

# U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2007

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NO. 0-23590

## NEXXUS LIGHTING, INC.

(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

DELAWARE  
(State or other Jurisdiction of  
Incorporation or Organization)

59-3046866  
(I.R.S. Employer  
Identification No.)

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

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

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

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

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

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

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

The issuer's revenues for its most recent fiscal year were: \$10,200,349.

The aggregate market value of the voting and non-voting common equity of the Registrant held by non-affiliates of the Registrant computed by reference to the last sale price at which the stock was sold on March 26, 2008 was \$38,808,528

As of March 26, 2008, there were issued and outstanding: 7,056,096 shares of Common Stock, \$.001 par value.

Transitional Small Business Disclosure form (check one): Yes  No

### Documents Incorporated by Reference:

Portions of the Company's definitive proxy statement in connection with its Annual Meeting of Stockholders are incorporated by reference in Part III of this Report on Form 10-KSB. The Company's definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after December 31, 2007.

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### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

- associated with the relative success of sales, marketing and product development;
- competition, including price competition; and
- general economic and business conditions;

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

### **PART I**

#### **Item 1. Description of Business.**

##### **GENERAL**

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

During 2007 the Company was organized into divisions, each with a defined market focus. SV Lighting serves the commercial and architectural lighting market and derives its revenues primarily from sales of Savi® brand LED lighting systems and controls and Super Vision® fiber optic brand of products. The Company’s wholly owned subsidiary, Advanced Lighting Systems, LLC serves the entertainment, theatrical and commercial lighting market through its LiveLED™ and eLUM™ LED lighting systems and controls and Advanced Lighting Fiber Optics™ brand of products. The Nexxus Lighting Pool & Spa division serves the pool, spa and water feature lighting market with the broadest range of LED and fiber optic pool and spa lighting products in the industry. Each Nexxus Lighting division markets and distributes its products globally primarily through multiple networks of independent sales representatives and distributors.

The Company was incorporated in Delaware on December 16, 1993 and is the successor by merger to a Florida corporation of the same name, which was incorporated in January 1991. Effective July 1, 2007, the Company’s executive offices were relocated to its new corporate headquarters at 124 Floyd Smith Drive, Suite 300, Charlotte, NC 28262. The Company’s telephone number is (704) 405-0416. References in this report to “Super Vision,” “Nexxus Lighting,” the “Company,” “we,” “us,” and “our” refer to Nexxus Lighting, Inc., a Delaware corporation.

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### **Acquisition**

The Company completed the acquisition of Advanced Lighting Systems, Inc. (“ALS”) in September 2007. Although this acquisition had a significant impact on the Company’s financial condition and liquidity during 2007, it did not impact the Company’s consolidated results of operations until the fourth quarter of 2007. Funding the acquisition decreased cash and short-term investments by approximately \$1,819,000 in 2007 and resulted in increased values for most of the balance sheet items. This strategic acquisition is expected to strengthen the Company’s position in the commercial and entertainment lighting markets.

### **Proposed Acquisition**

In January 2008, we announced that the Company had signed a non-binding letter of intent to acquire Lumificient Corporation, a Maple Grove, Minnesota manufacturer of solid-state LED products for the sign lighting, commercial/architectural and retail markets. This transaction is expected to close on or before April 30, 2008, subject to satisfactory completion of a due diligence review, approval of the Company’s board of directors and other customary closing conditions. This strategic acquisition is expected to strengthen the Company’s position in the signage lighting market and enhance the Company’s research and development capabilities.

## **PRODUCTS AND SERVICES**

### **LED LIGHTING SYSTEMS**

During 2001, the Company introduced its first line of lighting products using Light-Emitting-Diode (LED) technology for signs, lighting strips, swimming pools and spas and architectural lighting. We believe that LED technology has many benefits over conventional incandescent, halogen and fluorescent light sources, including much longer life and lower energy consumption. The energy efficient nature of LED technology makes it a “green” or environmentally friendly light source, and the compact size of LED’s has created new possibilities in lighting fixture design. Our Flex-LED™ and BorderLight™ products are designed to reduce sign and display lighting costs through lower energy consumption and lower maintenance and service costs. LED’s are solid-state semiconductors and, due to their robust design, LED lighting products can last up to 100,000 hours or twelve years of continuous operation vs. only 1,000-2,000 hours for incandescent and halogen light sources. LED’s typically consume only 25-40% of the energy to produce the same amount of usable light with less heat as compared to incandescent and halogen light sources. The Company’s FlexLED™ strip and BorderLight™ products are low voltage and are available in a variety of monochromatic colors and are up to 70% more energy efficient than incandescent or neon. These products are relatively easy to install, not requiring any special training or skills.

In 2002, Nexxus introduced a new line of RGB (Red, Blue, and Green) color changing LED replacement light bulbs for the pool and spa markets. The Galaxy Pool Light and AGS products provide a range of colors and preprogrammed effects which can be triggered by the flip of a light switch. In 2004, we expanded our LED product line to include a new modular Digital Lighting System (DLS) to service the portable above ground spa market. We have applied for a patent on this new technology and have added several additional products to enhance the DLS product line including an LED lit waterfall and an audio system interface.

### **Savi® – ARCHITECTURAL LED LIGHTING**

In mid-2004, we began the strategic development of a new line of dramatic color changing, energy efficient LED lighting products targeted at the commercial/architectural lighting market. Introduced in the second quarter of 2005, the Savi® Flood, Savi® Spot, Savi® Tube, Savi® Accent, Savi® Step Light, Savi® Flood Strip, and Savi® 512 DMX control system were the first products offered as part of our new Savi® brand. Since that time, additional Savi products have been developed and introduced including the Savi® SHO Floodlight, Savi® Pool Light, Savi® Spa Light and the Savi® Note. Sales of our new Savi® products generated approximately \$2,159,000 of revenue in 2007 compared to approximately \$1,158,000 in 2006. In March of 2008 we introduced the Savi® SHO-White Floodlight, the industry’s first white light LED floodlight that operates on direct line voltage without the need for a power supply. This product is the first in a series of Architectural White™ LED lighting systems the Company expects to introduce in 2008.

In 2007, we commenced the design, development and tooling of five new LED products and three product enhancements that we expect to introduce in 2008. Under the new Nexxus Lighting vision of “connecting advanced technology with light,” we plan to expand our product development efforts for general “white light” LED applications through our SV Lighting marketing division and Savi® brand, and our RGB LED products through our Advanced Lighting Systems subsidiary and its LiveLED™ and eLUM™

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brands. As the technology continues to improve, we expect to be able to provide cost effective lighting solutions that save energy and meet commercial specification grade requirements. The Company owns six U.S. Patents related to its LED technology and has nine LED related patent applications pending, with additional applications planned for 2008.

Revenue from sales of LED lighting systems and control products accounted for approximately 51% of our sales in 2007 as compared to approximately 50% in 2006. Sales of fiber optic lighting systems accounted for approximately 44% of the Company's revenue in 2007 as compared to approximately 45% in 2006. The balance of our revenue came from sales of entertainment related products, and our Oasis™ waterfalls water features line of products. We believe that our LED product lines are still in their growth mode and offer significant revenue potential in virtually all markets served by the Company.

### FIBER OPTIC CABLES

SV Lighting's *SIDE GLOW*® fiber optic lighting cables utilize a patented center core in the manufacturing process to produce a plastic cable which, when used in conjunction with a halogen, metal-halide or Light Emitting Diode (LED) light source emits light along its entire length. Advanced Lighting System's Mega-Glow™, Radialyte™ and 3M HL fiber offer the market an alternative to neon lighting for indoor and outdoor architectural accents and large signs and displays. Fiber optic lighting cable is flexible and easy to install and is not prone to the breakage associated with glass neon tubes. It is also energy efficient, providing significant savings in electrical costs as compared to neon. In addition, unlike neon, which remains a constant color, the use of certain light sources allows the fiber optic cable to change colors. While, in general, most fiber optic lighting products cannot achieve neon's level of brightness and are generally more costly to purchase and install, we believe the benefits of our cable outweigh these factors for certain segments of the current neon market. In addition, the cables can be combined with standard or custom manufactured light sources and control systems to create color changing patterns and unique lighting systems. The cables are offered in a variety of diameters with a wide range of light sources.

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

### FIBER OPTIC LIGHT SOURCES

Through its SV Lighting and Advanced Lighting Systems divisions, the Company manufactures a variety of light sources used in conjunction with its fiber optic cables and lighting accessories to create complete lighting systems. Each line of light sources was created to meet specific market needs and applications. The light sources are manufactured to meet the standards established by Underwriters Laboratories and comparable certifying bodies worldwide. We currently manufacture numerous standard light sources for the following: endpoint fiber optic applications and certain side emitting applications; swimming pool and residential applications; display case and interior theme lighting industries; and commercial lighting and signage. We also manufacture a wide variety of custom light sources for specific market applications based on customer lighting needs.

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

Fiber optic cable products and their required light sources represented approximately 44% of our total revenue in 2007 compared to 45% in 2006. We expect that revenue from our fiber optic and related light source product lines will continue to decrease as a percentage of sales as revenue from our new LED product lines increases at a faster pace. However, we believe that maintaining a competitively priced and commercially superior line of fiber optic cable and light sources is critical to maintaining market share in currently served markets and vital to penetrating new markets around the world.

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### WATERFALLS

The company designs, manufactures, markets and sells LED and fiber optically lit waterfalls and water features primarily used in swimming pools and spas, through its Oasis™ brand. During 2007 revenue from the sale of Oasis™ waterfall and water feature products accounted for approximately 5% of the Company's total revenue as compared to 4% in 2006.

### SALES AND MARKETING

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

#### COMMERCIAL / ARCHITECTURAL – (SV Lighting and Advanced Lighting Systems):

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

#### POOLS AND SPAS – (Nexus Lighting Pool & Spa):

We market and sell our lighting products in the swimming pool and spa market to pool and spa distributors and pool builders through a network of independent manufacturer's representatives. We believe this distribution channel allows us to better serve our customers as well as offer new services such as the bundling of product and installation. In 2007, we focused our efforts on refining the products offered to the pool and spa market, adding sales management and developing new marketing tools to drive sales in 2008. With the steps taken in 2007, we believe that the pool and spa market represents a unique and significant growth opportunity for the Company and is an excellent fit with our technology and intellectual property platform.

#### INTERNATIONAL – (All Nexus Lighting Divisions):

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

#### Entertainment – (Advanced Lighting Systems):

We market and sell our lighting products to the theatrical and entertainment lighting market through non-exclusive distributors, rental companies and production companies. Lighting applications include theatres, concert tours, night clubs, casinos, theme parks and other entertainment venues.

### MANUFACTURING AND SUPPLIERS

All fiber optic strands used in our endpoint signs and displays, as well as in the production of our *SIDE-GLOW*®, *END GLOW*®, *MEGA-GLOW*™, *RADIALYTE*™, *MEGA-LYTE*™ and *FOCALYTE*™ cables, are purchased from a key Japanese supplier. Purchases from this Japanese supplier represented approximately 6 % and 9% of total inventory purchases for the years ended December 31, 2007 and 2006, respectively. While we believe there are alternative sources for the fiber optic strands used in the production of our cables, we believe our unique cabling process requires fiber optic material of a higher quality than is generally available elsewhere. The loss of this supplier or delays in obtaining shipments could have a material adverse effect on our operations until such time as an alternative supplier could be found.

All LED's used in the manufacture of our LED lighting products and systems are purchased from various companies in Asia and in the United States. Approximately 82% of all purchases related to LED lighting products and systems were purchased from four suppliers in the year ending December 31, 2007 compared to approximately 86% of all purchases related to LED lighting products

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and systems purchased from three suppliers in the year ending December 31, 2006. The loss of these suppliers or delays in obtaining shipments could have a material adverse effect on our operations until such time as alternative suppliers could be identified.

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

We manufacture most of the light sources and control systems used with our *SIDE-GLOW*<sup>®</sup> and *END GLOW*<sup>®</sup> cables in our SV Lighting facility in Orlando, Florida. The designs of the light sources are considered proprietary, and we have U.S. patents issued with respect to certain designs. We believe our ability to offer a full range of products, combined with design, engineering and support services, are unique in the market place, and are important to our future growth.

Several of our LED and fiber optic lighting systems and products are produced by overseas contract manufacturers in an effort to reduce production costs. Total purchases from contract manufacturers based in China and Taiwan were approximately 45% and 50% of total inventory purchases for the years ended December 31, 2007 and 2006, respectively. While we believe alternative sources for the production of these products are available, we have selected certain suppliers based on their ability to consistently produce these products per our specifications ensuring the best quality product at the most cost effective price. The Company depends on these suppliers to satisfy performance and quality specifications and to dedicate sufficient production capacity for finished products within scheduled delivery times. Accordingly, the loss of these suppliers or delays in obtaining shipments could have a material adverse effect on the Company's operations until such time as new alternative suppliers could be found.

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

With the acquisition of Advanced Lighting Systems in September 2007, the Company added approximately 17,200 sq. ft. of manufacturing and distribution space to assemble and distribute LED lighting systems and controls as well as certain Advanced Lighting Fiber Optic lighting systems and fiber optic light curtains. This facility is located in Sauk Centre, MN.

## **RESEARCH AND PRODUCT DEVELOPMENT**

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

During 2007, we spent approximately \$418,000 on engineering and product development activities, as compared to approximately \$538,000 in 2006. We feel our future success will depend, in large part, on our ability to develop new products, expand the applications for our LED and fiber optic lighting technologies and continue improving and enhancing our existing products.

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

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### **COMPETITION**

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

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

We compete with both traditional and strategic competitors on the basis of design, color changing effects, maintenance costs, safety issues, energy consumption, price and brightness. We believe our products can effectively compete against traditional lighting in the areas of visual impact, maintenance costs, safety and energy consumption. Our fiber optic lighting systems offer the advantage of centralized light source maintenance for lamp replacement and to eliminate the risk of breakage or damage to the light source. Furthermore, our fiber optic products result in a voltage free light, which is particularly beneficial in wet and underwater applications, where risk of shock from electricity in the lighted path is an issue. Our fiber optic lighting systems also eliminate the majority of heat and ultra-violet radiation at the light output, which can be advantageous in applications where these factors may not be desirable, particularly with respect to lighting accessories such as task lighting and display case lighting.

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

We face competition from an expanding number of companies directly involved in the field of LED lighting for commercial/architectural and pool and spa lighting. These companies utilize technologies similar to ours and compete generally on the basis of product line breadth, price, quality and service. We believe we can compete favorably in markets where these factors are the central issue, however, increased pressure from new low cost manufacturers in China continues to put pressure on gross margin levels in the sign lighting and OEM spa business. There can be no assurance that current competitors or new competitors will not develop processes or technology which will allow them to decrease their costs and related selling price, and consequently, erode our market share. As a result, management has made research and development a priority for the future and plans on investing in and expanding the Company's R&D capabilities and resources. The proposed acquisition of Lumifluent Corporation is expected to add significant engineering resources to the Company and enhance our R&D efforts.

