

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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

For the transition period from _____ to _____

Commission File No. 0-23590

NEXXUS LIGHTING, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE

(State or other Jurisdiction of
Incorporation or Organization)

59-3046866

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

124 FLOYD SMITH DRIVE, SUITE 300, CHARLOTTE, NORTH CAROLINA 28262

(Address of Principal Executive Offices) (Zip Code)

(704) 405-0416

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Number of shares of Common Stock, \$.001 par value, outstanding on May 8, 2012: 16,452,738

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Nexus Lighting, Inc.
Consolidated Balance Sheets

	(Unaudited) March 31, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,915,404	\$ 3,014,656
Trade accounts receivable, less allowance for doubtful accounts of \$33,232 and \$52,912	525,432	564,474
Inventories, less reserve of \$1,138,025 and \$895,415	2,482,619	2,977,047
Prepaid expenses	86,471	65,749
Other assets	862	26,359
Total current assets	5,010,788	6,648,285
Property and equipment	1,672,699	3,279,121
Accumulated depreciation and amortization	(1,047,147)	(2,536,144)
Net property and equipment	625,552	742,977
Goodwill	1,988,920	1,988,920
Other intangible assets, less accumulated amortization of \$952,915 and \$879,490	2,501,183	2,543,969
Other assets, net	22,315	23,857
	<u>\$ 10,148,758</u>	<u>\$ 11,948,008</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,037,889	\$ 1,070,916
Related party payable	17,961	18,151
Accrued compensation and benefits	160,774	206,803
Current portion of deferred rent	4,917	25,882
Other current liabilities	74	74
Total current liabilities	1,221,615	1,321,826
Convertible promissory notes to related parties, net of debt discount	2,336,079	2,314,854
Accrued interest	24,000	—
Total liabilities	3,581,694	3,636,680
Commitments and contingencies		
Stockholders' Equity:		
Common stock, \$.001 par value, 30,000,000 shares authorized, 16,452,738 issued and outstanding	16,453	16,453
Additional paid-in capital	50,033,601	50,007,362
Accumulated deficit	(43,482,990)	(41,712,487)
Total stockholders' equity	6,567,064	8,311,328
	<u>\$ 10,148,758</u>	<u>\$ 11,948,008</u>

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2012	2011
Revenue	\$ 1,148,247	\$ 1,553,594
Cost of sales	<u>1,187,713</u>	<u>1,064,437</u>
Gross (loss) profit	(39,466)	489,157
Operating expenses:		
Selling, general and administrative	1,487,720	1,602,359
Research and development	<u>197,172</u>	<u>194,063</u>
Total operating expenses	<u>1,684,892</u>	<u>1,796,422</u>
Operating loss	(1,724,358)	(1,307,265)
Non-operating income (expense):		
Interest expense	(46,884)	(27,537)
Other income	<u>56</u>	<u>240</u>
Total non-operating expense, net	<u>(46,828)</u>	<u>(27,297)</u>
Loss from continuing operations	\$ (1,771,186)	\$ (1,334,562)
Discontinued operations:		
Income from discontinued operations	<u>683</u>	<u>5,385</u>
Net loss	<u>\$ (1,770,503)</u>	<u>\$ (1,329,177)</u>
Basic and diluted loss per common share:		
Continuing operations	\$ (0.11)	\$ (0.08)
Discontinued operations	\$ 0.00	\$ 0.00
Net loss	\$ (0.11)	\$ (0.08)
Basic and diluted weighted average shares outstanding	<u>16,452,738</u>	<u>16,270,719</u>

See accompanying notes to unaudited consolidated financial statements.

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

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2011	16,452,738	\$16,453	\$50,007,362	\$(41,712,487)	\$ 8,311,328
Stock-based compensation	—	—	26,239	—	26,239
Net loss	—	—	—	(1,770,503)	(1,770,503)
Balance, March 31, 2012	<u>16,452,738</u>	<u>\$16,453</u>	<u>\$50,033,601</u>	<u>\$(43,482,990)</u>	<u>\$ 6,567,064</u>

