

Waytronx, Inc.
Form 10-Q
November 15, 2010

WAYTRONX, INC.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For quarter ended September 30, 2010

Commission File Number 0-29195

WAYTRONX, INC.

(Name of Small Business Issuer in Its Charter)

Colorado	(3670)	84-1463284
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

20050 SW 112th Avenue
Tualatin, Oregon 97062
(503) 612-2300.

(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)

William J. Clough, CEO/President
Waytronx, Inc.
20050 SW 112th Avenue
Tualatin, Oregon 97062
(503) 612-2300.

(Name, Address and Telephone Number of Agent for Service)

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 x NO "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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.

Edgar Filing: Waytronx, Inc. - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

YES NO

As of September 30, 2010, there were 204,664,697 shares of the Company's common stock outstanding, 50,543 shares of Series A Convertible Preferred Stock outstanding, no shares of Series B and Series C Convertible Preferred Stock outstanding.

WAYTRONX, INC.

INDEX

	Page	
Part I		
Item 1	Financial Statements	3
	Condensed Consolidated Balance Sheets (unaudited)	3
	Condensed Consolidated Statements of Operations (unaudited)	4
	Condensed Consolidated Statements of Cash Flows (unaudited)	5
	Notes to the Condensed Consolidated Financial Statements (unaudited)	7
	Accounting Policies	8
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
	Overview	20
	Intellectual Property	22
	Liquidity and Capital Resources	22
	Results of Operations	24
	Contractual Obligations	25
Item 3.	Controls and Procedures	27
Part II		
Item 1	Legal Proceedings.	27
Item 1A	Risk Factors	27
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 3	Defaults Upon Senior Securities	28
Item 4	Removed and Reserved	28
Item 5	Other Information	28
Item 6	Exhibits and Reports on Form 8-K	28
	Signatures	29
	Exhibits	

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Waytronx, Inc.
Condensed Consolidated Balance Sheets

	September 30, 2010 (unaudited)	December 31, 2009
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 593,155	\$ 496,135
Trade accounts receivable, net of allowance of \$125,000 and \$135,000, respectively	5,128,812	4,673,382
Other accounts receivable	175,975	88,425
Other accounts receivable, related party	195,426	188,790
Inventories, net of allowance of \$330,000 and \$100,000, respectively	4,902,673	3,661,994
Prepaid expenses and other	267,221	375,085
Total current assets	11,263,262	9,483,811
Property and equipment, net	1,377,842	1,402,528
Other assets:		
Investment - equity method	129,871	79,075
Investments - long term	102,621	102,560
Technology rights, net	3,963,226	4,077,646
Patent costs, net	422,539	428,370
Other intangible assets, net	64,044	46,294
Deposits and other	80,394	113,350
Notes receivable, net	32,003	79,451
Debt offering costs, net	642,079	937,130
Goodwill, net	22,056,092	22,056,092
Total other assets	27,492,869	27,919,968
Total assets	\$ 40,133,973	\$ 38,806,307
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable	\$ 1,973,398	\$ 2,028,201
Preferred stock dividends payable	5,054	5,054
Demand notes payable	2,890,461	2,523,152
Accrued expenses	582,814	2,151,029
Accrued inventory	1,394,313	413,374
Accrued compensation	299,345	235,137
Unearned revenue	88,535	84,438
Notes payable, current portion due	4,475,968	1,003,793
Notes payable, related party, current portion due	1,500,000	170,852
Convertible notes payable, current portion due	-	300,000
Total current liabilities	13,209,888	8,915,030
Long term notes payable, net of current portion due of \$475,363 and \$71,573, respectively	2,134,492	7,624,948

Edgar Filing: Waytronx, Inc. - Form 10-Q

Long term notes payable, related party, net of current portion due of \$1,500,000 and \$170,852 and discounts of \$0 and \$369,516, respectively	10,496,191	13,171,624
Long term convertible notes payable	100,000	-
Long term convertible notes payable, related party, net of discounts of \$0 and \$2,773,555, respectively	-	3,126,445
Total liabilities	25,940,571	32,838,047
Commitments and contingencies		-
Stockholders' equity:		
Preferred stock, par value \$0.001; 10,000,000 shares authorized	-	-
Convertible Series A preferred stock, 5,000,000 shares authorized, 50,543 shares issued and outstanding liquidation preference of \$50,543 at September 30, 2010 and December 31, 2009, respectively	51	51
Convertible Series B preferred stock, 30,000 shares authorized, and no shares outstanding at September 30, 2010 and December 31, 2009, respectively	-	-
Convertible Series C preferred stock, 10,000 shares authorized, and no shares outstanding at September 30, 2010 and December 31, 2009, respectively	-	-
Common stock, par value \$0.001; 325,000,000 and 325,000,000 shares authorized and 204,664,697 and 169,837,626 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	204,665	169,838
Common stock issuable; 210,000 and 0 shares authorized and issuable at September 30, 2010 and December 31, 2009, respectively	210	-
Additional paid-in capital	64,156,718	60,541,742
Accumulated deficit	(50,175,790)	(54,746,787)
Accumulated other comprehensive income (loss)	(52,042)	(28,193)
Total stockholders' equity	14,133,812	5,936,651
Noncontrolling interest	59,590	31,609
Total liabilities and stockholders' equity	\$ 40,133,973	\$ 38,806,307

See accompanying notes to financial statements

Waytronx, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Revenues:				
Product Sales	\$ 10,498,761	\$ 7,936,409	\$ 28,847,379	\$ 20,040,311
Revenue from freight	21,534	20,291	57,948	77,229
Total revenue	10,520,295	7,956,700	28,905,327	20,117,540
Cost of revenues	6,378,085	5,033,060	17,998,219	12,294,615
Gross profit (loss)	4,142,210	2,923,640	10,907,108	7,822,925
Operating expenses				
Selling, general and administrative	3,082,699	3,142,720	9,053,147	7,967,756
Research and development	366,790	18,438	563,196	174,502
Bad debt	13,009	32,589	31,714	84,143
Impairment of goodwill	-	-	-	10,698,169
Total operating expenses	3,462,498	3,193,747	9,648,057	18,924,570
Profit (loss) from operations	679,712	(270,107)	1,259,051	(11,101,645)
Other income (expense)				
Other income	15,803	51,548	85,590	150,030
Other expense	(50,188)	(17,920)	(135,630)	(163,122)
Investment income (loss)	28,924	17,010	50,796	(55,033)
Gain on debt extinguishments	2,312,792	-	7,943,292	11,834,055
Interest expense - intrinsic value of convertible debt, amortization of debt offering costs and amortization of debt discount	(419,423)	(741,855)	(3,668,122)	(2,354,786)
Interest expense	(278,740)	(349,940)	(967,574)	(1,189,665)
Total other income (expense), net	1,609,168	(1,041,157)	3,308,352	8,221,479
Income (loss) before taxes	2,288,880	(1,311,264)	4,567,403	(2,880,166)
Provision for taxes	30,674	-	35,092	-
Consolidated Net profit (loss)	2,258,206	(1,311,264)	4,532,311	(2,880,166)
Less: Net profit (loss) - noncontrolling interest	2,659	3,463	(38,686)	3,463
Net profit (loss) - attributable to Waytronx Inc.	2,255,547	(1,314,727)	4,570,997	(2,883,629)
Less: Preferred stock dividends	-	-	-	-
Net profit (loss) allocable to common stockholders	\$ 2,255,547	\$ (1,314,727)	\$ 4,570,997	\$ (2,883,629)

Edgar Filing: Waytronx, Inc. - Form 10-Q

Other comprehensive profit (loss)				
Foreign currency translation adjustment	\$ (5,511)	\$ (24,001)	\$ (23,849)	\$ (24,001)
Comprehensive profit (loss)	\$ 2,250,036	\$ (1,338,728)	\$ 4,547,148	\$ (2,907,630)
Basic and diluted profit (loss) per common share	\$ 0.01	\$ (0.01)	\$ 0.02	\$ (0.02)
Diluted profit (loss) per common share	\$ 0.01	\$ (0.01)	\$ 0.02	\$ (0.02)
Basic weighted average common and common equivalents shares outstanding	196,478,788	168,088,471	183,860,295	167,217,609
Fully diluted weighted average common and common equivalents shares outstanding	204,248,645	168,088,471	190,871,534	167,217,609