### **PATENTS AND PROPRIETARY RIGHTS**

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

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

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

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

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

Additionally, we may find it necessary to initiate litigation to enforce our patent rights, to protect our trade secrets or intellectual properties and to determine the scope and validity of the proprietary rights of others. Patent litigation can be costly and time-consuming, and there can be no assurance that our litigation expenses will not be significant in the future or that the outcome of litigation will be favorable to us. Accordingly, we may seek to settle any potential future litigation. Settlement may include cross-licensing of the patents which are the subject of the litigation as well as our other intellectual property and may involve monetary payments to or from third parties.

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

## **EMPLOYEES**

At March 27, 2008, Nexxus had 62 full-time employees. None of our employees are currently covered by a collective bargaining agreement and we consider our employee relations to be good. We also utilize temporary and part time employees as required by the volume of business, primarily in the area of production.

### Item 2. Description of Property.

On September 28, 2007, the Company entered into a five year operating lease agreement with Streitz Properties LLC, a company owned by Paul Streitz, President of Advanced Lighting Systems, the Company’s wholly owned subsidiary. This property is used for ALS’ operations facility in Sauk Centre, MN and has approximately 17,200 square feet of office, distribution and light manufacturing space. Base rent under the lease is \$8,815 per month for the duration of the lease. The lease provides for a security deposit of \$4,500.

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

In connection with executing the lease for the Company's new Orlando facility, on November 29, 2006, the Company entered into a lease termination agreement with Max King Realty, Inc. ("Max King Realty"), a company controlled by Brett M. Kingstone, the Company's chairman of the board, to terminate the capital lease with Max King Realty for the Company's previous facility. The lease had a fifteen-year term extending through June 15, 2012. The Company paid Max King Realty an amount equal to a prepayment penalty incurred by it through delivery of an unsecured promissory note in the amount of \$332,846 which was paid in full in January 2007.

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

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

We consider our current facilities adequate for our current needs and believe that suitable additional space would be available if necessary.

### Item 3. Legal Proceedings.

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

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

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

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### PART II

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

(a) The Company's Common Stock, par value of \$.001 per share, trades on the NASDAQ Capital Market under the symbol NEXS. The following table sets forth the high and low closing prices of the Common Stock for the fiscal years ended December 31, 2007 and 2006 as reported by NASDAQ.

	2007		2006	
	High	Low	High	Low
First Quarter	4.50	3.11	3.60	3.14
Second Quarter	7.25	3.81	3.40	2.41
Third Quarter	7.13	4.86	2.46	2.20
Fourth Quarter	5.50	4.45	3.32	2.05

(b) The number of holders of record of the Company's Common Stock on March 25, 2008 was 53. 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) The Company has never paid a cash dividend on its Common Stock and intends to continue to follow a policy of retaining earnings to finance future growth. Accordingly, the Company does not anticipate the payment of cash dividends to holders of Common Stock in the foreseeable future.

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

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

The following discussion and analysis provides information that management believes is useful in understanding our operating results, cash flows and financial condition. The discussion should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and related Notes to Financial Statements appearing elsewhere in this Annual Report on Form 10-KSB. Except for the historical information contained herein, the discussions in this document contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under "Factors that May Affect Future Results and Market Price of Stock" below.

#### **Overview**

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

During 2007 the Company was organized into divisions, each with a defined market focus. SV Lighting serves the commercial and architectural lighting market and derives its revenues primarily from sales of Savi® brand LED lighting systems and controls and Super Vision® fiber optic brand of products. The Company's wholly owned subsidiary, Advanced Lighting Systems, serves the entertainment, theatrical and commercial lighting market through its LiveLED™ and eLUM™ LED lighting systems and controls and Advanced Lighting Fiber Optics™ brand of products. The Nexxus Lighting Pool & Spa division serves the pool, spa and water feature lighting market with the broadest range of LED and fiber optic pool and spa lighting products in the industry. Each Nexxus Lighting division markets and distributes its products globally primarily through multiple networks of independent sales representatives and distributors.

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During 2007, the Company continued its shift in strategic direction and is now pursuing its strategy for growth through both product development and strategic acquisitions. As part of this growth strategy, the Company acquired Advanced Lighting Systems in September 2007. In addition, in January 2008, the Company signed a non-binding letter of intent to acquire Lumifluent Corporation, a Maple Grove, Minnesota manufacturer of solid-state LED products for the sign lighting, commercial/architectural and retail markets. This transaction is expected to close on or before April 30, 2008, subject to satisfactory completion of a due diligence review, approval of the Company's board of directors and other customary closing conditions.

Also in 2007, the Company added senior management in several areas including a new Chief Financial Officer, a Vice President of Pool and Spa Sales and a General Manager for its SV Lighting division.

With the addition of new management with specific market expertise, a refocusing of our Nexxus Pool & Spa and SV Lighting divisions, the introduction of the new pool and spa catalog and marketing materials in March 2008, the anticipated introduction of new SV Lighting and Advanced Lighting Systems catalogs in the second quarter of 2008 and our planned product introductions in the second quarter of 2008, management is optimistic that the Company is positioned for growth under the new Nexxus Lighting strategy.

Revenue from LED lighting systems and control products accounted for approximately 51% of our sales in 2007 as compared to approximately 50% in 2006. Sales of fiber optic lighting systems accounted for approximately 44% of the Company's revenue in 2007 as compared to approximately 45% in 2006. The balance of our sales came from entertainment lighting products, and Oasis™ waterfall and water feature line of products. We believe that our LED product lines are still in their growth mode and offer significant revenue potential for both the commercial/architectural and pool and spa lighting markets.

Revenue from commercial/architectural and entertainment lighting sales led the Company in 2007 with sales of LED products increasing 15% and overall sales increasing 5% over 2006, on the strength of the sales of Advanced Lighting Systems' products. Excluding sales of ALS' products, sales of LED products increased 4% and overall sales decreased 6% over 2006. This LED sales increase was offset by a 15% decline in the sale of fiber optic products in commercial lighting. Sales of our new Savi® products generated approximately \$ 2,159,000 of revenue in 2007 compared to \$1,158,000 in 2006.

While we expect the fiber optic market to remain a significant portion of our business, we believe that the LED lighting market will drive our growth in the future. Excluding the impact of the September 2007 acquisition of ALS, fiber optic lighting sales decreased 16% in 2007, driven by a 26% decline in fiber optic sales in our pool and spa market. However, we are investing in products to support fiber optic lighting sales including new LED light sources introduced in 2007 that drive light into fiber optic, which are expected to serve as a platform for new products and applications for fiber optic as an advanced lighting system.

Excluding the impact from the September 2007 acquisition of ALS, our direct gross margin (revenue less the cost of direct material only) on LED products decreased from 50% to 46% in 2007 due primarily to decreased margins in our international market and pool and spa market. Historically, our direct gross margins from fiber optic products have been higher than direct gross margins from LED lighting products. However, as we introduce new LED lighting systems for the commercial/architectural lighting market, we anticipate that our gross margins for LED products will improve, since this market is less price sensitive than the pool and spa and entertainment fiber optic lighting markets.

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

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

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- Shareholder Value

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

### Acquisition

In September 2007 the Company completed the acquisition of Advanced Lighting Systems, Inc. Although this acquisition had a significant impact on the Company's financial condition and liquidity during 2007, it did not have any impact on the Company's consolidated results of operations until the fourth quarter of 2007. Funding the acquisition decreased cash and short-term investments by approximately \$1,819,000 in 2007 and resulted in increased values for most of the balance sheet items. This strategic acquisition is expected to strengthen the Company's position in the commercial and entertainment lighting markets.

### Proposed Acquisition

In January 2008, we announced we had signed a non-binding letter of intent to acquire Lumificient Corporation, a Maple Grove, Minnesota manufacturer of solid-state LED products for the sign lighting, commercial/architectural and retail markets. The transaction is expected to close on or before April 30, 2008, subject to satisfactory completion of a due diligence review, approval of the Company's board of directors and other customary closing conditions. This acquisition is expected to strengthen the Company's position in the signage lighting market and enhance the Company's research and development capabilities.

### Revenues & Gross Margin

	Year Ended December 31,			
	2007	2006	Change	%
Revenues	\$10,200,349	\$11,001,011	\$ (800,662)	(7.3)%
Cost of sales	7,453,549	7,064,461	(389,088)	(5.5)%
Gross profit	\$ 2,746,800	\$ 3,936,550	(1,189,750)	(30.2)%
Gross margin %	27%	36%		

Revenues for 2007 decreased 7% to approximately \$10,200,000 as compared to approximately \$11,001,000 during the preceding year. Excluding the impact of approximately \$448,000 in sales of ALS products, the Company's revenues decreased \$1,243,000 or 11% in a year over year comparison.

Commercial lighting sales (includes sales in the architectural and entertainment markets) increased 5%, or \$192,900 in 2007, driven by \$392,000 in commercial sales from the Company's September 2007 acquisition of ALS. Excluding sales attributable to ALS, the Company's commercial sales decreased 6%, or \$241,000 in 2007 driven primarily by a 15% decrease in sales of fiber optic products in the commercial market due to customer shifts to LED based lighting products. In the fourth quarter of 2007, the Company implemented a strategic upgrade to its sale representation in North America by making sales representative changes in Las Vegas, Los Angeles and Raleigh. As a result, fourth quarter 2007 commercial revenue increased 18%, or \$178,000. In February 2008, the Company changed its SV Lighting representation in Chicago and has plans to continue to align itself with the top manufacturer's representatives in every major city in North America.

Pool and spa sales decreased by 17%, or \$788,088 in 2007 as compared to 2006, with both fiber optic sales declining 26% and LED sales declining 15% due to significant year over year reductions in new pool construction tied to the steep drop in residential construction nationally and more specifically in the states of Florida, California and Arizona where pool construction has led the rest of the country in the last five years. The overall portable spa market is also suffering a steep decline, which, we believe, directly corresponds to the housing market. However, in September, the Company hired a new Vice President for its Pool and Spa Division. Under this new direction, management has begun several initiatives to position the Company for potential future growth and market share gains despite the current housing market conditions and their overall effect on pool and spa construction. We believe the results are beginning to show. Pool and Spa sales in the fourth quarter of 2007 increased 13% over the comparable quarter of 2006. A 13% increase in revenue from pool and spa sales in the fourth quarter of 2007 compares to a decrease in revenue of 17% in the third quarter, a 20% decrease in the second quarter, and a 32% decrease in the first quarter of 2007. We believe that this positive trend

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indicates that our new management team is having an impact as our pool and spa revenues are improving despite the severely depressed market. These results are being accomplished through new product introductions and specifically sales of the Company's new Savi™ Note lighting system and focused marketing efforts.

International sales decreased 10%, or \$249,196 in 2007 as compared to 2006, with LED and fiber optic sales down 17% and 3%, respectively. The decline in international sales was primarily driven by decreases in sales in several markets where the Company had enjoyed previous successes. We experienced the most significant decline in Asia and Mexico partially offset by sales gains in the Middle East. With the acquisition of Advanced Lighting Systems, the Company is in the process of consolidating international sales and customer service at its new headquarters in Charlotte, North Carolina. This will allow the Company's international distributors and customers to have a one-stop shop for receiving design assistance and project proposals as well as placing orders with any of the Nexxus Lighting divisions. In addition, Advanced Lighting Systems' products will be introduced to the Company's complete network of international distributors as new products to sell in the first quarter of 2008.

Gross margins in 2007 decreased to 27% from 36% in 2006 due to consolidated cost of goods sold increasing 5.5% to approximately \$7,454,000 in 2007 as compared to approximately \$7,064,000 in 2006 while revenue decreased 7% in 2007. This increase in cost of goods sold resulted from increased variable cost of goods sold of approximately \$484,000 as direct gross margin (revenue less cost of direct material only) eroded to 56% as compared to 58% in 2006.

Excluding the impact of sales by ALS in the 4<sup>th</sup> quarter of 2007, revenue decreased 11% and cost of goods sold increased to approximately \$7,138,000, an increase of approximately \$74,000 or 1% resulting in a decline in gross margin to 27%. While the loss of revenue was attributable primarily to the significant year over year reduction in new pool construction, pricing pressures in the international markets combined with pricing discounts in the commercial market in order to maintain a competitive advantage also contributed to the revenue decline and this required discounting was not accompanied by reduced costs from suppliers. This caused a decrease in direct gross margins from 57% to 52% in 2007.

Offsetting the decrease in cost of goods sold from decreasing revenue, production costs increased approximately \$419,000 due primarily to a \$158,000 increase in charges for excess and obsolete inventories, \$185,000 higher expense for capitalized labor and overhead as the Company reduced its inventory, increases in health insurance expense of \$58,000, \$37,000 in relocation expenses for the Company's move to its new Orlando operating facility, and \$36,000 in higher wages and temporary labor costs due to higher assembly requirements in 2007 versus contract manufactured products in 2006. These increased expenses were offset slightly by a \$62,000 decrease in physical inventory adjustments over 2006.

## **Operating Loss and Expenses**

	Year ended December 31,			
	2007	2006	Change	%
Gross Profit	\$ 2,746,800	\$ 3,936,550	\$(1,189,750)	(30)%
Less operating expenses:				
Selling, general & administrative	5,561,273	6,040,523	(479,250)	(8)%
Research & development	417,661	538,298	(120,637)	(24)%
Gain on disposal of property and equipment	1,125	(593)	1,718	n/a
Gain on termination of capital lease, net of impairment	—	(506,367)	506,367	n/a
Total operating expenses	<u>5,980,059</u>	<u>6,071,861</u>	<u>(91,802)</u>	<u>(2)%</u>
Operating loss	<u>\$(3,233,259)</u>	<u>\$(2,135,311)</u>	<u>\$(1,097,947)</u>	<u>(51)%</u>

The increased operating loss for the year ended December 31, 2007 was due to the decrease in sales and related gross profit, as discussed above.

General and administrative (G&A) expenses decreased \$388,707 or 11% and selling expenses decreased \$80,682 or 3% in 2007 as compared to the prior year. Excluding the impact of ALS expenses, G&A expenses decreased \$617,000 or 17% in 2007

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compared to 2006. These decreases in 2007 were due primarily to decreases in legal expenses of \$917,000, due to the negotiated settlement or final resolution of pending litigation in 2006, and a \$262,000 decrease in consulting fees paid to Brett M. Kingstone, the Company's chairman of the board, pursuant to the Participation Agreement between the Company and Mr. Kingstone in 2006.

These decreases were partially offset by increases of \$105,000 in wages and taxes due to additions of management positions, \$83,000 in Sarbanes Oxley compliance related expenses, executive recruiting costs of \$78,000, increases in the Company's property insurance costs of \$58,000 primarily due to the changes in our insurance costs in the state of Florida, increases in health insurance costs of \$39,000, severance costs of \$35,000 and employee relocation costs of \$35,000.

Sales and marketing expenses decreased \$81,000 to approximately \$2,385,000 in 2007 as compared to \$2,466,000 for the same period in 2006 as a result of decreased commissions on lower commission-based revenue.

Research and development expenses decreased in 2007 compared to 2006 by approximately \$121,000 or 22% mainly due to a reduction in wage and benefit related costs and a reduction in new product engineering and prototype expenses. Despite the reductions, we continue to invest a significant amount of time and resources in new product development projects in 2007 that we believe will contribute to our growth in the future. Most of these products are now entering production and we anticipate beginning selling efforts in the 2nd and 3rd quarters of 2008.