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2012	2011
Cash Flows from Operating Activities:		
Net loss	\$(1,770,503)	\$(1,329,177)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	123,278	113,502
Amortization of intangibles	73,425	70,025
Amortization of debt discount and debt issuance costs	22,767	27,461
Amortization of deferred rent	(20,965)	(18,213)
Stock-based compensation	26,239	72,989
Loss on disposal of property and equipment	6,062	7,323
Loss on sale of businesses	—	648
Increase in inventory reserve	242,610	35,450
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Trade accounts receivable, net	39,042	(23,689)
Inventories	251,818	(1,036,262)
Prepaid expenses	(20,722)	(50,374)
Other assets	25,497	4,863
Increase (decrease) in:		
Accounts payable, accrued liabilities and related party payable	(33,217)	1,048,788
Accrued compensation and benefits	(46,029)	(35,739)
Other liabilities	24,000	(3,379)
Total adjustments	713,805	213,393
Net cash used in operating activities	<u>\$(1,056,698)</u>	<u>\$(1,115,784)</u>
Cash Flows from Investing Activities:		
Proceeds from the sale of businesses, net of transaction costs	—	1,110,334
Purchase of property and equipment	(19,600)	(78,180)
Patent and trademark costs	(30,639)	(40,663)
Proceeds from the sale of property and equipment	7,685	—
Net cash (used in) provided by investing activities	<u>(42,554)</u>	<u>991,491</u>
Cash Flows from Financing Activities:		
Proceeds from exercise of employee stock options and warrants, net	—	300,000
Net cash provided by financing activities	<u>—</u>	<u>300,000</u>
Net (decrease) increase in Cash and Cash Equivalents	(1,099,252)	175,707
Cash and Cash Equivalents, beginning of period	3,014,656	5,308,900
Cash and Cash Equivalents, end of period	<u>\$ 1,915,404</u>	<u>\$ 5,484,607</u>

See accompanying notes to unaudited consolidated financial statements.

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Nexus Lighting, Inc.

Notes to Consolidated Financial Statements (unaudited)

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

These unaudited financial statements should be read in conjunction with the Company's audited financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission ("SEC"). The results of operations for the three month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2012 or for any future period.

The Company has experienced continued net losses and faces significant challenges in order to reach profitability, particularly in light of the current challenging economic environment. The Company expects continuing losses in 2012, further eroding its cash position. In the event that the Company is unable to successfully manage its costs and expenses and raise additional capital through debt or equity financing or the liquidation or divestiture of assets or businesses, these conditions could significantly impair its ability to fund future operations. On April 30, 2012, the Company announced that it is exploring strategic alternatives available to it, including a possible sale of the Company. However, the Company can make no assurances and there is uncertainty regarding its ability to conclude transactions necessary for the Company to maintain liquidity sufficient to operate the business effectively over at least the next twelve months. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. If the Company is unable to maintain adequate liquidity, future operations will need to be scaled back or discontinued. Accordingly, the Company has identified certain operating measures that can be taken to conserve liquidity if circumstances warrant. These measures could include further reductions in costs and re-timing or eliminating certain capital spending.

1. Summary of Significant Accounting Policies:

Revenue recognition – Generally, the Company recognizes revenue for its products upon shipment to customers, provided no significant obligations remain and collection is probable. For sales that include customer acceptance terms, revenue is recorded after customer acceptance. It is the Company's policy that all sales are final. Requests for returns are reviewed on a case by case basis. As revenue is recorded, the Company accrues an estimated amount for product returns as a reduction of revenue. The level of returns may fluctuate from the Company's estimate. The Company offers early payment discounts to select customers. Revenue is recorded net of the amount of the early payment discounts that the Company estimates will be claimed by customers. Our products typically carry a warranty that ranges from two to five years and includes replacement of defective parts. A warranty reserve is recorded for estimated costs associated with potential warranty expenses on previous sales.

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

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

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

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

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of March 31, 2012. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities, which includes cash equivalents of approximately \$1,719,000 at March 31, 2012 and \$2,674,000 at December 31, 2011, respectively. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The respective carrying value of certain on-balance-sheet financial instruments

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approximated their fair values. These financial instruments include cash, trade receivables, related party payables, accounts payable and accrued liabilities. Fair values were assumed to approximate carrying values for these financial instruments since they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand.

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

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

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

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

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

Inventories – Inventories, excluding inventories at Lumificent Corporation, are stated at the lower of cost (average cost) or market. Inventories at Lumificent Corporation are stated at the lower of cost (first-in, first-out) or market. A reserve is recorded for any inventory deemed excessive or obsolete.

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

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

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

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

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

As of March 31, 2012, events and circumstances had occurred which indicated that the long-lived assets of the Company might be impaired, therefore, the Company assessed the recoverability of its long-lived assets. The Company determined that there was no impairment of long-lived assets as of March 31, 2012.

The Company is currently exploring strategic alternatives available to it, including a possible sale of the Company. It is reasonably possible that the Company will be required to test its long-lived assets for recoverability in the near future and its estimate of undiscounted cash flows may change, which could result in the need to write-down its long-lived assets to fair value.