See accompanying notes to financial statements

Waytronx, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	For the nine months ended September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit (loss)	\$ 4,570,997	\$ (2,880,166)
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:		
Stock, warrants, options and notes issued for compensation and services	69,734	431,913
Non-cash interest expense, including amortization of beneficial conversion value, warrant related debt discounts and intrinsic value of convertible debt and amortization of debt discount and amortization of debt offering costs	3,668,122	2,354,786
Non-cash (profit) loss on equity method investment	(50,796)	55,033
Bad debt expense	31,714	84,143
Amortization of technology rights	184,420	178,884
Amortization of patent costs	13,061	14,089
Amortization of website development	10,733	10,733
Impairment of goodwill	-	10,698,169
Impairment of patents	-	136,811
Gain on settlements of debt	(7,943,292)	(11,834,055)
Loss on disposal of assets	500	-
Net profit (loss) - noncontrolling interest	(38,686)	-
Depreciation	365,705	300,794
Amortization	833	578
(Increase) decrease in assets:		
Trade accounts receivable	(487,144)	(375,325)
Other accounts receivable	(87,550)	(106,559)
Other accounts receivable, related party	(6,636)	-
Inventory	(1,240,679)	847,662
Prepaid expenses and other current assets	109,179	(91,098)
Investments - long term	(61)	(40)
Deposits and other assets	32,956	(44,708)
Increase (decrease) in liabilities:		
Accounts payable	(54,803)	274,828
Accrued expenses	1,230,514	246,808
Accrued compensation	64,208	(272,709)
Unearned revenue	4,097	120,181
NET CASH PROVIDED BY OPERATING ACTIVITIES	447,126	150,752
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received form acquisition, net of cash paid	-	12,563
Investment in technology rights and development	(70,000)	(82,954)
Investment in patents	(7,230)	(23,854)
Investment in other intangible assets	(29,316)	-
Proceeds from Notes receivable	46,133	40,435
Payments from Notes receivable	-	(323,361)
Purchase of property and equipment	(341,519)	(212,009)

Edgar Filing: Waytronx, Inc. - Form 10-Q

NET CASH USED IN INVESTING ACTIVITIES	(401,932)	(589,180)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from demand notes payable, net of debt offering costs	137,309	628,554
Proceeds from notes and loans payable	81,719	319,526
Payments on demand notes payable	-	-
Payments on notes and loans payable	(2,050,000)	(616,123)
Payments on notes and loans payable, related party	(177,738)	(246,055)
Proceeds from conversion of debt to non-controlling interest	66,667	-
Proceeds from sales of common stock, and exercise of warrants and options, net of offering costs	2,017,718	5,305
NET CASH PROVIDED BY FINANCING ACTIVITIES	75,675	91,207
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(23,849)	(24,001)
Cash and cash equivalents at beginning of year	496,135	599,200
Cash and cash equivalents at end of period	593,155	227,978
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 97,020	\$ (371,222)

(continued)

Waytronx, Inc.
Condensed Consolidated Statements of Cash Flows (continued)
(unaudited)

	For the nine months ended September	
	2010	2009
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	\$ -	\$ -
Interest paid	\$ 775,175	\$ 731,117
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Discount on debt for intrinsic value of convertible notes payable	\$ 3,143,071	\$ 1,843,625
Amortization of debt offering costs	\$ 525,051	\$ 511,161
Conversion of debt to common stock	\$ 1,320,000	\$ -
Conversion of accrued liabilities to common stock	\$ 242,559	\$ -
Common stock issuable for consulting services and compensation and accrued liabilities payable in common stock	\$ 42,000	\$ 285,000

See accompanying notes to financial statements

Waytronx, Inc.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION AND GOING CONCERN

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for interim financial information which includes condensed financial statements. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position and results of operations and should be read in conjunction with the Annual Report, Form 10-K for the year ended December 31, 2009 as well as filings made related to the acquisition of CUI, Inc.

It is management's opinion that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year.

Waytronx, Inc. (formerly known as OnScreen Technologies, Inc.) is a platform company dedicated to the acquisition, development, and commercialization of new, innovative technologies.

Effective May 16, 2008, Waytronx, Inc. formed a wholly owned subsidiary, Waytronx Holdings, Inc., to acquire the assets of CUI, Inc., a Tualatin, Oregon based provider of electronic components including power supplies, transformers, converters, connectors and industrial controls for Original Equipment Manufacturers (OEMs). The wholly owned subsidiary was renamed CUI, Inc. following the close of the acquisition.

Effective July 1, 2009, Waytronx acquired CUI Japan (formerly Comex Instruments, Ltd.) and 49% of Comex Electronics Ltd. that includes an associated distribution network, both companies are Japanese based DSP providers of digital to analog and analog to digital test and measurement systems and electronic components for OEM research and development. These acquisitions provide a manufacturing component which allows Waytronx to manufacture some of its own products, such as the AMT encoder, in Japan.

The accompanying financial statements have been prepared on the assumption that Waytronx will continue as a going concern. As reflected in these financial statements, we had cash provided by operations of \$447,126 for the nine months ended September 30, 2010, had an accumulated deficit of \$50,175,790 and working capital deficiency of \$1,946,626 as of September 30, 2010. The ability to continue as a going concern is dependent upon the ability to bring additional technologies and products to market, generate increased sales, obtain positive cash flow from operations and raise additional capital. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

If necessary, we will continue to raise additional capital to provide sufficient cash to meet the funding required to commercialize our technology product lines. As we continue to expand and develop technology and product lines, additional funding may be required. There have been negative cash flows from operations and incurred net losses in the past and there can be no assurance as to the availability or terms upon which additional financing and capital might be available if needed.

2. ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates in 2010 and 2009 include estimates used to review the Company's long-lived assets for impairment, allowance for doubtful accounts, inventory valuation, valuations of non-cash capital stock issuances, valuations of derivatives and the valuation allowance on deferred tax assets.

Principles of Consolidation

The consolidated financial statements include the accounts of Waytronx, Inc., its wholly owned subsidiary CUI, Inc. and CUI Japan and its 49% owned subsidiary Comex Electronics (for the period July 1, 2009 to September 30, 2010) hereafter referred to as the "Company". Significant intercompany accounts and transactions have been eliminated in consolidation.

Fair Value of Financial Instruments

The carrying amounts of the Company's cash and cash equivalents, accounts receivable, prepaid expense and other assets, accounts payable, accrued liabilities, notes payable and deferred compensation approximate their fair value due as of September 30, 2010.

Cash

Cash includes deposits at financial institutions with maturities of three months or less. The Company at times has cash in banks in excess of FDIC insurance limits and places its temporary cash investments with high credit quality financial institutions. At September 30, 2010, the Company had cash balances at financial institutions which were in excess of the FDIC insured limits by \$78,641. The Company also maintained balances of \$213,829 in foreign financial institutions.

Accounts Receivable

The Company grants credit to its customers, with standard terms of Net 30 days. Other credit terms are available based upon a review of the customer's financial strength. The Company routinely assesses the financial strength of its customers and, therefore, believes that its accounts receivable credit risk exposure is limited. In addition, the Company maintains a foreign credit receivables insurance policy that covers many of its receivable balances in effort to further reduce credit risk exposure.

Inventory

Inventory consists of finished and un-finished products. At September 30, 2010, the Company had \$3,939,036 of finished goods, \$1,061,813 of raw materials and components, \$231,824 of work-in-process, and an allowance of \$330,000.

Furniture, Equipment and Software

Furniture, equipment and software are recorded at cost and include major expenditures, which increase productivity or substantially increase useful lives.

Maintenance, repairs and minor replacements are charged to expenses when incurred. When furniture and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation are removed from this account, and any gain or loss is included in the statement of operations.

The cost of furniture, equipment and software is depreciated over the estimated useful lives of the related assets. Depreciation is computed using the straight-line method for financial reporting purposes. The estimated useful lives and accumulated depreciation for furniture, equipment and software are as follows:

8

	Estimated Useful Life
Furniture and equipment	3 to 7 years
Software	3 to 5 years

Identifiable Intangible Assets

Intangible assets are stated at cost net of accumulated amortization and impairment. Intangible assets other than goodwill, technology rights and patents are amortized over an estimated useful life of 15 years. Technology rights are amortized over the shorter of a twenty year life or the term of the rights agreement and are reviewed for impairment annually. Patent costs are amortized over the life of the patent. Any patents not approved will be expensed at that time.

Intangible assets consist of the following as of September 30, 2010:

Technology Rights	\$ 5,196,406
Accumulated amortization	(1,233,180)
Net	\$ 3,963,226

Patent costs	\$ 471,580
Accumulated amortization	(49,041)
Net	\$ 422,539

Debt offering costs	\$ 2,274,646
Accumulated amortization	(1,632,567)
Net	\$ 642,079

Goodwill	\$ 22,058,208
Accumulated amortization	(2,116)
Net	\$ 22,056,092

Other intangible assets	\$ 137,040
Accumulated amortization	(72,996)
Net	\$ 64,044

Investment in Affiliate

Through the acquisition of CUI, Inc. the Company obtained 352,589 common shares representing a 10.47% interest in Test Products International, Inc., hereafter referred to as TPI. TPI is a provider of handheld test and measurement equipment. The Company also has a demand receivable of \$187,949 from TPI as of September 30, 2010. The Company enjoys a close association with this affiliate through common Board of Director membership and participation that allows for a significant amount of influence over affiliate business decisions. Accordingly, for financial statement purposes, the Company accounts for its investment in this affiliated entity under the equity method.

A summary of the unaudited financial statements of the affiliate as of September 30, 2010 is as follows:

Current assets	\$ 5,511,942
Non-current assets	974,131
Total Assets	\$ 6,486,073
Current liabilities	\$ 3,362,163
Non-current liabilities	1,491,072
Stockholders' equity	1,632,838
Total Liabilities and Stockholders' Equity	\$ 6,486,073
Revenues	\$ 8,984,611
Operating income	481,092
Net income	485,155
Company share of Net Profit at 10.47%	50,796
Equity investment in affiliate	\$ 129,871

Asset Impairment

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. In performing the review for recoverability, the future cash flows expected to result from the use of the asset and its eventual disposition are estimated. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized as the excess of the carrying amount over the fair value. Otherwise, an impairment loss is not recognized. Management estimates the fair value and the estimated future cash flows expected. Any changes in these estimates could impact whether there was impairment and the amount of the impairment.

