

Waytronx, Inc.  
Form 10-Q  
May 07, 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 March 31, 2010

Commission File Number 0-29195

WAYTRONX, INC.

(Name of Small Business Issuer in Its Charter)

Colorado	(3990)	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.

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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 March 31, 2010, there were 169,837,626 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.

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## WAYTRONX, INC.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Waytronx, Inc.  
Condensed Consolidated Balance Sheets

	March 31, 2010 (unaudited)	December 31, 2009
<b>Assets:</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 461,801	\$ 496,135
Trade accounts receivable, net of allowance of \$125,000 and \$135,000, respectively	4,500,947	4,673,382
Other accounts receivable	50,322	88,425
Other accounts receivable, related party	190,951	188,790
Inventories, net of allowance of \$235,000 and \$100,000, respectively	3,787,402	3,661,994
Prepaid expenses and other	326,714	375,085
<b>Total current assets</b>	<b>9,318,137</b>	<b>9,483,811</b>
<b>Property and equipment, net</b>	<b>1,422,513</b>	<b>1,402,528</b>
<b>Other assets:</b>		
Investment - equity method	93,690	79,075
Investments - long term	102,560	102,560
Technology rights, net	4,016,561	4,077,646
Patent costs, net	425,941	428,370
Other intangible assets, net	62,867	46,294
Deposits and other	145,401	113,350
Notes receivable, net	63,749	79,451
Debt offering costs, net	766,742	937,130
Goodwill, net	22,056,092	22,056,092
<b>Total other assets</b>	<b>27,733,603</b>	<b>27,919,968</b>
<b>Total assets</b>	<b>\$ 38,474,253</b>	<b>\$ 38,806,307</b>
<b>Liabilities and stockholders' equity:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,831,490	\$ 2,028,201
Preferred stock dividends payable	5,054	5,054
Demand notes payable	3,063,734	2,523,152
Accrued expenses	2,649,888	2,564,403
Accrued compensation	253,675	235,137
Unearned revenue	85,706	84,438
Notes payable, current portion due	7,001,827	1,003,793
Notes payable, related party, current portion due	129,161	170,852
Convertible notes payable, current portion due	300,000	300,000
<b>Total current liabilities</b>	<b>15,320,535</b>	<b>8,915,030</b>
Long term notes payable, net of current portion due of \$376,827 and \$71,573, respectively	1,514,024	7,624,948
Long term notes payable, related party, net of current portion due of \$129,161 and \$170,852 and discounts of \$302,331 and \$369,516, respectively	13,206,313	13,171,624

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Long term convertible notes payable, related party, net of discounts of \$2,269,272 and \$2,773,555, respectively	3,630,728	3,126,445
<b>Total liabilities</b>	<b>33,671,600</b>	<b>32,838,047</b>
<b>Commitments and contingencies</b>	<b>-</b>	<b>-</b>
<b>Stockholders' equity:</b>		
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 March 31, 2010 and December 31, 2009, respectively	51	51
Convertible Series B preferred stock, 30,000 shares authorized, and no shares outstanding at March 31, 2010 and December 31, 2009, respectively	-	-
Convertible Series C preferred stock, 10,000 shares authorized, and no shares outstanding at March 31, 2010 and December 31, 2009, respectively	-	-
Common stock, par value \$0.001; 325,000,000 and 325,000,000 shares authorized and 169,837,626 and 169,837,626 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	169,838	169,838
Additional paid-in capital	60,543,383	60,541,742
Accumulated deficit	(55,919,517)	(54,746,787)
Accumulated other comprehensive income (loss)	(26,439)	(28,193)
<b>Total stockholders' equity</b>	<b>4,767,316</b>	<b>5,936,651</b>
<b>Noncontrolling interest</b>	<b>35,337</b>	<b>31,609</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 38,474,253</b>	<b>\$ 38,806,307</b>