In November 2006, the Company entered into a lease termination agreement with Max King Realty, Inc. ("Max King Realty"), a company controlled by Brett M. Kingstone, the Company's chairman of the board, to terminate the capital lease with Max King Realty for the Company's previous operating facility in Orlando, FL. Upon executing the lease termination agreement, the balance of the capital lease obligation of \$2,312,900, less the promissory note payable to Max King Realty of \$332,800 and the net book value of the related office/warehouse building of approximately \$1,232,400 resulted in a gain on termination of capital lease of approximately \$747,700. This gain was offset by an impairment loss of \$241,300 for leasehold improvements made to the facility resulting in a net gain of \$506,400.

### **Interest**

Interest expense of approximately \$39,000 for 2007 was primarily related to the cost of borrowing against the Company's line of credit. Interest expense of approximately \$356,000 for 2006 was primarily related to the capital lease for the Company's previous operating facility in Orlando, Florida. Effective November 30, 2006, the Company entered into a lease termination agreement with Max King Realty, Inc., a company controlled by the Company's Chairman of the Board, which resulted in the termination of the capital lease obligation which had a term of fifteen-years extending through June 15, 2012.

Interest income was approximately \$295,000 and \$38,000 for 2007 and 2006, respectively. Interest income increased in 2007 as a result of higher investment account balances due to the investment of a portion of the net proceeds received by the Company from the sale of common stock and warrants in a private placement completed in December 2006.

### **Other Income**

Other income for 2007 was approximately \$37,000 compared to approximately \$222,000 for 2006. Other income in 2007 consisted primarily of \$34,000 in license and royalty fees received from a number of manufacturing companies in the lighting industry which licensed the High End Systems (HES) Patent the Company acquired in 2004 and proceeds of \$3,000 from sub-leasing part of the Company's facility through March 2007. The decrease in other income in 2007 compared to 2006 was primarily due to the \$148,000 decrease in subleasing income and a decrease of \$37,000 in income from licensing and royalty fees.

### **Income Tax**

The Company has provided a full valuation allowance against income tax benefits resulting from losses incurred on operations and as a result there was no provision for income tax in 2007 or 2006.

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### Net Loss

The net loss for the year ended December 31, 2007 was approximately \$2,940,000, or \$0.44 per basic and diluted common share, as compared to a net loss of approximately \$2,235,000, or \$0.80 per basic and diluted common share, for the year ended December 31, 2006.

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

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

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

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

	Year Ended December 31,			
	2007	2006	Change	%
Net Loss	\$(2,940,136)	\$(2,235,003)	\$ (705,133)	(32)%
Plus:				
Interest expense	38,940	356,320	(317,380)	(89)%
Depreciation and amortization	459,239	571,644	(112,405)	(20)%
Taxes	—	—	—	—
EBITDA	<u>\$(2,441,957)</u>	<u>\$(1,307,039)</u>	<u>\$(1,134,918)</u>	<u>(87)%</u>
% of Revenues	-24%	-12%		

For the year ended December 31, 2007, EBITDA was approximately (\$2,442,000) compared to approximately (\$1,307,000) in 2006. The decrease was primarily due to an increase in net operating loss in 2007 offset by a decrease in interest expense as discussed above. Additionally, a decrease in depreciation, impairment and amortization was primarily due to the termination of the capital lease with Max King Realty which was partially offset by an increase in depreciation for capital purchases in 2007. Despite the lower EBITDA in 2007 compared to 2006, management anticipates that continued focus on revenue growth and cost management will yield positive contributions to our EBITDA in 2008.

### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2007, the Company had working capital of approximately \$5,636,000, a decrease of approximately 44% from working capital of approximately \$10,012,000 at December 31, 2006. This decrease in working capital is primarily due to decreases in the Company’s cash and investments balances discussed below, payments on a promissory note in connection with settling a litigation matter and borrowings under the Company’s line of credit to fund operating losses experienced during 2007. The reduction in working capital was offset slightly by the September 2007 addition of working capital of \$545,000 from the ALS acquisition and a \$277,000 decrease in inventory (excluding inventories acquired in the ALS acquisition). During 2007, the Company financed its operations primarily from borrowings under its revolving line of credit, investments, working capital and cash on hand.

Summary of Cash Flows	For the Year Ended	
	2007	2006
Net cash used in operating activities	\$(2,160,377)	\$(1,675,282)
Net cash provided by (used in) investing activities	1,596,123	(6,392,644)
Net cash provided by financing activities	203,339	8,351,027

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### **Cash Flows from Operating Activities**

Net cash used in operations totaled approximately \$2,160,000 for the year ended December 31, 2007 compared to approximately \$1,675,000 for the year ended December 31, 2006. The net loss of approximately \$2,940,000 was partially offset by the non-cash expenses for depreciation and amortization of \$459,000 and stock based compensation expense of \$229,000. The most significant use of cash in operations during 2007 resulted from a decrease in accounts payable of approximately \$168,000, mainly due to the timing of payments to suppliers, and an increase in prepaid expenses of \$122,000, primarily from prepayments to Asian vendors. This was offset by a decrease in inventory of approximately \$211,000 due to improved management of the Company's inventories and an increase in customer deposits of \$144,000 due to several deposits from customers for several large projects.

### **Cash Flows from Investing Activities**

Net cash provided by investing activities in 2007 was approximately \$1,596,000 compared to net cash used in investing activities of approximately \$6,393,000 for 2006. During 2007, net cash provided by investing activities included proceeds from the sale of investments, net of purchases of investments, of approximately \$4,015,000. In addition, purchases of property and equipment of approximately \$589,000 in 2007 as compared to \$313,000 in 2006. Funds used in business acquisition activities were approximately \$1,818,000 which were used in the acquisition of ALS.

### **Cash Flows from Financing Activities**

Net cash provided by financing activities for the year ended December 31, 2007 was approximately \$203,000 compared to approximately \$8,351,000 for the year ended December 31, 2006. The primary source of cash during 2006 was the net proceeds of approximately \$8,350,000 received from the sale of common stock and warrants in a private placement completed in December 2006. In 2007, the Company paid \$124,000 in fees related to the December 2006 private placement.

In 2007, the cash provided by financing activities was mainly attributable to net borrowings on our revolving line of credit of approximately \$1,443,000 offset by \$1,158,000 of payments on notes payable for litigation settlements in 2006, as compared to zero borrowings and no payment on notes payable in 2006.

In February 2006 the Company obtained a \$1,200,000 revolving line of credit which was amended in June 2006, to increase the borrowing capacity under the line of credit to \$1,600,000. The line of credit expires in June 2008 at which time we expect that a new agreement will be entered into with the financial institution. The Company's obligations under the agreement are secured by substantially all of the assets of the Company. The agreement includes certain financial covenants and a requirement for a minimum investment balance of \$500,000 in accounts held at the lender. Interest on the line of credit is at LIBOR plus 1.85% per annum (7.075% at December 31, 2007) and is payable monthly. At December 31, 2007, the line of credit had an outstanding balance of \$1,443,000 and there was an available balance of \$157,000.

At December 31, 2007 the Company was not in compliance with certain financial covenants as required by the agreement. The lender has waived these covenant violations for the year ended December 31, 2007.

Nexus' liquidity is affected by many factors. Some of these factors are based on operations of the business and others relate to the uncertainties of national and global economies and the lighting industry. Management anticipates that the cash, cash equivalents and investments on hand at December 31, 2007 as well as availability for borrowing under the Company's revolving line of credit will be sufficient to fund the Company's foreseeable cash requirements for at least the next twelve months.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We use certain accounting policies and procedures to manage changes that occur in our business environment that may affect accounting estimates made in preparation of our financial statements. These estimates relate primarily to our allowance for doubtful accounts receivable, provision for inventory obsolescence and stock-based compensation. Our strategy for managing doubtful accounts includes stringent, centralized credit policies and collection procedures for all customer accounts. We use a credit risk rating system in order to measure the quality of individual credit transactions. We strive to identify potential problem receivables early, take

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appropriate collection actions, and maintain adequate reserve levels. Our strategy for providing for inventory obsolescence includes the evaluation of existing inventory usage and realizable value. Typically, no provision is recorded for inventory items that are currently used and sold within one year of purchase. We believe that our allowance for doubtful accounts and provision for inventory obsolescence were adequate at December 31, 2007 and 2006.

We account for stock-based compensation in accordance with SFAS No. 123(R), *Share-Based Payment*. 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 vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating expected dividends. 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 these estimates, stock-based compensation expense and our results of operations could be materially impacted.

## **CONTRACTUAL OBLIGATIONS**

### Acquisition

On August 3, 2007, the Company entered into an agreement and plan of merger with Advanced Lighting Systems, Inc., a Minnesota corporation, Advanced Lighting Systems, LLC, a Delaware limited liability company and a wholly-owned subsidiary of the Company (the "Merger Sub") and Paul Streitz, the sole shareholder of ALS. This agreement contains provisions for (i) "earn out" payments in the form of the Company's common stock to the sole shareholder of ALS depending upon the achievement of certain performance milestones by ALS in 2007 and 2008, and (ii) a \$200,000 indemnity holdback for future claims.

### Operating Lease Obligations

On September 28, 2007, the Company entered into a five year operating lease agreement with Streitz Properties LLC, a company owned by Paul Streitz, President of the Company's ALS subsidiary. This operating lease is for ALS' operations facility in Sulk Centre, MN. Base rent under the lease is \$8,815 per month for the duration of the lease.

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

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

On February 27, 2007, the Company entered into a new five year operating lease agreement with Floyd Smith Office Park, LLC, commencing approximately June 1, 2007 for the Company's new corporate headquarters in Charlotte, North Carolina. The Company leases 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 will increase annually by 3.0%. The lease provides for a security deposit of approximately \$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.

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### Related Party Funding for Collection Activities

On November 18, 1999, the Company filed a lawsuit (case number CI-99-9392) (the "Lawsuit") in the Circuit Court of the 9<sup>th</sup> Judicial Circuit in and for Orange County Florida against various defendants (the "Wu Defendants"). The Company is also pursuing litigation against certain parties related to the Wu Defendants (the "Related Litigation"). In June 2003, the Court issued an order of final judgment against all parties in the Lawsuit. Pursuant to the final judgment, the Company was awarded \$38,405,978 and further awarded an additional amount for legal fees and costs of \$834,297. As of the date of entry of the final judgment, these amounts began accruing interest at a rate of six percent per year. As of December 31, 2007, the total amount due including estimated accrued interest was approximately \$50 million. The Company believes that the monetary judgment awarded in the Lawsuit, and any amounts that may be awarded in the Related Litigation, will be very difficult and costly to collect, if collectable at all. The Company may not be successful in collecting any amounts awarded in the Lawsuit or that may be awarded in the Related Litigation. The Company has reached an agreement with Brett M. Kingstone, the Company's chairman of the board (the "Participation Agreement") regarding funding for collection activities in the Lawsuit or Related Litigation (the "Collection Activities"). Mr. Kingstone has the option of providing personal funds ("Kingstone Funds"), or arranging for funds from third parties ("Third Party Funds"), to pursue Collection Activities. As of December 31, 2007, Mr. Kingstone had provided \$350,000 in the form of a Letter of Credit, and arranged for \$350,000 of Third Party Funds, to further the Collection Activities. The Kingstone Funds and Third Party Funds were subsequently returned after being used for bonding in connection with Collection Activities. Mr. Kingstone has also notified the Company that he has available, on a standby basis, up to an additional \$3,000,000 of bonding capacity to pursue further Collection Activities. In consideration for providing Kingstone Funds and/or Third Party Funds for Collection Activities, and pursuant to the transition agreement between the Company and Mr. Kingstone dated September 9<sup>th</sup>, 2005, the Company has agreed to pay Mr. Kingstone 50% of amounts actually received by the Company from all Collection Activities less all costs and expenses incurred from time to time by the Company in connection with the Lawsuit, the Related Litigation and the Collection Activities, which have not been recovered by the Company. The Participation Agreement will terminate on December 31, 2009. To date, the Company has incurred approximately \$581,000 in fees and has recovered \$830,000 from Collection Activities. Of the \$830,000 recovered, Mr. Kingstone has been paid a total of \$263,500 pursuant to the Participation Agreement.

### Purchase Obligations

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

### Letters of Credit

We periodically obtain guaranteed letters of credit with a financial institution to enable us to purchase inventory from overseas, primarily from vendors in China. As of December 31, 2007 we had no outstanding letters of credit.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

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

In June 2007, the FASB ratified EITF Issue No. 07-03, "Accounting for Nonrefundable Advance Payments for Goods and Services Received for Use in Future Research and Development Activities." EITF 07-03 requires companies to defer nonrefundable advance payments for goods and services and to expense such advance payments as the goods are delivered or services are rendered. If the Company does not expect to have the goods delivered or services performed, the advance should be expensed. EITF 07-03 is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of adopting EITF 07-03 on its financial statements.

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In December 2007, the FASB issued Statement 141R, "Business Combinations" (SFAS 141R), which applies to all transactions or other events in which an entity obtains control of one or more businesses, including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration. This statement replaces FASB Statement No. 141 and applies to all business entities, including mutual entities that previously used the pooling-of-interests method of accounting for some business combinations. The Company believes that adoption of the FAS 141R will have an effect on our operating results with respect to future acquisitions, if any.

In September 2006, FASB issued Statement No. 157, "Fair Value Measurements" (SFAS 157). This statement defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles (GAAP). More precisely, this statement sets forth a standard definition of fair value as it applies to assets or liabilities, the principle market (or most advantageous market) for determining fair value (price), the market participants, inputs and the application of the derived fair value to those assets and liabilities. The effective date of this pronouncement is for all full fiscal and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of this standard on its financial statements.

### **OFF-BALANCE SHEET ARRANGEMENTS**

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

### **FACTORS THAT MAY AFFECT FUTURE RESULTS AND MARKET PRICE OF STOCK**

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

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

The Company Has A History Of Operating Losses And May Not Be Able To Operate Profitably. The Company has experienced annual net losses of (\$2,940,136), (\$2,235,003), (\$488,458) and (\$401,432) for each of the years ending December 31, 2007, 2006, 2005 and 2004, respectively. Although management believes that in 2007 and 2006, the Company addressed many of the legacy issues and expenses that have burdened the Company's financial performance, the Company still faces significant challenges in order to reach profitability. In order for the Company to attain profitability and growth, it will need to successfully address these challenges. Most of the Company's expenses are fixed in nature, and the Company is generally unable to reduce expenses significantly in the short-term to compensate for any unexpected delay or decrease in anticipated revenues. As a result, the Company may continue to experience losses on a quarterly or annual basis, which could cause a reduction in cash flows and the market price of the Company's common stock to decline.

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We Expect to Acquire other Businesses, Which may Adversely Affect our Operating Results, Financial Condition and Existing Business. The Company seeks to grow through strategic acquisitions. In 2007, the Company acquired Advanced Lighting Systems to complement and expand its business, and may acquire other businesses in the future. The success of our acquisition program will depend on, among other things:

- the availability of suitable candidates;
- competition from other companies for the purchase of available candidates;
- our ability to value those candidates accurately and negotiate favorable terms for those acquisitions;
- the availability of funds to finance acquisitions; and
- the availability of management resources to oversee the integration and operation of the acquired businesses.