Patent Costs

The Company estimates the patents it has filed have a future beneficial value; therefore it capitalizes the costs associated with filing for its patents. At the time the patent is approved, the patent costs associated with the patent are amortized over the useful life of the patent. If the patent is not approved, at that time the costs will be expensed. A change in the estimate of the patent having a future beneficial value will impact the other assets and expense accounts.

Derivative Liabilities

The Company accounts for its embedded conversion features and freestanding warrants pursuant to FASB Accounting Standards Codification No. 815 ("FASB ASC 815"), "Derivatives and Hedging", which requires a periodic valuation of the fair value of derivative instruments and a corresponding recognition of liabilities associated with such derivatives. The recognition of derivative liabilities related to the issuance of shares of common stock is applied first to the proceeds of such issuance, at the date of issuance, and the excess of derivative liabilities over the proceeds is recognized as other expense in the accompanying consolidated financial statements. The recognition of derivative liabilities related to the issuance of convertible debt is applied first to the proceeds of such issuance as a debt discount, at the date of issuance, and the excess of derivative liabilities over the proceeds is recognized as other expense in the accompanying consolidated financial statements. Any subsequent increase or decrease in the fair value of the derivative liabilities is recognized as other expense or other income, respectively. The reclassification of a contract is reassessed at each balance sheet date. If a contract is reclassified from permanent equity to an asset or a liability, the change in the fair value of the contract during the period the contract was classified as equity is accounted for as an adjustment to equity. If a contract is reclassified from an asset or liability to equity, gains or losses recorded to account for the contract at fair value during the period that contract was classified as an asset or a liability are not reversed but instead are accounted for as an adjustment to equity.

Revenue Recognition

The recognition of revenues requires judgment, including whether a sale includes multiple elements, and if so, whether vendor-specific objective evidence (VSOE) of fair value exists for those elements. Customers receive certain elements of Waytronx products over a period of time. These elements include licensing rights to manufacture and sell our proprietary patent protected products. The ability to identify VSOE for those elements and the fair value of the respective elements could materially impact the amount of earned and unearned revenue. Waytronx does not have any history as to the costs expected to be incurred in granting licensing rights relating to its products. Therefore, revenues may be recorded that are not in proportion to the costs expected to be incurred in performing these services.

Revenues in connection with electronic devices and component sales by CUI, Inc. are recognized at the time the product is shipped to the customer.

Revenues in connection with product sales by CUI Japan and Comex Electronics are recognized at the time the product is shipped to the customer. VSOE sales also exist for CUI Japan and Comex Electronics related to the development of product for specific customers. The ability to identify VSOE for those elements and the fair value of the respective elements could materially impact the amount of earned and unearned revenue. VSOE sales are invoiced according to the related sales agreements.

Shipping and Handling Costs

Amounts billed to customers in sales transactions related to shipping and handling represent revenues earned for the goods provided and are included in sales. Costs of shipping and handling are included in cost of revenues.

Stock issued for services to other than Employees

Common stock, stock options and common stock warrants issued to other than employees or directors are recorded on the basis of their fair value, as required by FASB ASC 505, which is measured as of the date required by FASB ASC 505, "Equity – Based Payments to Non-Employees". In accordance with FASB ASC 505, the stock options or common stock warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying common stock on the "valuation date," which for options and warrants related to contracts that have substantial disincentives to non-performance is the date of the contract, and for all other contracts is the vesting date. Expense related to the options and warrants is recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period. Where expense must be recognized prior to a valuation date, the expense is computed under the Black-Scholes option pricing model on the basis of the market price of the underlying common stock at the end of the period, and any subsequent changes in the market price of the underlying common stock up through the valuation date is reflected in the expense recorded in the subsequent period in which that change occurs.

Foreign Currency Translation

The financial statements of the Company's foreign offices have been translated into U.S. dollars in accordance with FASB ASC 830, "Foreign Currency Matters" (FASB ASC 830). All balance sheet accounts have been translated using the exchange rate in effect at the balance sheet date. Income statement amounts have been translated using an appropriately weighted average exchange rate for the year. The translation gains and losses resulting from the changes in exchange rates during 2010 and 2009 have been reported in accumulated other comprehensive income, except for gains and losses resulting from the translation of intercompany receivables and payables, which are included in earnings for the period.

Segment Reporting

The Company has identified five operating segments based on the products offered. The five segments are External Power, Internal Power, Industrial Controls, Comex/CUI Japan and Other. The External Power segment is focused primarily on sales of external power supplies and related components. The Internal Power segment is focused

primarily on sales of internal power supplies and related components. The Industrial Controls segment is focused primarily on sales of encoding devices and related components. The Comex/CUI Japan segment is focused on the sales of Comex and CUI Japan products. The Other category represents activity of segments that do not meet the threshold for segment reporting and are combined.

Edgar Filing: Waytronx, Inc. - Form 10-Q

The following information is presented for the nine months ended September 30, 2010 for operating segment activity:

	External Power	Internal Power	Industrial Controls	Comex (Japan)	Other	Totals
Revenues from external customers	\$ 15,619,142	\$ 6,360,109	\$ 3,281,857	\$ 2,793,809	\$ 850,410	\$ 28,905,327
Intersegment revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Derivative income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest revenues	\$ -	\$ -	\$ -	\$ 7,484	\$ 10,969	\$ 18,453
Equity in profit (loss) of unconsolidated affiliate	\$ -	\$ -	\$ -	\$ -	\$ 50,796	\$ 50,796
Interest expense - intrinsic value of convertible debt, amortization of debt offering costs and amortization of debt discount	\$ -	\$ -	\$ -	\$ -	\$ 3,668,122	\$ 3,668,122
Interest expense	\$ -	\$ -	\$ -	\$ 52,886	\$ 914,688	\$ 967,574
Depreciation and amortization	\$ -	\$ -	\$ -	\$ 25,063	\$ 549,689	\$ 574,752
Segment profit (loss)	\$ 5,048,250	\$ 1,298,890	\$ 568,187	\$ (67,005)	\$ (2,316,011)	\$ 4,532,311
Other significant non-cash items:						
Stock, options, warrants and notes issued for compensation and services	\$ -	\$ -	\$ -	\$ -	\$ 69,734	\$ 69,734
Gain on debt extinguishments	\$ -	\$ -	\$ -	\$ -	\$ 7,943,292	\$ 7,943,292
Segment assets	\$ -	\$ -	\$ -	\$ 4,232,102	\$ 35,901,871	\$ 40,133,973
Foreign currency translation adjustments	\$ -	\$ -	\$ -	\$ (23,849)	\$ -	\$ (23,849)
Expenditures for segment assets	\$ -	\$ -	\$ -	\$ 47,402	\$ 400,663	\$ 448,065

The following information is presented for the nine months ended September 30, 2009 for operating segment activity:

	External	Internal	Industrial	Comex /	Other	Totals
--	----------	----------	------------	---------	-------	--------

Edgar Filing: Waytronx, Inc. - Form 10-Q

	Power	Power	Controls	CUI Japan		
Revenues from external customers	\$ 11,126,205	\$ 4,923,076	\$ 2,119,030	\$ 1,028,172	\$ 921,057	\$ 20,117,540
Intersegment revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Derivative income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest revenues	\$ -	\$ -	\$ -	\$ 7	\$ 13,918	\$ 13,925
Equity in profit (loss) of unconsolidated affiliate	\$ -	\$ -	\$ -	\$ -	\$ (55,033)	\$ (55,033)
Interest expense - intrinsic value of convertible debt, amortization of debt offering costs and amortization of debt discount	\$ -	\$ -	\$ -	\$ -	\$ 2,354,786	\$ 2,354,786
Interest expense	\$ -	\$ -	\$ -	\$ 15,258	\$ 1,174,407	\$ 1,189,665
Depreciation and amortization	\$ -	\$ -	\$ -	\$ 8,777	\$ 496,301	\$ 505,078
Segment profit (loss)	\$ 2,687,725	\$ 707,323	\$ 123,697	\$ (2,368)	\$ (6,396,543)	\$ (2,880,166)
Other significant non-cash items:						
Stock, options, warrants and notes issued for compensation and services	\$ -	\$ -	\$ -	\$ -	\$ 431,913	\$ 431,913
Impairment of goodwill	\$ -	\$ -	\$ -	\$ -	\$ 10,698,169	\$ 10,698,169
Impairment of patents	\$ -	\$ -	\$ -	\$ -	\$ 136,811	\$ 136,811
Gain on debt extinguishments	\$ -	\$ -	\$ -	\$ -	\$ 11,834,055	\$ 11,834,055
Segment assets	\$ -	\$ -	\$ -	\$ 3,270,484	\$ 35,471,271	\$ 38,741,755
Foreign currency translation adjustments	\$ -	\$ -	\$ -	\$ (24,001)	\$ -	\$ (24,001)
Acquisition of Comex Electronics and CUI Japan	\$ -	\$ -	\$ -	\$ -	\$ 103,589	\$ 103,589
Expenditures for segment assets	\$ -	\$ -	\$ -	\$ 513	\$ 318,304	\$ 318,817

Only the Comex/CUI Japan and Other operating segments hold assets individually. The External Power, Internal Power and Industrial Controls operating segments do not hold assets individually as segment assets as they utilize the Company assets held in the Other segment.