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

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

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

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

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

Loss per share – Basic loss per share is computed by dividing net loss by the weighted average common shares outstanding for the period. Diluted loss per share is computed giving effect to all potentially dilutive common shares. Potentially dilutive common shares may consist of incremental shares issuable upon the exercise of stock options and warrants and the conversion of outstanding convertible securities. In periods in which a net loss has been incurred, all potentially dilutive common shares are considered anti-dilutive and thus are excluded from the calculation. At March 31, 2012 and 2011, the Company had 4,067,410 and 7,289,340, respectively, common shares which may be acquired pursuant to outstanding employee stock options, warrants and convertible securities that were not included in the computation of loss per share at March 31, 2012 and 2011 because to do so would have been anti-dilutive.

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

The Company estimates the fair value of each option award issued under its stock option plans on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted below in accordance with ASC 718. The Company estimates the volatility of its common stock at the date of grant based on the historical volatility of its common stock. These historical periods may exclude portions of time when unusual transactions occurred. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and post-vesting forfeitures. For shares that vest contingent upon achievement of certain performance criteria, an estimate of the probability of achievement is applied in the estimate of fair value. If the goals are not met, no compensation cost is recognized and any previously recognized compensation cost is reversed. The Company bases the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award. The Company has never paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. In addition, the Company separates the grants into homogeneous groups and analyzes the assumptions for each group. The Company then computes the expense for each group utilizing these assumptions.

	Three Months Ended March 31,	
	2012	2011
Expected volatility	81.1%	72.0%
Weighted-average volatility	81.1%	72.0%
Risk-free interest rate	0.4%	1.3%
Expected dividend	0%	0%
Expected life in years	3.5 – 8.6	3.5 – 8.6

Under ASC 718, stock-based compensation expense recognized in the accompanying unaudited statements of operations for the three months ended March 31, 2012 and 2011 was \$26,239 and \$72,989, respectively, which caused net loss to increase by that amount and basic and diluted loss per share for the three months ended March 31, 2012 and 2011 to increase by \$0.00.

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Business segments – Pursuant to FASB ASC 280 “Segment Reporting”, the Company is required to report segment information. The Company’s operations are principally managed on a product basis and are comprised of two reportable segments for financial purposes: LED replacement lamps and LED signage and lighting strips.

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

2. Discontinued Operations:

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

The components of discontinued operations for the three months ended March 31, 2012 and 2011 are as follows:

	Three Months Ended March 31,	
	2012	2011
Revenue	\$ 683	\$ 6,423
Income from operations	\$ 683	\$ 6,033
Loss on sale of divisions	—	(648)
Discontinued operations	\$ 683	\$ 5,385

3. Inventories:

Inventories consist of the following:

	(Unaudited)	
	March 31, 2012	December 31, 2011
Raw materials	\$ 1,571,258	\$ 1,708,642
Finished goods	2,049,386	2,163,820
	3,620,644	3,872,462
Less: Reserve for obsolescence	(1,138,025)	(895,415)
Net inventories	\$ 2,482,619	\$ 2,977,047

4. Other Intangible Assets:

At March 31, 2012, the Company had the following intangible assets subject to amortization:

	March 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	\$ 1,317,076	\$ (215,693)	\$ 1,101,383
Trademarks	908,998	(205,829)	703,169
Customer relationships	1,010,000	(395,583)	614,417
Non-compete agreement	60,000	(58,750)	1,250
Product certification and licensing costs	158,024	(77,060)	80,964
	\$ 3,454,098	\$ (952,915)	\$ 2,501,183

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

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

Remaining estimated annual amortization expense is as follows:

Year Ending December 31:	
2012	\$ 211,008
2013	264,079
2014	230,974
2015	226,798
2016	226,798
Thereafter	<u>1,125,283</u>
	<u>\$2,284,940</u>

At March 31, 2012, the Company had \$216,243 of patent applications and pending patents. Estimated annual amortization for these patent applications and pending patents is not included in the table above.

5. Goodwill:

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

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

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

There were no changes in the carrying amount of goodwill for the three months ended March 31, 2012.

6. Stock-Based Compensation:

The Company adopted a stock option plan in 1994 (the "1994 Plan") that provided for the grant of incentive stock options and nonqualified stock options, and reserved 450,000 shares of the Company's common stock for future issuance under the plan. The option price must have been at least 100% of market value at the date of the grant and the options have a maximum term of 10 years. Options granted typically vest ratably over a three-year period or based on achievement of performance criteria. The

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Company typically grants selected executives and other key employees share option awards, whose vesting is contingent upon meeting various departmental and company-wide performance goals including sales targets and net profit targets. As of March 31, 2012, options to purchase 15,000 shares of common stock were vested and exercisable under the 1994 Plan. The 1994 Plan terminated in 2004.