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

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

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

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

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

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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.

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

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

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

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- 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 of or the actuality of war.

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

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

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

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

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

Future Success Depends On The Successful Development And Market Acceptance Of New Products. The Company believes revenue growth and future operating results will depend in part on its ability to complete development of new products and enhancements to existing products, introduce these products in a timely, cost-effective manner, achieve broad market acceptance of these products and enhancements, and reduce the Company's product costs. The Company may not be able to introduce any new products or any enhancements to its existing products on a timely basis, if at all. In addition, the introduction of any new products could adversely

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affect the sales of certain of the Company's existing products. Market acceptance of the Company's new products depends upon many factors, including the Company's ability to accurately predict market requirements and evolving industry standards, the Company's ability to resolve technical challenges in a timely and cost-effective manner and achieve manufacturing efficiencies, the perceived advantages of the Company's new products over traditional products, and the marketing capabilities of the Company's independent distributors and sales agents.

The Company Has Significant International Sales And Is Subject To Risks Associated With Operating In International Markets. International product sales represented approximately 30% and 26% of the Company's total revenues for the years ended December 31, 2007 and 2006, respectively. The Company believes its international distributors are better able to service international markets due to their understanding of local market conditions and best business practices. International business operations are subject to inherent risks, including, among others:

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

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

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

Competition Is Increasing In A Number Of The Company's Markets. The lighting industry is highly competitive. The Company's product lines span major segments within the lighting industry and, accordingly, compete in a number of different markets with a number of different competitors. The Company competes with independent distributors, importers, manufacturers, and suppliers of lighting fixtures and other consumer products. The Company's competitors include some very large and well-established companies. Many of the Company's competitors have far greater name recognition and greater financial, technological, marketing and customer service resources than the Company. This may allow them to respond more quickly to new or emerging technologies and changes in customer requirements. It may also allow them to devote greater resources to the development, promotion, sale and support of their products than the Company can. The Company's competitors market products that compete with the Company's products on the basis of price and other factors. Some of these competitors do not maintain warehouse operations or do not perform all of the services the Company provides, which requires the Company to charge higher prices. The relatively low barriers to entry into the lighting industry and the limited proprietary nature of many lighting products also permit new competitors to enter the industry easily. The Company's ability to compete successfully in this highly competitive market depends upon its ability to manufacture and purchase quality

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components on favorable terms, ensure the Company's products meet safety standards, deliver the Company's products promptly at competitive prices, and provide a wide range of services. The Company anticipates that any future growth in fiber optic lighting and LED lighting will be accompanied by continuing increases in competition. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could seriously harm the Company's business, financial condition and results of operations.

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

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

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

Dependence on Third-Party Suppliers. The Company depends on others to manufacture a significant portion of the component parts incorporated into its products. The Company purchases its component parts from third-party manufacturers and believes that alternative sources of supply are readily available for most component parts. The Company depends on its suppliers to satisfy performance and quality specifications and to dedicate sufficient production capacity for components within scheduled delivery times. The Company does not maintain contracts with any of its suppliers; instead, it purchases components pursuant to purchase orders placed from time to time in the ordinary course of business. This means the Company is vulnerable to unanticipated price increases and product shortages.

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

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

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

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

### Item 7. Financial Statements

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

Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets as of December 31, 2007 and 2006  
Consolidated Statements of Operations for the years ended December 31, 2007 and 2006  
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2007 and 2006  
Consolidated Statements of Cash Flows for the years ended December 31, 2007 and 2006  
Notes to Consolidated Financial Statements

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

None

### Item 8A(T). Controls and Procedures

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

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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-KSB. In making this evaluation, our management considered the deficiencies in our internal control over financial reporting and the status of the remediation described below. 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 the 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 the Company's transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of the Company's financial statements; providing reasonable assurance that receipts and expenditures of the Company's assets are made in accordance with management's authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of the Company's 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 the Company's financial statements would be prevented or detected. Furthermore, the Company's 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 the 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. This evaluation identified the following deficiency in the Company's internal control over financial reporting:

Controls in Information Systems: Deficiencies were identified during testing of controls within the Company's information systems processes which included, but were not limited to, the (i) physical security of the Company's networks, (ii) the logical security of the Company's software systems, (iii) management of the documentation of certain vendor improvements to the Company's software systems and (iv) separation of user versus administrator responsibilities within the Company's software systems. Due to the number of deficiencies noted, management concluded the accumulation of these control deficiencies represents a significant deficiency in the Company's internal controls over financial reporting.

The Company began remediation of these control deficiencies during 2007 with corrective actions expected to continue through the third quarter of 2008 to improve the security of the Company's information systems and remediate other controls weaknesses identified during the evaluation.

In addition to management's findings, Cross, Fernandez and Riley LLP, the Company's independent registered public accounting firm, advised the Audit Committee and management that they identified the following significant deficiency:

Control of inventory count tags: Deficiencies in our control of inventory count tags in our physical inventory controls and procedures they considered to be a significant deficiency as that term is defined under standards established by the Public Company Accounting Oversight Board. The Company is implementing enhanced procedures and controls to ensure the accuracy and completeness of its physical inventory controls and procedures. Management will develop corrective procedures for the control of inventory count tags in the second quarter of 2008 with implementation expected during the Company's annual physical inventory count.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Company's financial reporting.

Based on this evaluation, including consideration of mitigating controls over the above identified deficiencies including, but not limited to manual review of the Company's financial reports, management concluded that the Company's internal control over financial reporting was effective at a reasonable assurance level as of December 31, 2007.

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There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our management has excluded ALS from its assessment of internal control over financial reporting as of December 31, 2007 as it was acquired by us in a purchase business combination on September 28, 2007. ALS is a wholly-owned subsidiary whose total assets and total revenues represent 27% and 4%, respectively, of our consolidated financial statement amounts as of, and for the year ended December 31, 2007. Under guidelines established by the Securities and Exchange Commission, companies are allowed to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition.

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

Item 8B. Other Information

None

### **PART III**

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

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2008 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 2008 annual meeting of stockholders and is incorporated herein by reference.

Item 10. Executive Compensation

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2008 annual meeting of stockholders and is incorporated herein by reference.

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

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2008 annual meeting of stockholders and is incorporated herein by reference, except for Equity Compensation Plan Information which follows:

#### **Securities Authorized for Issuance under Equity Compensation Plans**

The following table sets forth additional information as of December 31, 2007, concerning shares of our common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to our stockholders for approval. The information includes the number of shares covered by and the weighted average exercise price of, outstanding options and other rights and the number of shares remaining available for future grants excluding the shares to be issued upon exercise of outstanding options, warrants, and other rights.

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

### **Equity Compensation Plan Information**

<u>Plan Category</u>	(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 (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	871,004	\$ 4.31	147,368
Equity compensation plans not approved by stockholders	—	\$ —	—
<b>Totals</b>	<b>871,004</b>	<b>\$ 4.31</b>	<b>147,368</b>

### Item 12. Certain Relationships and Related Transactions

The information required by this item will be set forth in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2008 annual meeting of stockholders and is incorporated herein by reference.

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Item 13.	<u>Exhibits</u>
3.1	Certificate of Incorporation of the Company <sup>(1)</sup>
3.2	Amendment to Certificate of Incorporation <sup>(1)</sup>
3.3	Amendment to Certificate of Incorporation <sup>(3)</sup>
3.4	Amendment to Certificate of Incorporation <sup>(2)</sup>
3.5	Bylaws <sup>(1)</sup>
4.1	Form of Common Stock Certificate *
4.2	Form of Common Stock Purchase Warrant issued to certain accredited investors and the placement agent to purchase shares of the Company's Common Stock at an exercise price of \$2.23 per share <sup>(11)</sup>
4.3	Form of Common Stock Purchase Warrant issued to certain accredited investors to purchase shares of the Company's Common Stock at an exercise price of \$3.00 per share <sup>(12)</sup>
10.1†	Form of Indemnification Agreement <sup>(1)</sup>
10.2†	1994 Stock Option Plan, as amended and restated <sup>(2)</sup>
10.3†	2003 Stock Incentive Plan <sup>(7)</sup>
10.4†	Warrant Agreement dated as of December 21, 2005 between the Company and the Kingstone Family Ltd Partnership II <sup>(8)</sup>
10.5.†	Employment Agreement between the Company and Michael A. Bauer dated February 11, 2008 <sup>(22)</sup>
10.6†	Transition Agreement between the Company and Brett M. Kingstone dated September 9, 2005 <sup>(20)</sup>
10.7†	Contingent Proceeds Participation Agreement between Brett M. Kingstone and the Company dated September 19, 2003 <sup>(5)</sup>
10.8	Business Loan Agreement between the Company and RBC Centura Bank dated February 10, 2006 <sup>(21)</sup>
10.9	Lease for Southridge Park Court facility <sup>(14)</sup>
10.10.1	Lease for Floyd Smith Office Park facility <sup>(23)</sup>
10.10.2	Lease for Floyd Smith Office Park facility *
10.11	Form of Common Stock and Warrant Purchase Agreement by and between the Company and each purchaser in the private placement dated as of December 7, 2006 <sup>(15)</sup>
10.12	Form of Registration Rights Agreement by and between the Company and each purchaser in the private placement, dated as of December 7, 2006 <sup>(16)</sup>
10.13	Registration Rights Agreement between the Company and Cooper Lighting, Inc., dated as of November 23, 1998, included as Exhibit C to the Stock Purchase Agreement between the Company and Cooper Lighting, Inc. dated as of November 23, 1998 <sup>(17)</sup>
10.14	Escrow Agreement between the Company and RBC Centura Bank, dated as of November 30, 2006 <sup>(18)</sup>
10.15	Exchange Agreement between the Company and Brett M. Kingstone dated March 26, 2007 <sup>(19)</sup>
10.16#	Settlement and License Agreement between the Company and Color Kinetics Incorporated dated December 4, 2006 <sup>(23)</sup>
14.1	Code of Business Conduct and Ethics <sup>(6)</sup>
23.1*	Consent of Cross, Fernandez & Riley LLP, Independent Registered Public Accounting Firm
31.1*	Certifications by chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certifications by chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certifications by chief executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- \* Filed herewith
- # Confidential treatment has been granted for portions of this agreement.
- † Management contract or compensatory plan or agreement
- (1) Incorporated by Reference to the Company's Registration Statement on Form SB-2 (File No. 33-74742)
- (2) Incorporated by Reference to the Company's Definitive Proxy Statement filed April 29, 1997
- (3) Incorporated by Reference to the Company's Definitive Proxy Statement filed April 22, 1998
- (4) Incorporated by Reference to the Company's Registration Statement on Form SB-2 (File No. 333-73804)
- (5) Incorporated by Reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003
- (6) Incorporated by Reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003
- (7) Incorporated by Reference to the Company's Definitive Proxy Statement filed April 16, 2004
- (8) Incorporated by Reference to the Company's Definitive Proxy Statement filed November 3, 2005
- (9) Incorporated by Reference to the Company's Current Report on Form 8-K filed September 14, 2005
- (10) Incorporated by Reference to the Company's Current Report on Form 8-K filed October 18, 2005
- (11) Incorporated by Reference to the Company's Current Report on Form 8-K filed December 8, 2006
- (12) Incorporated by Reference to the Company's Current Report on Form 8-K filed December 8, 2006
- (13) Incorporated by Reference to the Company's Current Report on Form 8-K filed January 19, 2007
- (14) Incorporated by Reference to the Company's Current Report on Form 8-K filed December 5, 2006
- (15) Incorporated by Reference to the Company's Current Report on Form 8-K filed December 8, 2006
- (16) Incorporated by Reference to the Company's Current Report on Form 8-K filed December 8, 2006
- (17) Incorporated by Reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1998
- (18) Incorporated by Reference to the Company's Registration Statement on Form S-3 (File No. 333-140286)
- (19) Incorporated by Reference to the Company's Current Report on Form 8-K filed March 29, 2007
- (20) Incorporated by Reference to the Company's Current Report on Form 8-K filed September 14, 2005
- (21) Incorporated by Reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005
- (22) Incorporated by Reference to the Company's Current Report on Form 8-K filed February 14, 2008.
- (23) Incorporated by Reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006.

### 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 2008 annual meeting of stockholders and is incorporated herein by reference.

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NEXXUS LIGHTING, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Nexus Lighting, Inc.  
Orlando, Florida

We have audited the accompanying consolidated balance sheets of Nexus Lighting, Inc. and subsidiary (“the Company”) as of December 31, 2007 and 2006, 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 controls over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nexus Lighting, Inc. and subsidiary as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

/s/ Cross, Fernandez & Riley LLP

Orlando, Florida  
March 26, 2008

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**NEXXUS LIGHTING, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2007	2006
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 170,266	\$ 531,181
Restricted investments	500,000	500,000
Investments	2,475,000	6,471,400
Trade accounts receivable, less allowance for doubtful accounts of \$84,615 and \$121,535	1,317,595	1,231,277
Inventories, less reserve of \$299,465 and \$274,128	3,725,883	3,463,367
Prepaid expenses	384,308	261,852
Other assets	32,021	21,751
Total current assets	<u>8,605,073</u>	<u>12,480,828</u>
Property and Equipment:		
Machinery and equipment	2,421,946	2,297,239
Furniture and fixtures	497,143	420,374
Computers and software	870,271	797,077
Leasehold improvements	555,721	213,595
Property held under capital lease	19,112	—
	<u>4,364,193</u>	<u>3,728,285</u>
Accumulated depreciation and amortization	<u>(3,006,671)</u>	<u>(2,699,239)</u>
Net property and equipment	<u>1,357,522</u>	<u>1,029,046</u>
Deposits on equipment	55,899	—
Patents and trademarks, less accumulated amortization of \$66,817 and \$122,747	296,981	213,131
Goodwill	2,880,440	—
Other assets, net	121,047	127,379
	<u>\$ 13,316,962</u>	<u>\$13,850,384</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 1,107,720	\$ 1,155,162
Related party payable	—	20,700
Accrued compensation and benefits	160,252	111,932
Notes payable	—	1,157,846
Current portion of payable to related party under acquisition agreement	218,250	—
Current portion of deferred rent	53,832	—
Revolving line of credit	1,443,000	—
Deposits	205,711	22,697
Total current liabilities	<u>3,188,765</u>	<u>2,468,337</u>
Payable to related party under acquisition agreement, less current portion	100,000	—
Deferred rent, less current portion	204,516	—
Total liabilities	<u>3,493,281</u>	<u>2,468,337</u>
Stockholders' Equity:		
Preferred stock, \$.001 par value, 5,000,000 shares authorized, none issued	—	—
Common stock, \$.001 par value, 25,000,000 shares authorized, 6,979,103 and 6,097,476 issued and outstanding	6,980	6,098
Class B common stock, \$.001 par value, 3,389,134 shares authorized, zero and 483,264 issued and outstanding.	—	483
Additional paid-in capital	20,523,602	19,142,231
Accumulated deficit	(10,706,901)	(7,766,765)
Total stockholders' equity	<u>9,823,681</u>	<u>11,382,047</u>
	<u>\$ 13,316,962</u>	<u>\$13,850,384</u>

See accompanying notes to consolidated financial statements.

