994 Stock Option Plan, as amended and restated(3)†
10.3	2003 Stock Incentive Plan(7)†
10.4	Form of Warrant Agreement between Nexxus Lighting, Inc. and Brett M. Kingstone (8)†
10.5	Employment Agreement between Nexxus Lighting, Inc. and Michael A. Bauer dated February 11, 2008(15)†
10.6	Offer Letter between Nexxus Lighting, Inc. and Gary Langford dated December 30, 2008(23)†
10.7	Employment and Non-Competition Agreement between Advanced Lighting Systems, LLC and Paul Streitz dated September 28, 2007(17)†
10.8	Separation, Termination and Release Agreement between Paul Streitz, Streitz Properties, LLC, Nexxus Lighting, Inc. and Advanced Lighting Systems, LLC dated March 12, 2009(25)
10.9	Employment and Non-Competition Agreement between Lumificient Corporation and Carey Burkett dated May 1, 2008(18)†
10.10	Employment and Non-Competition Agreement between Nexxus Lighting, Inc. and Zdenko Grajcar dated May 1, 2008(18)†
10.11	Transition Agreement between Nexxus Lighting, Inc. and Brett M. Kingstone dated September 9, 2005(9)†
10.12	Contingent Proceeds Participation Agreement between Nexxus Lighting, Inc. and Brett M. Kingstone dated September 19, 2003(6) †
10.13	Lease for Southridge Commerce Park facility(11)
10.14	Lease for Floyd Smith Office Park facility(4)
10.15	Lease for Maple Grove, Minnesota facility(1)
10.16	Lease Extension Agreement for Maple Grove, Minnesota facility(26)
10.17	Note and Warrant Purchase Agreement between Nexxus Lighting, Inc. and each purchaser in the private placement dated as of June 26, 2008(5)
10.18	Security Agreement between Nexxus Lighting, Inc. and Jay Weil dated June 26, 2008(5)
10.19	Stock Pledge and Security Agreement between Nexxus Lighting, Inc. and Jay Weil dated June 26, 2008(5)

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Exhibit Number	Description
10.20	Limited Liability Company Equity Interest Pledge and Security Agreement between Nexxus Lighting, Inc. and Jay Weil dated June 26, 2008[5]
10.21	Form of Secured Promissory Note by Nexxus Lighting, Inc. in favor of each purchaser in the private placement dated June 26, 2008[5]
10.22	Stock Purchase Agreement among Nexxus Lighting, Inc., Lumificient Corporation and the shareholders of Lumificient Corporation dated as of April 30, 2008,[18] as amended by letter agreement dated June 26, 2008[5]
10.23	Agreement and Plan of Merger among Nexxus Lighting, Inc., Advanced Lighting Systems, LLC, Advanced Lighting Systems, Inc. and Paul Streitz dated August 3, 2007[19]
10.24	Form of Common Stock and Warrant Purchase Agreement between Nexxus Lighting, Inc. and each purchaser in the private placement dated as of December 7, 2006[10]
10.25	Form of Registration Rights Agreement between Nexxus Lighting, Inc. and each purchaser in the private placement dated as of December 7, 2006[10]
10.26	Registration Rights Agreement between Nexxus Lighting, Inc. and Cooper Lighting, Inc. dated as of November 23, 1998, included as Exhibit C to the Stock Purchase Agreement between Nexxus Lighting, Inc. and Cooper Lighting, Inc. dated as of November 23, 1998[12]
10.27	Escrow Agreement between Nexxus Lighting, Inc. and RBC Centura Bank dated as of November 30, 2006[13]
10.28	Exchange Agreement between Nexxus Lighting, Inc. and Brett M. Kingstone dated March 26, 2007[14]
10.29#	Settlement and License Agreement between Nexxus Lighting, Inc. and Color Kinetics Incorporated dated December 4, 2006[16]
10.30	Lease Termination Agreement between Nexxus Lighting, Inc. and Max King Realty, Inc. dated November 29, 2006[11]
10.31	Amendment to Participation Agreement between Nexxus Lighting, Inc. and Brett M. Kingstone dated November 25, 2008[22]†
10.32	Assignment Agreement between Nexxus Lighting, Inc. and B&M Kingstone, LLC dated March 26, 2009[25]
10.33	Preferred Stock and Warrant Purchase Agreement between Nexxus Lighting, Inc. and each purchaser in the private placement dated as of November 11, 2008[21]
10.34	Note and Warrant Purchase Agreement between Nexxus Lighting, Inc. and each purchaser in the private placement dated as of June 18, 2009[24]
10.35	Form of Secured Promissory Note by Nexxus Lighting, Inc. in favor of each purchaser in the private placement dated June 18, 2009[24]
10.36	Security Agreement between Nexxus Lighting, Inc. and Jay Weil dated June 18, 2009[24]
10.37	Stock Pledge and Security Agreement between Nexxus Lighting, Inc. and Jay Weil dated June 18, 2009[24]
10.38	Limited Liability Company Equity Interest Pledge and Security Agreement between Nexxus Lighting, Inc. and Jay Weil dated June 18, 2009[24]
10.39	Nexxus Lighting, Inc. Preferred Stock Exchange Agreement dated October 29, 2009[1]
10.40	Asset Purchase Agreement dated as of October 28, 2010 between Nexxus Lighting, Inc. and Next Step Products, LLC[27]
10.41	Form of Amendment to Convertible Promissory Notes between Nexxus Lighting, Inc. and each note holder dated February 28, 2012[29]
14.1	Code of Business Conduct and Ethics[20]
21.1	Subsidiaries of Nexxus Lighting, Inc. *
23.1	Consent of McGladrey & Pullen, LLP, Independent Registered Public Accounting Firm*
31.1	Certifications by our chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certifications by our chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certifications by our chief executive officer and chief financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101**	The following financial statements from Nexxus Lighting, Inc.'s Yearly Report on Form 10-K for the year ended December 31, 2011, filed on March 28, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations (iii) Consolidated Statements of Stockholders' Equity (iv) Consolidated Statements of Cash Flows, (v) Notes to Consolidated Financial Statements, tagged as blocks of text.

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*	Filed herewith
**	Submitted electronically with this Report pursuant to Rule 405 of Regulation S-T
#	Confidential treatment has been granted for portions of this agreement
†	Management contract or compensatory plan or agreement

(1) Incorporated by Reference to our Registration Statement on Form S-1 filed October 29, 2009 (File No. 333-162743)
(2) Incorporated by Reference to our Definitive Proxy Statement filed April 29, 1997
(3) Incorporated by Reference to our Definitive Proxy Statement filed March 27, 1998
(4) Incorporated by Reference to our Annual Report on Form 10-KSB filed March 28, 2008
(5) Incorporated by Reference to our Current Report on Form 8-K filed on July 2, 2008
(6) Incorporated by Reference to our Quarterly Report on Form 10-QSB filed November 3, 2003
(7) Incorporated by Reference to our Definitive Proxy Statement filed April 16, 2004
(8) Incorporated by Reference to our Definitive Proxy Statement filed November 3, 2005
(9) Incorporated by Reference to our Current Report on Form 8-K filed September 14, 2005
(10) Incorporated by Reference to our Current Report on Form 8-K filed on December 8, 2006
(11) Incorporated by Reference to our Current Report on Form 8-K filed on December 5, 2006
(12) Incorporated by Reference to our Quarterly Report on Form 10-QSB/A filed December 1, 1998
(13) Incorporated by Reference to our Registration Statement on Form S-3/A filed March 13, 2007 (File No. 333-140286)
(14) Incorporated by Reference to our Current Report on Form 8-K filed on March 29, 2007
(15) Incorporated by Reference to our Current Report on Form 8-K filed February 14, 2008
(16) Incorporated by Reference to our Annual Report on Form 10-KSB filed April 3, 2007
(17) Incorporated by Reference to our Current Report on Form 8-K filed September 28, 2007
(18) Incorporated by Reference to our Current Report on Form 8-K filed May 1, 2008
(19) Incorporated by Reference to our Current Report on Form 8-K filed August 7, 2007
(20) Incorporated by Reference to our Annual Report on Form 10-KSB filed March 26, 2004
(21) Incorporated by Reference to our Current Report on Form 8-K filed November 13, 2008
(22) Incorporated by Reference to our Current Report on Form 8-K filed December 1, 2008
(23) Incorporated by Reference to our Current Report on Form 8-K/A filed January 9, 2009
(24) Incorporated by Reference to our Current Report on Form 8-K filed June 22, 2009
(25) Incorporated by Reference to our Annual Report on Form 10-K filed March 27, 2009
(26) Incorporated by Reference to our Current Report on Form 8-K filed December 30, 2009
(27) Incorporated by Reference to our Current Report on Form 8-K filed October 28, 2010
(28) Incorporated by Reference to our Definitive Proxy Statement filed April 5, 2011
(29) Incorporated by Reference to our Current Report on Form 8-K filed March 2, 2012