See accompanying notes to financial statements

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

	For the three months ended March 31,	
	2010	2009
<b>Revenues:</b>		
Product Sales	\$ 7,648,658	\$ 6,087,403
Revenue from freight	20,147	37,647
Total revenue	7,668,805	6,125,050
Cost of revenues	4,826,439	3,656,155
<b>Gross profit</b>	<b>2,842,366</b>	<b>2,468,895</b>
<b>Operating expenses</b>		
Selling, general and administrative	2,829,035	2,371,165
Research and development	81,158	83,399
Bad debt	10,890	37,743
Total operating expenses	2,921,083	2,492,307
<b>Profit (loss) from operations</b>	<b>(78,717)</b>	<b>(23,412)</b>
<b>Other income (expense)</b>		
Other income	56,395	45,485
Other expense	(27,489)	(33)
Investment income (loss)	14,615	(8,058)
Interest expense - intrinsic value of convertible debt, amortization of debt offering costs and amortization of debt discount	(741,855)	(838,771)
Interest expense	(387,533)	(461,926)
Total other income (expense), net	(1,085,867)	(1,263,303)
<b>Income (loss) before taxes</b>	<b>(1,164,584)</b>	<b>(1,286,715)</b>
Provision for taxes	4,418	-
<b>Consolidated Net profit (loss)</b>	<b>(1,169,002)</b>	<b>(1,286,715)</b>
<b>Less: Net profit (loss) - noncontrolling interest</b>	<b>3,728</b>	<b>-</b>
<b>Net profit (loss) - attributable to Waytronx Inc.</b>	<b>(1,172,730)</b>	<b>(1,286,715)</b>
<b>Other comprehensive profit (loss)</b>		
Foreign currency translation adjustment	\$ 1,754	\$ -
Comprehensive profit (loss)	\$ (1,170,976)	\$ (1,286,715)
<b>Basic and diluted profit (loss) per common share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
Basic weighted average common and common equivalents shares outstanding	169,837,626	166,584,406

See accompanying notes to financial statements



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

	For the three months ended March 31,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net profit (loss)	\$ (1,172,730)	\$ (1,286,715)
Adjustments to reconcile net profit (loss) to net cash used in operating activities:		
Stock, warrants, options and notes issued for compensation and services	1,641	84,212
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	741,855	838,771
Non-cash (profit) loss on equity method investment	(14,615)	8,058
Bad debt expense	10,890	37,743
Amortization of technology rights	61,085	59,628
Amortization of patent costs	4,354	4,474
Amortization of website development	3,578	3,578
Loss on disposal of assets	500	-
Net profit (loss) - noncontrolling interest	3,728	-
Depreciation	114,952	93,332
Amortization	500	193
(Increase) decrease in assets:		
Trade accounts receivable	161,545	(18,542)
Other accounts receivable	38,103	-
Other accounts receivable, related party	(2,161)	(209)
Inventory	(125,408)	447,903
Prepaid expenses and other current assets	48,115	(192,052)
Deposits and other assets	(32,051)	19,477
Increase (decrease) in liabilities:		
Accounts payable	(196,711)	(440,978)
Accrued expenses	85,485	(32,210)
Accrued compensation	18,538	(60,624)
Deferred revenues	1,268	-
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(247,539)</b>	<b>(433,961)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid upon merger, net of cash received	-	-
Cash received from acquisition, net of cash paid	-	-
Investment in technology rights and development	(20,651)	-
Investment in patents	(1,925)	(901)
Proceeds from Notes Receivable	15,958	-
Purchase of property and equipment	(135,437)	(21,263)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(142,055)</b>	<b>(22,164)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from demand notes payable	540,582	136,217
Proceeds from notes and loans payable	-	(11,948)
Proceeds from notes and loans payable, related party	-	-



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Payments on notes and loans payable	(112,890)	-
Payments on notes and loans payable, related party	(74,186)	(103,353)
Proceeds from sales of common stock and exercise of warrants and options, net of offering costs	-	4,900
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>353,506</b>	<b>25,816</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>1,754</b>	<b>-</b>
Cash and cash equivalents at beginning of year	496,135	599,200
Cash and cash equivalents at end of period	461,801	168,891
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (34,334)</b>	<b>\$ (430,309)</b>

(continued)

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

	For the three months ended March	
	2010	31, 2009
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Income taxes paid	\$ -	\$ -
Interest paid	\$ 275,221	\$ 331,304
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Discount on debt for intrinsic value of convertible notes payable	\$ 571,467	\$ 668,384
Amortization of debt offering costs	\$ 170,388	\$ 170,387

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.) has pioneered and is commercializing innovative thermal management solutions capable of revolutionizing the LED display, semiconductor and electronic packaging industries. Utilizing patented and patent-pending thermal technologies and architecture we have developed highly advanced, proprietary LED display solutions and cooling applications. Waytronx is primarily focused on the commercialization of their innovative thermal cooling technology, WayCool.