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[Table of Contents](#)**NEXXUS LIGHTING, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended	
	December 31	
	2007	2006
Revenues	\$10,200,349	\$11,001,011
Cost of sales	7,453,549	7,064,461
Gross Profit	2,746,800	3,936,550
Operating expenses:		
Selling, general and administrative	5,561,273	6,040,523
Research and development	417,661	538,298
Loss (Gain) on disposal of property and equipment	1,125	(593)
Gain on termination of capital lease, net of impairment	—	(506,367)
Total operating expenses	5,980,059	6,071,861
Operating loss	(3,233,259)	(2,135,311)
Non-operating income (expense):		
Interest income	295,379	38,488
Other income	36,684	221,622
Net realized loss on investments	—	(3,482)
Interest expense	(38,940)	(356,320)
Total non-operating expense, net	293,123	(99,692)
Net loss	\$ (2,940,136)	\$ (2,235,003)
Basic and diluted loss per common share	\$ (0.44)	\$ (0.80)
Basic and diluted weighted average shares outstanding	6,751,947	2,810,187

*See accompanying notes to consolidated financial statements.*

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**NEXXUS LIGHTING, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Years Ended December 31, 2007 and 2006

	Common Stock				Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss)	Total Stockholders' Equity
	Common Stock		Class B Common Stock					
	Shares	Amount	Shares	Amount				
Balance, January 1, 2006	2,061,299	\$2,061	483,264	\$ 483	\$10,572,958	\$ (5,531,762)	\$ (8,318)	\$ 5,035,422
Exercise of employee stock options	300	1	—	—	629	—	—	630
Stock-based compensation	—	—	—	—	222,283	—	—	222,283
Sales of common stock and warrants, net	4,035,877	4,036	—	—	8,346,361	—	—	8,350,397
Net loss	—	—	—	—	—	(2,235,003)	—	(2,235,003)
Realized gain on available-for-sale securities	—	—	—	—	—	—	8,318	8,318
Comprehensive loss	—	—	—	—	—	—	—	—
Balance, December 31, 2006	6,097,476	\$6,098	483,264	\$ 483	\$19,142,231	\$ (7,766,765)	\$ —	\$11,382,047
Exercise of employee stock options	17,547	18	—	—	48,731	—	—	48,749
Stock-based compensation	—	—	—	—	228,585	—	—	228,585
Expenses associated with the sale of common stock and warrants	—	—	—	—	(124,423)	—	—	(124,423)
Exchange of Class B Stock	604,080	604	(483,264)	(483)	(6,262)	—	—	(6,141)
Stock issuance for business acquisition	260,000	260	—	—	1,234,740	—	—	1,235,000
Net Loss	—	—	—	—	—	(2,940,136)	—	(2,940,136)
Balance, December 31, 2007	<u>6,979,103</u>	<u>\$6,980</u>	<u>—</u>	<u>\$ —</u>	<u>\$20,523,602</u>	<u>\$(10,706,901)</u>	<u>\$ —</u>	<u>\$ 9,823,681</u>

See accompanying notes to consolidated financial statements.

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**NEXXUS LIGHTING, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,	
	2007	2006
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (2,940,136)	\$(2,235,003)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	491,022	521,260
Amortization of intangible assets	(31,783)	50,384
Amortization of deferred rent	(40,374)	—
Loss (gain) on disposal of property and equipment	1,125	(593)
Gain on termination of capital lease, net of impairment	—	(506,367)
Loss on legal settlement	—	825,000
Increase (Decrease) in inventory reserve	25,337	274,128
Realized gain on available-for-sale securities	—	8,318
Bond discount amortization	(18,798)	(4,771)
Stock-based compensation	228,585	222,283
Changes in operating assets and liabilities		
Decrease in restricted cash	—	82,943
Decrease in accounts receivable, net	31,145	285,702
(Increase) decrease in inventories	211,240	(458,313)
Increase in prepaid expenses	(122,456)	(26,160)
Increase in other assets	(6,081)	(49,086)
Decrease in accounts payable and related party payable	(168,244)	(514,841)
Increase (decrease) in accrued compensation and benefits	35,460	(149,720)
Increase (decrease) in deposits	143,581	(446)
Total adjustments	<u>779,759</u>	<u>559,721</u>
Net cash used in operating activities	<u>(2,160,377)</u>	<u>(1,675,282)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of investments	(7,094,422)	(8,000,860)
Proceeds from sale of investments	11,109,620	1,977,358
Purchase of property and equipment	(589,147)	(312,509)
Proceeds from disposal of property and equipment	—	1,278
Acquisition of Advanced Lighting Systems	<u>(1,818,307)</u>	<u>—</u>
Acquisition of patents and trademarks	<u>(11,621)</u>	<u>(57,911)</u>
Net cash provided by (used in) investing activities	<u>1,596,123</u>	<u>(6,392,644)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds (expenses) from sale of common stock and warrants	(124,423)	8,350,397
Payments on promissory note	(1,157,846)	—
Net borrowings on revolving line of credit	1,443,000	—
Proceeds from exercise of employee stock options	48,749	630
Costs associated with Class B common stock conversion	<u>(6,141)</u>	<u>—</u>
Net cash provided by financing activities	<u>203,339</u>	<u>8,351,027</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(360,915)	283,101
Cash and Cash Equivalents, beginning of period	<u>531,181</u>	<u>248,080</u>
Cash and Cash Equivalents, end of period	<u>\$ 170,266</u>	<u>\$ 531,181</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during period for Interest	<u>\$ 38,940</u>	<u>\$ 356,320</u>
<b>Non-cash investing and financing activities:</b>		
Deferred rent incurred for leasehold improvement credit	\$ 269,160	\$ —
Capital lease termination	—	2,312,888
Issuance of common stock for acquisition	1,235,000	—
Note payable issued in exchange for lease termination	—	332,846

*See accompanying notes to consolidated financial statements.*

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### NEXXUS LIGHTING, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

#### 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, Advanced Lighting Systems, LLC, designs, manufactures, markets and sells LED and fiber optic lighting products for use in applications in the commercial, architectural, signage, entertainment, swimming pool and OEM markets. During 2007, the Company was organized into divisions, each with a defined market focus. SV Lighting serves the commercial and architectural lighting market and derives its revenues primarily from sales of Savi® brand LED lighting systems and controls and Super Vision® fiber optic brand of products. Advanced Lighting Systems, serves the entertainment, theatrical and commercial lighting market through its LiveLED™, and eLUM™ LED lighting systems and controls and Advanced Lighting Fiber Optics™ brand of products, and the Nexxus Lighting Pool & Spa division serves the pool, spa and water feature lighting market with the broadest range of LED and fiber optic pool and spa lighting products in the industry. Each Nexxus Lighting division markets and distributes its products globally primarily through multiple networks of independent sales representatives and distributors.

*Principles of Consolidation* – The consolidated financial statements include the accounts of Nexxus Lighting, Inc. and its wholly owned subsidiary, Advanced Lighting Systems, LLC (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. Our products typically carry a two-year warranty that includes replacement of defective parts. The annual expenses associated with such warranties were not material to our operations and we do not record a reserve for future warranty costs.

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

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

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

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

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**NEXXUS LIGHTING, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

December 31, 2007

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

Investments (continued)

At December 31, 2007 and 2006, the Company held investments in marketable securities that were classified as held-to-maturity with varying maturity dates up to one year consisting of the following:

	<u>Net Carrying Amount</u>	<u>Unrecognized Holding Gains</u>	<u>Unrecognized Holding Losses</u>	<u>Estimated Fair Value</u>
December 31, 2006				
Corporate Bonds	\$ 6,971,400	\$ —	\$ 209	\$6,971,191
December 31, 2007				
Taxable Fixed Income	\$ 2,975,000	\$ —	\$ 380	\$2,974,620

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

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

	<u>Estimated useful lives</u>
Machinery and equipment	3-20 years
Furniture and fixtures	5-7 years
Computers and software	3-7 years
Leasehold improvements	5 years

Intangible assets and goodwill – The Company accounts for its intangible assets and goodwill under Financial Accounting Standards Board (“FASB”) Statement No. 142, Goodwill and Other Intangible Assets (“SFAS 142”) and Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (“SFAS 144”). There were no impairment charges of intangible assets during the years ended December 31, 2007 and 2006. Patents and trademarks are amortized using the straight-line method over their useful lives of 17 years. Amortization expense on patents and trademarks was \$(57,438) and \$22,672 during 2007 and 2006, respectively. Other intangible assets consist primarily of costs associated with the acquisition of product safety certifications (UL certifications) and technology licensing costs for certain fiber optic lighting products and systems and LED lighting products and systems and are included in other assets. Other intangible assets are amortized using the straight-line method over their useful lives, which range from 1-17 years and are periodically evaluated for recoverability in accordance with SFAS No. 142. Amortization expense on other intangible assets was \$24,148 and \$27,712 during 2007 and 2006, respectively.

As of December 31, 2007, amortization expense on intangible assets for the next five years and thereafter is as follows, excluding \$88,656 invested in patents, trademarks or product certifications which are not yet being amortized as the patent, trademark or product certification is not complete:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>	<u>Totals</u>
Patents	12,661	12,661	12,661	12,661	12,661	93,456	156,761
Trademarks	977	977	977	977	977	5024	9,909
Product certification	16,498	8,404	4,974	3,866	3,723	4,190	41,655
Total	<u>30,136</u>	<u>22,042</u>	<u>18,612</u>	<u>17,504</u>	<u>17,361</u>	<u>102,670</u>	<u>208,325</u>

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### NEXXUS LIGHTING, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2007

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

Long lived assets – The Company periodically evaluates the recoverability of its long-lived assets in accordance with SFAS No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets,” based on expected undiscounted cash flows and will recognize impairment of the carrying value of long-lived assets, if any is indicated, based on the fair value of such assets. No impairment losses have been recognized during the year ended December 31, 2007. There was an impairment of leasehold improvements of approximately \$241,300 during the year ended December 31, 2006 which was netted against the gain on termination of capital lease as further discussed in Note 3.

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

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

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

Advertising – Advertising costs, included in selling, general and administrative expenses, are expensed when the advertising first takes place. The Company promotes its product lines primarily through print media and trade shows, including trade publications, and promotional brochures. Advertising expenses were approximately \$234,000 and \$263,000 for the years ended December 31, 2007 and 2006, 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. The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. The Company has not recognized a liability as a result of the implementation of Interpretation 48. A reconciliation of the beginning and ending amount of unrecognized tax benefits has not been provided since there is no unrecognized benefit as of the date of adoption. The Company has not recognized interest expense or penalties as a result of the implementation of Interpretation 48. 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. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

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

Loss per share – Basic loss per share is computed by dividing net loss by the weighted average Class A and Class B common shares outstanding for the period. Diluted loss per share is computed giving effect to all potentially dilutive common shares. Potentially dilutive common shares may consist of incremental shares issuable upon the exercise of stock options and warrants. In periods in which a net loss has been incurred, all potentially dilutive common shares are considered antidilutive and thus are excluded from the calculation. Employee stock options and warrants were not included in the computation of loss per share for 2007 and 2006 because to do so would have been anti-dilutive. At December 31, 2007 and 2006, the Company had 4,220,775 and 4,274,239 potentially dilutive common shares, respectively.

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**NEXXUS LIGHTING, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

December 31, 2007

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

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

We estimate the fair value of each option award issued under our stock option plans on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the following table in accordance with FAS 123(R). The Company estimates the volatility of its common stock at the date of grant based on the historical volatility of its common stock. These historical periods may exclude portions of time when unusual transactions occurred. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and post-vesting forfeitures. For shares that vest contingent upon achievement of certain performance criteria, 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,	
	2007	2006
Expected volatility	69% - 87%	71% -87%
Weighted-average volatility	73.65%	86.4%
Risk-free interest rate	3.35% - 5.0%	4.35% - 5.09%
Expected dividend yield	0%	0%
Expected life in years	2.9 – 9.1	3.2 – 9.1

Under the SFAS No. 123(R), stock-based compensation expenses recognized in the accompanying audited statement of operations for the year ended December 31, 2007 was \$228,585 which caused net loss to increase by that amount and basic and diluted loss per share for 2007 to increase by \$0.03, respectively.

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

Major Suppliers – The Company made purchases from two major suppliers representing approximately 22% and 19% of total net purchases for the year ending December 31, 2007 compared to purchases from three major suppliers representing approximately 29%, 11% and 10% of total net purchases for the year ending December 31, 2006.

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### NEXXUS LIGHTING, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2007

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

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

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

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

In June 2007, the FASB ratified EITF Issue No. 07-03, “Accounting for Nonrefundable Advance Payments for Goods and Services Received for Use in Future Research and Development Activities.” EITF 07-03 requires companies to defer nonrefundable advance payments for goods and services and to expense that advance payment as the goods are delivered or services are rendered. If the company does not expect to have the goods delivered or services performed, the advance should be expensed. EITF 07-03 is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of adopting EITF 07-03 on its financial statements.

In December 2007, the FASB issued Statement 141R, “Business Combinations” (SFAS 141R), which applies to all transactions or other events in which an entity obtains control of one or more businesses, including those sometimes referred to as “true mergers” or “mergers of equals” and combinations achieved without the transfer of consideration. This statement replaces FASB Statement No. 141 and applies to all business entities, including mutual entities that previously used the pooling-of-interests method of accounting for some business combinations. The Company believes that adoption of the FAS 141R will have an effect on future acquisitions.

#### 2. ACQUISITION:

On September 28, 2007, Advanced Lighting Systems, Inc. (“ALS”), which is headquartered in Sauk Centre, MN, was merged with and into the Company’s wholly owned subsidiary, Advanced Lighting Systems, LLC a Delaware limited liability company, pursuant to an agreement dated August 3, 2007. The preliminary purchase price of \$3,372,659 (including acquisition costs of \$278,454, \$6,800 of which were accrued at December 31, 2007) was funded with \$1,819,409 of the Company’s available cash and short-term investment balances plus 260,000 shares of common stock valued at \$1,235,000 on the date of the acquisition. The value of the stock issued in conjunction with the purchase agreement was based on the average market price of the Company’s common stock over the five-day period before and after the terms of the acquisition were agreed to and announced. Additionally, the Company recorded a liability to related party (seller) for \$318,250 which represents \$118,250 of stock to be issued for achievement of the 2007 revenue milestones for ALS and a \$200,000 indemnity holdback for possible future claims. This strategic acquisition is expected to strengthen the Company’s position in the commercial and entertainment lighting markets.

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**NEXXUS LIGHTING, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

December 31, 2007

**2. ACQUISITION (continued):**

This acquisition has been accounted for in accordance with SFAS No. 141, "Business Combinations" and, accordingly, the consolidated statements of operations include the results of ALS since the date of acquisition, September 28, 2007. The assets acquired and liabilities assumed are recorded at estimates of fair values as determined by management based on information available. The excess of the purchase price over the fair value of acquired assets and liabilities is allocated to goodwill. Management considers a number of factors, including third-party valuations or appraisals which have not yet been completed, when making these determinations. We will finalize the allocation of purchase price to the fair value of the assets acquired and liabilities assumed when we obtain information sufficient to complete the allocation, but in any case, within one year after acquisition. The preliminary allocation of the purchase price follows:

Cash	\$ 1,101
Accounts receivable	117,463
Inventories	499,093
Other current assets	18,005
Property, plant and equipment	18,215
Goodwill	2,880,440
Other intangible assets	16,298
Other long-term assets	4,000
Accounts payable	(129,664)
Accrued expenses	(12,860)
Deposits	(39,432)
Preliminary purchase price	3,372,659

The purchase price is subject to adjustment for stipulations in the purchase agreement, such as certain additional payments subject to the achievement of revenue and earnings milestones by ALS in 2008 and claims against the indemnity holdback.