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NEXXUS LIGHTING, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Nexxus Lighting, Inc.

We have audited the accompanying consolidated balance sheets of Nexxus Lighting, Inc. (the "Company") and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nexxus Lighting, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey & Pullen, LLP

Charlotte, NC
March 28, 2012

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NEXXUS LIGHTING, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,014,656	$ 5,308,900
Trade accounts receivable, less allowance for doubtful accounts of $52,912 and $35,899	564,474	645,254
Inventories, less reserve of $895,415 and $270,797	2,977,047	3,543,526
Note receivable	—	1,110,982
Prepaid expenses	65,749	109,648
Other assets	26,359	15,605
Total current assets	6,648,285	10,733,915
Property and equipment:		
Machinery and equipment	1,283,693	1,182,556
Furniture and fixtures	643,339	645,292
Computers and software	798,257	791,035
Leasehold improvements	553,832	553,832
	3,279,121	3,172,715
Accumulated depreciation and amortization	(2,536,144)	(2,091,230)
Net property and equipment	742,977	1,081,485
Goodwill	1,988,920	2,396,289
Other intangible assets, less accumulated amortization of $879,490 and $592,645	2,543,969	2,750,010
Other assets, net	23,857	58,510
	$ 11,948,008	$ 17,020,209
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 1,070,916	$ 1,270,937
Accrued compensation and benefits	206,803	213,414
Related party payable	18,151	35,212
Current portion of deferred rent	25,882	80,131
Other current liabilities	74	3,434
Total current liabilities	1,321,826	1,603,128
Convertible promissory notes to related parties, net of debt discount	2,314,854	2,231,588
Deferred rent, less current portion	—	25,882
Total liabilities	3,636,680	3,860,598
Commitments and contingencies		
Stockholders' Equity:		
Common stock, $.001 par value, 30,000,000 and 25,000,000 shares authorized, 16,452,738 and 16,245,503 issued and outstanding	16,453	16,246
Additional paid-in capital	50,007,362	49,386,782
Accumulated deficit	(41,712,487)	(36,243,417)
Total stockholders' equity	8,311,328	13,159,611
	$ 11,948,008	$ 17,020,209

See accompanying notes to consolidated financial statements.

NEXXUS LIGHTING, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2011	2010
Revenues	$ 8,987,848	$ 5,422,443
Cost of sales	7,075,063	4,059,756
Gross profit	1,912,785	1,362,687
Operating expenses:		
Selling, general and administrative	5,981,212	6,096,585
Research and development	833,876	943,606
Impairment expense	407,369	—
Total operating expenses	7,222,457	7,040,191
Operating loss	(5,309,672)	(5,677,504)
Non-operating income (expense):		
Interest income	569	1,657
Debt extinguishment costs	—	(441,741)
Interest expense	(126,731)	(247,688)
Other income	10,920	—
Total non-operating expense, net	(115,242)	(687,772)
Loss from continuing operations	$ (5,424,914)	$ (6,365,276)
Discontinued operations:		
Loss from discontinued operations	(44,156)	(1,646,194)
Net loss	$ (5,469,070)	$ (8,011,470)
Basic and diluted loss per common share:		
Continuing operations	$ (0.33)	$ (0.39)
Discontinued operations	$ 0.00	$ (0.10)
Net loss	$ (0.33)	$ (0.49)
Basic and diluted weighted average shares outstanding	16,405,789	16,244,352

See accompanying notes to consolidated financial statements.

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NEXXUS LIGHTING, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2011 and 2010

	Common Stock		Additional Paid-in	Accumulated	Total Stockholder's
	Shares	Amount	Capital	Deficit	Equity
Balance, January 1, 2010	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	—	—	318,108	—	318,108
Expenses associated with the sale of common stock	—	—	(49,954)	—	(49,954)
Net loss	—	—	—	(8,011,470)	(8,011,470)
Balance, December 31, 2010	16,245,503	$16,246	$49,386,782	$(36,243,417)	$13,159,611
Exercise of warrants	207,235	207	319,543	—	319,750
Stock-based compensation	—	—	301,037	—	301,037
Net loss	—	—	—	(5,469,070)	(5,469,070)
Balance, December 31, 2011	16,452,738	$16,453	$50,007,362	$(41,712,487)	$ 8,311,328

See accompanying notes to consolidated financial statements.

NEXXUS LIGHTING, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	Year Ended December 31, 2011	2010
Cash Flows from Operating Activities:		
Net loss	$(5,469,070)	$ (8,011,470)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	466,354	545,896
Amortization of intangible assets and other assets	287,838	282,250
Amortization of debt discount and debt issuance costs	89,343	158,927
Amortization of deferred rent	(80,131)	(65,785)
Write down of assets relating to discontinued operations	—	631,172
Loss (gain) on sale of businesses	51,647	(16,866)
Loss on disposal of property and equipment	3,400	9,114
Debt extinguishment costs	—	441,741
Increase (decrease) in inventory reserve	624,618	(199,691)
Stock-based compensation	301,037	318,108
Loss due to closure of contract manufacturer	111,126	—
Impairment of goodwill	407,369	—
Changes in operating assets and liabilities:		
Decrease in trade accounts receivable, net	80,780	647,371
Increase in inventories	(99,635)	(399,009)
Decrease in prepaid expenses	43,899	51,013
Decrease (increase) in other assets	17,822	(8,238)
Decrease in accounts payable, accrued liabilities and related party payable	(195,628)	(733,477)
Decrease in accrued compensation and benefits	(6,611)	(90,322)
Decrease in other liabilities	(3,360)	(13,597)
Total adjustments	2,099,868	1,558,607
Net cash used in operating activities	(3,369,202)	(6,452,863)
Cash Flows from Investing Activities:		
Proceeds from sale of businesses, net of transaction costs	1,110,982	1,147,509
Proceeds from sale of property and equipment	7,500	6,600
Purchase of property and equipment	(223,883)	(313,446)
Acquisition costs of Lumificient Corporation	—	(100,000)
Patents and trademark costs	(139,391)	(311,342)
Net cash provided by investing activities	755,208	429,321
Cash Flows from Financing Activities:		
Payments on promissory notes	—	(3,800,000)
Proceeds from sale of common stock, net of issuance costs	—	(49,954)
Net proceeds from exercise of employee stock options and warrants	319,750	14,900
Net cash provided by (used in) financing activities	319,750	(3,835,054)
Net decrease in cash and cash equivalents	(2,294,244)	(9,858,596)
Cash and cash equivalents, beginning of period	5,308,900	15,167,496
Cash and cash equivalents, end of period	$ 3,014,656	$ 5,308,900
Supplemental Disclosure of Cash Flow Information:		
Cash paid during period for interest	$ 24,000	$ 292,267
Non-cash investing activities:		
Note receivable from sale of businesses	—	1,110,982

See accompanying notes to consolidated financial statements.