Reclassification

Certain amounts from prior period have been reclassified to conform to the current period presentation.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-14, Software (Accounting Standards Codification (ASC) Topic 985) - Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the scope of ASC subtopic 965-605, Software-Revenue Recognition to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. This update requires expanded qualitative and quantitative disclosures.

In October 2009, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update 2009-13, Revenue Recognition (Topic 605)—Multiple-Deliverable Revenue Arrangements. FASB Accounting Standards Update 2009-13 addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, this guidance amends the criteria in Accounting Standards Codification ("ASC") Subtopic 605-25, Revenue Recognition-Multiple-Element Arrangements, for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. FASB Accounting Standards Update 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The adoption of Accounting Standards Update 2009-13 is not expected to have a material impact on the condensed consolidated financial statements.

In December 2009, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" ("ASU 2009-17"). ASU 2009-17 changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. ASU 2009-17 requires a number of new disclosures, including additional disclosures about the reporting entity's involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity is required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. ASU 2009-17 is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year-end entity. Based on the Company's evaluation of ASU 2009-17, the adoption of this standard did not impact the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (ASC Topic 820) — Improving Disclosures About Fair Value Measurements. The ASU requires new disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those

disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Other than requiring additional disclosures, the adoption of this new guidance will not have a material impact on the Company's consolidated results of operations and financial position.

Subsequent Events Disclosure: On February 24, 2010, the FASB issued an update to address certain implementation issues related to Accounting Standards Codification, or ASC, 855-10-50, Subsequent Events—Disclosure, regarding an entity's requirement to perform and disclose subsequent events procedures. Effective upon its issuance, the update exempts Securities and Exchange Commission registrants from disclosing the date through which subsequent events have been evaluated. This update affected disclosure only and had no impact on our consolidated financial position or consolidated results of operations.

3. ACQUISITION

On July 1, 2009, Waytronx acquired Comex Instruments, Ltd. and 49% of Comex Electronics, Ltd., for approximately \$260,000. Comex Instruments, Ltd. shall become CUI Japan, Ltd. The acquisition was secured by an initial payment of approximately \$103,589 to acquire Comex Instruments and 49% of Comex Electronics. The terms of the acquisition called for three equal annual payments over the next three years to acquire the remaining 51% of Comex Electronics. The terms of acquisition have been amended to allow Waytronx to acquire the remaining 51% at anytime during the five years following the initial acquisition. In accordance with the Company's charter, Waytronx maintains two of the three Comex Electronics board positions and therefore has effective control.

The table below summarizes the unaudited pro forma information of the results of operations for Comex Electronics and CUI Japan for the nine months ended September 30, 2009 as though the acquisition had been completed as of January 1, 2009:

	2009
Gross revenue	\$ 21,620,386
Total expenses	25,070,931
Net profit (loss) before taxes	\$ (3,450,545)
Less: Net profit (loss) – noncontrolling interest	\$ (273,375)
Net profit (loss) - attributable to Waytronx Inc. before taxes	\$ (3,177,170)
Earnings per share	\$ (0.02)

4. INCOME (LOSS) PER COMMON SHARE

Common stock equivalents in the three and nine months ended September 30, 2010 were dilutive. Common stock equivalents in the three and nine months ended September 30, 2009 were anti-dilutive, thus the diluted weighted average common shares outstanding in these periods are the same as the basic weighted average common shares outstanding.

At September 30, 2010 and 2009, respectively, 21,035,683 and 96,121,146 potential common stock shares are issuable upon the exercise of warrants and options and conversion of debt to common stock. For the three and nine months ended September 30, 2010, 12,650,166 shares related to warrants and options were excluded from the September 30, 2010 computation of the diluted earnings per share as they were anti-dilutive due to their exercise price being in excess of the average close price for the three and six month period ended or they were not yet vested. For the three and nine months ended September 30, 2010, 0 and 666,666 shares, respectively, related to the conversion of debt were excluded from the September 30, 2010 computation of the diluted earnings per share as they were anti-dilutive due to their exercise price being in excess of the average close price for the three and six month period ended or they were not yet vested. These potential common shares issuable are excluded from computing the diluted net income (loss) per share for the three and nine months ended September 30, 2009 as the effect of such shares would be anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net profit (loss) for the period attributable to Waytronx Inc.	\$ 2,255,547	\$ (1,314,727)	\$ 4,570,997	\$ (2,883,629)
Weighted average number of shares outstanding	196,478,788	168,088,471	183,860,295	167,217,609
Weighted average number of common and common equivalent shares	196,478,788	168,088,471	183,860,295	167,217,609
Basic earnings (loss) per share	\$ 0.01	\$ (0.01)	\$ 0.02	\$ (0.02)
	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net profit (loss) for the period attributable to Waytronx Inc.	\$ 2,255,547	\$ (1,314,727)	\$ 4,570,997	\$ (2,883,629)
Add: Adjustment for interest on 12% convertible note	-	-	-	-
Adjusted net income (loss)	\$ 2,255,547	\$ (1,314,727)	\$ 4,570,997	\$ (2,883,629)
Weighted average number of shares outstanding	196,478,788	168,088,471	183,860,295	167,217,609
Add: Warrants and options as of beginning of period	6,263,552	-	6,134,082	-
Warrants and options as of date of vesting	1,252,307	-	624,442	-
Convertible preferred shares outstanding	252,715	-	252,715	-
12% convertible notes as of end of period	1,283	-	-	-
Weighted average number of common and common equivalent shares	204,248,645	168,088,471	190,871,534	167,217,609
Diluted earnings (loss) per share	\$ 0.01	\$ (0.01)	\$ 0.02	\$ (0.02)

5. INCOME TAXES

An income tax benefit has not been recognized for operating losses generated in prior periods based on uncertainties concerning the ability to generate taxable income in future periods. The tax benefit as of the nine months ended September 30, 2010 and 2009 is offset by a valuation allowance established against deferred tax assets arising from operating losses and other temporary differences, the realization of which could not be considered more likely than not. In future periods, tax benefits and related deferred tax assets will be recognized when management considers

realization of such amounts to be more likely than not.

6. WORKING CAPITAL LINE OF CREDIT

At September 30, 2010, the Company maintained a \$4,000,000 revolving working capital line of credit with the Business Credit division of Wells Fargo Capital Finance, part of Wells Fargo Bank, National Association (NYSE: WFC), interest payable monthly at the Daily Three Month LIBOR plus 3.75% (4.04% at September 30, 2010). The Wells Fargo LOC expires July 31, 2013. As of the date of this filing, the Company is compliant with all covenants on the new line of credit with Wells Fargo Capital Finance. At September 30, 2010, the balance outstanding on the line of credit was \$2,031,395.

7. OPTIONS AND WARRANTS

On January 5, 2009 the Company Board of Directors received and approved a written report and recommendations of the Compensation Committee which included a detailed executive equity compensation report and market analysis and the recommendations of Compensia, Inc., a management consulting firm that provides executive compensation advisory services to compensation committees and senior management of knowledge-based companies. The Compensation Committee used the report and analysis as a basis for its formal written recommendation to the board. Pursuant to a January 8, 2009 board resolution the 2009 Equity Incentive Plan (Executive), a Non-Qualified Stock Option Plan, was created and funded with 4,200,000 shares of \$0.001 par value common stock. The Compensation Committee was appointed as the Plan Administrator to manage the plan.

The 2009 Equity Incentive Plan (Executive) provides for the issuance of stock options to attract, retain and motivate executive and management employees and directors and to encourage these individuals to acquire an equity interest in the Company, to make monetary payments to certain management employees and directors based upon the value of the Company's stock and to provide these individuals with an incentive to maximize the success of the Company and further the interest of the shareholders. The 2009 Plan provides for the issuance of Incentive Non Statutory Options. The Administrator of the plan is authorized to determine the exercise price per share at the time the option is granted, but the exercise price shall not be less than the fair market value on the date the option is granted. Stock options granted under the 2009 Plan have a maximum duration of 10 years.

On May 15, 2008, the Board of Directors approved the Waytronx, Inc. 2008 Equity Incentive Plan ("2008 Plan") for 1,500,000 shares of the Company's common stock. The 2008 Plan provides for the issuance of stock options to attract, retain and motivate employees, to encourage employees, directors and independent contractors to acquire an equity interest in the Company, to make monetary payments to certain employees based upon the value of the Company's stock, and provide employees, directors and independent contractors with an incentive to maximize the success of the Company and further the interest of the shareholders. The 2008 Plan provides for the issuance of Incentive Stock Options and Non Statutory Options. The Administrator of the plan shall determine the exercise price per share at the time the option is granted, but the exercise price shall not be less than the fair market value on the date the option is granted. Stock options granted under the 2008 Plan have a maximum duration of 10 years.

