

Waytronx, Inc.
Form 10KSB
April 01, 2008

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

FORM 10-KSB

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

For the fiscal year ended December 31, 2007.

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE
ACT OF 1934 (NO FEE REQUIRED)

Commission File Number 0-29195

Waytronx, Inc.
(Name of Small Business Issuer in Its Charter)

Colorado
(State or jurisdiction of
incorporation or organization)

(7310)
(Primary Standard Industrial
Classification Code Number)

84-1463284
(I.R.S. Employer
Identification No.)

2332 LaMirada Drive
Suite 400
Vista, California 92081-7861
(760) 727-1500
(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)

William J. Clough, CEO/President
Waytronx, Inc.
2332 LaMirada Drive
Suite 400
Vista, California 92081-7861
(760) 727-1500
(Name, Address and Telephone Number of Agent for Service)

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

Securities registered under Section 12(g) of the Exchange Act: Common Stock, par value \$0.001.

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

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

The issuer's revenues for its most recent fiscal year ended December 31, 2007 were \$157,258.

The aggregate market value of the voting common equity held by non-affiliates as of December 31, 2007 was \$30,401,945 (calculated by excluding shares owned beneficially by affiliates, directors and officers).

As of March 20, 2007, the registrant had 158,450,479 shares of common stock outstanding and 50,543 shares of Series A Convertible Preferred Stock outstanding and no shares of Series B Convertible Preferred outstanding.

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This Annual Report on Form 10-KSB and the documents incorporated herein by reference contain forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations, estimates and projections about our industry, management's beliefs, and assumptions made by management. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict; therefore, actual results and outcomes may differ materially from what is expressed or forecasted in any such forward-looking statements.

PART I

Item 1. Description of Business

Waytronx, Inc. (sometimes hereafter referred to as "Waytronx" or "the Company") is a Colorado corporation organized on April 21, 1998. The Company's principal place of business is located at 2332 LaMirada Drive, Suite 400, Vista, California 92081-7861.

The Company is primarily focused on commercialization of its innovative thermal cooling technology, WayCool™.

WayCool™ Thermal Management Technology

We are primarily focused on commercialization of our innovative thermal cooling technology, WayCool. The Waytronx architecture incorporates a variety of patent pending designs of a new scientific approach to addressing intense heat generated in electronic systems, including computers, home entertainment systems, test fixtures and medical monitoring devices. WayCool provides cooling technology that transfers heat at extraordinarily high rates to promote superior thermal management in electronics. As micro electronics components run at higher speeds with more computing capacity, the primary gating factor is thermal management. WayCool technology offers a highly scalable and cost effective alternative.

WayCool's cooling technology involves the use of fluid displacement to move heat away from the source instead of traditional passive heat transference through solid materials. WayCool's efficiency is not limited to the thermal conductivity of the material. The technology uses a capillary network of microchannels to transport the fluid at a rapid rate. This fluid transport ensures active removal of hot fluid from the area in contact with the heat source and replacement with colder fluid. The result is a more even temperature across the entire body of the cooling device (isothermicity).

WayCool™ Applications

WayCool can be universally adapted to any device with cooling requirements.

Applications Waytronx has currently identified for WayCool include:

- Graphics Processing Units ("GPU")
- Central Processing Units ("CPU")
- Power Supply Units ("PSU")
- Solar Energy
- Medical Monitors
- Test Appliances
- Home Electronics Displays

WayCool™ Market Analysis

The Company received a report in May 2005 prepared by an independent third party new product research consulting firm that provided a comprehensive market compilation and analysis of the semiconductor industry shipments in the personal computer and server markets for major producers as well as an evaluation of the market impact of the WayCool thermal management technology in context with the total semiconductor industry demand. The principal focus of the report was to determine a preliminary business valuation for WayCool in providing a viable solution for computer processor chip thermal management.

The report of the independent third party research firm found that the semiconductor industry is expected to move to the use of advanced cooling solutions to solve an increasing need for higher processing speeds so as to better manage greater power requirements. It is expected that exponential increases in thermal output could limit traditional thermal management solutions over the next three years.

The potential market opportunity for WayCool is very large. Third party analysis indicates that a market potential of over \$5 billion exists in the vertical market of PC and server applications. The potential application of WayCool to other types of electronics, such as video display chips and other types of microprocessor-based electronics is estimated to equal or exceed the single market potential of PCs and servers.

Waytronx, Inc. Business Strategy

The implemented Company business strategy includes an expanding basis of innovative ideas and products based on its thermal cooling technology, WayCool™.

Licensing

The Company has begun to implement a broad intellectual property licensing program for select products to commercialize WayCool™. Through this program, the WayCool thermal management cooling technology is intended to be exploited through the development of worldwide license and royalty agreements. This strategy has been adopted for several reasons:

- It is considerably less capital intensive than developing manufacturing and marketing capabilities.
 - It provides revenue streams immediately through advance licensing fees.
- It provides an opportunity to fund further research and to build/develop the intellectual property portfolio of the Company.
 - It can provide continuous long-term revenue streams.
- It provides a more rapid adaptation and proliferation of the WayCool thermal management cooling technology.
 - It expedites finding potential corporate “partners”.
 - It provides the opportunity for greater margins.

These benefits are intended to be used as the primary method for promoting rapid adoption of WayCool™ (Please see above the section “WayCool™ Thermal Management Technology”) through licensing agreements with various suppliers in the microprocessor-based electronics markets. These include potential licensing relationships with chip original equipment manufacturers (OEMs), original development manufacturers (ODMs), as well as potential relationships with companies serving the after-market retail market segment. It is intended that a worldwide licensing strategy for WayCool will open significant business opportunities for this technology in a number of vertical market applications. WayCool is discussed above in the section entitled WayCool Thermal Management Technology.

Intellectual Property Ownership of Waytronx Technology

The following describes the evolution of the license and ownership of the Waytronx technology patents:

- On or about July 23, 2001, the Company entered into a Contract and License Agreement (hereafter the “License Agreement”) with the inventor of the Company’s LED technology which agreement entitled the Company to 75% of the revenue generated from the direct view LED sign technology with angular dimension greater than 30 inches and guaranteed the inventor a minimum royalty of \$50,000 the first year, \$100,000 the second year and \$250,000 each year thereafter.
- On January 10, 2005 and February 16, 2005, the inventor/owner of the Company’s LED technology patent conveyed ownership of the LED technology, WayCool and WayFast patents to CH Capital, a related party of the Company, for value received. CH Capital is a California general partnership controlled by Bradley J. Hallock, currently a shareholder, Corporate Secretary and director and William Clough, currently a shareholder, President/CEO, general counsel and director.
- On February 16, 2005, in consideration for the payment of two hundred thousand dollars (\$200,000), CH Capital conveyed the LED technology patent rights to the Company.
- On March 24, 2006, CH Capital assigned to the Company all right, title and interest to the WayCool patent in consideration for eight hundred thousand dollars (\$800,000) and a three year warrant to purchase 7,040,485 common shares at a per share price of \$0.20. The \$800,000 amount represents reimbursement for the time and money CH Capital spent acquiring and developing the WayCool technology. This assignment has been recorded and is a matter of record with the United States Patent and Trademark Office. The Company now owns all right, title and interest of the WayCool patent.

Fusion Three, LLC Settlement

During May 2006 Fusion Three, LLC relinquished all rights and claims to any revenues and fees of the Company in consideration for a three year warrant authorizing Fusion Three, LLC to purchase up to five million six hundred thousand (5,600,000) shares of our common stock at a per share price of \$0.20 plus a warrant to purchase up to one million two hundred thousand (1,200,000) shares of our common stock at a per share price of \$0.35 for 300,000 shares; \$0.50 for 300,000 shares; \$0.75 for 300,000 shares and \$1.00 for 300,000 shares before November 15, 2007. Regarding all of the common shares underlying the warrants, the Company is obligated to file a Form SB-2 registration statement with the SEC within no more than one hundred twenty (120) days from the date of the agreement.

Waytronx Intellectual Property Protection

The Company relies on various intellectual property laws and contractual restrictions to protect its proprietary rights in products and services. These include confidentiality, invention assignment and nondisclosure agreements with its 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. The Company retained Knobbe, Martens, Olson & Bear, LLP, Banner & Witcoff, Ltd. and Law Offices of William W. Haefliger to manage its current interests relative to the prosecution of the national and international patents. The Company intends to pursue the registration of our trademarks and service marks in the United States and internationally.