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 a consolidated net loss of \$1,169,002 and cash used in operations of \$247,539 for the three months ended March 31, 2010 and an accumulated deficit of \$55,919,517 as of March 31, 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 March 31, 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 March 31, 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 March 31, 2010, the Company had no cash balances at financial institutions which were in excess of the FDIC insured limits. However, the Company maintained balances of \$285,087 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.

### Inventory

Inventories consist of finished products and are stated at the lower of cost or market; using the first-in, first-out (FIFO) method as a cost flow convention. Inventory consists of finished goods and un-finished products.

### 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

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useful lives and accumulated depreciation for furniture, equipment and software are as follows:

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

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## 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 a twenty year life 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 March 31, 2010:

Technology Rights	\$ 5,126,406
Accumulated amortization	(1,109,845)
Net	\$ 4,016,561

Patent costs	\$ 466,275
Accumulated amortization	(40,334)
Net	\$ 425,941

Debt offering costs	\$ 2,044,646
Accumulated amortization	(1,277,904)
Net	\$ 766,742

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

Other intangible assets	\$ 128,375
Accumulated amortization	(65,508)
Net	\$ 62,867

## 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 from TPI of \$183,474 as of March 31, 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 March 31, 2010 is as follows:

Current assets	\$ 6,055,359
Non-current assets	909,630
Total Assets	\$ 6,964,989

Current liabilities	\$ 4,428,573
Non-current liabilities	1,593,039
Stockholders' equity	943,377
Total Liabilities and Stockholders' Equity	\$ 6,964,989

Revenues	\$ 2,334,223
Operating profit	115,138

Net profit	139,591
Company share of Net Profit at 10.47%	14,615
Equity investment in affiliate	\$ 93,690

#### 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

Upon the acquisition of CUI, Inc., CUI Japan and Comex Electronics, Waytronx now has operating segments to report. 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.

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The following information is presented for the three months ended March 31, 2010 for operating segment activity:

	External Power	Internal Power	Industrial Controls	Comex / CUI Japan	Other	Totals
Revenues from external customers	\$ 3,746,168	\$ 1,343,189	\$ 1,166,552	\$ 1,167,562	\$ 245,334	\$ 7,668,805
Intersegment revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Derivative income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest revenues	\$ -	\$ -	\$ -	\$ 7,465	\$ 3,778	\$ 11,243
Equity in profits of unconsolidated affiliate	\$ -	\$ -	\$ -	\$ -	\$ 14,615	\$ 14,615
Interest expense - intrinsic value of convertible debt and amortization of debt discount	\$ -	\$ -	\$ -	\$ -	\$ 741,855	\$ 741,855
Interest expense	\$ -	\$ -	\$ -	\$ 23,293	\$ 364,240	\$ 387,533
Depreciation and amortization	\$ -	\$ -	\$ -	\$ 4,765	\$ 179,704	\$ 184,469
Segment profit (loss)	\$ 1,067,421	\$ 335,921	\$ 111,166	\$ (698)	\$ (2,682,812)	\$ (1,169,002)
Other significant non-cash items:						
Stock, warrants and notes issued for compensation and services	\$ -	\$ -	\$ -	\$ -	\$ 1,641	\$ 1,641
Segment assets	\$ -	\$ -	\$ -	\$ 4,264,314	\$ 34,209,939	\$ 38,474,253
Foreign currency translation adjustments	\$ -	\$ -	\$ -	\$ 1,754	\$ -	\$ 1,754
Expenditures for segment assets	\$ -	\$ -	\$ -	\$ 26,052	\$ 131,961	\$ 158,013