NEXXUS LIGHTING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business – In April 2007, the Company changed its name from Super Vision International, Inc. to Nexxus Lighting, Inc. Nexxus Lighting, Inc. and its wholly owned subsidiary, Lumificient Corporation ("Lumificient") design, manufacture, market and sell high performance, commercial grade, light emitting diode ("LED") replacement light bulbs and LED-based signage, channel letter and contour lighting products in the commercial, hospitality, institutional, retail and sign markets.

On October 28, 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"). The 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 the Array business and the business of Lumificient. The divestiture of these businesses fits with the Company's strategic plans to focus resources on its Array replacement lamp and Lumificient businesses. The results of operations of the Legacy Commercial and Pool Lighting Businesses have been reflected as discontinued operations for all periods presented.

The Company markets and sells LED products through its Array Lighting division and through its subsidiary, Lumificient. We maintain a team of industry-experienced sales professionals dedicated to promoting and selling the Array brand of LED light bulbs through the Company's network of lighting agencies. These independent lighting agencies provide assistance in the lighting specification process, provide local customer and project management support and direct the customer to purchase products from the Company. Array replacement lamps also are sold through independent energy savings companies which assist customers with improved energy usage. Beginning in 2011, the Company expanded its sales of Array replacement lamps to the consumer market channel through a large home improvement retailer. Lumificient products are sold primarily through independent local sign and lighting manufacturers and distributors, as well as select national accounts.

The Company has experienced continued net losses and faces significant challenges in order to reach profitability, particularly in light of the current challenging economic environment. In order for the Company to attain profitability and grow, it will need to successfully address these challenges, including executing its production, marketing and sales plans for the Array product line and improving supply chain performance. The Company cannot estimate when or if it will achieve profitability in the future, and its business may not be as successful as envisioned. Continuing losses may exhaust capital resources and force the Company to scale back, suspend or discontinue operations.

Principles of consolidation – The consolidated financial statements include the accounts of Nexxus Lighting, Inc. and its wholly owned subsidiary, Lumificient (collectively, the "Company"). Significant inter-company accounts and transactions have been eliminated.

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. It is the Company's policy that all sales are final. Requests for returns are reviewed on a case by case basis. As revenue is recorded, the Company accrues an estimated amount for product returns as a reduction of revenue. As the Company's products are new in the consumer market channel, the Company increased its reserve estimate for 2011 related to product returns for this channel. The level of returns may fluctuate from the Company's estimate. The Company offers early payment discounts to select customers. Revenue is recorded net of the amount of the early payment discounts that the Company estimates will be claimed by customers. 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 December 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 $2,674,000 and $5,024,000 at December 31, 2011 and 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 accounts receivable, 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.

The Company’s non-financial assets measured at fair value on a non-recurring basis include goodwill. Goodwill was measured using the income and market approaches, which utilize inputs classified as Level 3 in the fair value hierarchy (Note 5).

Derivative financial instruments – The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible preferred stock and 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.

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 upon factors surrounding the credit risk of certain customers and 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:

	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" ("ASC 350") and FASB ASC 360 "Property, Plant, and Equipment".

Other intangible assets consists of identifiable intangible assets purchased in the 2008 acquisition of Lumificient, costs for patents and trademarks and costs associated with product safety certifications (UL certifications) and Energy Star certifications. We amortize the cost of other intangibles on a straight-line basis over their estimated useful lives. Amortizable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill is not amortized, but is subject to annual impairment testing unless circumstances dictate more frequent assessments. The Company performs an annual impairment assessment for goodwill as of the last day of each fiscal year and more frequently whenever events or changes in circumstances indicate that the fair value of the asset may be less than the carrying amount. Goodwill impairment testing is a two-step process performed at the reporting unit level. Step one compares the fair value of the reporting unit to its carrying amount. The fair value of the reporting unit is determined using both the income approach and the market approach. The fair values calculated under the income approach and market approach are weighted based on circumstances surrounding the reporting unit. Under the income approach, the Company determines fair value based on estimated future cash flows of the reporting unit which are discounted to the present value using discount factors that consider the timing and risk of cash flows. For the discount rate, the Company relies on the capital asset pricing model approach which includes an assessment of the risk-free interest rate, the rate of return from publically traded stocks, the Company's risk relative to the overall market, the Company's size and industry and other Company specific risks. Other significant assumptions used in the income approach include the terminal value, growth rates, future capital expenditures and changes in future working capital requirements. The market approach uses key multiples from guideline businesses that are comparable and are traded on a public market. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount exceeds its fair value, then the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit as calculated in step one. In this step, the fair value of the reporting unit is allocated to all of the reporting unit's assets and liabilities in a hypothetical purchase price allocation as if the reporting unit had been acquired on that date. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess.

Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates, strategic plans and future market conditions, among others. There can be no assurance that the Company's estimates and assumptions made for purposes of the goodwill impairment testing will prove to be accurate predictions of the future. If the Company's assumptions regarding forecasted revenue or margin growth rates of certain reporting units are not achieved or changes in strategy or market conditions occur, the Company may be required to record goodwill impairment charges in future periods. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

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. Pursuant to ASC 350, the Company reassigned the goodwill associated with the acquisition of Lumificient to the reporting units using a relative fair value allocation approach. The Company assigned $1,988,920 of goodwill to the LED replacement lamps segment and $407,369 of goodwill to the LED signage and lighting strips segment.

For the year ended December 31, 2011, the Company performed the impairment test prescribed by ASC 350 for its LED signage and lighting strips segment and recorded a goodwill impairment charge totaling $407,369. For the year ended December 31, 2011, the Company performed the impairment test prescribed by ASC 350 for its LED replacement lamps segment and determined that the estimated fair value of the reporting unit exceeded its carrying amount and a 10% decrease in fair value for the reporting unit would not have resulted in failure of Step 1 test described above.

For the year ended December 31, 2010, the Company completed its annual impairment test for the goodwill associated with the acquisition of Lumificient in 2008. The Company determined that the estimated fair value of the reporting units exceeded their carrying amount and a 10% decrease in fair value for the reporting units would not have resulted in failure of the Step 1 test described above.

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 – In accordance with FASB ASC 360, "Property, Plant, and Equipment", the Company evaluates the recoverability of its long-lived assets whenever events or changes in circumstances have indicated that an asset may not be recoverable. The long-lived asset is grouped with other assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows is less than the carrying value of the assets, the assets will be written down to the estimated fair value.

As the carrying amount of the LED signage and lighting strips segment exceeded its fair value in Step 1 of the goodwill impairment test described above, the Company evaluated the recoverability of the segment's long-lived assets as of December 31, 2011. The Company determined that there was no impairment of long-lived assets as of December 31, 2011.

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.

Advertising – Advertising costs, included in selling, general and administrative expenses, are expensed when the advertising first takes place. The Company promotes its product lines primarily through print media and trade shows, including trade publications, and promotional brochures. Advertising expenses were approximately $205,000 and $298,000 for the years ended December 31, 2011 and 2010, respectively.

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

The Company applies the provisions of FASB ASC 740-10 "Uncertainty in Income Taxes" ("ASC 740-10"). The Company has not recognized a liability under 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. 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 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 antidilutive and thus are excluded from the calculation. At December 31, 2011 and 2010, the Company had 4,071,661 and 7,649,345, 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 December 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.