- A utility patent was issued September 12, 2006 on the LED technology that contains over 50 separate claims.
- A utility patent was issued December 5, 2006 relating to our basic LED architecture design. This basic architecture is the basic principle for the LED sign product line.
 - A utility patent was issued November 21, 2006 regarding our Living Window LED sign product design.
- February 10, 2005 a utility patent application was filed on behalf of the Company relating to the aerodynamic LED sign system. This application is pending.
 - A utility patent was issued May 22, 2007 relating to the WayCool Thermal Management Technology.
- September 29, 2006 a utility patent was filed on behalf of the Company relating to the RediAlert product design.
- October 4, 2006 a series of four Divisional patent applications were filed relating to the Living Window product design.
- September 7, 2006 a provisional patent application was filed relating to the OnScreen LED Tensile roll-up sign technology design.
- In the months of June, July, September and October 2006 Provisional patent applications were filed relating to various modifications and enhancements for the WayCool product design.
 - August 20, 2003 Patent Cooperation Treaty applications were filed relating to the basic LED mesh design.
 - December 21, 2005 Patent Cooperation Treaty applications were filed relating to the WayCool product design.
- February 10, 2006 Patent Cooperation Treaty applications were filed relating to the aerodynamic LED sign system design.
- March 24, 2006 CH Capital assigned to the Company all right, title and interest of the WayCool patent. This assignment has been recorded and is a matter of record with the United States Patent and Trademark Office.

During 2005 through 2007 under the Trademark Act of 1946, as amended, the United States Patent and Trademark Office permitted our registration of the following trademarks: RediAlert, Rapid Dispatch Emergency Signs, Redi-DMS Dynamic Messaging Sign, RediAd, Living Window and OnScreen Technology (We are required to disclaim the unitary expression because the individual component words of a complete descriptive phrase are not registerable. This disclaimer does not impair the “OnScreen” trademark or the “OnScreen technology” words when used in conjunction with the trademark), RediAlert, Rapid Dispatch Emergency Signs, and Living Window.

During 2006 and 2007 we filed applications with the United States Patent and Trademark Office to register the following trademarks: WayCool, WayFast and Waytronx.

The Company continuously reviews and updates the existing patent and trademark filings and files new documentation both nationally and internationally (Patent Cooperation Treaty) in a continuing effort to maintain up to date patent and trademark protection of its intellectual property.

For those applications pending, there is no assurance that the patents and trademark registrations will be granted. Furthermore, the Company is exposed to the risk that other parties may claim the Company infringes their existing patent and trademark rights, which could result in the Company’s inability to develop and market its products unless the Company enters into licensing agreements with the technology owner or could force the Company to engage in costly and potentially protracted litigation.

Employees

As of December 31, 2007, the Company had two fulltime employees and two part time employees. None of its employees is represented by a labor union. The Company considers its relations with its employees to be good. The Company plans to add additional staff as needed to handle all phases of its business.

Risks Related to Our Business

The Company's limited operating history makes evaluating its business and prospects difficult.

The Company has only recently begun to direct all of its efforts to commercialization of the WayCool thermal management cooling technology. The Company's limited operating history in this industry and the unproven nature of the WayCool technology makes evaluation of its future prospects very difficult. To date the Company has not achieved profitability and the Company cannot be certain that it will sustain profitability on a quarterly or annual basis in the future. One should carefully consider the Company's prospects in light of the risks and difficulties frequently encountered by early stage companies in new and rapidly evolving technology.

The Company has all the risks of a new product developer in the technology business.

The Company, as the owner of the WayCool thermal management cooling technology patents, assumed the responsibility for completing the development of the WayCool thermal management cooling technology and determining which products to commercialize utilizing the WayCool technology. Because this is a new and unproven technology, there is a risk that the technology, operation and development of products could be unsuccessful or that the Company will not be successful in marketing any products developed with the WayCool technology. Such failures would negatively affect the Company's business, financial condition and results of operations.

There is no assurance the Company will achieve profitability.

To date the Company has not received significant revenue from the WayCool thermal management cooling technology. The Company has focused its scope of operation to the commercialization of our innovative thermal cooling technology, WayCool. For the year ended December 31, 2007, the Company had a net loss of \$5,746,667. The Company will need to begin generating significant revenues from the WayCool product line to offset current operational and development losses if the Company is to cover its current overhead expenses, including further development costs and marketing expenses. There is no assurance that the Company will achieve profitability.

During 2006 and 2007, the Company funded its operations with net proceeds of approximately \$12.6 million it received from financing activities. The Company believes that additional equity financing or debt will be necessary to fund its operations until revenue streams are sufficient to fund operations; however, the terms and timing of such additional equity or debt cannot be predicted. The Company cannot assure that its revenues will be sufficient to cover all operating and other expenses of the Company. If revenues are not sufficient to cover all operating and other expenses, the Company will require additional funding.

The Company will be dependent on third parties and certain relationships to fulfill its obligations.

Because the Company has licensed the manufacturing and distribution of the WayCool technology to unrelated companies that are better equipped financially and technologically to design and manufacture WayCool technology end products, the Company is heavily dependent on these third parties to adequately and promptly provide the end product. The Company is dependent upon its ability to maintain the agreements with these designers and manufacturers and other providers of raw materials and components who provide the necessary elements to fulfill the Company's product delivery obligations at the negotiated prices.

The market for electronics is extremely competitive.

Because the electronics industry is highly competitive, the Company cannot assure that it will be able to compete effectively. The Company is aware of several other companies that offer similar products, utilizing different technology than its WayCool™ technology. All of these competitors have been in the electronics business longer than the Company has and have significantly greater assets and financial resources than are currently available to the Company. The Company expects competition to intensify as innovation in the electronics industry advances and as current competitors expand their market into the thermal management sector. The Company cannot assure you that it will be able to compete successfully against current or future competitors. Competitive pressures could force the Company to reduce its prices and may make it more difficult for the Company to attract and retain customers.

The Company depends on key personnel and will need to recruit new personnel as its business grows.

As a small company, Waytronx, Inc. is currently dependent on the efforts of a limited number of management personnel. The Company believes that given the large amount of responsibility being placed on each member of its management team, the loss of the services of any member of this team at the present time would harm its business.

If the Company is successful in expanding its product and customer base, the Company will need to add additional key personnel as its business continues to grow. If the Company cannot attract and retain enough qualified and skilled staff, the growth of its business may be limited. The Company's ability to provide services to customers and expand its business depends, in part, on its ability to attract and retain staff with professional experiences that are relevant to technology development and other functions the Company perform. Competition for personnel with these skills is intense. The Company may not be able to recruit or retain the caliber of staff required to carry out essential functions at the pace necessary to sustain or expand its business.

The Company believes its future success will depend in part on the following:

- the continued employment and performance of its senior management,
- its ability to retain and motivate their officers and key employees, and
- its ability to identify, attract, hire, train, retain, and motivate other highly skilled technical, managerial, marketing, sales and customer service personnel.

If the Company fails to adequately protect its patents, trademarks and proprietary rights, its business could be harmed.

The Company regards its patents, trademarks, trade secrets and similar intellectual property as critical to its success. The Company relies on trademark and patent law, trade secret protection and confidentiality or license agreements with their employees, customers, partners and others to protect its proprietary rights. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's intellectual property without its authorization. There is no assurance its pending trademark applications for WayCool™, Waytronx™, WayFast™ will be approved. Effective trademark, patent and trade secret protection may not be available in every country in which the Company may in the future offer its products. Therefore, the Company may be unable to prevent third parties from infringement on or otherwise decreasing the value of its trademarks, patents and other proprietary rights.

If the Company is to remain competitive, the Company must be able to keep pace with rapid technological change.

The Company's future success depends, in part, on its ability to develop or license leading technologies useful in its business, enhance the ease of use of existing products, develop new products and technologies that address the varied needs of their customers, and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. If the Company is unable, for technical, legal, financial or other reasons, to incorporate new technology in new features or products, the Company may not be able to adapt in a timely manner to changing market conditions or customer requirements.

The Company may infringe intellectual property rights of third parties.

Litigation regarding intellectual property rights is common in the technology industry. The Company may, in the future, be the subject of claims for infringement, invalidity or indemnification claims based on such claims of other parties' proprietary rights. These claims, whether with or without merit, could be time consuming and costly to defend or litigate, divert the Company's attention and resources, or require the Company to enter into royalty or licensing agreements. There is a risk that such licenses would not be available on reasonable terms, or at all. Although the Company believes it has full rights to use its current intellectual property without incurring liability to third parties, there is a risk that its products infringe the intellectual property rights of third parties.

Third parties may infringe on the Company's intellectual property rights

There can be no assurance that other parties will not infringe on our intellectual property rights with respect to its current or future technologies. The Company expects that participants in its markets will be increasingly subject to infringement claims as the number of services and competitors in its industry segment grows. Any such claim, with or without merit, could be time-consuming, result in costly litigation, create service upgrade delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements might not be available on terms acceptable to the Company, or at all. As a result, any such claim of infringement by the Company could have a material adverse effect upon its business, results of operations and financial condition.