On September 18, 2003, the Company adopted a new stock option plan (the “2003 Plan”) that provides for the grant of incentive stock options and nonqualified stock options, and reserved 450,000 additional shares of the Company’s common stock for future issuance under the plan. The 2003 Plan was subsequently amended to increase the number of shares reserved for issuance thereunder to 670,000. During 2008, the 2003 Plan was further amended to increase the number of shares reserved for issuance to 810,000. During 2010, the 2003 Plan was further amended to increase the number of shares reserved for issuance thereunder to 1,160,000. The option price of incentive stock options must be at least 100% of market value at the date of the grant and incentive stock options have a maximum term of 10 years. Options granted typically vest ratably over a three-year period or based on achievement of performance criteria. The Company typically grants selected executives and other key employees share option awards, whose vesting is contingent upon meeting various departmental and company-wide performance goals including sales targets and net profit targets. As of March 31, 2012, options to purchase 669,704 shares of common stock were vested and exercisable under the 2003 Plan. In 2009, the Company amended the 2003 Plan to extend the post-service termination exercise period of nonstatutory stock options granted to directors for their service to the Company as directors from three months after the director’s termination date to the tenth anniversary of the date of grant.

The following table summarizes activity in the stock option plans for the three months ended March 31, 2012:

	Shares Available for Future Grant	Number of Shares Outstanding Under Option	Weighted Average Exercise Price
Balance, January 1, 2011	423,618	670,355	\$ 4.60
Options granted at market	(224,250)	224,250	2.32
Options forfeited or expired	154,585	(157,585)	2.95
Balance, December 31, 2011	353,953	737,020	\$ 4.26
Options granted at market	(2,500)	2,500	0.89
Options forfeited or expired	6,751	(6,751)	3.75
Balance, March 31, 2012	358,204	732,769	\$ 4.26

The weighted average fair value of options granted at market during the three months ended March 31, 2012 and 2011 was \$0.49 and \$2.03 per option, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2012 and 2011 was \$0. The aggregate intrinsic value of the outstanding exercisable options at March 31, 2012 and 2011 was \$0 and \$80,802, respectively.

7. Convertible Promissory Notes and Warrants:

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

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

The fair value of the Exchange Notes at issuance was estimated based upon the present value of their future cash flows, using credit risk adjusted rates, as enhanced by the fair value of the embedded conversion feature (“ECF”). Since the Company does not have an established credit rating, the credit risk adjusted yield of 10.3% was determined by reference to comparable instruments in public markets. The fair value of the ECF was determined using the Monte

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Carlo Simulation (“MCS”). MCS is an option-based model that embodies assumptions that would likely be considered by market participants who trade the financial instrument. In addition to more traditional assumptions, such as trading market values, trading volatilities and risk-free rates, MCS assumptions include credit risk, interest risk and redemption considerations. The fair value of the Exchange Warrants was determined using the Black-Scholes-Merton valuation technique over the term to contractual expiration. Significant assumptions included in these valuation techniques were as follows:

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

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

The final value allocated to the Exchange Notes on the issuance date of \$2,150,448 is less than the face value of \$2,472,000. This original issue discount of \$321,552 is amortized to interest expense using the effective interest method. For the three months ended March 31, 2012, the Company recorded amortization charges of \$27,225.

8. Segment Reporting:

The Company’s operations are principally managed on a product basis and are comprised of two reportable segments for financial purposes: LED replacement lamps and LED signage and lighting strips. The Array® product line consists of white light LED replacement lamps. The Lumificient product line consists of LED signage and lighting strips.

Financial information relating to the reportable operating segments for the three months ended March 31, 2012 and 2011 is presented below:

	<u>Three Months Ended March 31,</u>	
	<u>2012</u>	<u>2011</u>
Revenues from external customers:		
LED replacement lamps	\$ 290,146	\$ 379,053
LED signage and lighting strips	858,101	1,174,541
Total revenues from external customers	<u>\$ 1,148,247</u>	<u>\$ 1,553,594</u>
Segment income (loss):		
LED replacement lamps	\$ (622,032)	\$ (302,628)
LED signage and lighting strips	(94,684)	86,204
Segment loss	(716,716)	(216,424)
Unallocated amounts:		
Corporate expenses	(1,007,642)	(1,090,917)
Interest income	56	240
Interest expense	(46,884)	(27,461)
Loss from continuing operations	<u>\$(1,771,186)</u>	<u>\$(1,334,562)</u>
Depreciation and amortization:		
LED replacement lamps	\$ 54,874	\$ 64,932
LED signage and lighting strips	62,463	62,645
Segment depreciation and amortization	117,337	127,577
Corporate depreciation and amortization	79,366	55,950
Total depreciation and amortization	<u>\$ 196,703</u>	<u>\$ 183,527</u>