	Years Ended December 31,	
	2011	2010
Expected volatility	0% - 84.7%	65.9% - 88.1%
Weighted-average volatility	81.0%	82.6 %
Risk-free interest rate	0.4% - 2.2%	0.7% - 2.6%
Expected dividend yield	- %	- %
Expected life in years	3.5 - 8.6	3.5 - 8.6

Under ASC 718, stock-based compensation expense recognized in the accompanying statements of operations for the years ended December 31, 2011 and 2010 was $301,037 and $318,108, respectively, which caused net loss to increase by that amount and basic and diluted loss per share attributable to common stockholders for 2011 and 2010 to increase by $0.02.

Business Segments – Pursuant to FASB ASC 280 “Segment Reporting”, the Company is required to report segment information. 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.

Major customers – Revenue from one customer represented approximately 42% of the Company’s revenue for the year ended December 31, 2011. No customer represented more than 10% of the Company’s revenue for the year ended December 31, 2010.

Major suppliers – The Company made purchases from three major suppliers each representing approximately 17% of total net purchases for the year ended December 31, 2011, compared to purchases from two major suppliers representing approximately 26% and 18% of total net purchases for the year ending December 31, 2010.

Recent accounting pronouncements – In September 2011, the FASB amended the guidance on the annual testing of goodwill for impairment. The amended guidance will allow companies to assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

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 results of operations of the Legacy Commercial and Pool Lighting Businesses have been reflected as discontinued operations for all periods presented.

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.

Subject to the terms of the Purchase Agreement and a secured promissory note, 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 former President of the Company's pool and spa lighting division, is an officer and member of the Buyer. The terms of the Purchase Agreement and the amount of the consideration to be paid with respect to the Asset Sale were negotiated by the Company and the Buyer on an arms-length basis.

Pursuant to the Purchase Agreement, the Buyer acquired substantially all of the assets of the Company's Legacy Commercial and Pool Lighting Businesses including (i) certain inventory, (ii) certain accounts receivable and prepaid expenses, (iii) certain computers, furniture, fixtures and equipment, and (iv) ownership of or the right to use certain trademarks, patents, copyrights and other intellectual property used or held for use in, or otherwise related to, the conduct of the Company's Legacy Commercial and Pool Lighting Businesses. The Buyer has assumed all of the warranty obligations of the Legacy Commercial and Pool Lighting Businesses, whether arising before or after closing, and other specified liabilities of the Legacy Commercial and Pool Lighting Businesses, including certain accounts payable.

The Company has made customary representations, warranties and covenants in the Purchase Agreement. Both the Company and the Buyer have agreed to indemnify the other party against certain losses, subject to certain limitations. In addition, subject to the terms of the Purchase Agreement, the Company has agreed to a non-competition covenant for a period of two years after closing, except with respect to the Company's Array business or the business of Lumificient Corporation (as such businesses were being conducted prior to the closing and as such businesses develop after closing). Simultaneously with the closing of the Asset Sale, the Company and the Buyer also entered into a sublease for a portion of the space leased by the Company at its Orlando, Florida facility for a period of no less than six months and no greater than nine months. During 2011, the sublease agreement was extended through March 2012.

The components of discontinued operations for the years ended December 31, 2011 and 2010 are as follows:

	Year Ended December 31,	
	2011	2010
Revenue	$ 11,155	$ 6,517,852
Income (loss) from operations	$ 7,491	$(1,031,888)
(Loss) gain on sale of divisions	(51,647)	16,866
Loss on write-down of assets not sold	—	(631,172)
Discontinued operations	$(44,156)	$(1,646,194)

The gain on sale of divisions for the year ended December 31, 2010 includes $77,342 of transaction and legal costs related to the Asset Sale.

Assets and liabilities sold pursuant to the Asset Sale are as follows:

Assets	
Trade accounts receivables, net	$ 595,792
Inventories, net	1,342,969
Other assets	34,773
Total current assets	1,973,534
Property and equipment, net	404,221
Intangible assets, net	326,726
Total assets	$2,704,481
Liabilities	
Accounts payable and accrued liabilities	$ 462,856
Total liabilities	$ 462,856

3. INVENTORIES:

Inventories consist of the following:

	December 31, 2011	December 31, 2010
Raw materials	$1,708,642	$2,186,639
Finished goods	2,163,820	1,627,684
	3,872,462	3,814,323
Less reserve for obsolescence	(895,415)	(270,797)
Net inventories	$2,977,047	$3,543,526

4. OTHER INTANGIBLE ASSETS:

At December 31, 2011, the Company had the following intangible assets subject to amortization:

	December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	$ 1,286,437	$ (197,803)	$1,088,634
Trademarks	908,998	(192,461)	716,537
Customer relationships	1,010,000	(370,333)	639,667
Non-compete agreement	60,000	(55,000)	5,000
Product certification and licensing costs	158,024	(63,893)	94,131
	$ 3,423,459	$ (879,490)	$2,543,969

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

	December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
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
	$ 3,342,655	$ (592,645)	$2,750,010

Patents and trademarks are amortized using the straight-line method over their useful lives of 17 years. Amortization expense on patents and trademarks was $122,798 and $118,394 for the years ended December 31, 2011 and 2010, respectively. Customer relationships are amortized using the straight-line method over their useful lives of 10 years. Amortization expense on customer relationships was $101,000 for both the years ended December 31, 2011 and 2010. Other intangible assets consist primarily of costs associated with product safety certifications (UL certifications), Energy Star certifications and non-compete agreements. Other intangible assets are amortized using the straight-line method over their useful lives, which range from 1-17 years and are periodically evaluated for recoverability in accordance with FASB ASC 350 “Intangibles – Goodwill and Other”. Amortization expense on other intangible assets was $64,040 and $30,393 for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011, amortization expense on intangible assets for the next five years and thereafter is as follows, excluding $209,838 invested in patents which is not yet being amortized as the patent is not complete:

	2012	2013	2014	2015	2016	Thereafter	Totals
Patents	$ 70,902	$ 70,902	$ 70,902	$ 70,902	$ 70,902	$ 524,286	$ 878,796
Trademarks	53,471	53,471	53,471	53,471	53,471	449,182	716,537
Customer relationships	101,000	101,000	101,000	101,000	101,000	134,667	639,667
Non-compete agreement	5,000	—	—	—	—	—	5,000
Product certification and licensing costs	52,674	37,281	4,176	—	—	—	94,131
Total	$283,047	$262,654	$229,549	$225,373	$225,373	$ 1,108,135	$ 2,334,131

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5. GOODWILL:

The changes in the carrying amount of goodwill for the year ended December 31, 2011 are as follows:

	LED Replacement Lamps	LED Signage and Lighting Strips	Total
Balance, January 1, 2011	$ 1,988,920	$ 407,369	$2,396,289
Impairment expense	—	(407,369)	(407,369)
Balance, December 31, 2011	$ 1,988,920	$ —	$1,988,920

As a result of lowering the projected revenue growth and cashflows for the LED signage and lighting strips segment, the Company performed the impairment test prescribed by ASC 350 and recorded a goodwill impairment charge totaling $407,369 for the year ended December 31, 2011.

There were no changes in the carrying amount of goodwill for the year ended December 31, 2010.

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 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. See Note 8 for further discussion of the Exchange.

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 requires 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 were to be issued. If the Notes, or a portion of the Notes, were redeemed prior to one year after the date the Notes were issued, the number of Additional Warrants issued were to be prorated for the time the Notes are 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 is being amortized over the life of the Notes using the effective interest method. For the year ended December 31, 2010, $55,433 of the discount was amortized to interest expense.

The Company incurred $196,353 of debt issuance costs which is 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 year ended December 31, 2010, $19,293 of the debt issuance costs was amortized to interest expense.

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 December 31, 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 former directors, is president of Mariner Private Equity, LLC. The Company owed entities affiliated with Mariner Private Equity, LLC, $1,500,000 in principal and $103,562 in accrued interest. Mr. Doherty resigned from the board during 2011. The Company owed Michael Brown, one of the Company’s directors, $100,000 in principal and $6,904 in accrued interest.