The following information is presented for the three months ended March 31, 2009 for operating segment activity (the Comex/CUI Japan segment did not exist as of March 31, 2009 and as such is excluded from the following schedule):

	External Power	Internal Power	Industrial Controls	Other	Totals
Revenues from external customers	\$ 3,381,718	\$ 1,515,120	\$ 847,948	\$ 380,264	\$ 6,125,050
Intersegment revenues	\$ -	\$ -	\$ -	\$ -	\$ -

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Derivative income	\$	-	\$	-	\$	-	\$	-	\$	-
Interest revenues	\$	-	\$	-	\$	-	\$	6,818	\$	6,818
Equity in losses of unconsolidated affiliate	\$	-	\$	-	\$	-	\$	(8,058)	\$	(8,058)
Interest expense - intrinsic value of convertible debt and amortization of debt discount	\$	-	\$	-	\$	-	\$	838,771	\$	838,771
Interest expense	\$	-	\$	-	\$	-	\$	461,926	\$	461,926
Depreciation and amortization	\$	-	\$	-	\$	-	\$	161,205	\$	161,205
Segment profit (loss)	\$	806,757	\$	170,735	\$	78,020	\$	(2,342,227)	\$	(1,286,715)
Other significant non-cash items:										
Stock, warrants and notes issued for compensation and services	\$	-	\$	-	\$	-	\$	84,212	\$	84,212
Segment assets	\$	-	\$	-	\$	-	\$	47,097,636	\$	47,097,636
Expenditures for segment assets	\$	-	\$	-	\$	-	\$	22,164	\$	22,164

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 June 2009, the FASB issued FASB Accounting Standards Codification No. 860 "Transfers and Servicing" ("FASB ASC 860"). FASB ASC 860 improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. FASB ASC 860 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The adoption of this statement did not have a material effect on the Company's financial statements.

In June 2009, the FASB issued FASB Accounting Standards Codification No. 810 “Consolidation” (“FASB ASC 810”). FASB ASC 810 improves financial reporting by enterprises involved with variable interest entities and to address (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities”, as a result of the elimination of the qualifying special-purpose entity concept in FASB ASC 860 and (2) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise’s involvement in a variable interest entity. FASB ASC 810 is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The adoption of this statement did not have a material effect on the Company’s financial statements.

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 August 2009, the Financial Accounting Standards Board (“FASB”) issued FASB Accounting Standards Update 2009-05, Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value includes amendments to Subtopic 820-10, Fair Value Measurements and Disclosures—Overall, for the fair value measurement of liabilities and provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the techniques provided for in this update. The adoption of Accounting Standards Update 2009-05 did not have a material impact on the condensed consolidated financial statements.

### 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 call for three equal annual payments over the next three years to acquire the remaining 51% of Comex Electronics. 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 three months ended March 31, 2009 as though the acquisition had been completed as of January 1, 2009:



	2009
Gross revenue	\$ 6,863,962
Total expenses	8,211,062
Net profit (loss) before taxes	\$ (1,347,100)
Less: Net profit (loss) - noncontrolling interest	\$ (16,093)
Net profit (loss) - attributable to Waytronx Inc. before taxes	\$ (1,331,007)
Earnings per share	\$ (0.01)

#### 4. INCOME (LOSS) PER COMMON SHARE

Common stock equivalents in the three months ended March 31, 2010 and 2009 were anti-dilutive, thus the diluted weighted average common shares outstanding for this period are the same as the basic weighted average common shares outstanding.

At March 31, 2010 and 2009, respectively, 95,559,608 and 102,536,736 potential common stock shares are issuable upon the exercise of warrants and options and conversion of debt to common stock. These are excluded from computing the diluted net income (loss) per share for the three months ended March 31, 2010 and 2009 as the effect of such shares would be anti-dilutive.