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9. Contingencies:

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

On March 26, 2012, Koninklijke Philips Electronics N.V. and Philips Solid-State Lighting Solutions, Inc. (collectively, "Philips") filed a lawsuit (civil action no. 12-cv-10549) in the United States District Court for the District of Massachusetts against the Company alleging that the Company's Array and certain other products infringe certain of Philips' patents for LED lighting. The plaintiff is seeking injunctive relief, monetary damages and reimbursement of its attorney's fees and costs. The Company is evaluating Phillips' claims. The Company intends to vigorously defend its intellectual property.

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

Special Note Regarding Forward-Looking Statements

The following discussion and analysis provides information that management believes is useful in understanding our operating results, cash flows and financial condition. The discussion should be read in conjunction with, and is qualified in its entirety by reference to, the unaudited Consolidated Financial Statements and Notes thereto appearing elsewhere in this report and the audited Financial Statements and related Notes to Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2011. All references in this report on Form 10-Q to “Nexxus,” “Nexxus Lighting,” “we,” “us,” “our company,” or “our” refer to Nexxus Lighting, Inc. and its consolidated subsidiary, except where it is clear that such terms mean only Nexxus Lighting, Inc. or our subsidiary Lumificient Corporation (“Lumificient”).

Except for the historical information contained herein, the discussions in this report contain certain forward-looking statements within the meaning of the “safe-harbor” provisions of the Private Securities Litigation Reform Act of 1995, as amended, the attainment of which involve various risks and uncertainties. Forward-looking statements may be identified by the use of forward-looking terminology such as “may”, “should”, “expect”, “plan”, “believe”, “estimate”, “anticipate”, “continue”, “predict”, “forecast”, “intend”, “potential”, or similar terms, variations of those terms or the negative of those terms. Our actual results may differ materially from those described in these forward-looking statements due to, among other factors, our history of losses and anticipated future losses, including the risk that any reorganization of our company, operations and/or product offerings, may cause us to incur greater losses and create disruptions in our business, the risk that we may be unable to obtain sufficient capital to continue operations, the risk that we may not be able to maintain adequate liquidity or remain viable if we are unable to successfully manage our costs and expenses and raise capital through the liquidation or divestiture of our assets or businesses or debt or equity financing, the risk that demand for our Array® brand of LED light bulbs fails to emerge as anticipated and the potential failure to make adjustments to our operating plan necessary as a result of any failure to forecast accurately, our dependence on a single customer for a substantial portion of our revenue and the risk that the loss of this key customer or a reduction in sales to this customer could seriously impact our revenue and adversely affect our results of operations and prospects, competition in each of our product areas, including price competition, dependence on suppliers and third-party manufacturers, the success of our sales, marketing and product development efforts, the condition of the international marketplace, general economic and business conditions, the evolving nature of our LED lighting technology, our ability to adequately protect our intellectual property rights, the risk that infringement claims by others may subject us to significant costs even if the claims are invalid, and the risk that an adverse outcome in litigation could subject us to significant liabilities, require us to license disputed rights from others or require us to cease marketing or using certain products or technologies. Additional information concerning these or other factors which could cause actual results to differ materially from those contained or projected in, or even implied by, such forward-looking statements is contained in this report and also from time to time in our other Securities and Exchange Commission filings. Readers should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2011. Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking information will prove to be accurate. Neither our company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. We are under no duty to update any of the forward-looking statements after the date of this report on Form 10-Q to conform our prior statements to actual results.

Overview

We design, manufacture, market and sell high performance, commercial grade, LED replacement light bulbs and LED-based signage, channel letter and contour lighting products. We sell these products under the Array Lighting and Lumificient brand names. With 44 issued patents and 30 combined U.S. and foreign patent applications pending related to our Array Lighting and Lumificient product offerings, our products incorporate many proprietary and innovative features. Our patented Selective Heat Sink (SHS) technology and patented designs provide opportunities for significant savings in energy and maintenance costs without compromising the environment. We generate revenue by selling products for use in the commercial, hospitality, institutional, retail and sign markets. We market and distribute products globally through multiple networks of independent sales representatives and distributors as well as through energy savings companies and national accounts. In 2011, we expanded our sales of Array replacement lamps to the consumer market channel through a large home improvement retailer. In March 2011,

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the retailer began offering our Array lamps through its website. Beginning in June 2011, our Array lamps became available in approximately 1,100 of the retailer's stores. In December 2011, we continued augmenting our traditional sales channels with the introduction of a commercial web portal to sell our Array product directly to end users.