Risks Related to Our Common Stock

The Company's Common Stock price may be volatile, which could result in substantial losses for individual stockholders.

The market price for the Company's Common Stock is volatile and subject to wide fluctuations in response to factors, including the following, some of which are beyond its control, which means its market price could be depressed and could impair its ability to raise capital:

- actual or anticipated variations in its quarterly operating results;
- announcements of technological innovations or new products or services by the Company or its competitors;
- changes in financial estimates by securities analysts;
- conditions or trends relating to the thermal management cooling technology;
- changes in the economic performance and/or market valuations of other thermal cooling related companies;
- additions or departures of key personnel;
- fluctuations of the stock market as a whole.

The Company's Certificate of Incorporation limits director liability, thereby making it difficult to bring any action against them for breach of fiduciary duty.

As permitted by Colorado law, the Company's Articles of Incorporation limits the liability of directors to the Company or its stockholders for monetary damages for breach of a director's fiduciary duty, with certain exceptions. These provisions may discourage shareholders from bringing suit against a director for breach of fiduciary duty and may reduce the likelihood of derivative litigation brought by shareholders on behalf of the Company against a director.

The Company may be unable to meet its future capital requirements.

The Company is substantially dependent on receipt of additional capital to effectively execute its business plan. If adequate funds are not available to the Company on favorable terms the Company will not be able to develop new products or enhance existing products in response to competitive pressures, which would affect its ability to continue as a going concern. The Company cannot be certain that additional financing will be available to it on favorable terms when required, or at all. If the Company raises additional funds through the issuance of equity, equity-related or debt securities, such securities may have rights, preferences or privileges senior to those of the rights of its common stock and its stockholders may experience additional dilution.

Penny stock regulations may impose certain restrictions on marketability of our stock.

The Securities and Exchange Commission (the "Commission") has adopted regulations which generally define a "penny stock" to be any equity security that has a market price (as defined) of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. As a result, the Company's Common Stock is subject to rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a risk disclosure document mandated by the Commission relating to the penny stock market. The broker-dealer must also disclose the commission payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the "penny stock" rules may restrict the ability of broker-dealers to sell our securities.

For the foreseeable future, the Company's securities will likely have a trading price of less than \$5.00 per share and will not be traded on any exchanges; therefore, we will be subject to Penny Stock Rules. As a result of the aforesaid rules regulating penny stocks, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of shareholders sell their securities in the secondary market.

The Company has never paid dividends on its Common Stock and does not expect to pay any in the foreseeable future. Preferred Shares impose restrictions on our ability to pay Common Stock dividends.

A potential purchaser should not expect to receive a return on their investment in the form of dividends on our Common Stock. The Company has never paid cash dividends on its Common Stock and the Company does not expect to pay dividends in the foreseeable future. Our ability to pay dividends on our Common Stock is restricted by the terms of our agreements with the holders of our Series A and Series B Convertible Preferred Stock. Holders of our Series A Convertible Preferred Stock are entitled to annual dividends of 10%. As of December 31, 2007, the Company has 75,543 Series A Convertible Preferred shares outstanding and no Series B Convertible Preferred shares outstanding. In the past, the Company has fulfilled its dividend obligations on the Series A and Series B Convertible Preferred Stock through a combination of the issuance of additional shares of its Series A Convertible Preferred and/or Common Stock and cash payments.

On December 31, 2006 dividends payable for the Series A Convertible Preferred Stock was \$5,054 and on December 31, 2007 the dividends payable for the Series A Convertible Preferred Stock was \$27,353. Holders of the Company's Series B Convertible Preferred Stock are entitled to annual dividends of \$1.00 per share. As of this filing, all Series B Convertible Preferred Stock had been converted to common shares.

Substantial sales of our Common Stock could cause our stock price to rapidly decline.

The market price of our Common Stock may fall rapidly and significantly due to sales of our Common Stock from other sources such as:

- Common Stock underlying the conversion rights of our Series A and Series B Convertible Preferred Stock.
- Common Stock underlying the exercise of outstanding options and warrants.
- Common Stock, which are available for resale under Rule 144 or are otherwise freely tradable and which are not subject to lock-up restrictions.

Any sale of substantial amounts of our Common Stock in the public market, or the perception that these sales might occur, whether as a result of the sale of Common Stock received by shareholders upon conversion of our Series A or Series B Convertible Preferred Stock, exercise of outstanding warrants or options or otherwise, could lower the market price of our Common Stock. Furthermore, substantial sales of our Common Stock in a relatively short period of time could have the effect of depressing the market price of our Common Stock and could impair our ability to raise capital through the sale of additional equity securities.

The covenants with our Series A and Series B Convertible Preferred Stock shareholders restrict our ability to incur debt outside the normal course, acquire other businesses, pay dividends on our Common Stock, sell assets or issue our securities without the consent of holders of a majority of the Series A and Series B Convertible Preferred Stock outstanding. Such arrangements may adversely affect our future operations or may require us to make additional concessions to the holders of the Series A and Series B Convertible Preferred Stock in order to enter into transactions or take actions management deems beneficial and in the best interests of the holders of our Common Stock.

Note conversions could result in dilution of common stock

The conversion of outstanding promissory notes may result in substantial dilution to the interests of other holders of common stock, since the investors may ultimately convert and sell the full amount issuable on conversion under the notes. To the extent the selling stockholders convert their notes and then sell their common stock into the market, the common stock price may decrease due to the additional shares in the market. As of December 31, 2007, the \$1,650,000 principal of outstanding promissory notes and 12% per annum simple interest accruing thereon are convertible at a floating per share price based on a substantial discount to the then-prevailing market price. There is, however, a \$0.20 per share minimum limit on the conversion price, which means that there is a limit on the number of shares that the company may be obligated to issue.

Downward pressure on the stock price could encourage short selling

The significant downward pressure on the price of the common stock as the selling stockholders convert and sell material amounts of common stock could encourage short sales by the selling stockholders or others. This could place significant downward pressure on the price of the common stock.

In finance, short selling or “shorting” is a way to profit from the decline in price of a security, such as stock or bond. A short sale is generally a sale of a stock you do not own. Investors who sell short believe the price of the stock will fall. If the price drops, you can buy the stock at the lower price and make a profit. If the price of the stock rises and you buy it back later at the higher price, you will incur a loss.

When you sell short, your brokerage firm loans you the stock. The stock you borrow comes from either the firm’s own inventory, the margin account of another of the firm’s clients or another brokerage firm. As with buying stock on margin, you are subject to the margin rules. Other fees and charges may apply. If the stock you borrow pays a dividend, you must pay the dividend to the person or firm making the loan.

Item 2. Description of Property

The Company owns no real estate. On October 15, 2004, the Company signed a lease with Safety Harbor Centre commencing December 1, 2004 for five years leasing an office suite at a monthly rental of \$2,814 (plus a pro rata share of common area maintenance and taxes).

Effective November 11, 2005, the corporate home office was relocated to 600 NW 14th Avenue, Suite 100, Portland, Oregon 97209, and a field office retained at the Safety Harbor, Florida location. In October 2005, a lease was signed with Market Place I & II, LLC for 7,500 square feet of office space in Portland, beginning November 1, 2005 and ending December 31, 2010. This lease is renewable for an additional five years at the option of Waytronx. The initial monthly base rent is \$9,062.50 for December 2005 through October 2007, thereafter the rent increases slightly. In February of 2008 this lease was terminated by mutual agreement in exchange for the release of Waytronx from any liability for future rents, with a termination payment of \$22,000.

Effective February 14, 2007, the Company relocated its corporate home office from the Oregon location to 2332 LaMirada Drive, Suite 400, Vista, California 92081-7861. The Company retains a field office in Safety Harbor, Florida.

Item 3. Legal Proceedings

The Company is not involved in any legal proceedings; however, the Company received a letter from several shareholders relating to the recently filed SB-2 not being filed within an agreed time parameter.

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

The 2007 Annual Meeting of Shareholders was held on December 10, 2007, to Elect 1 director to hold office for a two-year term and amend the Company's Restated Articles of Incorporation to change the name of the corporation to Waytronx, Inc. The Board of Directors fixed the close of business on October 5, 2006 as the record date for the determination of shareholders entitled to receive notice of, and to vote at, the Annual Meeting. All such stockholders of record were properly notified and proxies were distributed. The following votes were tabulated:

The vote for Corey Lambrecht, Seat 6 (two year term) of the Board of Directors was:

For Withhold
[79,803,740] [211,867]

The vote to amend the Company's Restated Articles of Incorporation to change the name of the corporation to Waytronx, Inc. was:

For Against Abstain
[6,457,430] [9,005] [1,730,494]

Russell L. Wall, Director Seat #2, and Steven S. Hallock, Director Seat #4, chose to not stand for re-election. The corporate name change to Waytronx, Inc. became effective December 12, 2007, upon filing the documentation with the Colorado Department of State.