The Company's statement of operations includes sales and earnings of ALS incurred after the date on which the acquisition was closed, September 28, 2007. On an unaudited pro forma basis, assuming that the acquisition had occurred on January 1, 2007, the Company's results for 2007 would have been as follows:

	<u>Twelve Months Ended</u> <u>December 31, 2007</u>
Revenue	\$ 12,548,000
Net Loss	\$ 2,999,000
Loss per share	\$ 0.44

These pro forma amounts do not purport to show the exact results that would have actually been obtained if the acquisition had occurred as of the beginning of the period presented or that may be obtained in the future.

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[Table of Contents](#)**NEXXUS LIGHTING, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED***December 31, 2007***3. INVENTORIES:**

Inventories consist of the following:

	December 31,	
	2007	2006
Raw materials	\$2,531,852	\$2,603,353
Work in process	32,434	7,771
Finished goods	<u>1,461,062</u>	<u>1,126,371</u>
	4,025,348	3,737,495
Less reserve for obsolescence	<u>(299,465)</u>	<u>(274,128)</u>
Net inventories	<u>\$3,725,883</u>	<u>\$3,463,367</u>

**4. TERMINATION OF CAPITAL LEASE OBLIGATION WITH RELATED PARTY:**

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

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

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

**5. OPERATING LEASES:**

On November 30, 2006, the Company 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, 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 uses for its Orlando operations facility. Base rent under the lease started on April 1, 2007 at monthly payments of \$19,846 for the first twelve-month period and increases annually by 3.5% thereafter. In addition to base rent, the Company is required to pay its pro rata share of the property's operating expenses, including property taxes, insurance and non-structural repairs. The lease provides for a security deposit of \$28,576. 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 balance sheet and is being amortized as a reduction of rent expense over the life of the lease.

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**NEXXUS LIGHTING, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

December 31, 2007

**5. OPERATING LEASES (continued):**

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

On February 27, 2007, the Company entered into a five year operating lease agreement with Floyd Smith Office Park, LLC, commencing approximately June 1, 2007 for the Company's new corporate headquarters in Charlotte, North Carolina. The Company leases 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 will increase 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.

On September 28, 2007, the Company entered into a five year operating lease agreement with Streitz Properties LLC, a company owned by Paul Streitz, President of the Company's ALS subsidiary. This operating lease commenced approximately September 28, 2007 for ALS' operations facility in Sulk Centre, MN. Base rent under the lease is \$8,815 per month for the duration of the lease.

At December 31, 2007, future payment obligations under the operating leases described above were as follows:

2008	\$ 527,722
2009	540,116
2010	552,936
2011	567,202
2012 and thereafter	<u>249,226</u>
Total future payment obligations	\$2,437,202

**6. FINANCIAL INSTRUMENTS AND CREDIT RISKS:**

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

All of the Company's LED lighting products and systems are manufactured by select overseas suppliers in an effort to reduce production costs. While the Company believes alternative sources for the production of these products are available, the Company has selected these particular suppliers based on their ability to consistently produce these products per the Company's specifications ensuring the best quality product at the most cost effective price.

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**NEXXUS LIGHTING, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

December 31, 2007

**6. FINANCIAL INSTRUMENTS AND CREDIT RISKS (continued):**

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

**7. INCOME TAXES:**

As of December 31, 2007, the Company had approximately \$9,868,000 and \$6,247,000 in net operating loss carry forwards for federal and state income tax purposes, respectively, which expire between 2011 and 2026. These can be carried forward and applied against future taxable income. However, as a result of stock offerings and stock issued in connection with the acquisition, the use of these NOLs may be limited under the provisions of Section 382 of the Internal Revenue Code of 1986, as amended.

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

	December 31,	
	2007	2006
Accounts receivable	\$ 30,000	\$ 46,000
Inventories	108,000	103,000
Accrued expenses	71,000	73,000
Depreciation	(193,000)	(192,000)
Intangible assets	63,000	—
Stock warrants	214,000	137,000
Other	4,000	4,000
Net operating loss carry forwards	3,598,000	2,584,000
	3,895,000	2,755,000
Valuation allowance	(3,895,000)	(2,755,000)
	\$ —	\$ —

In accordance with SFAS No. 109, "Accounting for Income Taxes", valuation allowances are provided against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has evaluated the realizability of the deferred tax assets on its balance sheet and has established a valuation allowance in the amount of \$3,895,000 at December 31, 2007, an increase of approximately \$1,140,000 over December 31, 2006. The change in the valuation allowance includes the impact of a change in the tax rate applied to the deferred taxes from the beginning of the year rate of 37.63% to an end of the year rate of 36.46%.

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, 2007 and 2006:

	2007		2006	
	Amount	%	Amount	%
Tax benefit computed at statutory federal rate	\$ (999,646)	(34.0)	\$(759,901)	(34.0)
Deferred state tax expense (benefit)	(70,620)	(2.4)	(73,262)	(3.3)
Change in valuation allowance	1,140,000	38.8	761,000	34.0
Adjustment to net operating loss carryforwards	(94,405)	(3.2)	—	—
Non-deductible expenses	7,400	.2	6,728	0.3
Other, net	17,271	.6	65,435	3.0
Income tax expense	\$ —	—	\$ —	—

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**NEXXUS LIGHTING, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

December 31, 2007

**8. CAPITAL STOCK:**

Common stock – At December 31, 2007 the Company has reserved Common Stock for issuance in relation to the following:

Employee Stock Options	581,817
Shares Subject to Warrants	3,638,958

Effective March 26, 2007, the Company redeemed all of the outstanding shares of Class B Common Stock in exchange for 604,080 shares of Class A Common Stock, or 1.25 shares of Class A Common Stock for each share of Class B Common Stock exchanged. Each share of Class B Common Stock was entitled to five votes on all matters on which stockholders may vote, including the election of directors. Shares of Class B Common Stock were automatically convertible into an equivalent number of shares of Class A Common Stock upon the sale or transfer of such shares. The transaction was effected pursuant to an Exchange Agreement between the Company and the Kingstone Family Limited Partnership II (“KFLP”); an entity controlled by Brett M. Kingstone, the Company’s chairman of the board, dated March 26, 2007. Pursuant to the Exchange Agreement, KFLP exchanged 483,264 shares of the Company’s Class B Common Stock, constituting all of the issued and outstanding shares of the Company’s Class B Common Stock, for 604,080 shares of the Company’s Class A Common Stock (the “Exchange”). The Exchange eliminated the disparity in voting rights between the Class B Common Stock, which was entitled to five votes per share and the Class A Common Stock, which was entitled to one vote per share. Effective April 11, 2007, each share of Class A Common Stock was automatically reclassified as and converted into one share of Common Stock, \$.001 par value per share, of the Company. In addition, effective April 11, 2007 the Company’s authorized number of shares of Common Stock was increased to 25,000,000. Accordingly, all Class A Common Stock information was retroactively adjusted to reflect the conversion of Class A Common Stock to Common Stock and increase in authorized shares. Each share of Common Stock is entitled to one vote per share.

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

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

On December 7, 2006, the Company closed the private offering to a limited number of accredited investors of approximately 40,360 units at a price of \$223 per unit, resulting in gross cash subscriptions of approximately \$9 million, and net proceeds to the Company of approximately \$8,350,000 (the “Private Placement”). Each unit consisted of 100 shares of 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.

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.

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**NEXXUS LIGHTING, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

December 31, 2007

**8. CAPITAL STOCK (continued):**

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.

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

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

In connection with the Private Placement, the Company 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.

**9. STOCK OPTION PLAN:**

The Company adopted a stock option plan in 1994 (the "1994 Plan") that provided for the grant of incentive stock options and nonqualified stock options, and reserved 450,000 shares of the Company's 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, 2007, options to purchase 68,617 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. The option price of incentive stock options must be at least 100% of market value at the date of the grant and incentive stock options have a maximum term of 10 years. Options granted typically vest ratably over a three-year period or based on achievement of performance criteria. The Company typically grants selected executives and other key employees share option awards, whose vesting is contingent upon meeting various departmental and company-wide performance goals including meeting sales targets and net profit targets. As of December 31, 2007, 352,898 shares of common stock were vested and exercisable under the 2003 Plan.

The weighted average fair value of options granted at market during 2007 and 2006 was \$2.91 and \$2.06 per option, respectively. The total intrinsic value of options exercised during the years ended December 31, 2007 and 2006 was \$11,575 and \$366, respectively. The aggregate intrinsic value of the outstanding options at December 31, 2007 was \$438,026. At December 31, 2007, there were 581,817 options outstanding under both plans.

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**NEXXUS LIGHTING, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

December 31, 2007

**9. STOCK OPTION PLAN – (continued):**

The following table summarizes activity of the stock option plans for the years ended December 31, 2007 and 2006:

	<u>Shares Available for Future Grant</u>	<u>Number of Shares Outstanding Under Option</u>	<u>Weighted Average Exercise Price</u>
Balance, January 1, 2006		654,932	\$ 4.71
Options granted at market	(89,450)	89,450	\$ 2.56
Options exercise		(300)	\$ 2.10
Options forfeited or expired	<u>105,817</u>	<u>(226,217)</u>	\$ 5.41
Balance, December 31, 2006	16,637	517,865	\$ 3.73
Increase in options under the 2003 Plan	220,000	—	
Options granted at market	(251,200)	251,200	\$ 2.91
Options exercise		(17,547)	\$ 2.31
Options forfeited or expired	<u>162,201</u>	<u>(169,701)</u>	\$ 3.13
Balance, December 31, 2007	<u>147,368</u>	<u>581,817</u>	\$ 3.16

Of the 581,817 options outstanding at December 31, 2007, 421,515 are vested and exercisable. At December 31, 2007, the weighted average exercise price of vested options outstanding was \$4.04, the weighted average remaining contractual term (in years) was 6.83, and the aggregate intrinsic value was \$416,083.

A summary of the non-vested shares as of December 31, 2007 and changes during the year ending December 31, 2007 is presented below:

<u>Non-vested Shares</u>	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Non-vested at January 1, 2007	114,352	\$ 3.59
Granted	251,200	\$ 2.91
Vested	(61,382)	\$ 3.69
Forfeited	<u>(143,868)</u>	\$ 2.98
Non-vested at December 31, 2007	<u>160,302</u>	\$ 4.98

As of December 31, 2007, the total future compensation cost related to non-vested awards will be approximately \$59,000, \$54,000 and \$42,000 for the years ending December 31, 2008, 2009, and 2010 respectively.

The total fair value of shares vested during the year was approximately \$226,225.

[Table of Contents](#)**NEXXUS LIGHTING, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED***December 31, 2007***9. STOCK OPTION PLAN – (continued):**

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 2007 and 2006 was \$2.70 and \$1.84, respectively. As of December 31, 2007, there was no unrecognized compensation cost related to non-vested performance options since the attainment of the performance objectives were not considered probable. A summary of activity of options that vest contingent upon achievement of certain performance criteria under the 2003 Plan as of December 31, 2007 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, 2007 above.

<u>Performance Based Shares</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at January 1, 2006	170,000	\$ 3.37		
Granted	50,000	\$ 2.20		
Cancelled	(70,000)	\$ 4.30		
Outstanding at December 31, 2006	150,000	\$ 2.55	9.11	\$140,000
Granted	130,000	\$ 5.30		
Exercised	—	—		
Forfeited or expired	(136,750)	\$ 4.82		
Outstanding at December 31, 2007	143,250	\$ 3.97	8.84	\$160,950
Exercisable at December 31, 2007	68,250	\$ 2.76	8.60	\$145,950

A summary of the non-vested shares that vest, some being contingent upon achievement of certain performance criteria, under the 2003 Plan as of December 31, 2007 and changes during the year then ended is presented below. These shares were also reflected in the summary above.

<u>Performance Based Non-vested Shares</u>	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Non-vested at January 1, 2007	100,000	\$ 3.59
Granted	130,000	\$ 2.70
Vested	(18,250)	\$ 3.59
Forfeited	(136,750)	\$ 3.04
Non-vested at December 31, 2007	75,000	\$ 3.04

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**NEXXUS LIGHTING, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

December 31, 2007

**10. EXPORT SALES:**

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

	2007	% of Sales	2006	% of Sales
Foreign markets:				
Americas (excluding USA)	\$1,237,745	12%	\$1,839,089	17%
Europe, the Middle East and Africa	1,124,156	11%	1,144,085	10%
Asia Pacific	505,498	5%	700,286	6%
Japan	165,980	2%	126,802	1%

**11. BENEFIT PLANS:**

The Company has established a profit sharing plan that permits participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. The Company made matching contributions equal to 50% of the participants' contributions, to a maximum of 3% of the participants' salary. Total matching contributions paid by the Company were approximately \$46,000 and \$40,000 for the years ended December 31, 2007 and 2006, respectively.

**12. CONTINGENCIES:**

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

**13. REVOLVING LINE OF CREDIT:**

In February 2006, the Company entered into a \$1,200,000 revolving line of credit agreement. In June 2006, the agreement was amended to increase the borrowing capacity under the line of credit to \$1,600,000. The maturity date of the loan was subsequently extended to June 2008. The agreement is secured by substantially all of the assets of the Company and includes certain financial covenants and a requirement for a minimum investment balance of \$500,000 in accounts held at the lender. As of December 31, 2007, the line of credit had an outstanding balance of \$1,443,000 and there was an available balance of \$157,000. The line is secured by substantially all of the assets of the Company. Interest is at LIBOR plus 1.85% per annum (7.075% at December 31, 2007) and is payable monthly. For the year ending December 31, 2007 the Company was not in compliance with certain financial covenants as required by the agreement. The lender has waived these covenant violations for 2007.

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**SIGNATURES**

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

NEXXUS LIGHTING, INC.