We began shipping our line of Array LED replacement lamps in December 2008 and continued the launch in 2009. Since its introduction, sales of our Array LED replacement lamps have grown significantly. Revenue from the Array line increased 173% to approximately \$4,939,000 for the year ended December 31, 2011, compared to approximately \$1,808,000 for the year ended December 31, 2010.

The initial Array product line included five lamp sizes or types with several options for color temperatures and light beams. Since its introduction we have continued to broaden the product line by adding additional lamp sizes and options, as well as upgrades to the original products. We have successfully certified a number of our Array lamps under the Energy Star program and expect to continue seeking certification of our Array lamps under the Energy Star program as new products are introduced. Four of our Array lamps were among the first lamps to be certified under the Energy Star program which began accepting applications for lamps in September 2010. In February 2012, our Array R30 lamps were the first LED reflector lamp replacements to earn the full 50,000 hour certification by Energy Star. This 50,000 hour life is equivalent to more than 10 years when the lamp is on for twelve hours per day. We intend to continue making investments to expand the Array product offering and grow our market share.

The Company's operations are principally managed on a product basis and are comprised of two reportable segments for financial purposes: LED replacement lamps and LED signage and lighting strips. The Array product line consists of white light LED replacement lamps. The Lumificient product line consists of LED signage and lighting strips. Throughout this report, we use "Array" to refer to our LED replacement lamps segment and "Lumificient" to refer to our LED signage and lighting strips segment.

On October 28, 2010, we sold substantially all of the assets of our legacy commercial/architectural lighting and pool and spa lighting businesses (the "Legacy Commercial and Pool Lighting Businesses"). Our Legacy Commercial and Pool Lighting Businesses consisted of the manufacture, marketing and sale of LED and fiber optic lighting products used for applications in commercial, architectural and pool and spa markets, excluding our Array business and the business of Lumificient. The divestiture of these businesses fits with our strategic plans to focus our resources on businesses where we see more significant long term growth potential. The results of operations of the Legacy Commercial and Pool Lighting Businesses have been reflected as discontinued operations for all periods presented.

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

Results of Operations

Revenue: Revenue is derived from sales of our advanced lighting products. These products consist of solid-state LED replacement lamps, lighting systems and controls. Revenue is subject to both quarterly and annual fluctuations as a result of product mix considerations.

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

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

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

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

Three months ended March 31, 2012 vs. 2011

Revenue

	(Unaudited)			
	Quarter Ended March 31,			
	2012	2011	Change	%
Array LED lamps	\$ 290,146	\$ 379,053	\$ (88,907)	-23%
Lumifluent	858,101	1,174,541	(316,440)	-27%
Total revenue	<u>\$1,148,247</u>	<u>\$1,553,594</u>	<u>\$(405,347)</u>	<u>-26%</u>

Total revenue for the three months ended March 31, 2012 decreased 26%, or approximately \$405,000, to approximately \$1,148,000 as compared to approximately \$1,554,000 for the three months ended March 31, 2011. Sales of Lumifluent products decreased 27% from approximately \$1,175,000 in the first quarter of 2011 to approximately \$858,000 in the first quarter of 2012. This decrease reflects the deferral of purchases by several large national sign customers in the first quarter of 2012 that should return once the programs are re-initiated, which is expected to be later this year. In addition, Lumifluent experienced a growth in sales for non-sign lighting applications in the first quarter of 2011, which was not replicated in the first quarter of 2012.

Sales of Array products decreased 23% from approximately \$379,000 in the first quarter of 2011 to approximately \$290,000 in the first quarter of 2012. Sales were adversely affected by lower adoption rates of LED lights, competitive price pressures and general economic conditions.

Gross Profit

	(Unaudited)			
	Quarter Ended March 31,			
	2012	2011	Change	%
Revenue	\$1,148,247	\$1,553,594	\$(405,347)	-26%
Cost of sales	1,187,713	1,064,437	123,276	12%
Gross (loss) profit	<u>\$ (39,466)</u>	<u>\$ 489,157</u>	<u>\$(528,623)</u>	<u>-108%</u>
Gross margin %	-3%	31%		

For the quarter ended March 31, 2012, we reported a negative gross profit of approximately \$39,000, or -3% of revenue, as compared to a gross profit of approximately \$489,000, or 31% of revenue, for the comparable period of 2011. Direct gross margin, which is revenue less material cost, decreased from 47% in the first quarter of 2011 to 43% in the first quarter of 2012. This decrease primarily reflects sales of surplus inventory at reduced prices and competitive market pressures.