PART II**Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities**Market Value

The Company's Common Stock is traded on the OTC Bulletin Board (OTCBB) under the trading symbol "WYNX". The following table sets forth, the high and low bid prices of its Common Stock for the four quarters of 2006 and 2007 and the first two quarters of 2007 as reported by the National Quotation Bureau. The bid prices quoted on the OTCBB reflect inter-dealer prices without retail mark-up, markdown or commission and may not represent actual transactions.

Year	Quarter	High Bid	Low Bid
2006	First Quarter	.580	.170
	Second Quarter	.700	.350
	Third Quarter	.510	.270
	Fourth Quarter	.480	.270
2007	First Quarter	.330	.210
	Second Quarter	.480	.170
	Third Quarter	.420	.310
	Fourth Quarter	.410	.220

Description of Securities

The Company currently has authorized 200,000,000 common shares \$0.001 par value and 10,000,000 preferred shares \$0.001 par value. Of the 10,000,000 authorized preferred shares, 5,000,000 shares have been designated as Series A Convertible Preferred, 30,000 shares have been designated as Series B Convertible Preferred and 10,000 shares have been designated as Series C Convertible Preferred. As of December 31, 2007, the Company's outstanding shares consisted of 156,780,626 issued and outstanding shares of common stock, 75,543 shares of Series A Convertible Preferred Stock and no shares of Series B and Series C Convertible Preferred Stock. As of December 31, 2007, the

Company had in excess of 3,000 shareholders of record.

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The description of the Company's capital stock does not purport to be complete and is subject to and qualified by its Articles of Incorporation and Bylaws, amendments thereto, including the Certificates of Designation for its Series A, Series B and Series C Convertible Preferred Stock and by the provisions of applicable Colorado law. The Company's transfer agent is Computershare Trust Company, Inc., 350 Indiana Street, Suite 800, Golden, Colorado 80401.

The holders of Common Stock and Series A and Series C Convertible Preferred are entitled to one vote per share and holders of Series B Convertible Preferred shares are entitled to one thousand votes per share for all purposes and do not have cumulative voting rights. There is a restriction on the payment of any common stock dividends because any cumulative preferred stock dividends are required to be paid prior to the payment of any common stock dividends. Also, the retained earnings of the Company would be restricted upon an involuntary liquidation by the cumulative unpaid preferred dividends to the preferred stockholders and for the \$1.00 per share Series A and \$240 per share Series B liquidation preferences. Holders of the Company's Common Stock do not have any pre-emptive or other rights to subscribe for or purchase additional shares of capital stock, no conversion rights, redemption, or sinking-fund provisions.

The Company has not paid any dividends on its common stock since inception. The Company expects to continue to retain all earnings generated by its operations for the development and growth of its business and do not anticipate paying any cash dividends to its common shareholders in the foreseeable future. The payment of future dividends on the common stock and the rate of such dividends, if any, will be determined by the Company's Board of Directors in light of its earnings, financial condition, capital requirements and other factors.

Set forth below is a summary of the current outstanding securities, transactions and agreements, which relate to 32,197,359 shares of common stock the Company is required to reserve for potential future issuances. As of December 31, 2007, there are 1,203,179 shares of the Company's common stock available under the 2005 Equity Incentive Stock Plan.

Convertible Preferred Shares

As of December 31, 2007, the Company had 75,543 shares of Series A Convertible Preferred stock outstanding and no shares of Series B and Series C Convertible Preferred Stock outstanding. The Series A preferred shares convert to common shares at a ratio of four common shares plus one common bonus share for each share of Series A Preferred. As of December 31, 2007, there is \$7,554 in accrued Series A Preferred dividends that convert into 37,772 shares of the Company's common stock at a per share price of \$0.20 for certain shareholders who elected to convert accrued dividends to common shares.

April 24, 2007, pursuant to Section 7-106-102 of the Colorado Business Corporation Act, the Board of Directors designated ten thousand (10,000) shares of the authorized ten million shares of Preferred Stock as Series C Preferred Stock. These shares became effective on May 15, 2007 upon filing appropriate documentation with the Colorado Department of State. The Series C Preferred Stock was created to fulfill the terms of a funding agreement with Central Finance, LLC. On May 9, 2007, Central Finance, LLC agreed to loan to the Company one million dollars (\$1,000,000) in five monthly loans of two hundred thousand dollars (\$200,000) each. Twelve percent (12%) per annum simple interest is payable monthly and the principal payment will be determined at the time of each monthly loan. This loan was conditioned on a sale to Central Finance, LLC, by two of our directors, of five hundred thousand (500,000) restricted common shares for a per share price of \$0.15. As a further condition, ten thousand (10,000) restricted common stock owned by Central Finance, LLC may be exchanged, on a one for one ratio, for the newly created 10,000 shares of Series C Preferred stock. These preferred shares may, at any time, at the election of Central Finance, LLC, be re-exchanged back to common stock at the same, one for one, ratio. The Series C Preferred stock has the exclusive right to elect three (3) directors to three (3) newly created board seats. Clifford Melby, a corporate officer of Waytronx, is a member of the LLC.

Convertible Promissory Notes

During 2005 and the first quarter of 2006, the Company privately placed \$10,300,000 of 12% convertible promissory notes. The holders of these notes were granted piggyback registration rights for the Company's common shares underlying the conversion feature of the notes. These notes are convertible to common stock at \$.25 per share. Note holders who purchased \$500,000 or more of these notes received 100,000 additional common shares. All of the notes were converted into 41,200,000 shares of the Company's common stock during the second quarter of 2006. In addition, the Company issued to such note holders warrants to acquire 10,300,000 shares of its common stock at an exercise price of \$.01 per share. These warrants have a three (3) year term. All of the shares of the common stock issued upon the conversion of the notes and the shares of common stock underlying the common stock purchase warrants are granted piggyback registration rights. Warrants representing 9,808,517 common shares have not yet been exercised as of December 31, 2007.

During the last three quarters of 2006 and the first three quarters of 2007, the Company privately placed approximately \$5,108,500 of 12% convertible promissory notes. These notes were convertible to common stock at a per share price equal to eighty percent (80%) of the average closing bid price of one share of Company common stock for 10 days preceding the Conversion Date. There is, however, a \$0.20 per share minimum limit on the conversion price, which means that there is a limit on the number of shares that the company may be obligated to issue. Additionally, each investor was issued a warrant to purchase at any time within three (3) years following the date of investment, at a per share price of one cent (\$.01), that number of shares of Waytronx, Inc. common stock as is equal in value to one tenth the principal investment. Such value to be determined by the average per share closing bid price of Waytronx, Inc. common stock for the 10 days preceding the date of investment. As of December 31, 2007, 13,368,992 common shares were issued pursuant to the conversion of these promissory notes and exercise of the warrants; 9,000,000 common shares are held in reserve as issuable upon the conversion of the balance of the promissory notes and the shares of common stock underlying the common stock purchase warrants and common share underlying the warrants.

The Company has the intention and a reasonable basis to believe that it will have the financial ability to make all payments on the Convertible Promissory Notes.

Employees, Consultants and Advisors

In an effort to attract high caliber qualified employees, management committed the Company to issue 4,611,501 underlying common shares relating to warrants and options to employees, consultants and members of the scientific advisory board and employee stock grants. These warrants and options have exercise prices ranging from \$.01 to \$.75 with terms of one (1) to five (5) years. Additionally, the Company dedicated 2,000,000 common shares to the Employee Incentive Plan, which have been registered under cover of Form S-8. As of December 31, 2007, the Company had issued 796,821 underlying common shares related to the Employee Incentive Plan.

Other than as described herein, there are currently no plans, arrangements, commitments or understandings for the issuance of additional shares of Common Stock.

Recent Sales of Unregistered Securities

Common Stock

During 2007, 82,938 shares of common stock were issued to an employee in accordance with his employment agreement. These shares were valued at \$25,000 using a thirty-day average price at December 31, 2006, in accordance with the agreement.

During 2007, 500 shares of Series B Convertible Preferred stock and 125,000 shares of Series A Convertible Preferred stock were to be issued to an employee in accordance with his employment agreement. The 125,000 shares of Series A Convertible Preferred stock was valued at \$1.00 per share based on contemporaneous cash sales. The 500 shares of Series B Convertible Preferred stock was valued at \$270 per share based on contemporaneous cash sales. The total value of these shares of \$260,000 was expensed over the term of the employee's employment agreement. In lieu of the Convertible A and B Preferred stock 1,250,000 shares of its Common Stock were issued.