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Net profit (loss) for the period attributable to Waytronx, Inc.	\$ (1,172,730)	\$ (1,286,715)
Weighted average number of shares outstanding	169,837,626	166,584,406
Weighted average number of common and common equivalent shares	169,837,626	166,584,406
Basic earnings (loss) per share	\$ (0.01)	\$ (0.01)
	Three months ended March 31, 2010	Three months ended March 31, 2009
Net profit (loss) for the period attributable to Waytronx, Inc.	\$ (1,172,730)	\$ (1,286,715)
Add: Adjustment for interest and discount amortization on 4% convertible notes (previously computed)	-	-
12% convertible notes and discount amortization	-	-
Adjusted net income (loss)	\$ (1,172,730)	\$ (1,286,715)
Weighted average number of shares outstanding	169,837,626	166,584,406
Add: Weighted average shares assumed to be Issued upon conversion of 4% convertible notes as of the date of issuance (previously computed)	-	-

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Warrants and options as of beginning of period	-	-
Warrants and options as of date of issue	-	-
12% convertible notes as of beginning of period	-	-
12% convertible notes as of date of issue	-	-
Weighted average number of common and common equivalent shares	169,837,626	166,584,406
Diluted earnings (loss) per share	\$ (0.01)	\$ (0.01)

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 three months ended March 31, 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 March 31, 2010, the Company had a \$3,000,000 working capital line of credit with Key Bank, interest payable monthly at the bank's prime lending rate plus 1.50 percentage points (4.75% at March 31, 2010). At March 31, 2010, the balance outstanding on the line of credit was \$1,860,285. At March 31, 2010, the Company is out of compliance with a debt covenant related to this loan. The Company is actively working to resolve this situation. In April 2010, the working capital line of credit was extended to July 1, 2010.

## 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.

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.

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 three months ended March 31, 2010, there were no stock options or warrants granted.

The following information is presented for the stock option activity for the three months ended March 31, 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	(65,000)	\$ 0.19	
Granted	-	\$ -	-
Outstanding at March 31, 2010	7,598,273	\$ 0.17	8.43 years
Outstanding exercisable at March 31, 2010	7,004,273	\$ 0.16	8.38 years

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

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

The following information is presented for the warrant activity for the three months ended March 31, 2010:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contract Life
Outstanding at December 31, 2009	13,602,620	\$ 0.11	
Exercised	-	\$ -	
Expired	-	\$ -	
Forfeited	-	\$ -	
Granted	-	\$ -	
Outstanding at March 31, 2010	13,602,620	\$ 0.11	1.09 Years
Outstanding exercisable at March 31, 2010	12,102,620	\$ 0.12	1.09 Years

## 8. NOTES PAYABLE

At December 31, 2007 eighteen-month secured convertible promissory notes totaling \$1,650,000 were outstanding and in default. In August 2008, the Company obtained extensions of twelve months on all notes in default. In September 2009, the Company obtained an extension to November 2011 on the balance remaining. At March 31, 2010, \$1,000,000 was included in Long term convertible notes payable, related party.

At December 31, 2007, twenty-four month secured promissory notes totaling \$1,100,000 were outstanding. \$1,000,000 of these promissory notes were from an entity controlled by a related party. During the year ended December 31, 2009 the related party portion of \$125,000 was extinguished. As of March 31, 2010, there was \$625,000 remaining outstanding. This is included in Notes payable, current portion due. Interest accrues at 12% per annum, payable monthly, until the maturity of these notes at which time principal is due. In December 2009, the Company obtained an extension to June 30, 2010 on the balance remaining.

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. The balance outstanding as of March 31, 2010 was \$300,000. This balance is included in Convertible notes payable, current portion due.

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, with a term of 3 years, paying interest only at the prime rate less 0.50% with a 5.50% minimum rate (5.50% at March 31, 2010), and is secured by personal Letters of Credit from related parties. At March 31, 2010, the Company is out of compliance with a debt covenant related to this loan. As a result of the default, the Company has recorded this debt under current liabilities. The Company is actively working to resolve this situation.

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. There is a discount on debt related to this note of \$302,331. The current

portion of this note is \$129,161 and is included in Notes payable, related party, current portion due. The net long term balance of this note is \$13,206,313 and is included in Long term notes payable, related party.

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. As of March 31, 2010, there is a discount on debt related to this note of \$2,269,272. The net long term balance of this note is \$2,630,728 and is included in Long term convertible notes payable, related party.