At the 2009 Annual Meeting of Shareholders held on September 29, 2009, the shareholders approved an amendment to the 2008 Equity Incentive Plan to increase the number of common shares issuable under the plan from 1,500,000 to 3,000,000. All of these shares have been registered under Form S-8.

On August 25, 2005, the Board of Directors approved the 2005 Equity Incentive Plan ("2005 Plan") for 2,000,000 shares of the Company's common stock. The 2005 Plan provides for the issuance of stock options to attract, retain and motivate employees, to encourage employees, directors and independent contractors to acquire an equity interest in the Company, to make monetary payments to certain employees based upon the value of the Company's stock, and provide employees, directors and independent contractors with an incentive to maximize the success of the Company and further the interest of the shareholders. The 2005 Plan provides for the issuance of Incentive Stock Options and Non Statutory Options. The Administrator of the plan shall determine the exercise price per share at the time the option is granted, but the exercise price shall not be less than the fair market value on the date the option is granted. Stock options granted under the 2005 Plan have a maximum duration of 10 years.

On June 26, 2000, the Company's Board of Directors adopted the OnScreen Technologies, Inc. 2000 Stock Option Plan (the "Plan"). The Plan provides for the issuance of incentive stock options (ISO's) to any individual who has been employed by the Company for a continuous period of at least six months. The Plan also provides for the issuance of Non Statutory Options (NSO's) to any employee who has been employed by the Company for a continuous period of at least six months, and any director or consultant to the Company. The Company may also issue reload options as defined in the plan. The total number of common shares of common stock authorized and reserved for issuance under the Plan is 600,000 shares. The Board shall determine the exercise price per share in the case of an ISO at the time an option is granted and such price shall be not less than the fair market value or 110% of fair market value in the case of a ten percent or greater stockholder. In the case of a NSO, the exercise price shall not be less than the fair market value of one share of stock on the date the option is granted. Unless otherwise determined by the Board, ISO's and NSO's granted under the Plan have a maximum duration of 10 years.

Edgar Filing: Waytronx, Inc. - Form 10-Q

At December 31, 2009, there were 1,458,000 non-vested stock options. The fair value of each stock option is estimated on the date of grant using a Black Scholes Pricing Model. During the nine months ended September 30, 2010, the Company granted 275,000 stock options to employees under the 2008 Plan with the following assumptions; exercise price of \$0.19, volatility of 163%, risk free interest rate of 0.75% and a term of 2 years.

The following information is presented for the stock option activity for the nine months ended September 30, 2010:

	Number of Warrants and Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life
Outstanding at December 31, 2009	7,663,273	\$ 0.17	8.19 years
Exercised	-	\$ -	
Expired	-	\$ -	
Forfeited	(135,000)	\$ 0.19	
Granted	275,000	\$ 0.19	
Outstanding at June 30, 2010	7,803,273	\$ 0.17	8.11 years
Outstanding exercisable at June 30, 2010	7,317,273	\$ 0.16	8.10 years

The weighted average fair value of options granted during the periods are as follows:

	2010	2009
Exercise price lower than the market price	\$ -	\$ -
Exercise price equaled the market price	\$ -	\$ -
Exercise price exceeded the market price	\$ 0.19	\$ 0.19
Exercise price exceeded the market price	\$ -	\$ 0.25

The following information is presented for the warrant activity for the nine months ended September 30, 2010:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contract Life
Outstanding at December 31, 2009	13,602,620	\$ 0.11	
Exercised	(753,592)	\$ 0.02	
Expired	(50,000)	\$ 0.25	
Forfeited	-	\$ -	
Granted	-	\$ -	
Outstanding at June 30, 2010	12,799,028	\$ 0.12	0.72 years
Outstanding exercisable at June 30, 2010	12,799,028	\$ 0.12	0.72 years

8. NOTES PAYABLE

Edgar Filing: Waytronx, Inc. - Form 10-Q

At December 31, 2009 the Company had a secured convertible promissory note totaling \$1,000,000 due November 2011, interest accrued at 12% per annum, payable monthly, until the maturity of these notes at which time principal is due. In April 2010, the balance of \$1,000,000 on this note was converted to equity.

At December 31, 2009, the Company had secured promissory notes totaling \$625,000 due September 1, 2010, interest accrues at 12% per annum, payable monthly, until the maturity of these notes at which time principal is due. In September 2010, the Company obtained an extension to January 1, 2012 on the balance remaining of \$625,000. Under the terms of the extension, \$100,000 of the balance due is a secured convertible promissory note which may be converted at the discretion of the note holder. All other terms remain. As of September 30, 2010, \$123,374 of this balance is included in Notes payable, current portion due; \$100,000 is included in Long term convertible notes payable; and \$401,626 is included in Long term notes payable, net of current portion due.

During the nine months ended September 30, 2008, 24-month unsecured convertible promissory notes totaling \$700,000 were entered into that had bonus shares attached totaling 700,000 shares of common stock. These shares had a fair value of \$125,653 using a Black Scholes Pricing Model. Interest accrues at 12% per annum, payable monthly, until the maturity of these notes at which time the principal is due. The note holders have the right to convert the note to common stock at \$0.25 per share at any time during the term of the note, and we recognized \$188,795 in Additional Paid-in Capital related to the beneficial conversion feature of these notes due to their immediate vesting. In April 2010, \$250,000 of these notes was converted to equity. The remaining \$50,000 was paid by the Company during the period ended September 30, 2010.

Additionally, the Company utilized three separate notes to fund the acquisition of CUI, Inc. A \$6,000,000 cash loan from Commerce Bank of Oregon secured by personal Letters of Credit from related parties. In August 2010, the Company received \$2,000,000 in equity investment for which the Company issued 18,939,394 shares of common stock. The \$2,000,000 received was used to pay down the \$6,000,000 bank loan with Commerce Bank, bringing the net loan balance to \$4,000,000. Also in August 2010, the Company replaced the \$4,000,000 cash loan from Commerce Bank of Oregon with a \$4,000,000 term note through the Business Credit division of Wells Fargo Capital Finance, Wells Fargo Bank, National Association, with a July 31, 2011 maturity date, paying interest only at an interest rate equal to daily three month LIBOR plus 4.00% (4.29% at September 30, 2010), and secured by personal Letters of Credit from a related party.

A \$14,000,000 promissory note to International Electronic Device, Inc. (formerly CUI, Inc.), payable monthly over three years at \$30,000 per month including 1.7% annual simple interest with a balloon payment at the thirty sixth monthly payment (May 15, 2011), with no prepayment penalty, an annual success fee of 2.3%, and the right of first refusal to the note payee, International Electronic Device, Inc., relating to any private capital raising transactions of Waytronx during the term of the note. The net balance on this note is \$11,996,191. In September 2010, the Company negotiated an amendment to this note which provided forgiveness of the principal balance of \$1,588,063 and forgiveness of accrued interest of \$724,729, as well as an extension of the maturity date to May 2018. In exchange for this amendment, the Company agreed to make a one time principal payment of \$1,500,000 due on or before December 1, 2010 and to set the interest rate at 6% per annum paying monthly. The \$1,500,000 payment due on or before December 1, 2010 is included in Notes payable, related party, current portion due with the remaining \$10,496,191 included in Long term notes payable, related party, net of current portion due. The Company further agreed to assign debt owed from TPI in the amount of \$187,208 to IED during the first quarter of 2011.

A \$17,500,000 convertible promissory note with 1.7% annual simple interest and a 2.3% annual success fee, permitting payee to convert any unpaid principal, interest and success fee to Waytronx common stock at a per share price of \$0.25 and at the end of the three year term (May 15, 2011) giving to Waytronx the singular, discretionary right to convert any unpaid principal, interest and success fee to Waytronx common stock at a per share price of \$0.25. This note also provides a right of first refusal to the note payee, International Electronic Device, Inc., relating to any private capital raising transactions of Waytronx during the term of the note. In May 2009, Waytronx and the debt holder of the \$17,500,000 convertible promissory note, IED, Inc., agreed to amend the \$17,500,000 convertible promissory note related to the acquisition of CUI, Inc. by reducing the conversion rate from \$0.25 to \$0.07 per share to reflect the stock price for the ten day trailing average preceding April 24, 2009, the date of the agreement. The

agreement specifically retains the total maximum convertible shares at 70,000,000 as stated in the original Note. This amendment effectively reduced the Note principal from \$17,500,000 to \$4,900,000. In April 2010, Waytronx and the debt holder agreed to settle the note for a one-time \$50,000 payment and 1,000,000 shares of common stock.

Through the acquisition of Comex Electronics and CUI Japan, the Company has demand notes payable of \$859,066, current notes payable of \$336,657 and long term notes payable of \$1,695,906. These notes have interest rates as of September 30, 2010 ranging from 1.975% to 3.85% and term dates from October 2010 to August 2020. Through Comex Electronics, the Company also has capital leases payable of \$52,897 related to equipment and vehicles and is secured by the same. The current portion of the capital leases is \$15,937 as of September 30, 2010. The capital leases have various expiration dates through July 2015.