During 2007, 841,204 shares of common stock including warrants for 72,296 shares of common stock were issued, in relation to the conversion of promissory notes.

During 2007, 2,139,180 shares of common stock were issued in relation to the exercise of warrants.

During 2007, 4,246,154 shares of common stock were sold as part of stock purchase agreements and proceeds of \$1,104,000 were received.

During 2007, 192,308 shares of common stock were issued as part of a funding finder's fee agreement.

During 2007, 600,000 shares of common stock were issued for services performed by consultants. \$230,000 of consulting expense was recorded in relation to these transactions based on the fair market value of the common stock on the date the agreement was signed.

During 2007, accrued dividends of approximately \$22,300 were converted into 111,494 shares of common stock at a per share price of \$0.20, for shareholders electing to convert accrued dividends to common shares.

During 2007, \$60,000 of compensation expense was also recorded for stock to be issued based upon employment agreements for which the requisite service had been performed. 115,110 of these shares were issued during 2007.

Warrants

The following unregistered warrants to purchase common stock were issued during 2007. All other unregistered issuances of warrants are described in the 10-KSB filing for yearend 2006. For all stock transactions listed below, the company relied on Section 4(2) of the Securities Act of 1933 as the basis for an exemption from registration for these issuances.

The Company issued to an employee as a bonus a three year warrant to purchase 50,000 shares of its common stock for an exercise price of \$0.28 per share.

Pursuant to the terms and conditions of promissory notes, the Company issued to each of three former note holders a three year warrant to purchase an aggregate of 72,296 common shares at per share prices ranging from \$0.25 to \$0.28 per share.

Series A and Series B Convertible Preferred Stock

There were no shares of Series A or Series B Convertible Preferred Stock issued during 2007. All other unregistered issuances of Series A or Series B Convertible Preferred Stock are described in the 10-KSB filing for yearend 2006.

Series C Convertible Preferred Stock

There were no shares of Series C Convertible Preferred Stock issued. The ten thousand (10,000) authorized shares remain available to Central Finance, LLC pursuant to the terms of the financing agreement as discussed in the section above, Market For Common Equity And Related Stockholder Matters.

Shares Eligible for Future Sale

As of December 31, 2007, we had outstanding 156,780,626 shares of Common Stock. Of these shares, 63,744,409 shares are freely tradable without restriction or limitation under the Securities Act.

The 93,036,217 shares of Common Stock held by existing shareholders as of December 31, 2007 that are "restricted" within the meaning of Rule 144 adopted under the Securities Act (the "Restricted Shares"), may not be sold unless they are registered under the Securities Act or sold pursuant to an exemption from registration, such as the exemption provided by Rule 144 promulgated under the Securities Act. The Restricted Shares were issued and sold by us in private transactions in reliance upon exemptions from registration under the Securities Act and may only be sold in accordance with the provisions of Rule 144 of the Securities Act, unless otherwise registered under the Securities Act.

As of December 31, 2007, we had issued and outstanding 75,543 shares of Series A Convertible Preferred Stock, of which all are "restricted" within the meaning of Rule 144 as noted above. No shares of Series B or Series C Convertible Preferred Stock were issued and outstanding as of that date.

On January 23, 2007, the Company filed with the Securities and Exchange Commission a registration statement on Form SB-2 pursuant to the Securities Act of 1933, as amended, with respect to the offer, issuance and sale of an aggregate of 100,646,995 shares of our Common Stock being registered therein to certain of our stockholders named in the Prospectus and their transferees. An amendment to the Form SB-2 was filed October 9, 2007, offering an aggregate of 78,108,174 Common Shares. This amended registration statement was made effective October 26, 2007. The Company will not receive any proceeds from the sale of the shares, but the Company may receive proceeds from the Selling Stockholders if they exercise their warrants.

Certain Provisions of the Articles of Incorporation and Colorado Business Corporation Act

Our Articles of Incorporation provides that, to the fullest extent permitted by Colorado Business Corporation Act as the same exists or may hereafter be amended, a director of the corporation shall not be liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director.

The Company shall indemnify and advance expenses to a director or officer in connection with a proceeding to the fullest extent permitted or required by or in accordance with the indemnification sections of the Colorado Business Corporation Act that provides that, "The corporation shall indemnify a person who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which the person was a party because the person is or was a director, against reasonable expenses incurred by him or her in connection with the proceeding."

Item 6. Management's Discussion and Analysis

Important Note about Forward-Looking Statements

The following discussion and analysis should be read in conjunction with our audited financial statements as of December 31, 2007 and un-audited 10-QSB filings for the first three quarters of 2007 and the notes thereto, all of which are included elsewhere in this Form 10-KSB. In addition to historical information, the following discussion and other parts of this Form 10-KSB contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to factors discussed under "Risk Factors" and elsewhere in this Form 10-KSB.

The statements that are not historical constitute "forward-looking statements". Said forward-looking statements involve risks and uncertainties that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements, express or implied by such forward-looking statements. These forward-looking statements are identified by their use of such terms and phrases as "expects", "intends", "goals", "estimates", "projects", "plans", "anticipates", "should", "future", "believes", and "scheduled".

The variables which may cause differences include, but are not limited to, the following: general economic and business conditions; competition; success of operating initiatives; operating costs; advertising and promotional efforts; the existence or absence of adverse publicity; changes in business strategy or development plans; the ability to retain management; availability, terms and deployment of capital; business abilities and judgment of personnel; availability of qualified personnel; labor and employment benefit costs; availability and costs of raw materials and supplies; and changes in, or failure to comply with various government regulations. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate; therefore, there can be no assurance that the forward-looking statements included in this Form 10-KSB will prove to be accurate.

In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any person that the objectives and expectations of the Company will be achieved.

Losses from Operations; Accumulated Deficit; Negative Net worth and Going Concern.

Historically, the Company has not generated sufficient revenues from operations to self-fund its capital and operating requirements. These factors raise substantial doubt concerning its ability to continue as a going concern. For the foreseeable future, the Company expects that its working capital will come from funding that will primarily include equity and debt placements.

Overview

Waytronx, Inc. has pioneered and is commercializing innovative thermal management solutions capable of revolutionizing the semiconductor and electronic packaging industries. Utilizing its patent-pending thermal technologies and architecture, the Company has developed highly advanced, proprietary LED display solutions under the names RediAlert™ and Living Window™ and cooling applications through its WayCool product line. Waytronx is focusing its efforts on the WayCool cooling technology, which involves the use of fluid displacement to move heat away from the source instead of traditional passive heat transference through solid materials.

During the year ended December 31, 2007, the Company continued to incur significant losses from operations. The Company incurred a net loss of \$5,746,667 for the year ended December 31, 2007. This net loss includes non-cash charges of \$317,356 for compensation and services expense including amortization of deferred compensation related to equity given or to be given to employees and consultants for services provided, \$338,362 of non-cash amortization of the intrinsic value of convertible debt and the warrant related debt discount, and \$2,048,538 of non-cash loss for the impairment of inventory.

Management has continued to raise the capital needed to fund the development and marketing of the Company's products during 2007. During the year ended December 31, 2007 the Company received proceeds of \$1.4 million for secured notes. These funds have assisted the Company in continuing to develop its products, to fund the Company's operations during development of the WayCool™ products, and the Company's efforts to license the manufacture and sales of these products. The Company anticipates continuing to develop and expand its technology and product lines which will require additional funding.

Critical Accounting Policies

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 have a significant impact on the results the Company will report in the Company's financial statements. Some of the Company's accounting policies require the Company to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Actual results may differ from these estimates under different assumptions or conditions.

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 Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. 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.

Valuation of Non-Cash Capital Stock Issuances

The Company values its stock transactions based upon the fair value of the equity instruments. Various methods can be used to determine the fair value of the equity instrument. The Company may use the fair value of the consideration received, the quoted market price of the stock or a contemporaneous cash sale of the common or preferred stock. Each of these methods may produce a different result. Management uses the method it determines most appropriately reflects the stock transaction. If a different method was used it could impact the expense and equity stock accounts.

Patent Costs

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

Revenue Recognition

The recognition of the Company's 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 our 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. The Company 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.

Liquidity and Capital Resources

General

The Company's cash and cash equivalents balance at December 31, 2007 are \$42,639 and a net working capital deficit at December 31, 2007 of \$1,975,902. Operations and investments in equipment have been funded through cash from operations, equity financings and borrowing from private parties as well as related parties. It has also funded its operations through stock paid to vendors, consultants and certain employees.