8. PREFERRED STOCK AND WARRANTS:

At December 31, 2011, the Company is authorized to issue 5,000,000 shares of Preferred Stock, of which 3,000 shares have been designated as Series A Preferred Stock.

On November 11, 2008, the Company entered into a Preferred Stock and Warrant Purchase Agreement (the “Stock Purchase Agreement”) with a limited number of accredited investors. Pursuant to the Stock Purchase Agreement, the Company issued Series A convertible preferred stock (the “Preferred Stock”) and warrants in a private placement, for aggregate consideration of $7,855,776 (before issuance costs incurred in 2008 of $390,513), consisting of $3,974,600 in cash, cancellation of $3,592,630 in principal and accrued interest on the Company’s secured promissory notes and $288,546 as compensation for issuance costs in lieu of cash. The net proceeds were used for working capital and general corporate purposes, including supporting the launch of new products.

The Company issued 1,513.44 units of Preferred Stock and warrants (“Preferred Stock Units”) at a stated value of $5,000 per unit for an aggregate consideration of $7,567,230. Each unit consisted of one share of Series A convertible Preferred Stock and warrants to purchase 750 shares of common stock (totaling 1,135,083 common shares under warrants) at an exercise price of $6.40 per share expiring three years from the date of issuance. During 2011, the warrants to purchase 1,135,083 common shares expired unexercised. An additional 57.71 units were issued to the placement agent, consisting of 57.71 shares of Preferred Stock and warrants to purchase 43,282 shares of common stock, at an exercise price of $6.40 per share. During 2011, the warrants to purchase 43,282 common shares expired unexercised. As the Preferred Stock was not redeemed prior to one year after the closing date of the transaction, warrants to purchase 750 additional shares of the Company’s common stock per unit were issued. In total, the holders of Preferred Stock were issued warrants to purchase a total of 1,500 shares of common stock for each Preferred Stock Unit (collectively, the “Preferred Warrants”), for a total of 2,356,732 common shares under warrants.

Preferred Stock Units Issued for Cash—The Company issued 794.92 Preferred Stock Units for cash consideration of $3,974,600. The Company calculated an effective conversion rate which gives effect to the allocation of proceeds from the transactions to the warrants on a relative fair value basis. The Company allocated the proceeds based on the relative fair values of the Preferred Stock and the Preferred Warrants. Using a simulation model of discounted cash flows, the relative fair value of the Preferred Warrants was estimated to be $1,806,837 on the date of issue, which is recorded in additional paid-in capital. The total allocated to the Preferred Stock was $2,167,763, of which $1,806,838 was allocated to the beneficial conversion feature and is recorded in additional paid-in capital. A beneficial conversion feature is recorded when the consideration allocated to the convertible security, divided by the number of common shares into which the security converts, is below the fair value of the common stock at the date of issuance of the convertible instruments.

Preferred Stock Units Exchanged for Promissory Notes—In exchange for the cancellation of $3,500,000 in principal amount of secured promissory notes and $92,630 of accrued interest relating to the promissory notes, the Company issued 718.53 Preferred Stock Units. The fair value of the Preferred Stock Units was determined using a simulation model of discounted cash flows and was estimated to be $5,000 per unit, for a total gross fair value of $3,592,630 on the date of issue. The Company estimated the fair value of the Preferred Warrants to total $1,633,195. The gross fair value of the Preferred Stock totaled $1,959,435, of which $1,633,195 was allocated to the beneficial conversion feature and is recorded in additional paid-in capital.

Preferred Stock Units Issued to the Placement Agent—The Company issued 57.71 Preferred Stock Units to the placement agent in exchange for services received. The Company estimated the fair value of the services received to be $288,546, based on the agreement with the placement agent. Using a simulation model of discounted cash flows, the fair value of the Preferred Warrants was estimated to be $131,172 on the date of issue, which is recorded in additional paid-in capital. The total allocated to the Preferred Stock was $157,374, of which $131,172 was allocated to the beneficial conversion feature and is recorded in additional paid-in capital.

The Preferred Stock was redeemable by the Company at any time and the holders were initially entitled to cumulative dividends at the rate of 8% per annum, increasing to 10% commencing 180 days after the date of issuance and 16% commencing 360 days after the date of issuance. The dividends were payable in cash, with an initial payment date of November 1, 2009. At the option of the holder, the preferred stock was convertible at any time commencing four years after issuance into shares of common stock at a conversion rate equal to the market price of the Company’s common stock at the time of the conversion or $6.59, whichever is greater.

Following the allocation of the beneficial conversion features and Preferred Warrants above, the Company considered the probability that the Preferred Stock holders would convert to common stock. The Preferred Stock was redeemable by the Company at any time and a percentage was redeemable at the option of the holder if the Company raised equity capital in excess of $5,000,000. Although the Preferred Stock did not have a stated maturity provision, the Company believed the conversion to common stock or redemption of the Preferred Stock, was more likely than not. As a result, the Company will recognize the amount by which the stated value of the preferred stock exceeded the carrying value as a deemed dividend. The excess of the stated value of the preferred stock over the carrying value of $7,142,409 was recorded as a charge to additional paid-in capital in our Consolidated Statements of Stockholders’ Equity, as the Company had an accumulated deficit on the date of the transaction. This deemed distribution is recorded as an accretion to the Preferred Stock over the four-year period from the date of issuance to the earliest conversion date using the effective yield method.

On October 29, 2009, the Company entered into an agreement (the “Exchange Agreement”) with the holders (the “Preferred Shareholders”) of all of its outstanding Preferred Stock including certain of its directors or entities affiliated with such directors, to exchange all 1,571.15 outstanding shares of Preferred Stock for other securities of the Company (the “Exchange”). The Exchange was contingent upon consummation of a Qualified Public Offering, as such term is defined in the Exchange Agreement. Pursuant to the Exchange Agreement, the holders of the Preferred Stock waived receipt of dividend payments on the Preferred Stock and dividends in excess of 10% per annum until the earlier of the Exchange Date (as such term is defined in the Exchange Agreement), the termination of a Qualified Public Offering, or May 1, 2010. Also on October 29, 2009, the Company filed a registration statement with the Securities and Exchange Commission relating to a proposed follow-on offering of its common stock (the “Follow-on Offering”), which closed on December 21, 2009.

The Exchange was effected simultaneously with the closing of the Follow-on Offering. Preferred Shareholders holding an aggregate of 1,091.15 shares of Preferred Stock elected to receive common stock in the Exchange ("Option 1 Exchange"). The number of shares of common stock delivered in the Exchange, amounting to 1,731,994, was determined by dividing $5,455,750 (which represented the stated value of the Preferred Stock being exchanged for common stock) by the greater of (i) $3.15 or (ii) the $3.00 per share public offering price in the Follow-on Offering. The Preferred Shareholders holding the remaining 480 shares of Preferred Stock, which had a stated value of $2,400,000, were Michael Brown, one of the Company's directors, and entities affiliated with Mariner Private Equity, LLC, of which Patrick Doherty, one of the Company's former directors, is president. In the Exchange, these Preferred Shareholders received convertible promissory notes (the "Exchange Notes") with an aggregate principal amount of $2,400,000 and warrants to purchase an aggregate of 935,040 shares of the Company's common stock (the "Exchange Warrants") ("Option 2 Exchange"). 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.

Option 1 – The Option 1 Exchange allowed the Preferred Shareholders to exchange their Preferred Stock for shares of the Company's common stock. The Option 1 Exchange meets the definition of an induced conversion as provided in current accounting standards because it (i) provided conversion privileges which were exercisable only for a limited period of time or occurrence of a specific event, at the option of the holders, and (ii) it included the issuance of all of the equity securities which were issuable pursuant to conversion privileges included in the terms of the original convertible contract upon its issuance. As a result, the excess of the fair value of the common stock issued in the Exchange over the common stock equivalent value of the Preferred Stock was reflected as a charge to stockholders' equity in a manner similar to that of a dividend.