9. OTHER EQUITY TRANSACTIONS

On April 1, 2010, the Company settled the \$4,900,000 convertible promissory note and \$850,500 in accrued interest on this note related to the acquisition of CUI Inc. for a one-time payment of \$50,000 and the conversion of \$70,000 of the principal into 1,000,000 shares of the Company's common stock at the stated conversion rate of \$0.07 per share. The Company recognized a gain on the settlement of this debt of \$5,630,500.

On April 1, 2010, two convertible note holders converted a total of \$1,250,000 in principal and \$242,559 in accrued interest on their notes into 14,134,085 shares of common stock. These shares were valued at \$0.1056 per share in accordance with the conversion agreements.

In August 2010, the Company received \$2,000,000 in equity investment for which the Company issued 18,939,394 shares of common stock. The \$2,000,000 received was used to pay down the \$6,000,000 bank loan with Commerce Bank, bringing the net loan balance to \$4,000,000.

In August 2010, 753,592 shares of common stock were issued in relation to the exercise of warrants with proceeds of \$17,718.

As of September 30, 2010, 210,000 shares of common stock are issuable for services performed by consultants. \$42,000 of consulting expense was recorded in relation to this transaction based on the fair market value of the stock on the date of grant.

10. CONCENTRATIONS

During the three and nine months ended September 30, 2010, 37% and 36% of revenues respectively, were derived from one customer.

During the three and nine months ended September 30, 2009, 24% and 32% of revenues respectively, were derived from one customer.

At September 30, 2010 and 2009, there was no customer balance maintained in trade receivables of 10% or more of the total trade receivables balance.

11. SUBSEQUENT EVENTS

In October 2010, Comex Electronics renewed a short term loan from Seibu Bank of approximately \$121,500, maturing December 2010 with 3.85% interest payable monthly.

In October 2010, Comex Electronics renewed a short term loan from 82 Bank of approximately \$230,500, maturing December 2010 with 2.975% interest payable monthly.

In October 2010, a convertible note holder converted a total of \$100,000 in principal on their note into 666,666 shares of the company's common stock.

In October 2010, the 210,000 shares of common stock which were issuable as of September 30, 2010 were issued.

In October 2010, the Company granted 3,060,382 stock options that vest between 1 and 4 years from date of grant to employees and directors with the following assumptions; exercise price of \$0.30, volatility of 95%, risk free interest rate of 0.35% and a term of 2 years.

In November 2010, 25,000 shares of common stock were issued and 25,000 shares of common stock were issuable in relation to the exercise of options with proceeds of \$9,500.

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

General

Management's discussion and analysis contains various "forward looking statements." Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate," or "continue" or use of negative or other variations or comparative terminology.

Waytronx cautions that these forward-looking statements are further qualified by important factors that could cause actual results to differ materially, are necessarily speculative, and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements.

Overview

Waytronx, Inc., formerly known as OnScreen Technologies, Inc., is a Colorado corporation organized on April 21, 1998. The Company's principal place of business is located at 20050 SW 112th Avenue, Tualatin, Oregon 97062, phone (503) 612-2300.

Effective May 16, 2008, Waytronx, Inc. formed a wholly owned subsidiary, Waytronx Holdings, Inc., to acquire the assets of CUI, Inc., a Tualatin, Oregon based provider of electronic components including power supplies, transformers, converters, connectors and industrial controls for Original Equipment Manufacturers (OEMs). Through the acquisition of CUI, Inc., the Company obtained 352,589 common shares representing a 10.47% interest in Test Products International, Inc., a provider of handheld test and measurement equipment. Since its inception in 1989, CUI has been delivering quality products, extensive application solutions and superior personal service. CUI's solid customer commitment and honest corporate message are a hallmark in the industry.

Through CUI's capabilities and extensive contacts throughout Asia, the acquisition allowed Waytronx to enhance its ability to identify, acquire, and commercialize new proprietary technologies and transform itself into a technology platform company dedicated to successfully bringing new technologies to market. Waytronx, through its use of CUI's market partners and global distribution capabilities, is in the process of commercializing and marketing proprietary technologies like the AMT Encoder, Digital Power Modules, SEPIC-fed BUCK converter technology, and the GasPT2 natural gas metering device. CUI's testing and R&D capabilities allow Waytronx to commercialize and prototype its products more efficiently and economically. Moreover, by enhancing CUI's largely in-house sales force to include an outside manufacturers' representative sales force consisting of nine (9) outside representative firms with as many as seventy-four (74) outside sales representatives, Waytronx and CUI have been able to increase sales, expand sales leads, and intensify its targeted approach to larger, potential customers in all aspects of the various product lines.

CUI defines its product into three categories: components including connectors, speakers and buzzers; control solutions including encoders and sensors; and power solutions known as V-Infinity. These offerings, combined with the Waytronx portfolio of cooling solutions and the GasPT2 metering device, among other technologies, provide an architecture that addresses metering, thermal management, and power to industries ranging from consumer electronics to defense to alternative energy to some of the largest natural gas providers in the World.

Effective July 1, 2009, Waytronx acquired CUI Japan (formerly Comex Instruments, Ltd.) and 49% of Comex Electronics Ltd. that includes an associated distribution network, both companies are Japanese based DSP providers of digital to analog and analog to digital test and measurement systems and electronic components for OEM research and development. These acquisitions provide a manufacturing component which allows Waytronx to manufacture some of its own products, such as the AMT encoder, in Japan.

Through an exclusive licensing contract with GL Industrial Services UK, Ltd. (GL), formerly British-based Advantica, Ltd., Waytronx owns exclusive rights to manufacture, sell and distribute a Gas Quality Inferential Measurement Device (GASPT2) designed by GL on a worldwide basis.

The GASPT2, designed by GL, is a low cost solution to measuring gas quality. It can be connected to a natural gas system to provide a fast, accurate, close to real time measurement of the gas physical properties, such as thermal conductivity, speed of sound and carbon dioxide content. From these measurements it infers an effective gas mixture comprising four components: methane, propane, nitrogen, and measured carbon dioxide. The device then uses ISO6976 to calculate the gas quality characteristics of calorific value (CV), Wobbe index (WI), relative density (RD), and compression factor (Z) at better than 0.02% accuracy. Through industry recognized software technology, this information can be provided to a remote, centralized monitoring facility. This licensing contract anticipates a minimum of between \$35,000,000 and \$40,000,000 in sales during the first four years of the agreement. According to our review, the market studies commissioned by GL and GL's experience in the natural gas industry all demonstrate that these contract numbers are conservative and achievable. We expect to deliver product during the fourth quarter of 2010. On January 1, 2010, the Company entered into a consulting agreement with Terry Williams, former GL Industrial Services Project Director, to serve as the Company's Project Director and Lead Engineer for the GASPT2 device. The consultant will be compensated a base monthly fee and will receive commissions on sales of the GASPT2 device.

We continue our efforts to develop and commercialize our relationship with BAE Systems and have submitted a joint Seedling Proposal with BAE to the Defense Advanced Research Projects Agency ("DARPA"). That Seedling Proposal is under review by the new Director of DARPA, recently appointed by the Obama Administration. BAE Systems is a British defense, security and aerospace company headquartered in England that has global interests, particularly in North America through its subsidiary BAE Systems Inc. BAE is the world's second-largest defense contractor and the largest in Europe.

Waytronx, Inc. has retained Innovaro, Inc. to commercialize its thermal management technology. That technology is of particular use to the semiconductor, solar and electronic packaging industries and involves the use of fluid displacement to move heat away from the source. This technology can enhance system performance and remove thermal barriers caused by "microwarming" in today's advanced computing devices. The proprietary hybrid mesh architecture solutions for central and graphics processors, solar energy devices and power supplies can provide cost effective and efficient thermal management to the electronics industry.

For its part, Innovaro is a patent portfolio company dedicated to developing compelling strategies and modeling breakthrough ideas; accelerating those ideas (such as WayCool) into the marketplace. From research to business model change to rollout, leading companies have retained Innovaro to create profitable growth, new revenue streams and lasting value through innovation. Innovaro has been charged with finding a strategic partner to either develop or acquire the WayCool Technology, so that Waytronx can continue to focus on its and CUI's core business, developing those products that are either already in the market or very close to actual commercialization. Innovaro has and continues to aggressively market the WayCool Technology portfolio and has identified and introduced several potential partners to Waytronx.

During the nine months ended September 30, 2010, Waytronx had \$1,259,051 profit from operations. During the nine months ended September 30, 2010, Waytronx had consolidated net profit of \$4,532,311, with a net profit attributable to Waytronx of \$4,570,997. The net profit is the result of the profit from operations coupled with gain on debt extinguishments of \$7,943,292 offset by the expense of the related discount of debt at settlement of \$2,459,629.

During the nine months ended September 30, 2010, Waytronx has transferred all of its domestic banking relationship to Wells Fargo Bank, National Association. The Company is in full compliance with all relevant financial covenants as of September 30, 2010.

Intellectual Property

The Company relies on various intellectual property laws and contractual restrictions to protect its proprietary rights in products, logos and services. These include confidentiality, invention assignment, and nondisclosure agreements with employees, contractors, suppliers and strategic partners. The confidentiality and nondisclosure agreements with employees, contractors and suppliers are in perpetuity or for a sufficient length of time so as to not threaten exposure of proprietary information.