Cash used in operations

The Company's operating requirements generated a negative cash flow from operations of \$2,879,173 during 2007.

During 2007 and 2006, the Company has used stock and warrants as a form of payment to certain vendors, consultants and employees. For 2007, the Company recorded a total of \$281,900 for compensation and services expense including amortization of deferred compensation related to equity given or to be given to employees and consultants for services provided.

During 2007, the Company recorded two additional significant non-cash entries - \$256,032 of non-cash amortization of the intrinsic value of convertible debt and the warrant related debt discount, and \$2,048,538 of non-cash loss for the impairment of inventory.

As the Company focuses on the WayCool technology during 2008, it will continue to fund research and development related to these products as well as sales and marketing efforts related to these products. The Company does not expect to record significant revenue until its WayCool 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

During 2007, the Company invested \$0 in fixed assets. Since the Company will license and not manufacture its products, the Company anticipates its fixed asset expenditures for 2008 to be negligible.

The Company invested \$85,238 in patent costs and \$50,000 in technology rights during 2007. The Company expects its investment in patent costs will continue throughout 2008 as it invests in patents to protect the rights to use its product developments.

Financing activities

During 2007, the Company received \$177,500 of proceeds from secured convertible notes, \$1,100,000 of proceeds from secured promissory notes and \$80,000 of proceeds from unsecured promissory notes. During 2007, the Company converted \$177,500 of convertible secured notes into 841,204 shares of its common stock. The Company plans on raising the capital needed to fund the further development and marketing of the Company's products.

Recap of liquidity and capital resources

The Company is seeking to raise additional capital for the commercialization of its WayCool technology product lines which it believes 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, additional funding will be required. The Company will attempt to raise these funds through borrowing instruments or issuing additional equity.

Management expects the WayCool technology to be commercialized during 2008. The Company cannot assure that it will generate material revenues by that date or that its revenues will be sufficient to cover all operating and other expenses. 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.

Off-Balance Sheet Arrangements

As of December 31, 2007, we have no off-balance sheet arrangements.

Results of Operations

The accompanying financial statements reflect the operations of the Company for the fiscal years ended December 31, 2007 and 2006.

Revenue

During the year ended 2007, revenue was \$157,258 and \$256,688 for the same period during 2006. The revenue for year ended December 31, 2007 is comprised of \$91,070 from RediAlert™ products, \$48,823 from Living Window™ products and related add-ons, and \$17,365 from other. For the year ended December 31 2006, the Company recorded \$100,670 from RediAlert™ products, \$110,380 from Living Window™ products and related add-ons, and \$45,638 from sale of wireless modems.

During 2007, 86% of revenues were derived from three customers at 46%, 14% and 13%. During 2006, 69% of revenues were derived from four customers at 24%, 22%, 12% and 11%.

Cost of revenue

The cost of revenue for the year ended December 31, 2007 and 2006 was \$2,318,602 and \$1,586,823, respectively. The significant increase of \$731,779 during 2007 compared to the prior year is primarily the result of a \$2,048,538 inventory write-down of impaired inventory to net realizable market value.

Selling, General and Administrative Expenses

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

SG&A expenses decreased from \$6,422,006 for the year ended December 31, 2006 to \$1,888,098 for the same period during 2007. This decrease of \$4,533,908 or 70% is primarily the result of lower non-cash expenses and the reduction in staff and overhead expenditures versus the prior year.

The company anticipates its sales and marketing expenditures and general and administrative expenses to remain similar during 2008 compared to 2007 as the Company has significantly reduced its infrastructure during the fourth quarter of 2006.

Research and Development

The research and development costs are related to the LED sign and thermal management technologies to which the Company acquired the patent ownership rights. The decrease of \$1,470,111 in research and development from \$1,191,854 during the year ended December 31, 2007 compared to \$2,661,965 during the same period in 2006 is a result of a decrease in non-cash compensation for research and development consulting services and reductions in headcount. The Company estimates that research and development expenses will remain similar during 2008 compared to 2007 as it continues to fund development of its WayCool thermal management technology.

Restructuring costs

The Company recorded no restructuring costs during 2007 while it incurred \$13,967 of restructuring costs in 2006 related to the move from Florida to Oregon.

Impairment Loss

The Company recorded a \$48,711 impairment loss during 2006. During the Fourth Quarter of 2006, the Company wrote off the remaining balance of its LED Truck resulting in an impairment loss of \$48,214 as the truck was no longer generating revenue. During 2007, there was no impairment loss recorded.

Bad Debt

Bad debt expense has increased by \$16,137 during 2007 compared to 2006. The Company does not anticipate this to be a large item during 2008.

Other Income

The Company recorded \$80,873 of other income during 2007, primarily from the sale of the LED truck and office rental income. During 2006 the Company recorded \$29,450 of other income, primarily from office rental income.

Investment Income

During 2004, in order for the Company to optimize its return on the equity funds it has raised, it invested in certain liquid marketable securities. During 2006 the Company recorded \$40,576 of investment income net of any losses related to these investments, and \$0 during 2007.

Financing Fees

During 2006, the Company engaged outside services to assist in raising capital. Based on funding acquired via this third party, financing fees (cash and warrants) of \$1,268,100 were incurred during 2006. During 2007, there were no financing fees recorded.

Settlement Gain (Loss), Net

The Company recorded a net settlement gain (loss) for the year ended December 31, 2006 of \$(2,478,325). The Company recorded a settlement gain during the fiscal year 2007 of \$76,831.

The Company recorded a settlement gain for the year ended December 31, 2006 of \$301,675. During 2005, the Company reached a settlement with Capitol City Trailers regarding the use of one of its trucks. For the twelve months ended December 31, 2006, the Company had received \$20,833, which it has recorded as a settlement gain. During the first quarter of 2006, the Company reached a settlement with Mobile Magic where Mobile Magic agreed to pay \$175,000 as settlement of the Company's claim against it. Due to the financial condition of Mobile Magic, the Company had not recorded as of June 30, 2006 a receivable of \$175,000 for the remaining amount. During August 2006, Mobile Magic paid the first installment of \$50,000 due per the agreement. The settlement of \$175,000 with Mobile Magic was recorded during the third quarter as a settlement gain. The Company also had recorded approximately \$150,000 as a payable to Mobile Magic who was constructing a truck that the Company never received. As part of the agreement the Company does not owe the \$150,000 and recorded a settlement gain for this amount during the first quarter of 2006. This was offset by legal fees of \$44,158.

During April 2006 the Company negotiated the terms of a full and final settlement with Fusion Three, LLC whereby Fusion Three, LLC relinquishes all rights and claims to any revenues and fees in consideration for the Company issuing to Fusion Three, LLC a three year warrant authorizing Fusion Three, LLC to purchase up to 5,600,000 shares of common stock at a per share price of \$0.20. The Company also agreed to issue Fusion Three, LLC a warrant to purchase up to 1,200,000 shares of common stock at per share price of \$0.35 for 300,000 shares; \$0.50 for 300,000 shares; \$0.75 for 300,000 shares and \$1.00 for 300,000 shares before November 15, 2007. During the second quarter of 2006, the Company recorded a net settlement loss of \$2,780,000 associated with this transaction. The Company recorded a settlement gain during the fiscal year 2007 of \$76,831.

Change in value of warrant liability

During the year ended December 31, 2006, a gain of \$3,718,543 was recorded for the change in fair value of derivative liabilities. The Company no longer has any financial instruments with indeterminate shares and as such the value of warrant liability at September 28, 2006 through December 31, 2007, has been reclassified to equity.

Intrinsic value of convertible debt and amortization of warrant related debt discount

The Company recorded an expense of \$338,362 during 2007, and \$3,647,451 during 2006, for the intrinsic value of convertible debt and the amortization of debt discount. The lower expense in 2007 of \$3,309,089 for the year ended December 31, 2007, was due to a significant reduction in convertible debt.

Interest Expense

The Company incurred \$283,657 and \$395,214 of interest expense during 2007 and 2006, respectively. Interest expense in 2007 is for interest on the secured convertible notes payable and secured and unsecured promissory notes. Interest expense of \$395,214 in 2006 is for interest on the secured convertible notes payable and secured and unsecured promissory notes.

Net Loss

The net loss of \$5,746,668 for the year ended December 31, 2007 decreased \$8,734,665 or 60% compared to the same period in 2006. The decrease in net loss during 2007 compared to 2006 is mainly the result of recording a lower expense \$3,309,089 for the intrinsic value of convertible debt and amortization of debt discount related to the convertible notes payable, decreased net settlement loss of \$2,401,494 primarily due to the Fusion Three, LLC transaction in 2006, and lower operating expenses of \$5,198,380 resulting from decreased research and development costs, reduced staff and overhead expenditures and lower non-cash SG&A expenses.