Option 2 – The Option 2 Exchange allowed those holders of Preferred Stock to exchange their Preferred Stock for the Exchange Notes and Exchange Warrants. The Option 2 Exchange did not meet the definition of an induced conversion as it did not result in the issuance of the equity securities which were issuable pursuant to conversion privileges included in the terms of the Preferred Stock at issuance. Accordingly, the Option 2 Exchange is treated as redemption of the Preferred Stock which requires recognition of the excess of the fair value of the consideration issued (the Exchange Notes and Exchange Warrants) over the carrying value of the Preferred Stock, less issuance costs, as a return to the Preferred Shareholders. Similar to the accounting recognition provided for inducements, the amount of the excess is treated in a manner similar to the treatment of dividends paid on preferred stock.

The following table illustrates the components of the accounting for the Exchange:

	Option 1	Option 2	Total
Issuances, at fair values:			
Common Stock	$(4,309,436)	$ —	$(4,309,436)
Exchange Notes	—	(2,150,448)	(2,150,448)
Exchange Warrants	—	(1,221,256)	(1,221,256)
	$(4,309,436)	$(3,371,704)	$(7,681,140)
Redemptions:			
Series A Preferred Stock	$ 964,225	$ 424,164	$ 1,388,389
Associated Issuance Costs	—	(127,167)	(127,167)
Deemed Dividends	3,345,211	3,074,707	6,419,918
	$ 4,309,436	$ 3,371,704	$ 7,681,140

The $3.70 fair value of the Company's common stock was derived from the active trading market for the shares. The fair value of the Exchange Notes 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:

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	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 of $2,150,448 is less than the face value of $2,472,000 on the issuance date. This original issue discount of $321,552 is being amortized through periodic charges to interest expense using the effective method. Amortization charges amounted to $107,266 during the year ended December 31, 2011.

9. CAPITAL STOCK:

Common stock – At December 31, 2011, the Company has reserved Common Stock for issuance in relation to the following:

Employee Stock Options	737,020
Shares Subject to Warrants	2,884,360

Stock warrants – The Company has 2,884,360 warrants outstanding in connection with the transactions described below and in Notes 6, 7 and 8.

The Company has granted a 10-year warrant ("Kingstone Warrants") for 289,187 shares of Common Stock at an exercise price of $4.30 per share to Brett Kingstone. Mr. Kingstone was the chief executive officer of the Company until December 31, 2005 and was the chairman of the board of the Company until March 11, 2009. The warrant was granted on September 9, 2005.

On December 7, 2006, the Company closed the private offering to a limited number of accredited investors of approximately 40,360 units at a price of $223 per unit, resulting in gross cash subscriptions of approximately $9 million, and net proceeds to the Company of approximately $8,350,000 (the "Private Placement"). Each unit consisted of 100 shares of common stock, a warrant to purchase 60 shares of common stock exercisable at $2.23 per share, expiring five years from the date of issuance (the "Base Warrants") and a second warrant to purchase 15 shares of common stock exercisable at $3.00 per share, expiring five years from the date of issuance (the "Additional Warrants"). The securities were sold solely to accredited investors in a private placement offering exempt from registration under the Securities Act of 1933, as amended. During the year ended December 31, 2008, all the outstanding Additional Warrants were exercised. During the years ended December 31, 2011 and 2010, 347,422 and 0, respectively, shares under the Base Warrants were exercised. During 2011, the Base Warrants to purchase the remaining 1,726,942 common shares expired unexercised.

In connection with the Private Placement, the placement agent was paid $630,000 in cash and received a warrant (the "Placement Agent Warrant") to purchase 322,870 shares of the Company's Common Stock equal to 8% of the quotient obtained by dividing (a) the aggregate gross proceeds received by the Company from the sale of units in the Private Placement, by (b) the exercise price of the Base Warrants issued to purchasers in the Private Placement. The Placement Agent Warrant has the same terms and conditions as the Base Warrants issued to purchasers in the Private Placement. During the year ended December 31, 2009, the Placement Agent exercised 150,000 shares under the Placement Agent Warrant. During 2011, the Placement Agent Warrant to purchase the remaining 172,870 common shares expired unexercised.

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

In connection with the Private Placement, the Company filed a registration statement with the SEC covering the resale of shares of common stock sold in the Private Placement and the shares of common stock underlying the warrants sold in the Private Placement.

On June 26, 2008, the Company entered into a Note and Warrant Purchase Agreement (the "2008 Note Purchase Agreement"), with a limited number of stockholders, all of which were accredited investors. Pursuant to the 2008 Note Purchase Agreement, the Company sold an aggregate of $3,500,000 in principal amount of secured promissory notes (the "2008 Notes") and 218,750 warrants (the "2008 Promissory Note Warrants") to purchase shares of the Company's common stock. On November 12, 2008, the 2008 Notes were exchanged for preferred stock and warrants (Note 8). The 2008 Promissory Note Warrants have an exercise price of $6.40 per share and expire three years after the date of issuance. During 2011, the 2008 Promissory Note Warrants to purchase 218,750 common shares expired unexercised.

The total number of shares under warrants to purchase common stock as of December 31, 2011 is listed in the table below:

Associated Transaction	Number of Warrants
Kingstone Warrants	289,187
2008 Preferred Stock Warrants	1,135,084
2008 Preferred Stock Agent Warrants	43,283
2009 Promissory Notes Warrants	481,766
2009 Convertible Promissory Notes Warrants	935,040
Total Shares Subject to Warrants	2,884,360

10. STOCK OPTION PLANS:

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 meeting sales targets and net profit targets. As of December 31, 2011, options to purchase 15,000 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 meeting sales targets and net profit targets. In March 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. As of December 31, 2011, 638,557 shares of common stock were vested and exercisable under the 2003 Plan.

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The average fair value of options granted at market during 2011 and 2010 was $2.24 and $2.38 per option, respectively. The total intrinsic value of options exercised during the years ended December 31, 2011 and 2010 was $0 and $2,300, respectively. The aggregate intrinsic value of the outstanding options at December 31, 2011 was $0. At December 31, 2011, there were 737,020 options outstanding under both plans.

The following table summarizes activity of the stock option plans for the years ended December 31, 2011 and 2010:

	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	208,182	(211,182)	3.98
Balance, December 31, 2010	423,618	670,355	$ 4.60
Options granted at market	(224,250)	224,250	2.32
Options exercised	—	—	—
Options forfeited or expired	154,585	(157,585)	2.95
Balance, December 31, 2011	353,953	737,020	$ 4.26

Of the 737,020 options outstanding at December 31, 2011, 653,557 are vested and exercisable. At December 31, 2011, the weighted average exercise price of vested options outstanding was $4.45, the weighted average remaining contractual term (in years) was 5.6, and the aggregate intrinsic value was $0.

A summary of the non-vested shares as of December 31, 2011 and changes during the year ending December 31, 2011 is presented below:

Non-vested Shares	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2011	90,037	$ 2.65
Granted	224,250	2.24
Vested	(103,619)	2.44
Forfeited	(127,205)	2.34
Non-vested at December 31, 2011	83,463	$ 2.28

As of December 31, 2011, the total future compensation cost related to non-vested awards is estimated to be approximately $48,000, $1,000 and $1,000 for the years ending December 31, 2012, 2013, and 2014 respectively.

The total fair value of shares vested during the years ended December 31, 2011 and 2010 was approximately $253,000 and $413,000, respectively.