Waytronx continues to file and protect its intellectual property rights, trademarks and products through filings with the US Patent and Trademark Office and, as applicable, internationally.

Liquidity and Capital Resources

General

Cash and cash equivalents at September 30, 2010 are \$593,155, and there is net working capital deficit of \$1,946,626. Management is actively working to improve the net working capital position of the Company. Operations and investments in patents and equipment have been funded through cash from operations, capital leases and the bank line of credit during the nine month period.

Cash provided by (used in) operations

Operating activities generated a positive cash flow from operations of \$447,126 for the nine months ended September 30, 2010, versus a positive cash flow from operations of \$150,752 for the same period last year. The primary cause of this change is the net profit for the nine months ended September 30, 2010 as compared to the prior year net loss, decrease in stock, warrants, options and notes issued for compensation and services, an increase in non-cash interest expense largely due to the expensing of the discount of debt related to the two settlements of debt in 2010, non-cash profit realized on equity method investment as compared to a loss in the prior year, decreased bad debt expense, no impairment charges, an increase in depreciation and amortization expenses, the recognition of gain on settlements of debt, increase in trade accounts receivable associated with increased revenues, increase in inventory as compared to a prior year decrease, decrease in prepaid expenses and other current assets as compared to a prior year increase, a decrease in accounts payable as compared to a prior year increase and increase in accrued liabilities.

During the first nine months of 2010 and 2009, stock options have been used as a form of payment to certain consultants, note holders, employees and directors. For the first nine months of 2010 and 2009, a total of \$69,734 and \$431,913, respectively, was recorded for compensation and services expense including amortization of deferred compensation related to equity given, or to be given, to employees, directors and consultants for services provided.

As the Company focuses on technology development and product line additions during 2010, it will continue to fund research and development together with related sales and marketing efforts for its various product offerings.

Capital Expenditures and Investments

The Company invested \$70,000 in technology rights and development related to products during the first nine months of 2010 as compared to \$82,954 for the same period last year.

Waytronx invested \$7,230 in patent costs during the first nine months of 2010 as compared to \$23,854 for the same period last year. It is expected that investment in patent costs will continue throughout 2010 as patents are pursued in order to protect the rights to use its product developments.

During the first nine months of 2010 and 2009, the Company invested \$29,316 and \$0 in other intangible assets to support the Company's operations, respectively.

The Company invested \$341,519 and \$212,009 in property and equipment during the first nine months of 2010 and 2009, respectively.

Financing activities

During the first nine months of 2010, the Company received proceeds of \$137,309 from the bank working line of credit and received proceeds of \$81,719 from notes and loans payable. During the first nine months of 2010, the Company issued payments of \$2,050,000 against notes and loans payable, and \$177,738 of payments were made against notes and loans payable, related party. Additionally, the Company recognized a gain on debt settlement of \$7,943,292 during the nine months ended September 30, 2010.

During the first nine months of 2010, the Company received proceeds from the conversion of debt to non-controlling interest in Comex Electronics of \$66,667.

In the first nine months of 2010, the Company received \$1,562,560 in equity investment through the conversion of accrued liabilities, notes payable, and notes payable, related party.

During the nine months ended September 30, 2010, the Company received equity investments of \$2,017,718 through the sale of common stock and the exercise of warrants.

Waytronx plans on raising the capital needed to fund the further development and marketing of its products as well as payment of its debt obligations.

Recap of liquidity and capital resources

The report of our independent registered public accounting firm on our financial statements as of December 31, 2009 contains an explanatory paragraph expressing uncertainty with respect to our ability to continue as a going concern. Prior to the acquisition of CUI, Inc. the Company was not generating significant revenues to fund operations. Management believes the Company to be generating sufficient revenues to fund operations. As of September 30, 2010 the Company had an accumulated deficit of \$50,175,790.

The Company may seek to raise additional capital for the commercialization and further development of its product and technology offerings as well as to further reduce debt. The Company believes its operations and existing financing structure will provide sufficient cash to meet its short-term working capital requirements for the next twelve months. As the Company continues to expand and develop its technology and product lines as well as retire debt, additional funding sources may be required. The Company will attempt to raise these funds through borrowing instruments or issuing additional equity.

At September 30, 2010, the Company maintained a \$4,000,000 revolving working capital line of credit with the Business Credit division of Wells Fargo Capital Finance, part of Wells Fargo Bank, National Association (NYSE: WFC), interest payable monthly at the Daily Three Month LIBOR plus 3.75% (4.04% at September 30, 2010). The Wells Fargo LOC expires July 31, 2013. As of the date of this filing, the Company is compliant with all covenants on the new line of credit with Wells Fargo Capital Finance. At September 30, 2010, the balance outstanding on the line of credit was \$2,031,395.

During the nine months ended September 30, 2010, the Company replaced the \$4,000,000 cash loan from Commerce Bank of Oregon with a \$4,000,000 term note through the Business Credit division of Wells Fargo Capital Finance, Wells Fargo Bank, National Association, with a July 31, 2011 maturity date, paying interest equal to the daily three month LIBOR plus 4.00% (4.29% at September 30, 2010), and secured by personal Letters of Credit from a related party.

In the first nine months of 2010, the Company received \$1,562,560 in equity investment through the conversion of accrued liabilities, notes payable, and notes payable, related party.

During the nine months ended September 30, 2010, the Company received equity investments of \$2,017,718 through the sale of common stock and the exercise of warrants.

The Company expects the revenues from CUI, Inc., CUI Japan and Comex Electronics to help cover operating and other expenses for the next twelve months of operations. If revenues are not sufficient to cover all operating and other expenses, additional funding will be required. There is no assurance the Company will be able to raise such additional capital. The failure to raise capital or generate product sales in the expected time frame will have a material adverse effect on the Company.

Results of Operations

Revenue

During the nine months ended September 30, 2010 and 2009, revenue was \$28,905,327 and \$20,117,540, respectively. The revenue for the nine months ended September 30, 2010 is comprised of \$26,052,800 from CUI products, \$2,793,809 from CUI Japan and Comex Electronics products, \$57,948 for freight, and \$770 RediAlert™ products. The revenue for the nine months ended September 30, 2009 is comprised of \$18,985,247 from CUI products, \$1,028,172 from CUI Japan and Comex Electronics products, \$77,229 for freight, and \$26,892 from RediAlert™ products.

During the three months ended September 30, 2010 and 2009, revenue was \$10,520,295 and \$7,956,700, respectively. The revenue for the three months ended September 30, 2010 is comprised of \$9,719,432 from CUI products, \$778,654 from CUI Japan and Comex Electronics products, \$21,534 for freight and \$675 from RediAlert™ products. The revenue for the three months ended September 30, 2009 is comprised of \$6,907,847 from CUI products, \$1,028,172 from CUI Japan and Comex Electronics products, \$390 from RediAlert™ products and \$20,291 for freight.

The increase in revenues for the Company is the result of 2010 including operations from CUI Japan and Comex Electronics for the full year, the continued expansion of CUI's product offering and the enhanced outside sales representative group.

Cost of revenues

The cost of revenue for the nine months ended September 30, 2010 and 2009, was \$17,998,219 and \$12,294,615, respectively. For the three months ended September 30, 2010 and 2009, the cost of revenue was \$6,378,085 and \$5,033,060, respectively.

Selling, General and Administrative Expenses

Selling, General and Administrative (SG&A) expenses include such items as wages, commissions, consulting, general office expenses, depreciation, amortization, business promotion expenses and costs of being a public company, including legal and accounting fees, insurance and investor relations.

For the nine months ended September 30, 2010 compared to the same period in 2009, SG&A expenses increased \$1,085,391, with the majority of this increase associated with the addition of CUI Japan and Comex Electronics and their operations as well as increased expenses associated with the increase in overall business. As a percentage of sales, SG&A expenses were 31% at September 30, 2010 as compared with 40% for the same period in 2009.

Research and Development

The research and development costs are related to the development of technology and products. Research and development costs were \$563,196 and \$174,502, for the nine months ended September 30, 2010 and 2009, respectively.

Impairment Loss

The Company recorded \$0 in impairment losses during the first nine months of 2010. For the same period in 2009, the Company recorded a \$10,698,169 impairment loss related to goodwill and a \$136,811 impairment loss related to patents.

Bad Debt

The bad debt expense for the nine months ended September 30, 2010 and 2009 was \$31,714 and \$84,143, respectively. The bad debt in both periods is related to losses from miscellaneous customers and the 2009 bad debt also includes additions made to the allowance for bad debts.

Gain on Settlements of Debt

During the nine months ended September 30, 2010 and 2009, Waytronx recognized gain on settlements of debt of \$7,943,292 and \$11,834,055, respectively.

Other Income

Other income for the nine months ended September 30, 2010 consisted of \$24,820 gain on foreign exchange, \$20,069 recovery of bad debts, \$18,453 interest income (\$6,637 from related party), \$18,090 rental income, and \$4,158 miscellaneous income. For the nine months ended September 30, 2009 other income consisted of \$103,500 for services billed to a related party, \$13,907 for interest income from related parties, \$18,231 for foreign exchange gain, \$8,280 in rental income, and \$6,112 in miscellaneous income.