Through the acquisition of CUI, Inc., the Company has a capital lease note payable of \$82,838 as of March 31, 2010. The current portion of the capital lease note is \$54,158 as of March 31, 2010. The capital lease note is related to office equipment and furniture and is secured by the same office equipment and furniture. The capital lease expires September 1, 2011.

Through the acquisition of Comex Electronics and CUI Japan, the Company has current notes payable of \$306,167 and long term notes payable of \$1,452,345. These notes have interest rates as of March 31, 2010 ranging from 1.975%.00% to 3.85% and term dates from April 2010 to March 2019. Through Comex Electronics, the Company also has capital leases payable of \$49,501 related to equipment and vehicles and is secured by the same. The current portion of the capital leases is \$16,502 as of March 31, 2010. The capital leases have various expiration dates through December 2014.

## 9. SUBSEQUENT EVENTS

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 will recognize a gain on the settlement of debt of \$5,630,500 for the second quarter of 2010.

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 the company's common stock.

On April 20, 2010, Key Bank National Association extended the \$3,000,000 line of credit to mature July 1, 2010.

## 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. The Company does not expect any organizational changes to CUI's operations in the U.S., China or Sweden.

Through CUI's capabilities and extensive contacts throughout Asia, this acquisition allows Waytronx to continue to identify, acquire, and commercialize new proprietary technologies, including its proprietary thermal management technology. Waytronx will use CUI's market partners and global distribution capabilities to bring other products to market, including the Digital Power Modules, GASPT2, and other proprietary devices, described below. CUI's testing and R&D capabilities allow Waytronx to commercialize and prototype its products more efficiently and economically.

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, provide a technology architecture that addresses cooling and power to industries ranging from consumer electronics to defense and alternative energy.

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. Waytronx, Inc. intends to form a wholly owned subsidiary, CUI-GAS, Inc. to acquire from Waytronx the GASPT2 licensing contract. That subsidiary should be created and fully functioning in Fourth Quarter 2010.

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 and then uses ISO6976 to calculate the gas quality characteristics of calorific value (CV), Wobbe index (WI), relative density (RD), and compression factor (Z). Through Bluetooth 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 third 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. continues to commercialize thermal management technology of particular use to the semiconductor, solar and electronic packaging industries that involve the use of fluid displacement to move heat away from the source instead of traditional passive heat transference through solid materials. This technology can enhance system performance and remove thermal barriers caused by "microwarming" in today's advanced computing devices. This proprietary hybrid mesh architecture solutions for central and graphics processors, solar energy devices and power supplies provide more cost effective and efficient thermal management to the electronics industry.

The thermal management technology can be universally adapted to any device with cooling requirements. Applications Waytronx has currently identified for WayCool include graphics processing units, central processing units, power supply units, solar energy, medical monitors, test appliances and home electronics displays.

During the three months ended March 31, 2010, Waytronx continued to incur losses from operations. A net loss attributable to Waytronx Inc. of \$1,172,730 was incurred for the three months ended March 31, 2010. The net loss is primarily the result of interest expenses (both cash and non-cash) associated with debt.

The Company is in default of a debt covenant on its \$3,000,000 working capital line of credit with Key Bank. In April 2010, the working capital line of credit was extended to July 1, 2010. Management is actively working to resolve this default.

The Company is in default of its debt service coverage ratio debt covenant related to the \$6,000,000 Commerce Bank of Oregon cash loan. The Company is actively working to resolve this situation. As of this date, the Bank has not called the loan.

Management has continued to raise the capital needed to fund the development and marketing of its products as well as the acquisitions of CUI Japan and Comex Electronics during 2009 and the first three months of 2010. During the three months ended March 31, 2010, the Company has utilized the bank line of credit to fund operations. It is anticipated that Waytronx, CUI, CUI Japan and Comex Electronics will continue to develop and expand the technology and product lines which may require additional funding.

#### 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 March 31, 2010 are \$461,801, and there is net working capital deficit of \$6,002,398. Operations and investments in patents and equipment have been funded through cash from operations, and the bank line of credit during the three month period.