The Company typically grants selected executives and other key employees share option awards, whose vesting is contingent upon meeting various departmental and company-wide performance goals including meeting sales targets and net profit targets. The grant date weighted average fair value of performance options granted during 2011 and 2010 was $2.49 and $2.44, respectively. As of December 31, 2011, there was no unrecognized compensation cost related to non-vested performance options. A summary of activity of options that vest contingent upon achievement of certain performance criteria under the 2003 Plan as of December 31, 2011 and changes during the year then ended is presented below. These shares were also included in the summary of activity of stock option plans for the year ended December 31, 2011 above.

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Performance Based Shares	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2010	128,210	$ 4.16	7.09	$ 60,000
Granted	160,000	3.39		
Options exercised	—	—		
Forfeited or expired	(155,950)	3.39		
Outstanding at December 31, 2010	132,260	$ 4.14	6.18	$ —
Granted	130,000	2.15		
Options exercised	—	—		
Forfeited or expired	(101,020)	2.15		
Outstanding at December 31, 2011	161,240	$ 3.79	6.74	$ —
Exercisable at December 31, 2011	132,260	$ 4.14	6.18	$ —

A summary of the non-vested shares that vested, some being contingent upon achievement of certain performance criteria, under the 2003 Plan as of December 31, 2011 and changes during the year then ended is presented below. These shares were also reflected in the summary above.

Performance Based Non-vested Shares	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2011	4,050	$ 1.72
Granted	130,000	2.49
Vested	(4,050)	1.72
Forfeited	(101,020)	2.46
Non-vested at December 31, 2011	28,980	$ 2.57

11. OPERATING LEASES:

On November 30, 2006, the Company entered into a five year operating lease agreement with EastGroup Properties, L.P., ("Eastgroup") an unrelated party. Pursuant to the lease, on April 1, 2007, the Company relocated to approximately 34,000 square feet of office, distribution and light manufacturing space at a new location in Orlando, Florida, which the Company used for its Orlando operations facility. Base rent under the lease started on April 1, 2007 at monthly payments of $19,486 for the first twelve-month period and increases annually by 3.5% thereafter. In addition to base rent, the Company is required to pay its pro rata share of the property's operating expenses, including property taxes, insurance and non-structural repairs. The lease provides for a security deposit of $28,576. Pursuant to this lease, Eastgroup provided a credit of $269,160 for tenant improvements. This amount has been recorded as deferred rent on the Company's consolidated balance sheets and is being amortized as a reduction of rent expense over the life of the lease. On July 31, 2009, the Company entered into the first amendment to the lease agreement which reduced base rent by approximately $700 per month for the period of August 2009 through March 2010.

On October 28, 2010, the Company sold to Next Step Products, LLC ("Next Step") substantially all of the assets of the Legacy Commercial and Pool Lighting Businesses, which were operated from the Orlando facility. In addition, the Company entered into a sublease agreement to sublet a portion of the facility to Next Step for six to nine months from the date of the sale. During 2011, the sublease agreement was extended through March 2012. The Company will continue to use the remainder of the Orlando facility for certain administrative functions through the end of the lease.

On February 27, 2007, the Company entered into a five year operating lease agreement with Floyd Smith Office Park, LLC, commencing approximately June 1, 2007 for the Company's corporate headquarters in Charlotte, North Carolina. The Company originally leased approximately 2,100 square feet of office space for a gross rental rate of $3,400 per month including build-out, power and water utilities and the Company's pro rata share of the property's operating expenses, property taxes, insurance and non-structural repairs. After the initial twelve-month period, the rent increases annually by 3.0%. The lease provides for a security deposit of $3,400. On August 24, 2007, the Company leased an additional 3,000 square feet in this facility for an additional gross rental rate of $4,972 per month on the same basis and with the same provisions as the original lease with an additional security deposit of $4,972.

Lumificient has entered into an operating lease with Schany Family Limited Partnership for approximately 13,200 square feet of office and warehouse space. The Company acquired Lumificient on April 30, 2008. Base rent under the lease at April 30, 2008 was $5,202 per month and increases 2% annually each July. In addition to base rent, Lumificient is required to pay its pro rata share of the property's operating expenses, including property taxes, insurance and non-structural repairs. The lease originally terminated on February 28, 2010. On December 28, 2009, Lumificient entered into a lease extension agreement with Schany Family Limited Partnership that extends the lease until February 28, 2013. Base rent under the lease at March 1, 2010 is $5,412 and increases 2% annually each March.

During the years ended December 31, 2011 and 2010, the Company entered into operating lease agreements for computers and other office equipment. The lease terms range from three to five years and consist of monthly payments ranging from $34 to $1,098.

The following schedule shows the total rent expense for operating leases:

	Year Ended December 31,	
	2011	2010
Rent expense	$ 479,533	$282,454
Less sublease rentals	(141,663)	(24,753)
Total rent expense	$ 337,870	$257,701

The future minimum payment obligations as of December 31, 2011 under the operating leases described above are as follows:

2012	$259,393
2013	26,831
2014	7,597
2015	—
2016	—
Total future payment obligations	$293,821

Future payment obligations have not been reduced by minimum sublease rentals of $35,415 due in 2012.

12. CONCENTRATION OF CREDIT RISKS:

The Company's financial instruments that are exposed to concentrations of credit risk consist of cash, cash equivalents, trade accounts receivable and accounts payable. The Company places its cash and cash equivalents with high credit quality institutions. At times such balances may be in excess of the FDIC insurance limit.

Revenue from one customer represented approximately 42% of the Company's revenue for the year ended December 31, 2011. Sales to this customer are affected by the customer's resale of these products to the consumer. While the Company does not provide specific information on consumer demand due to confidentiality and other obligations, sales of the Company's products to the consumer have been slower than anticipated. In partnership with this customer, the Company is exploring additional opportunities to increase retail sales and in-store inventory turns. These opportunities may include utility rebate programs, price concessions, sales initiatives, marketing programs, advertising campaigns, training sessions and point-of-sale educational materials. At December 31, 2011, the Company had trade accounts receivables due from this customer totaling $40,314.

A portion of the Company's LEDs and LED lighting products and systems are manufactured by select contract manufacturers. While the Company believes alternative manufacturers for the production of these products are available, the Company has selected these particular manufacturers based on their ability to consistently produce these products per the Company's specifications ensuring the best quality product at the most cost effective price.

The Company depends on these manufacturers to satisfy performance and quality specifications and to dedicate sufficient production capacity for finished products within scheduled delivery times. Accordingly, the loss of one or more of these manufacturers or delays in obtaining shipments could have a material adverse effect on the Company's operations until such time as an alternative manufacturer could be found.

On October 11, 2011, the Company was informed that one of its contract manufacturers in China had ceased operations. The contract manufacturer originally produced certain components for the Company's PAR38 lamp and had recently started manufacturing the Company's new PAR20 and PAR30 lamps, among other products. As a result of the closure, the Company expensed $85,137 of net equipment, $5,947 of product certifications and $20,042 of working capital related to the contract manufacturer in the year ended December 31, 2011. The Company has filed an insurance claim relating to these assets, however, the Company is unlikely to recover any amount from this insurance claim. The delay in shifting production to another manufacturer did not have a material adverse affect on the Company's business.

13. INCOME TAXES:

As of December 31, 2011, the Company had net operating loss carry forwards for federal and state income tax purposes of approximately $33,902,000 and $17,663,000, respectively, which expire between 2011 and 2031. As of December 31, 2010, the Company had net operating loss carry forwards for federal and state income tax purposes of approximately $29,923,000 and $17,547,000, respectively. Generally, these can be carried forward and applied against future taxable income. However, as a result of stock offerings and stock issued in connection with acquisitions, the Company's use of these NOLs may be limited under the provisions of Section 382 of the Internal Revenue Code of 1986, as amended. The Company has not evaluated the implications of Section 382 on its ability to utilize some or all of its NOLs.