Preferred Stock Dividends

During the year ended December 31, 2007 and 2006, the Company recorded Series A Convertible Preferred Stock dividends of \$0 and \$49,801, respectively. During 2006, Series A 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.

During the year ended December 31, 2006, the Company recorded Series B Convertible Preferred Stock dividend income of \$17,775 as it reversed prior year accruals of \$17,900 pertaining to Series B Convertible Preferred Stock dividends partially offset by a dividend payment of \$125.

Item 7. Financial Statements

The Financial Statements and the report of Webb & Company, P.A. dated March 20, 2008 are attached hereto and incorporated herein by reference.

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

On May 2, 2007, the Registrant received and accepted the letter of resignation from its Independent Registered Public Accounting Firm, Salberg & Company, P.A., Boca Raton, Florida. The Public Accounting Firm's report on the financial statements for either of the past two years did not contain an adverse opinion or disclaimer of opinion, nor was it modified as to uncertainty, audit scope, or accounting principles except that there was an explanatory paragraph expressing substantial doubt about the Company's ability to continue as a going concern. The decision to change accountants was by mutual consent because of the five years partner rotation requirement of Regulation S-X (17 CFR, Part 210). The Company has had no disagreements with the former accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. The Board of Directors and Audit Committee approved retaining Webb & Company, P. A., Boynton Beach, Florida as the Company's Independent Registered Public Accounting Firm effective May 2, 2007.

Prior to engaging Webb & Company, P.A., we did not consult Webb & Company, P.A. regarding either:

1. The application of accounting principles to any specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and neither a written report was provided to our company nor oral advice was provided by Webb & Company, P.A. that was an important factor considered by our company in reaching a decision as to the accounting, auditing or financial reporting issue; or

2. Any matter that was either the subject of disagreement or event, as defined in Item 304(a)(1)(iv)(A) of Regulation S-B and the related instruction to Item 304 of Regulation S-B, or a reportable event, as that term is explained in Item 304(a)(1)(iv)(A) of Regulation S-B.

Prior to engaging Webb & Company, P.A., Webb & Company, P.A. has not provided our company with either written or oral advice that was an important factor considered by our company in reaching a decision to engage Webb & Company, P.A. as our independent registered public accounting firm.

Item 8A. Controls and Procedures

Evaluation of disclosure controls and procedures.

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”), the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer (“CEO”) and Chief Accounting Officer (“CAO”) (the Company’s principal financial and accounting officer), of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company’s CEO and CAO concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s CEO and CAO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal controls over financial reporting.

In addition, there were no significant changes in the Company’s internal control over financial reporting that could significantly affect these controls during fiscal year ended December 31, 2007. The Company has not identified any significant deficiency or materials weaknesses in its internal controls, and therefore there were no corrective actions taken.

Management’s Report on Internal Controls over Financial Reporting

Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. There has been no change in the Company’s internal control over financial reporting during the year ended December 31, 2007, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

The Company’s management, including the Company’s CEO and CAO, does not expect that the Company’s disclosure controls and procedures or the Company’s internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only 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 the controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in our Audit Committee Charter and Audit Committee Policy and Procedures. Based on this evaluation, management concluded that the company's internal control over financial reporting was effective as of December 31, 2007. A copy of our Audit Committee Charter can be viewed on our Website: www.waytronx.com.

Item 8B. Other Matters

There are no matters to be reported under this Item.

PART III

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

Our Bylaws permit the number of directors to be fixed by resolution of the Board of Directors, but to be no less than one. The Board of Directors has set the maximum number of members to no more than eight members. Directors are elected by a plurality of the votes cast by the holders of Common and Preferred Stock and serve two year terms or until their successors have been elected and qualified or until their earlier resignation or removal. Currently, there are five (5) directors. The standards relied upon by the Board of Directors in determining whether a director is "independent" are posted on our website at www.waytronx.com.

April 24, 2007, the Board of Directors increased the Board of Directors from five to eight members and designated 10,000 preferred shares as Series C Convertible Preferred. The owners of the Series C preferred stock have the exclusive right to fill the three newly created board vacancies. This matter is described in more detail in this registration statement at the section entitled: *Market for Common Equity and Related Stockholder Matters*

Subject to terms of their employment agreements, if any, officers of the Company hold office until their successors are elected and qualified, subject to earlier removal by the Board of Directors.

The Board of Directors has four standing committees: Audit Committee, Compensation Committee, Nomination Committee and Business Advisory Board. No incumbent director attended fewer than 100% of the total number of meetings held by all committees on which such director served. Our board currently appoints the members of the committees. Our Audit Committee and Compensation Committee each have a written charter approved by our board. Copies of the current committee charters and a description of our Nomination Committee are posted on our website at www.waytronx.com.

The following are officers and directors of the Company.

Name	Age	Position
William J. Clough, Esq.	55	President/Chief Executive Officer, Director and General Counsel
Bradley J. Hallock	48	Director, Corporate Secretary, Compensation Committee
John P. Rouse	49	Director
Tom Price	50	Director
Corey Lambrecht	38	Director
Clifford L. Melby	48	Chief Operating Officer

Given that Waytronx is a small entity, the Company is dependent on the efforts of a limited number of management personnel. The Company believes that because of the large amount of responsibility being placed on each member of its management team, the loss of services of any member of this team at the present time would harm its business. Each member of its management team supervises the operation and growth of one or more integral parts of its business.

Shareholder Communications

Company shareholders who wish to communicate with the Board of Directors or an individual director may write to Waytronx, Inc., 2332 LaMirada Drive, Suite 400, Vista, California 92081-7861, (760) 727-1500, fax (760) 727-1505 or to the attention of an individual director. Your letter should indicate that you are a shareholder and whether you own your shares in street name. Letters received will be retained until the next Board meeting when they will be available to the addressed director. Such communications may receive an initial evaluation to determine, based on the substance and nature of the communication, a suitable process for internal distribution, review and response or other appropriate treatment. There is no assurance that all communications will receive a response.

Business Experience of Directors and Executive Officers

William J. Clough, Esq., President/Chief Executive Officer, Director and General Counsel

William Clough was appointed President and Chief Executive Officer September 13, 2007 at which time Mr. Clough stepped down as Executive Vice President of Corporate Development. Mr. Clough was a police officer for 16 years, working at the local, state, and federal levels. After working as a Federal Air Marshall in Southern Europe and the Middle East, in 1987 Mr. Clough attended law school; he received his Juris Doctorate, *cum laude*, from the University of California, Hastings College of the Law in 1990. He operated his own law firm with offices in Los Angeles, San Francisco and Honolulu for 12 years. Mr. Clough obtained the largest ever non-wrongful death jury verdict in Los Angeles County Superior Court in 2000 and successfully represented parties in multi-million dollar cases throughout the United States. He is certified to practice law in state and federal courts in California, Illinois, Hawaii, and before the United States Supreme Court. Mr. Clough has represented large manufacturing and entertainment entities, including work with MGM Studios, 20th Century Fox, News Corp., Lions Gate Films, Artisan Pictures, Sony and Mediacopy. Mr. Clough was appointed to the Board of Directors, effective March 1, 2006 and was reelected at the December 2006 shareholder's meeting to serve an additional two year term.

Bradley J. Hallock, Director, Corporate Secretary, Compensation Committee, Audit Committee Chairman

Bradley J. Hallock was appointed to the Board of Directors in April 2004 and was re-elected at the December 2006 shareholders' meeting to serve an additional two year term. Mr. Hallock brings to the board over 25 years of corporate experience. Mr. Hallock was the founder and Chief Executive Officer of C and R, Ltd., a provider of wholesale services to the automobile industry, with annual revenue in excess of \$10,000,000. For three years, Mr. Hallock served as a Senior Executive for First America Automotive, Inc. (FAA), an \$800,000,000 annual revenue company that was later acquired by Sonic Automotive, Inc. (NYSE:SAH). As a Senior Executive at FAA, he conceived and implemented the "Auto Factory" concept to vertically integrate used car operations across disparate retail franchises on a regional basis. He led the expansion of this concept into a \$100,000,000 annual revenue division of FAA resulting with industry leading profitability. During his tenure at FAA, Mr. Hallock was a key member of the merger and acquisition team, where he was instrumental in the successful acquisition and integration of over 50 new car retail franchises.