In the first quarter of 2012, distribution costs, which include some light assembly costs, increased to approximately \$537,000, or 47% of revenue, as compared to approximately \$243,000, or 16% of revenue, in the first quarter of 2011. The increase in distribution costs includes approximately \$243,000 more expense for inventory reserves recorded in the first quarter of 2012 compared to the same period in 2011. In response to our sales efforts and tightening market conditions, we established a general inventory reserve in the first quarter of 2012 to provide us with the flexibility to lower our selling price of Array products in certain circumstances.

Operating Loss and Expenses

	(Unaudited)			
	Quarter Ended March 31,			
	2012	2011	Change	%
Gross (loss) profit	\$ (39,466)	\$ 489,157	(528,623)	-108%
Less operating expenses:				
Selling, general and administrative	1,487,720	1,602,359	(114,639)	-7%
Research and development	197,172	194,063	3,109	2%
Total operating expenses	<u>1,684,892</u>	<u>1,796,422</u>	<u>(111,530)</u>	<u>-6%</u>
Operating loss	<u>\$(1,724,358)</u>	<u>\$(1,307,265)</u>	<u>\$(417,093)</u>	<u>32%</u>

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Selling, general and administrative (SG&A) expenses were approximately \$1,488,000 for the quarter ended March 31, 2012 as compared to approximately \$1,602,000 for the same period in 2011, a decrease of approximately \$115,000, or 7%. SG&A expenses decreased in the first quarter of 2012 due to lower employee compensation costs of approximately \$112,000 and lower stock-based compensation expense of approximately \$47,000.

Research and development costs were approximately \$197,000 during the three months ended March 31, 2012 and were flat as compared to the same period in 2011.

Income Taxes

We have provided a full valuation allowance against income tax benefits resulting from losses incurred and accumulated on operations. As a result, there was no provision for income tax recorded during the three months ended March 31, 2012 and 2011, respectively.

Net Loss

Net loss for the three months ended March 31, 2012 and 2011 was approximately \$1,771,000 and \$1,329,000, respectively, including income from discontinued operations related to the Legacy Commercial and Pool Lighting Businesses of approximately \$1,000 and \$5,000 for the three months ended March 31, 2012 and 2011, respectively. Basic and diluted loss per common share was \$0.11 and \$0.08 for the three months ended March 31, 2012 and 2011, respectively. Basic and diluted loss per common share from continuing operations was \$0.11 and \$0.08 for the three months ended March 31, 2012 and 2011, respectively. Basic and diluted loss per common share from discontinued operations was \$0.00 for the three months ended March 31, 2012 and 2011.

Liquidity and Capital Resources

At March 31, 2012, we had cash and cash equivalents of approximately \$1,915,000, compared to cash and cash equivalents of approximately \$3,015,000 at December 31, 2011. Cash used in the three months ended March 31, 2012 was approximately \$1,099,000. Working capital at March 31, 2012 was approximately \$3,789,000, a decrease of approximately 29% compared to working capital of approximately \$5,326,000 at December 31, 2011. The decline in working capital primarily represents cash used to fund operations in the first three months of 2012.

Net cash used in operating activities decreased approximately \$59,000 to approximately \$1,057,000 for the three months ended March 31, 2012, as compared to approximately \$1,116,000 for the three months ended March 31, 2011. Net loss adjusted for non-cash items for the three months ended March 31, 2012 increased by approximately \$277,000, as compared to the same period in 2011. Cash used for accounts payable, accrued liabilities and related party payable increased by \$1,082,000 and cash used for inventories decreased by approximately \$1,288,000 for the three months ended March 31, 2012 as compared to the same period in 2011.

Net cash used in investing activities for the three months ended March 31, 2012 was approximately \$43,000 as compared to net cash provided by investing activities of approximately \$991,000 in the same period of 2011. Cash provided by investing activities for the three months ended March 31, 2011 is primarily the result of the collection of the approximately \$1,111,000 note receivable related to the sale of the Legacy Commercial and Pool Lighting Businesses. Cash used for the purchase of property and equipment decreased by approximately \$59,000 for the three months ended March 31, 2012, as compared to the same period in 2011, and cash used for patent and trademark costs in the three months ended March 31, 2012 decreased by approximately \$10,000 compared to the same period in 2011.

Net cash provided by financing activities decreased by \$300,000 for the three months ended March 31, 2012 as compared to the same period in 2011 due to the decline in proceeds from employee stock options and warrants exercised in the first quarter of 2011.