### Cash used in operations

Operating requirements generated a negative cash flow from operations of \$247,539 for the three months ended March 31, 2010, versus a negative cash flow from operations of \$433,961 for the same period last year. The improvement in cash used in operations is primarily the result of a decrease in stock, warrants, options and notes issued for compensation and services, a decrease in non-cash interest expense, a net profit on securities available for sale, a decrease in bad debt expense, increase in depreciation, a decrease in trade accounts receivable, a decrease in other accounts receivable, a increase in inventory levels, decreased prepaid expenses, increase in deposits and other current assets, decreases in accounts payable, increases in accrued expenses, and an increase in accrued compensation.

During the first three 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 three months of 2010 and 2009, a total of \$1,641 and \$84,212, 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 WayCool, GASPT2, digital power and its other electromechanical products. The Company does not expect to record significant revenue from the WayCool technology until this product line is fully developed and licensing agreements for the manufacture and sale of its products are in place and operational.

### Capital Expenditures and Investments

The Company invested \$20,651 in other intangible assets related to products during the first three months of 2010 as compared to \$0 for the same period last year.

Waytronx invested \$1,925 in patent costs during the first three months of 2010 as compared to \$901 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 three months of 2010 and 2009, there was \$135,437 and \$21,263 investment in property and equipment, respectively.

### Financing activities

During the first three months of 2010, the Company received proceeds of \$540,582 from the bank working line of credit, and the Company issued payments of \$112,890 of payments were made against notes and loans payable, and \$74,186 of payments were made against notes and loans payable, related party. 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 March

31, 2010 the Company had an accumulated deficit of \$55,919,517.

The Company may seek to raise additional capital for the commercialization of its WayCool, GASPT2, digital power and its other electromechanical products. 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.

As of March 31, 2010 CUI Inc. maintained a line of credit with Key Bank granting borrowings of up to \$3,000,000 with interest payable monthly at the bank's prime lending rate plus 1.50 percentage points. At March 31, 2010, the Company is out of compliance with a debt covenant related to this loan. The Company is actively working to resolve this situation. In April 2010, the working capital line of credit was extended to July 1, 2010.

The Company is in default of its debt service coverage ratio debt covenant related to the \$6,000,000 Commerce Bank of Oregon cash loan. The Company is actively working to resolve this situation. As of this date, the Bank has not called the loan.

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 additional 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 three months ended March 31, 2010 and 2009, revenue was \$7,668,805 and \$6,125,050, respectively. The revenue for the three months ended March 31, 2010 is comprised of \$6,481,001 from CUI products, \$1,167,562 from CUI Japan and Comex Electronics products, \$20,147 for freight, and \$95 from RediAlert™ products. The revenue for the three months ended March 31, 2009 is comprised of \$6,060,901 from CUI products, \$37,647 for freight, \$26,502 from RediAlert™ products.

### Cost of revenue

The cost of revenue for the three months ended March 31, 2010 and 2009, was 4,826,439 and 3,656,155, respectively.

### Selling, General and Administrative Expenses

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

For the three months ended March 31, 2010 compared to the same period in 2009, SG&A expenses increased \$457,870. The increase is primarily associated with the SG&A expenses associated with the operations of CUI Japan and Comex Electronics and their operations and increased expenses associated with the increase in overall business.

### Research and Development

The research and development costs are related to the development of technology and products. Research and development costs were \$81,158 and \$83,399, for the three months ended March 31, 2010 and 2009, respectively.

### Bad Debt

The bad debt expense for the three months ended March 31, 2010 and 2009 was \$10,890 and \$37,743, respectively. The bad debt expense for both periods relates to miscellaneous customers.

#### Other Income

Other income for the three months ended March 31, 2010, consisted of \$19,579 gain on foreign exchange, \$16,712 recovery of bad debts, \$11,243 interest income, \$6,090 of rental income, and \$2,771 of miscellaneous income. Other income for the three months ended March 31, 2009, consisted of \$29,200 for services billed to a related party, \$6,818 for interest income, \$8,883 gain on foreign exchange, and \$584 in other income.

#### Investment Income

The Company recognized income of \$14,615 on equity investment in an affiliate for the three months ended March 31, 2010. For the same period ended 2009, the Company recognized a loss of \$8,058.