Date: March 28, 2008

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

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

<u>/s/ Michael Bauer</u> Michael Bauer – President Chief Executive Officer / Director (Principal Executive Officer)	March 28, 2008
<u>/s/ John Oakley</u> John Oakley – Chief Financial Officer (Principal Financial and Accounting Officer)	March 28, 2008
<u>/s/ Brett M. Kingstone</u> Brett M. Kingstone – Chairman of the Board of Directors	March 28, 2008
<u>/s/ Brian McCann</u> Brian McCann – Director	March 28, 2008
<u>/s/ Anthony Nicolosi</u> Anthony Nicolosi – Director	March 28, 2008
<u>/s/ Edgar Protiva</u> Edgar Protiva – Director	March 28, 2008
<u>/s/ Fritz Zeck</u> Fritz Zeck – Director	March 28, 2008
<u>/s/ Anthony Castor</u> Anthony Castor – Director	March 28, 2008

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Item 13.	<u>Exhibits</u>
3.1	Certificate of Incorporation of the Company <sup>(1)</sup>
3.2	Amendment to Certificate of Incorporation <sup>(1)</sup>
3.3	Amendment to Certificate of Incorporation <sup>(3)</sup>
3.4	Amendment to Certificate of Incorporation <sup>(2)</sup>
3.5	Bylaws <sup>(1)</sup>
4.1	Form of Common Stock Certificate*
4.2	Form of Common Stock Purchase Warrant issued to certain accredited investors and the placement agent to purchase shares of the Company's Common Stock at an exercise price of \$2.23 per share <sup>(11)</sup>
4.3	Form of Common Stock Purchase Warrant issued to certain accredited investors to purchase shares of the Company's Common Stock at an exercise price of \$3.00 per share <sup>(12)</sup>
10.1†	Form of Indemnification Agreement <sup>(1)</sup>
10.2†	1994 Stock Option Plan, as amended and restated <sup>(2)</sup>
10.3†	2003 Stock Incentive Plan <sup>(7)</sup>
10.4†	Warrant Agreement dated as of December 21, 2005 between the Company and the Kingstone Family Ltd Partnership II <sup>(8)</sup>
10.5†	Employment Agreement between the Company and Michael A. Bauer dated February 11, 2008 <sup>(22)</sup>
10.6†	Transition Agreement between the Company and Brett M. Kingstone dated September 9, 2005 <sup>(20)</sup>
10.7†	Contingent Proceeds Participation Agreement between Brett M. Kingstone and the Company dated September 19, 2003 <sup>(5)</sup>
10.8	Business Loan Agreement between the Company and RBC Centura Bank dated February 10, 2006 <sup>(21)</sup>
10.9	Lease for Southridge Park Court facility <sup>(14)</sup>
10.10.1	Lease for Floyd Smith Office Park facility <sup>(23)</sup>
10.10.2	Lease for Floyd Smith Office Park facility*
10.11	Form of Common Stock and Warrant Purchase Agreement by and between the Company and each purchaser in the private placement dated as of December 7, 2006 <sup>(15)</sup>
10.12	Form of Registration Rights Agreement by and between the Company and each purchaser in the private placement, dated as of December 7, 2006 <sup>(16)</sup>
10.13	Registration Rights Agreement between the Company and Cooper Lighting, Inc., dated as of November 23, 1998, included as Exhibit C to the Stock Purchase Agreement between the Company and Cooper Lighting, Inc. dated as of November 23, 1998 <sup>(17)</sup>
10.14	Escrow Agreement between the Company and RBC Centura Bank, dated as of November 30, 2006 <sup>(18)</sup>
10.15	Exchange Agreement between the Company and Brett M. Kingstone dated March 26, 2007 <sup>(19)</sup>
10.16#	Settlement and License Agreement between the Company and Color Kinetics Incorporated dated December 4, 2006 <sup>(23)</sup>
14.1	Code of Business Conduct and Ethics <sup>(6)</sup>
23.1*	Consent of Cross, Fernandez & Riley LLP, Independent Registered Public Accounting Firm
31.1*	Certifications by chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certifications by chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certifications by chief executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- \* Filed herewith
- # Confidential treatment has been granted for portions of this agreement.
- † Management contract or compensatory plan or agreement
- (1) Incorporated by Reference to the Company's Registration Statement on Form SB-2 (File No. 33-74742)
- (2) Incorporated by Reference to the Company's Definitive Proxy Statement filed April 29, 1997
- (3) Incorporated by Reference to the Company's Definitive Proxy Statement filed April 22, 1998
- (4) Incorporated by Reference to the Company's Registration Statement on Form SB-2 (File No. 333-73804)
- (5) Incorporated by Reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003
- (6) Incorporated by Reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003
- (7) Incorporated by Reference to the Company's Definitive Proxy Statement filed April 16, 2004
- (8) Incorporated by Reference to the Company's Definitive Proxy Statement filed November 3, 2005
- (9) Incorporated by Reference to the Company's Current Report on Form 8-K filed September 14, 2005
- (10) Incorporated by Reference to the Company's Current Report on Form 8-K filed October 18, 2005
- (11) Incorporated by Reference to the Company's Current Report on Form 8-K filed on December 8, 2006
- (12) Incorporated by Reference to the Company's Current Report on Form 8-K filed on December 8, 2006
- (13) Incorporated by Reference to the Company's Current Report on Form 8-K filed on January 19, 2007
- (14) Incorporated by Reference to the Company's Current Report on Form 8-K filed on December 5, 2006
- (15) Incorporated by Reference to the Company's Current Report on Form 8-K filed on December 8, 2006
- (16) Incorporated by Reference to the Company's Current Report on Form 8-K filed on December 8, 2006
- (17) Incorporated by Reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1998
- (18) Incorporated by Reference to the Company's Registration Statement on Form S-3 (File No. 333-140286)
- (19) Incorporated by Reference to the Company's Current Report on Form 8-K filed on March 29, 2007
- (20) Incorporated by Reference to the Company's Current Report on Form 8-K filed on September 14, 2005
- (21) Incorporated by Reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005
- (22) Incorporated by Reference to the Company's Current Report on Form 8-K filed February 14, 2008.
- (23) Incorporated by Reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006.

029.08



INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

# NEXXUS LIGHTING, INC.



CUSIP 65338E 10 5  
SEE REVERSE FOR CERTAIN DEFINITIONS

THIS CERTIFIES THAT

**SPECIMEN**

is the owner of

FULLY PAID AND NONASSESSABLE SHARES OF THE COMMON STOCK, PAR VALUE \$0.001 PER SHARE, OF

**NEXXUS LIGHTING, INC.**

transferable on the books of the Corporation in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. The Certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

*[Signature]*  
SECRETARY



*[Signature]*  
PRESIDENT

COUNTERSIGNED AND REGISTERED BY:  
AMERICAN STOCK TRANSFER & TRUST COMPANY  
110 WALL STREET, NEW YORK, NY 10038  
TRANSFER AGENT AND REGISTRAR

AUTHORIZED SIGNATURE

LEASE AGREEMENT

Suite: 300-ext  
Sq Ft: 3060  
\$/Sq Ft: 19.50

**THIS LEASE AGREEMENT** (this "Lease") is made effective this 24th day of August, 2007, by and between Floyd Smith Office Park, LLC, as landlord ("Landlord"), and Nexxus Lighting, as tenant ("Tenant").

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

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

a. "Additional Rent" shall mean all sums of money in addition to Base Rent which shall become due from Tenant under this Lease.

b. "Building" shall mean that certain multi-story office building having a street address of 124 Floyd Smith Drive, Charlotte, NC 28262 and located on the Land.

c. "Common Areas" shall mean all areas, improvements, space and special services within the Building or on the Land provided by Landlord from time to time in its sole discretion for the common or joint use and benefit of all tenants, customers and invitees of the Building, including, without limitation, any parking areas, access roads, service drives, service areas, driveways, entrances and exits, retaining walls, landscaped areas, truck serviceways, loading docks or ramps, pedestrian walkways, overstreet walkways, connecting malls, atriums, walls, ceilings, patios, courtyards, garden areas, plaza areas, park areas, concourses, ramps, sidewalks, corridors, washrooms, signs, maintenance buildings, utility buildings, hallways, lobbies, elevators, elevator foyers, escalators, stairs, common window areas, and trash, garbage or rubbish areas.

d. "Land" shall mean the real property upon which the Building is situated as more particularly described on Exhibit A attached hereto and incorporated herein.

e. "Net Useable Area" shall mean the number of square feet of enclosed floor area within the Building (or any portion thereof) intended for the exclusive use by the tenant or occupant thereof measured from the outside finished surface of the exterior walls or permanent outer building walls; and from the mid-point of any interior or party. As of the execution date of this Lease, the Total Useable Area of the Building is 35,492 square feet.

f. "Premises" shall mean the space shown cross-hatched on the floor plan attached hereto as Exhibit B and incorporated herein.

g. "Rules and Regulations" means the rules and regulations adopted by Landlord for the Building, the Land and the Common Areas and attached hereto as **Exhibit C** and incorporated herein, as well as any other rules and regulations which Landlord may adopt in the future for the Building, the Land and the Common Areas.

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

3. **TERM.**

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

4. **BASE RENT.**

a. During the Term, Tenant shall pay annual Base Rent in advance, in twelve (12) equal monthly installments \$4,972.50, on or before the first (1st) day of each calendar month during the Term, without notice, deduction, demand, abatement, counterclaim or set off, at the rates set forth below. Base Rent for any partial month shall be paid in advance and prorated based on the number of days in such partial calendar month. The first (1st) payment of Base Rent shall be due and payable on or before the execution of this Lease. Base Rent, Additional Rent and all other sums of money due from Tenant hereunder shall be collectively referred to hereinafter as "Rent" Additional Rent shall be due five (5) days after demand unless provided otherwise herein. Tenant shall be give one (1) month free rent.

<u>Term</u>	<u>Rental Rate</u>	<u>Monthly Rate</u>	<u>Annual Rent</u>
2007	2008	4,972.50	59,670.00
2008	2009	5,121.67	61,460.10
2009	2010	5,275.32	63,303.90
2010	2011	5,433.58	65,203.01
2011	2012	5,596.59	67,159.10

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

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accept any such Rent or other sums after the same shall become due and payable, such acceptance shall not excuse a delay upon subsequent occasions, or constitute or be construed as a waiver of any of Landlord's rights hereunder, at law or in equity.

**5. ADJUSTMENTS IN BASE RENT.**

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

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

**7. UTILITIES AND OTHER SERVICES.**

- a. Landlord agrees to furnish the following services:
- i. Hot and cold water at those points of supply provided for general use of all the tenants in the Building-;
  - ii. Central heat and air conditioning sufficient for the comfortable occupancy of the Premises; provided, however, heating and air conditioning service at times other than during "Normal Business Hours" for the Building (which are 8:00 a.m. to 6:00 p.m., Monday through Friday, and 8:00 a.m. to 1:00 p.m. on Saturday, exclusive of normal business holidays) shall be furnished only on seventy-two (72) hours advance written request by Tenant to Landlord. Tenant shall bear the entire cost of such additional service as such costs are determined by Landlord from time to time. If Tenant shall use any equipment in the Premises which affects the temperature otherwise maintained by the central heating and air conditioning system, then Landlord shall have the right, in its sole discretion, to install supplemental air conditioning units and the cost thereof, including the cost of installation, maintenance and operation of such units, shall be paid by Tenant to Landlord upon demand-;
  - iii. Reasonable janitorial service, Monday through Friday only, exclusive of normal business holidays and

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- iv. Facilities to provide electricity for routine lighting and the operation of general office equipment. Tenant shall not use any electrical equipment which in Landlord's opinion will overload the Building's electrical systems or circuits.

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

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

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

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

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

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

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**12. ALTERATIONS.**

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

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

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

**14. DAMAGE AND LOSS.** Tenant shall use the Premises and all facilities of the Premises at Tenant's risk. Landlord shall not be liable to Tenant or Tenant's employees, licensees, invitees or guests or any other person for any loss, injury or damage to any property or person occasioned by theft, Force Majeure or any other cause beyond the control of Landlord, whether or not due to negligent acts or omissions of Tenant or Tenant's employees, licensees, invitees or guests or by any other third parties. All property

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placed on, in or about the Premises by, at the direction of, or with the consent of Tenant or its employees, agents, licensees or invitees shall be at the risk of Tenant or the owner thereof, and Landlord shall not be liable for any loss of or damage to said property resulting from any cause whatsoever.

15. **INSURANCE.**

- a. Throughout the Term, Tenant shall maintain, at its own expense, the following types of insurance;
  - i. commercial general public liability insurance, which shall include coverage for personal liability, contractual liability, Tenant's legal liability, bodily injury (including death) and property damage, all on an occurrence basis, with respect to the business carried on from the Premises and Tenant's use and occupancy of the Premises in an amount not less than \$1,000,000.00 per occurrence, with an umbrella liability policy of \$3,000,000.00 in excess of said liability insurance, with Landlord, Landlord's mortgagee (if any) and Landlord's designees named as additional insureds thereunder;
  - ii. special extended coverage form property damage insurance with respect to Tenant's property, equipment, inventory and fixtures located in or about the Premises, at the full replacement cost thereof;
  - iii. worker's compensation insurance as required by law; and
  - iv. any other insurance which Landlord reasonably requires.
- b. All such insurance policies shall:
  - i. provide that they shall not be canceled or the coverage reduced without thirty (30) days prior written notice to Landlord and Landlord's designees and mortgagee (if any);
  - ii. provide that such insurance shall be primary with respect to any policies carried by Tenant and that any coverage by Landlord shall be excess insurance;
  - iii. be issued by insurance companies authorized and licensed to do business in the State where the Premises are located and approved by Landlord, with a policy holders rating of no less than "A-VIII" in the most current edition of Best's Insurance Reports; ~~and~~
  - iv. contain a waiver of subrogation endorsement acceptable to Landlord; and

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v. contain deductible amounts acceptable to Landlord, but in no event greater than \$5,000.00.

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

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

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

17. **CASUALTY.**

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

b. Notwithstanding anything to the contrary contained in this Section 17, in the event the Building and/or the Premises are damaged by fire or other casualty, Landlord shall have the right to terminate this Lease upon thirty (30) days written notice to Tenant if (i) any lender holding a mortgage or deed of trust encumbering the Building or the Land requires that any portion of the insurance proceeds be applied to such indebtedness; (ii) a material portion of the Building or the Premises is damaged such that Landlord determines it would not be feasible to repair such damage; or (iii) Landlord does not (or will not (as determined by Landlord in its sole discretion) actually receive sufficient insurance proceeds to pay for all such repairs and restoration.

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

19. **SURRENDER.**

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

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

20. **HOLDING OVER.** If Tenant holds over and remains in possession of the Premises beyond the expiration of the Term or other termination of this Lease, such holding over shall not be deemed or construed to be a renewal of this Lease, but shall constitute the creation of a month-to-month tenancy which may be terminated by either Landlord or Tenant upon thirty (30) days prior written notice the other party. By such holding over, Tenant shall be deemed to have agreed to be bound by the terms and conditions of this Lease, except that during such month-to-month tenancy, Tenant shall pay a monthly rental rate equal to one hundred twenty five

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percent (125%) of the Rent for the immediately preceding month. Tenant shall indemnify Landlord for any costs and expenses incurred by Landlord as a result of any holdover by Tenant, including any costs or expenses incurred in connection with a successor tenant of the Premises.