Investment Income

The Company recognized income of \$50,796 on equity investment in an affiliate for the nine months ended September 30, 2010. For the same period in 2009, the Company recognized a loss of \$55,033.

Convertible debt and amortization of debt discount and debt offering costs

The Company recorded an expense of \$419,423 and \$3,668,122 for the three and nine months ended September 30, 2010, respectively, and \$741,855 and \$2,354,786 for the same periods in 2009, for the amortization of debt discount and debt offering costs. The increase in 2010 for the nine month period of \$1,313,336 is primarily the result of the full expensing of the discounts of debt related to the note balances that were settled in 2010.

Interest Expense

The interest expense of \$967,574 and \$1,189,665 for the nine months ended September 30, 2010 and 2009, respectively, is for interest on the secured convertible notes payable, bank operating line of credit, bank loans, and secured and unsecured promissory notes. The decrease is primarily the result of debt reductions in 2009 and 2010 through debt settlements and principal payments.

Preferred Stock Dividends

No preferred stock dividend was recorded by the Company during the nine months ended September 30, 2010 and 2009, as during 2006 all Series A and B Convertible Preferred shareholders accepted the Company's offer to receive all outstanding dividends through March 2006 in either cash or common shares at a per share price of \$0.20.

Contractual Obligations

As discussed in Notes Payable (Note 8), there is a \$1,500,000 principal payment due on or before December 1, 2010 to International Electronic Devices, Inc. in accordance with the September 2010 note amendment. This note amendment included the forgiveness of \$1,988,063 of principal, forgiveness of \$724,729 of accrued interest, as well as an extension of the maturity date to May 2018 in exchange for the \$1,500,000 principal payment due and an interest rate of 6% per annum paying monthly. The Company further agreed to assign debt owed from TPI in the

amount of \$187,208 to IED during the first quarter of 2011.

Critical Accounting Policies

Our financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States (“GAAP”). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

Our significant accounting policies are summarized in Note 2 of our financial statements. While all these significant accounting policies impact its financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause effect on our results of operations, financial position or liquidity for the periods presented in this report.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-14, Software (Accounting Standards Codification (ASC) Topic 985) - Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the scope of ASC subtopic 965-605, Software-Revenue Recognition to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. This update requires expanded qualitative and quantitative disclosures.

In October 2009, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update 2009-13, Revenue Recognition (Topic 605)—Multiple-Deliverable Revenue Arrangements. FASB Accounting Standards Update 2009-13 addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, this guidance amends the criteria in Accounting Standards Codification ("ASC") Subtopic 605-25, Revenue Recognition-Multiple-Element Arrangements, for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. FASB Accounting Standards Update 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The adoption of Accounting Standards Update 2009-13 is not expected to have a material impact on the condensed consolidated financial statements.

In December 2009, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" ("ASU 2009-17"). ASU 2009-17 changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. ASU 2009-17 requires a number of new disclosures, including additional disclosures about the reporting entity's involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity is required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. ASU 2009-17 is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year-end entity. Based on the Company's evaluation of ASU 2009-17, the adoption of this standard did not impact the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (ASC Topic 820) — Improving Disclosures About Fair Value Measurements. The ASU requires new disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Other than requiring additional disclosures, the adoption of this new guidance will not have a material impact on the Company's consolidated results of operations and financial position.

Subsequent Events Disclosure: On February 24, 2010, the FASB issued an update to address certain implementation issues related to Accounting Standards Codification, or ASC, 855-10-50, Subsequent Events—Disclosure, regarding an entity's requirement to perform and disclose subsequent events procedures. Effective upon its issuance, the update exempts Securities and Exchange Commission registrants from disclosing the date through which subsequent events have been evaluated. This update affected disclosure only and had no impact on our consolidated financial position or consolidated results of operations.

Off-Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

A smaller reporting company, as defined by Rule 229.10(f)(1), is not required to provide the information required by this Item.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

The Company and its subsidiaries are not a party in any legal proceedings. No director, officer or affiliate of the Company, any owner of record or beneficially of more than five percent of any class of voting securities of the Company or any associate of any such director, officer, affiliate of the Company or security holder is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries.

Item 1A: Risk Factors.

A smaller reporting company is not required to provide the information required by this Item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company relied on Section 4(2) of the Securities Act of 1933 as the basis for an exemption from registration for the following issuances.

Common Stock Issued

During the nine months ended September 30, 2010, the Company issued the following shares of common stock:

Edgar Filing: Waytronx, Inc. - Form 10-Q

15,134,085 shares pursuant to promissory note conversions. These shares were valued at \$1,562,560 on the date of issuance.

18,939,394 shares issued at \$0.1056 per share in exchange for \$2,000,000 which was used to pay down the bank term loan debt obligation.

27

700,000 shares pursuant to exercise of fully vested warrants to purchase shares of common stock at \$0.01 per share issued as consideration for letters of credit guarantees.

53,592 shares pursuant to exercise of a fully vested warrant to purchase shares of common stock at \$0.20 per share.

Common Stock Issuable

During the nine months ended September 30, 2010, the Company recorded 210,000 shares of common stock issuable to consultants for services performed. \$42,000 of consulting expense was recorded in relation to this transaction based on the fair market value of the stock on the date of grant.

Stock Options Granted

During the nine months ended September 30, 2010, the Company granted 275,000 options under the 2008 Equity Incentive Plan with an exercise price of \$0.19 per share. These options were valued at \$22,811.

Item 3. Defaults upon Senior Securities.

Item 4. (Removed and Reserved).

Item 5. Other Information.

The following reports on Form 8-K were filed during the three months ended September 30, 2010:

- (a) A report on Form 8-K filed on August 31, 2010 announcing the Company's banking relationship transfer to Wells Fargo Bank, N.A.
- (b) A report on Form 8-K filed on September 9, 2010 announcing the modification of a promissory note to reduce the note principal and to restructure the interest rate and payment terms.

Item 6. Exhibits

The following exhibits are included as part of this Form 10-Q.

Exhibit No.	Description
3.11	Amended Articles of Incorporation
3.21	Bylaws of the Registrant.
3.32	Articles of Amendment to Certificate of Incorporation - Certificate of Designations, Preferences, Limitations and Relative Rights of the Series A Preferred Stock, filed July 25, 2002.
3.42	Articles of Amendment to Articles of Incorporation-Terms of Series A Convertible Preferred Stock, filed November 13, 2003.
3.52	Restated Articles of Incorporation to increase the authorized common stock to 150,000,000 shares, filed December 23, 2003.
3.62	Restated Articles of Incorporation - Certificate of Designations of the Series B Convertible Preferred Stock, filed April 1, 2004.
3.73	Restated Articles of Incorporation, Officers' Certificate and Colorado Secretary of State Certificate filed June 30, 2004 showing corporate name change to OnScreen Technologies, Inc.
3.84	Restated Articles of Incorporation and Colorado Secretary of State Certificate filed January 7, 2008 showing corporate name change to Waytronx, Inc.
3.98	Restated Articles of incorporation to increase the authorized common shares to 325,000,000 shares.
10.236	OnScreen Technologies, Inc. 2005 Equity Incentive Plan

Edgar Filing: Waytronx, Inc. - Form 10-Q

- 10.257 Employment Agreement between the Registrant and William J. Clough, Esq. dated November 21, 2005.
- 10.289 Waytronx, Inc. 2008 Equity Incentive Plan.

28

- 15.211 Letter re unaudited interim financial information.
- 21.110 List of all subsidiaries, state of incorporation and name under which the subsidiary does business.
- 22.6 Proxy Statement and Notice of 2010 Annual Shareholder Meeting filed with the Commission on October 5, 2010.
- 31.111 Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 203 of the Sarbanes-Oxley Act of 2002.
- 31.211 Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 203 of the Sarbanes-Oxley Act of 2002.
- 32.111 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.211 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Footnotes to Exhibits:

- 1 Incorporated by reference to our Registration Statement on Form SB-2/A filed with the Commission on October 26, 2001.
- 2 Incorporated by reference to our Report on Form 10-KSB filed with the Commission on April 14, 2004.
- 3 Incorporated by reference to our Report on Form 10-KSB filed with the Commission on March 31, 2005.
- 4 Incorporated by reference to our Registration Statement on Form S-8 filed with the Commission on March 12, 2008.
- 5 Incorporated by reference to our Report on Form 10-KSB filed with the Commission on May 4, 2005.
- 6 Incorporated by reference to our Proxy Statement pursuant to Section 14(a) filed with the Commission on October 7, 2005.
- 7 Incorporated by reference to our Report on Form 10-KSB filed with the Commission on February 24, 2006.
- 8 Incorporated by reference to the Proxy Statement and Notice of 2008 Annual Shareholder Meeting filed with the Commission July 3, 2008.
- 9 Incorporated by reference to our Registration Statement on Form S-8 filed with the Commission on March 12, 2008.
- 10 Incorporated by reference to our Annual Report on Form 10-K filed with the Commission on April 1, 2010.

11

Filed herewith.

SIGNATURES

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.

Signed and submitted this 15th day of November 2010.

Waytronx, Inc.

By: /s/ William J. Clough
William J. Clough,
Chief Executive Officer/President

by: /s/ Daniel N. Ford
Daniel N. Ford,
Chief Financial Officer