Nexus' liquidity is affected by many factors. Some of these factors are based on operations of the business and others relate to the uncertainties of national and global economies and the lighting industry. Our ability to maintain adequate liquidity and achieve long-term viability is dependent upon successfully managing our costs and expenses and increasing revenue. There can be no assurance that we will be able to maintain adequate liquidity or remain viable. Our ability to meet our obligations in the

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ordinary course of business is dependent upon our ability to establish profitable operations, liquidate or divest assets or businesses, or raise additional capital through public or private debt or equity financing, or other sources of financing to fund operations. There can be no assurance such financing will be available on terms acceptable to us, if at all, or that any financing transaction will not be dilutive to our current stockholders.

We expect continuing losses in 2012, further eroding our cash position. In the event that we are unable to successfully manage our costs and expenses and raise additional capital through debt or equity financing or the liquidation or divestiture of assets or businesses, these conditions could significantly impair our ability to fund future operations. On April 30, 2012, we announced that we are exploring strategic alternatives available to us, including a possible sale of the company. However, we can make no assurances and there is uncertainty regarding our ability to conclude transactions necessary for us to maintain liquidity sufficient to operate our business effectively over at least the next twelve months. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. If we are unable to maintain adequate liquidity, future operations will need to be scaled back or discontinued. Accordingly, we have identified certain operating measures that can be taken to conserve liquidity if circumstances warrant. These measures could include further reductions in costs and re-timing or eliminating certain capital spending.

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

We may reorganize our company, operations and product offerings which may cause us to incur losses. Our review of operations for additional opportunities to reduce costs may lead to the determination to sell, close, eliminate, rationalize or reduce operations, assets or businesses and/or alter our sales, manufacturing and/or distribution structure. Should we decide to pursue any such changes, we may incur additional charges and losses in connection with such changes in the future, and such charges and losses may be material. In addition, we could experience difficulties, disruptions or delays in the implementation of any such changes and there can be no assurance that we will be able to implement such changes successfully, if at all, or on a timely basis.

Contractual Obligations

As of March 31, 2012, there have been no material changes to our contractual obligations disclosed in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2011.

Critical Accounting Policies

As of March 31, 2012, there have been no material changes to our critical accounting policies disclosed in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2011.

Critical Accounting Estimates

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

The critical accounting estimates are those that we believe are the more significant judgments and estimates used in the preparation of our financial statements. As of March 31, 2012, there have been no material changes to the critical accounting estimates as described in our Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

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Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

PART II

Item 1. Legal Proceedings

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

On March 26, 2012, Koninklijke Philips Electronics N.V. and Philips Solid-State Lighting Solutions, Inc. (collectively, “Philips”) filed a lawsuit (civil action no. 12-cv-10549) in the United States District Court for the District of Massachusetts against the Company alleging that the Company’s Array and certain other products infringe certain of Philips’ patents for LED lighting. The plaintiff is seeking injunctive relief, monetary damages and reimbursement of its attorney’s fees and costs. The Company is evaluating Phillips’ claims. The Company intends to vigorously defend its intellectual property.

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Item 6. Exhibits

(a) Exhibits.

<u>Exhibit Number</u>	<u>Document Description</u>
31.1*	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101**	The following financial statements from Nexxus Lighting, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed on May 15, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations (iii) Consolidated Statements of Stockholders' Equity (iv) Consolidated Statements of Cash Flows, (v) Notes to Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith

** Submitted electronically with this Report pursuant to Rule 405 of Regulation S-T

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

NEXXUS LIGHTING, INC.

By: /s/ Michael A. Bauer
Michael A. Bauer, Chief Executive Officer
(Principal Executive Officer)

Date: May 15, 2012

By: /s/ Gary R. Langford
Gary R. Langford, Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: May 15, 2012

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

I, Michael A. Bauer, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended March 31, 2012 of Nexxus Lighting, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2012

/s/ Michael A. Bauer

Michael A. Bauer

President and Chief Executive Officer

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

I, Gary R. Langford, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended March 31, 2012 of Nexxus Lighting, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2012

/s/ Gary R. Langford

Gary R. Langford
Chief Financial Officer

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

This Certification is being filed pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. This Certification is included solely for the purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose. In connection with the accompanying Quarterly Report on Form 10-Q of Nexxus Lighting, Inc. for the quarter ended March 31, 2012, each of the undersigned hereby certifies in his capacity as an officer of Nexxus Lighting, Inc. that to such officer's knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: May 15, 2012

By: /s/ Michael A. Bauer

Michael A. Bauer
Chief Executive Officer

Dated: May 15, 2012

By: /s/ Gary R. Langford

Gary R. Langford
Chief Financial Officer