**21. DEFAULT.**

- a. The following events or occurrences shall constitute events of default by Tenant under this Lease (each, an “Event of Default”):
- i. Tenant’s failure to pay any installment of Base Rent, Additional Rent or other sum due hereunder within five (5) days of when due;
  - ii. Tenant’s failure to perform any material covenant or condition of this Lease (except as set forth in (i) above) if such failure is not cured within thirty (30) days of Tenant’s notice of such default;
  - iii. Tenant’s abandonment of the Premises, or removal of all or substantially all of Tenant’s possessions or property from the Premises;
  - iv. Tenant’s general assignment of all or substantially all of its assets for the benefit of creditors; or
  - v. Tenant’s filing a petition for relief of any kind under the provisions of Title 11 or Title 7 of the United States Code, as amended (the “Bankruptcy Code”), or an involuntary petition under the Bankruptcy Code is filed against Tenant, or a receiver or trustee is appointed for all or substantially all of Tenant’s assets.

b. Upon any Event of Default, in addition to any other rights and remedies under this Lease, at law or in equity, and with or without terminating this Lease, Landlord and its agents and representatives may exercise any or all of the following rights and remedies; (i) bring suit for the collection of any amounts for which Tenant may be in default, or for the performance of any covenant or agreement required to be performed by Tenant hereunder; (ii) terminate this Lease or terminate Tenant’s right to possession of the Premises, in which case Tenant shall pay Landlord upon demand for all damages suffered by Landlord as a result of such default, including, without limitation, all past due Rent, all Rent due under this Lease from the date of such termination until the earlier of the end of the Term or the date upon which the Premises is completely relet, and all costs and expenses incurred by Landlord in connection with reletting the Premises; and/or (iii) cure any such breach or default on behalf of Tenant, in which case Tenant shall pay Landlord upon demand for all the damages suffered by Landlord and for all the costs and expenses incurred by Landlord in curing such default. Notwithstanding anything to the contrary contained in this Lease, in the event of an emergency, Landlord shall have the immediate right to cure any such breach or default by Tenant prior to the expiration of the applicable notice and cure period if reasonably necessary to protect the Premises or the Building, to prevent injury or damage to persons or property or in the event of

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any other emergency, and Tenant shall pay to Landlord all amounts expended by Landlord to cure such default within ten (10) days of written notice to Tenant of such amount. In the event Landlord shall terminate this Lease, Landlord shall have the right to relet the Premises to such persons and upon such terms as Landlord shall determine in its sole discretion, and Tenant shall pay Landlord upon demand all costs and expenses associated with such reletting, including, without limitation, attorneys' fees, brokerage commissions and all costs and expenses for any alterations, improvements or upfitting performed to the Premises. Tenant shall also pay to Landlord all reasonable attorneys' fees and court costs incurred by Landlord as a result of any default by Tenant hereunder. All amounts due from Tenant to Landlord hereunder shall bear interest at the lesser of ten percent (10%) per annum, compounded monthly, or the maximum interest rate allowable under law, until paid in full.

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

23. **HAZARDOUS MATERIALS.**

a. Throughout the Term, Tenant and its employees, agents, invitees, licensees or contractors shall not cause, permit or allow any substances, chemicals, materials or pollutants (whether solid, liquid or gaseous) deemed to be toxic or hazardous or the manufacture, storage, transport or disposal of which is regulated, governed, restricted or prohibited by any federal, state or local agency or authority, or under any federal, state or local law, ordinance, rule or regulation related to the environment, health or safety (collectively, the "Environmental Laws"), including, without limitation, any oil, gasoline, petroleum, petroleum by-products, asbestos or asbestos containing materials (collectively, the "Hazardous Materials"), to be handled, placed, stored, dumped, dispensed, released, discharged, deposited, manufactured, generated, treated, processed, used, transported or located on, in, under or about the Premises. Upon the expiration or earlier termination of this Lease, Tenant, at Tenant's expense, shall remove all Hazardous Materials from the Premises, except to the extent placed upon the Premises by Landlord.

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

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

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

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

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

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

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

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

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

30. **SECURITY DEPOSIT.** Simultaneously with the execution of this Lease, Tenant shall deposit with Landlord the sum of \$4,972.50 ("Security Deposit") as security for the performance by Tenant of all the terms, covenants and conditions of this Lease upon Tenant's part to be performed. The Security Deposit shall be returned to Tenant sixty (60) days after the expiration or earlier termination of this Lease, provided Tenant has fully performed all obligations to be performed by Tenant hereunder and no default by Tenant exists hereunder. Landlord, without prejudice to any other remedy, shall have the right to apply all or any part of the Security Deposit to cure any default of Tenant. If Landlord so uses any part of the Security Deposit, Tenant shall, upon demand, deposit with Landlord the amount so applied so that Landlord shall have the full Security Deposit on hand at all times during the Term. In the event of a sale of the Premises, Landlord shall have the right to transfer or credit the Security Deposit to the purchaser of the Premises. Landlord shall thereupon be released from all liability for the return of the Security Deposit and Tenant shall look solely to the new landlord for the return of the Security Deposit. The Security Deposit shall not be assigned or encumbered by Tenant without the prior written consent of Landlord. The Security Deposit shall bear interest which will be paid to the Landlord to cover expenses of maintaining the Security Deposit Account and the security deposits may be commingled with other funds of Landlord. The Security Deposit is not an advance rental deposit or a measure of Landlord's damages in the event of Tenant's default under this Lease.

31. **LANDLORD'S LIEN.** In addition to any statutory lien in Landlord's favor, Tenant hereby grants to Landlord a continuing security interest for the timely payment of all Base Rent, Additional Rent and other sums of money becoming due hereunder from Tenant and for the timely performance of all of Tenant's other obligations hereunder, upon all goods, wares, equipment, fixtures, furnishings, furniture, inventory, and other personal property of Tenant which are or may be put into the Premises during the Term

and all proceeds of the foregoing, and such property shall not be removed from the Premises during the Term without the consent of Landlord other than in the ordinary course of business. Upon the occurrence of an Event of Default under this Lease, Landlord shall have, in addition to any other remedies provided herein or at law, all rights and remedies of a secured creditor under the Uniform Commercial Code, as adopted in North Carolina, including, without limitation, the right to sell the property described in this Section 31 at public or private sale upon ten (10) days written notice to Tenant, and Landlord shall have the right to become the purchaser of such property, upon being the highest bidder at the sale. Tenant agrees to execute and deliver to Landlord, and authorizes Landlord to prepare and record in the appropriate recording offices, financing statements or other necessary documents requested by Landlord to effect and/or perfect such security interest, and Tenant agrees that this Lease may be recorded by Landlord in the appropriate recording offices as a financing statement. Any statutory lien for rent is not hereby waived, the express contractual lien herein granted being in addition and supplementary thereto.

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

To Landlord: Floyd Smith Office Park, LLC  
125 Floyd Smith Dr., Suite 280  
Charlotte, NC 28075  
Attn: Susan Rourke

To Tenant: Nexxus Lighting  
124 Floyd Smith Dr., Ste. 300  
Charlotte, NC 28262  
Attn: Mike Bauer

with a copy to:

Parker, Poe, Adams & Bernstein L.L.P.  
401 S. Tryon Street  
Suite 3000  
Charlotte, NC 28202  
Attn: Craig T. Lynch, Esq.

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

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

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

a. To install and maintain signs on the exterior and interior of the Building;

b. To designate all sources furnishing sign painting and lettering, towels, coffee cart service, vending machines or toilet supplies used or consumed in the Premises and the Building;

c. To have pass keys to the Premises;

d. To grant to anyone the exclusive right to conduct any business or render any service in the Building, provided such exclusive right shall not operate to exclude Tenant from the use expressly permitted by this Lease;

e. To have access to all mail chutes or boxes according to the rules of the United States Postal Service;

f. To require all persons entering or leaving the Building during such hours as Landlord may from time to time determine in its sole discretion to identify themselves to security personnel by registration or otherwise, and to establish such persons' right to enter or leave the Building, and to exclude or expel any peddler, solicitor or beggar at any time from the Premises or the Building; and

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

35. **MISCELLANEOUS.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Witness

**LANDLORD:**

By: SONIC FINANCIAL CORP, PTNR

By: /s/ Susan Rourke  
9/17/07

By: /s/ William L. Soshke  
Title: VP  
Date: 9/17/07

Witness

**TENANT:**

By: \_\_\_\_\_

  
By: /s/  
Title: PRESIDENT - CEO  
Date: 8/27/07

EXHIBIT A

LEGAL DESCRIPTION OF LAND

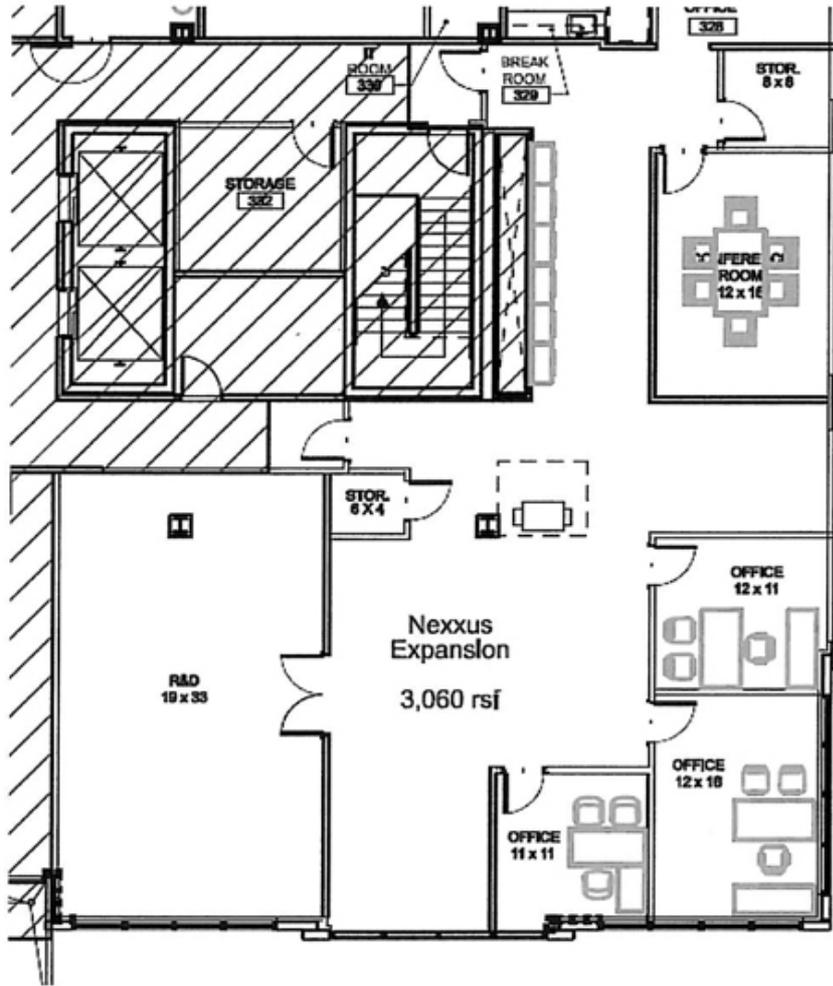
Lying and being in the Mallard Creek Township, Mecklenburg County, North Carolina and lying to the northwest of US Highway 29 (120' public right-of-way) and lying to the northeast of Floyd Smith Office Park Drive (60' public right-of-way, Map Book 37, Page 495) and being the property of Floyd Smith Office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

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

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

EXHIBIT B

FLOOR PLAN OF PREMISES



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EXHIBIT C

RULES AND REGULATIONS

1. Sidewalks, doorways, vestibules, halls, stairways and similar areas shall not be obstructed nor shall refuse, furniture, boxes or other items be placed therein by Tenant or its officers, agents, servants, and employees, or used for any purpose other than ingress and egress to and from the Premises, or for going from one part of the Building to another part of the Building. Canvassing, soliciting and peddling in the Building are prohibited.

2. Plumbing systems, fixtures and appliances shall be used only for the purposes for which constructed, and no unsuitable material shall be placed therein.

3. No signs, directories, posters, advertisements or notices shall be painted or affixed on or to any of the windows or doors, or in corridors or other parts of the Building, except in such color, size, and style, and in such places, as shall be first approved in writing by Landlord in its sole discretion. Building standard suite identification signs shall be prepared by Landlord at Tenant's expense. Landlord shall have the right to remove all unapproved signs without notice to Tenant, at the expense of Tenant.

4. Tenants shall not do, or permit anything to be done, in or about the Building, or bring or keep anything therein, that will in any way increase the rate of fire or other insurance on the Building, or on property kept therein or otherwise increase the possibility of fire or other casualty.

5. Landlord shall have the power to prescribe the weight and position of heavy equipment or objects. All damage done to the Building by the improper placing of such heavy items will be repaired at the expense of Tenant.

6. Tenant shall notify the Building manager when safes or other heavy equipment are to be taken in or out of the Building, and the moving shall be done after written permission is obtained from Landlord on such conditions as Landlord shall require.

7. Corridor doors, when not in use, shall be kept closed.

8. All deliveries must be made via the service entrance and service elevator, when provided, during Normal Business Hours. Landlord's written approval must be obtained for any delivery during non-Normal Business Hours.

9. Tenant shall cooperate with Landlord's employees in keeping the Premises neat and clean and in the performance of janitorial service to the Premises.

10. Tenants shall not cause or permit any improper noises in the Building, or allow any unpleasant odors to emanate from the Premises, or otherwise interfere, injure or annoy in any way other tenants in the Building or their invitees, customers, guests and employees.

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11. No animals shall be brought into or kept in or about the Building.

12. No machinery of any kind, other than ordinary office machines such as typewriters, information processing systems, copy machines, communications equipment and calculators, shall be operated on the Premises without the prior written consent of Landlord, not shall a Tenant use or keep in the Building any inflammable or explosive fluid or substance (including Christmas trees and ornaments), or any illuminating materials. No space heaters or fans shall be operated in the Building.

13. No bicycles, motorcycles or similar vehicles will be allowed in the Building.

14. No nails, hooks, or screws shall be driven into or inserted in any part of the Building, nor shall Tenant perform any boring, cutting or installation of any wirings in any part of the Building, without the prior written approval of Landlord.

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

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

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

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

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

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

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

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

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-23689, Form S-8 No. 333-32007, Form S-8 No. 333-70781, Form S-8 No. 333-123984 and Form S-3 No. 333-140286) of our report dated March 26, 2008, relating to the financial statements of Nexxus International, Inc. which appears in this Annual Report on Form 10-KSB for the year ending December 31, 2007.

/s/ Cross, Fernandez & Riley LLP

Orlando, Florida

March 26, 2008

## CERTIFICATIONS

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-KSB 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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) 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 small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 28, 2008

/s/ Michael A. Bauer

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

## CERTIFICATIONS

I, John C. Oakley, Chief Financial Officer of Nexxus Lighting, Inc., certify that:

1. I have reviewed this annual report on Form 10-KSB 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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. 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 small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 28, 2008

/s/ John C. Oakley  
John C. Oakley  
Chief Financial Officer  
(Principal Financial Officer)

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

This Certificate is being filed pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. This Certification is included solely for the purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose. In connection with the accompanying Annual Report on Form 10-KSB of Nexxus Lighting, Inc. for the year ending December 31, 2007, 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-KSB of Nexxus Lighting, Inc. for the year ending December 31, 2007, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in such Annual Report on Form 10-KSB of Nexxus Lighting, Inc. for the year ending December 31, 2007, fairly presents, in all material respects, the financial condition and results of operations of Nexxus Lighting, Inc.

NEXXUS LIGHTING, INC.

Dated: March 28, 2008

/s/ Michael A. Bauer

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

/s/ John C. Oakley

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John C. Oakley,  
Chief Financial Officer  
(Principal Financial Officer)