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

	December 31,	
	2011	2010
Accounts receivable	$ 44,000	$ 13,000
Inventories	305,000	106,000
Accrued expenses	58,000	104,000
Depreciation	(74,000)	(109,000)
Intangible assets	44,000	44,000
Stock warrants	687,000	579,000
Other	—	1,000
Net operating loss carry forwards	12,044,000	10,687,000
	13,108,000	11,425,000
Valuation allowance	(13,108,000)	(11,425,000)
	$ —	$ —

In accordance with FASB ASC 740 "Income Taxes", valuation allowances are provided against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has evaluated its ability to realize the deferred tax assets on its balance sheet and has established a valuation allowance in the amount of $13,108,000 at December 31, 2011, an increase of approximately $1,683,000 over December 31, 2010.

The following is a reconciliation of tax computed at the statutory federal rate to the income tax expense in the statements of operations for the years ended December 31, 2011, and 2010:

	December 31,			
	2011		2010	
	Amount	%	Amount	%
Tax benefit at statutory federal rate	$(1,859,000)	(34.0)	$(2,724,000)	(34.0)
Deferred state tax benefit	(21,000)	(0.4)	(30,000)	(0.4)
Change in valuation allowance	1,682,000	30.8	2,744,000	34.2
Goodwill impairment	135,000	2.4	—	0.0
Adjustment to net operating loss carryforwards	53,000	1.0	(5,000)	(0.0)
Non-deductible expenses	10,000	0.2	15,000	0.2
Income tax expense	$ —	—	$ —	—

14. 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 Lumificient product line consists of LED signage and lighting strips.

Financial information relating to the reportable operating segments for the years ended December 31, 2011 and 2010 is presented below:

	Year Ended December 31,	
	2011	2010
Revenues from external customers:		
LED replacement lamps	$ 4,938,762	$ 1,807,744
LED signage and lighting strips	4,049,086	3,614,699
Total revenues from external customers	$ 8,987,848	$ 5,422,443
Segment loss:		
LED replacement lamps	$ (952,112)	$(1,618,073)
LED signage and lighting strips	(470,295)	(249,699)
Segment loss	(1,422,407)	(1,867,772)
Unallocated amounts:		
Corporate expenses	(3,876,418)	(3,810,281)
Interest income	569	1,657
Debt extinguishment costs	—	(441,741)
Interest expense	(126,658)	(247,139)
Loss from continuing operations	$(5,424,914)	$(6,365,276)
Depreciation and amortization:		
LED replacement lamps	$ 275,881	$ 237,482
LED signage and lighting strips	252,408	249,147
Segment depreciation and amortization	528,289	486,629
Corporate depreciation and amortization	225,903	207,743
Depreciation and amortization associated with discontinued operations	—	133,774
Total depreciation and amortization	$ 754,192	$ 828,146
Segment assets:		
LED replacement lamps	$ 5,690,478	$ 6,382,457
LED signage and lighting strips	5,008,561	3,815,025

Total segment assets	10,699,039	10,197,482
Elimination of intercompany receivable	(1,751,943)	(331,983)
Other corporate assets	3,000,912	7,154,710
Total assets	$11,948,008	$17,020,209
Expenditures for segment assets:		
LED replacement lamps	$ 296,898	$ 414,191
LED signage and lighting strips	52,205	31,324
Total expenditures for segment assets	349,103	445,515
Corporate expenditures for assets	14,171	147,351
Expenditures for segment assets associated with discontinued operations	—	31,922
Total expenditures for assets	$ 363,274	$ 624,788

Net revenues by geographic location, based on location of customers, were as follows:

	December 31, 2011	2010
United States	$8,022,432	$4,386,808
Canada	599,868	597,355
Other	365,548	438,280
Total	$8,987,848	$5,422,443

Net long-lived assets by geographic locations were as follows:

	December 31, 2011	2010
United States	$2,826,512	$3,326,208
Mexico	202,735	316,964
Canada	141,771	98,405
Other	115,928	89,918
Total	$3,286,946	$3,831,495

15. BENEFIT PLANS:

The Company has established a profit sharing plan that permits participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. On November 1, 2008, the Company elected to cease matching contributions.

16. CONTINGENCIES:

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

17. SUBSEQUENT EVENTS:

On February 28, 2012, the Company and the holders of the Exchange Notes amended the Exchange Notes. As of the amendment date, the Exchange Notes bear interest at 10% per annum and mature on June 30, 2013. Interest on the outstanding principal amount of the Exchange Notes will be due and payable on the maturity date. The Exchange Notes remain convertible into 450,281 shares of common stock at a fixed conversion price of $5.33.

On March 26, 2012, Koninklijke Philips Electronics N.V. and Philips Solid-State Lighting Solutions, Inc. (collectively, “Philips”) filed a lawsuit (civil action no. 12-cv-10549) in the United States District Court for the District of Massachusetts against the Company alleging that the Company’s Array and certain other products infringe certain of Philips’ patents for LED lighting. The plaintiff is seeking injunctive relief, monetary damages and reimbursement of its attorney’s fees and costs. The Company has not yet been served in this matter and is evaluating Phillips’ claims. The Company intends to vigorously defend its intellectual property.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 28, 2012

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Michael Bauer Michael Bauer – President Chief Executive Officer / Director (Principal Executive Officer)	March 28, 2012
/s/ Gary R. Langford Gary R. Langford – Chief Financial Officer (Principal Financial and Accounting Officer)	March 28, 2012
/s/ Michael J. Brown Michael J. Brown – Director	March 28, 2012
/s/ Edgar Protiva Edgar Protiva – Director	March 28, 2012
/s/ Chris Richardson Chris Richardson – Director	March 28, 2012
/s/ William Yager William Yager – Director	March 28, 2012

Exhibit 21.1

SUBSIDIARIES OF NEXXUS LIGHTING, INC.

Name of Subsidiary	State of Incorporation	Percentage of Ownership
Lumificient Corporation	Minnesota	100%

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-140286) and Form S-8 (No. 333-23689, No. 333-32007, No. 333-70781, No. 333-123984, No. 333-150778 and No. 333-172289) of Nexxus Lighting, Inc. of our report dated March 28, 2012, relating to our audits of the consolidated financial statements, included in the Annual Report on Form 10-K of Nexxus Lighting, Inc. for the year ended December 31, 2011.

/s/ McGladrey & Pullen, LLP

Charlotte, NC
March 28, 2012

Exhibit 31.1

CERTIFICATION

I, Michael A. Bauer, President and Chief Executive Officer of Nexxus Lighting, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Nexxus Lighting, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-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; and
   (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 officer(s) 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: March 28, 2012

/s/ Michael A. Bauer
Michael A. Bauer
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Gary R. Langford, Chief Financial Officer of Nexxus Lighting, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Nexxus Lighting, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-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; and
    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 officer(s) 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: March 28, 2012

/s/ Gary R. Langford
Gary R. Langford
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

This Certificate is being filed pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. This Certification is included solely for the purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose. In connection with the accompanying Annual Report on Form 10-K of Nexxus Lighting, Inc. for the year ending December 31, 2011, the undersigned hereby certifies in his capacity as an officer of Nexxus Lighting, Inc. that to such officer's knowledge:

1. such Annual Report on Form 10-K of Nexxus Lighting, Inc. for the year ending December 31, 2011, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in such Annual Report on Form 10-K of Nexxus Lighting, Inc. for the year ending December 31, 2011, fairly presents, in all material respects, the financial condition and results of operations of Nexxus Lighting, Inc.

NEXXUS LIGHTING, INC.

March 28, 2012

/s/ Michael A. Bauer
Michael A. Bauer
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Gary R. Langford
Gary R. Langford
Chief Financial Officer
(Principal Financial Officer)