#### Convertible debt and amortization of debt discount and debt offering costs

The Company recorded an expense of \$741,855 and \$838,771, for the three months ended March 31, 2010 and 2009, respectively, for the amortization of debt discount and debt offering costs. The decrease in expense in 2010 is related to the reduction in the debt discount related to the 2009 reduction of debt and related debt discount associated with the convertible note used to fund the acquisition of CUI, Inc.

#### Interest Expense

The interest expense of \$387,533 and \$461,926 for the three months ended March 31, 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 due to the reduction of debt in 2009 through debt settlements and principal payments.

#### Preferred Stock Dividends

No preferred dividend expense was recorded by the Company during the three months ended March 31, 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.

#### 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 June 2009, the FASB issued FASB Accounting Standards Codification No. 860 “Transfers and Servicing” (“FASB ASC 860”). FASB ASC 860 improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement, if any, in transferred financial assets. FASB ASC 860 is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The adoption of this statement did not have a material effect on the Company’s financial statements.



In June 2009, the FASB issued FASB Accounting Standards Codification No. 810 “Consolidation” (“FASB ASC 810”). FASB ASC 810 improves financial reporting by enterprises involved with variable interest entities and to address (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities”, as a result of the elimination of the qualifying special-purpose entity concept in FASB ASC 860 and (2) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise’s involvement in a variable interest entity. FASB ASC 810 is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The adoption of this statement did not have a material effect on the Company’s financial statements.

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 August 2009, the Financial Accounting Standards Board (“FASB”) issued FASB Accounting Standards Update 2009-05, Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value includes amendments to Subtopic 820-10, Fair Value Measurements and Disclosures—Overall, for the fair value measurement of liabilities and provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the techniques provided for in this update. The adoption of Accounting Standards Update 2009-05 did not have a material impact on the condensed consolidated financial statements.

#### 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.

Item 4T. Controls and Procedures

Within 90 days prior to the filing of this report, the Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the design and operation of its disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective for the gathering, analyzing and disclosing the information the Company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

(a) Our management, including the principal executive officer and principal financial officer, do not expect that our disclosure controls and procedures will prevent all error and fraud. A control system, no matter how well conceived and operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

(b) Changes in internal controls over financial reporting.

We have not identified any significant deficiency or material weaknesses in our internal controls, and therefore there were no corrective actions taken.

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

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During the three months ended March 31, 2010, the Company issued no common stock.

Common Stock Issuable

During the three months ended March 31, 2010, the Company recorded no shares of common stock issuable.

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Item 3. Defaults upon Senior Securities.

The Company is in default of its debt service coverage ratio debt covenant related to the \$6,000,000 Commerce Bank of Oregon cash loan. The Company is actively working to resolve this situation. As of this date, the Bank has not called the loan.

Item 4. (Removed and Reserved).

Item 5. Other Information.

No reports on Form 8-K were filed during the three months ended March 31, 2010.

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.
10.22	Contract and License Agreement between the Registrant and John Popovich, dated July 23, 2001.
10.32	Agreement by and among the Registrant, John Popovich and Fusion Three, LLC, dated January 14, 2004.
10.42	Letter Agreement between the Registrant and John Popovich, dated January 15, 2004.
10.52	Master Settlement and Release Agreement by and among the Registrant, Fusion Three, LLC, Ryan Family Partners, LLC, and Capital Management Group, Inc., dated February 3, 2004.
10.62	First Amendment to Contract and License Agreement, dated February 3, 2004.
10.175	Assignment, dated February 16, 2005, of Registrant's technology patents ownership from inventor to CH Capital.
10.185	Assignment, dated February 16, 2005, of Registrant's technology patents ownership from CH Capital to Company.
10.225	Promissory Note dated March 25, 2005 evidencing \$1,500,000 unsecured short term loan to Registrant.
10.236	OnScreen Technologies, Inc. 2005 Equity Incentive Plan
10.257	Employment Agreement between the Registrant and William J. Clough, Esq. dated November 21, 2005.
10.289	Waytronx, Inc. 2008 Equity Incentive Plan.
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.

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- 22.5 Proxy Statement and Notice of 2009 Annual Shareholder Meeting filed with the Commission on August 10, 2009.
- 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.

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- 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 7th day of May 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