John P. Rouse, Director

John P. Rouse brings to the board 30 years of business management experience. For the last 17 years Mr. Rouse has been the President/Owner/Founder of Washington Equipment Manufacturing Company, Inc. (WEMCO), located in the State of Washington. WEMCO is a multi-million dollar manufacturing company. As its Founder, Mr. Rouse was personally responsible for setting up the engineering, manufacturing and financial aspects of WEMCO and continues to run the daily operations. Prior to founding WEMCO, Mr. Rouse spent 12 years as equipment and operations manager for DHH Investments and its subsidiary companies, Acme Concrete, Acme Concrete Construction Division, Acme Concrete Asphalt Division, Acme Concrete Ready Mix in Richland, WA, Yakima Concrete and Asphalt Company and Cunningham Sand, Gravel and Asphalt. The Construction and Asphalt Divisions operated in most of the Western United States and the Concrete Division was one of the largest users of cement in the United States. As a member of DHH's Executive Committee, Mr. Rouse was responsible for daily operations and financial/budgeting. Mr. Rouse was appointed to the Board of Directors, effective March 17, 2006 and was reelected at the December 2006 shareholder's meeting to serve an additional two year term.

Corey Lambrecht, Director

Corey Lambrecht is a 10+ year public company executive with broad experience in strategic acquisitions, new business development, pioneering consumer products, corporate licensing and interactive technology services. Mr. Lambrecht most recently served as Director of Sales for Leveraged Marketing Associates, the worldwide leader in licensed brand extension strategies. While Executive Vice President for Smith & Wesson Holding Corporation he was responsible for Smith & Wesson Licensing, Advanced Technologies and Interactive Marketing divisions. He was the former President of A For Effort, an interactive database marketing company specializing in online content (advergaming) for clients such as the National Hockey League. Mr. Lambrecht's prior experience also includes Pre-IPO founder for Premium Cigars International and VP Sales/Marketing for ProductExpress.com. Mr. Lambrecht also has prior operational experience for a Scottsdale, Arizona residential and commercial development company.

Thomas A Price, Director

Effective December 10, 2007, Tom Price is appointed to the Company Board of Directors. Mr. Price is a business veteran with more than 30 years of business and operational management experience. He is the founder of Tom Price Dealership Group, a leading auto dealership that he grew to 11 franchises at six locations across California. Throughout the course of his career, Mr. Price has been involved in investor and manufacturer relations, and orchestrated the successful acquisition of his company, FirstAmerica Automotive by Sonic Automotive, one of the nation's largest automotive retailers. Mr. Price has been credited for the successful completion of Serramonte Auto Plaza, an advanced, large-scale campus with innovative, industry-leading design features. Mr. Price also developed the multi-brand San Francisco Auto Repair Center and a conference facility in Larkspur, California.

Currently, Mr. Price is the owner of nine car dealerships in Northern California. He has received numerous awards for dealership excellence from manufacturers and has served on the National Dealer Advisory Boards of several major automobile manufacturers. He was Chairman of the Lexus National Dealer Advisory Board and charter member of the J.D. Power Dealer Roundtable. Mr. Price is also an active philanthropist. The Price Family Dealerships are major sponsors of Special Olympics of Marin, Dedication to Special Education, CASA/Advocates for Children, Marin Breast Cancer Council and the Golden Gate Shootout. In 2005, the Price Family Dealership raised substantial funds for Katrina relief.

The Price Family Dealerships are very active in the community and are major sponsors of Special Olympics of Marin, A Dedication to Special Education, CASA/Advocates for Children, Marin Breast Cancer Council, the Golden Gate Shootout and raised over \$75,000 for Katrina relief in 2005.

Clifford L. Melby, Chief Operating Officer

Clifford Melby has in excess of 25 years of manufacturing management experience and more than 15 years of experience in investing, positioning and structuring companies for growth. His experience includes managing product outsourcing and new business development at Metal Form Inc., an aerospace manufacturing company specializing in computer numerical control (CNC) machining for jet aircraft manufacturers for customers such as Boeing, Bombardier, Air Bus and the U.S. Military. Mr. Melby was the CEO and President of Innovative Elegance, a manufacturer of CNC machined water jet and laser cut commercial products for casinos, retail outlets and commercial facilities. Clifford Melby was a private financing participant in the May 2001 purchase of Smith & Wesson by publicly traded Saf-T-Hammer Corp. (now Smith and Wesson Holding Corporation NASDAQ: SWHC) from London-based Tomkins PLC.

Section 16(a) Beneficial Ownership Reporting Compliance

Our Corporate Governance Practices

We have always believed in strong and effective corporate governance procedures and practices. In that spirit, we have summarized several of our corporate governance practices below.

Adopting Governance Guidelines

Our board of directors has adopted a set of corporate governance guidelines to establish a framework within which it will conduct its business and to guide management in its running of your Company. The governance guidelines can be found on our website at www.waytronx.com and are summarized below.

Monitoring Board Effectiveness

It is important that our board of directors and its committees are performing effectively and in the best interest of the Company and its stockholders. The board of directors and each committee are responsible for annually assessing their effectiveness in fulfilling their obligations.

Conducting Formal Independent Director Sessions

At the conclusion of each regularly scheduled board meeting, the independent directors meet without our management or any non-independent directors.

Hiring Outside Advisors

The board and each of its committees may retain outside advisors and consultants of their choosing at our expense, without management's consent.

Avoiding Conflicts of Interest

We expect our directors, executives and employees to conduct themselves with the highest degree of integrity, ethics and honesty. Our credibility and reputation depend upon the good judgment, ethical standards and personal integrity of each director, executive and employee. In order to provide assurances to the Company and its stockholders, we have implemented standards of business conduct which provide clear conflict of interest guidelines to its employees and directors, as well as an explanation of reporting and investigatory procedures.

Providing Transparency

We believe that it is important that stockholders understand our governance practices. In order to help ensure transparency of our practices, we have posted information regarding our corporate governance procedures on our website at www.waytronx.com.

Communications with the Board of Directors

Although we do not have a formal policy regarding communications with the board of directors, stockholders may communicate with the board of directors by writing to the Company at Waytronx, Inc., 2332 LaMirada Drive, Suite 400, Vista, California 92081-7861, (760) 727-1500, fax (760) 727-1505. Stockholders who would like their submission directed to a member of the board may so specify, and the communication will be forwarded, as appropriate.

Standards of Business Conduct

The board of directors has adopted a Code of Business Conduct and Ethics for all of our employees and directors, including the Company's principal executive and senior financial officers. You can obtain a copy of our Code of Business Conduct and Ethics via our website at www.waytronx.com or by making a written request to the Company at Waytronx, Inc., 2332 LaMirada Drive, Suite 400, Vista, California 92081-7861, (760) 727-1500, fax (760) 727-1505. We will disclose any amendments to the Code of Business Conduct and Ethics, or waiver of a provision therefrom, on our website at the same address.

Ensuring Auditor Independence

We have taken a number of steps to ensure the continued independence of our independent registered public accounting firm. That firm reports directly to the Audit Committee, which also has the ability to pre-approve or reject any non-audit services proposed to be conducted by our independent registered public accounting firm.

Code of Ethics

The Company Board of Directors adopted a Code of Ethics for Principal Executives and Financial Officers that describes the required conduct of honest and ethical behavior in the conduct of their duties. This code does not cover every issue that may arise, but sets out basic principles relating to conflict of interest, corporate opportunities, insider trading, confidentiality, protection and proper use of company assets, compliance with laws, rules and regulations, reporting of illegal or unethical behavior and accountability. The Code of Ethics is available for viewing on our website at www.waytronx.com. Copies of our Code of Business Conduct and Ethics will be provided free of charge upon written request to Waytronx, Inc., 2332 LaMirada Drive, Suite 400, Vista, California 92081-7861, (760) 727-1500, fax (760) 727-1505.

Audit Committee

The Audit Committee is established pursuant to the Sarbanes-Oxley Act of 2002 for the purposes of overseeing the company's accounts and financial reporting processes and audits of its financial statements. The Audit Committee is directly responsible for, among other things, the appointment, compensation, retention and oversight of our independent Registered Public Accounting firm, review of financial reporting, internal company processes of business/financial risk and applicable legal, ethical and regulatory requirements.

The Audit Committee is currently comprised of the Company Board of Directors. Bradley J Hallock serves as committee Chairman. Mr. Hallock is independent in accordance with applicable rules promulgated by the Securities and Exchange Commission and NASDAQ listing standards. Mr. Hallock has an understanding of generally accepted accounting principles and has experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breath and complexity of issues that can reasonably be expected to be raised by the financial statements of the Company, including our balance sheet, income statement and cash flow statement. He has an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions as well as the ability to access the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves. The Board of Directors has determined that Mr. Hallock is an "audit committee financial expert" as defined in Section 401(h) of Regulation S-K promulgated by the SEC under the Exchange Act. Our Audit Committee acts pursuant to a written charter, a copy of which is available from the Company and is posted on our website at www.waytronx.com. The Audit Committee has established a procedure to receive complaints regarding accounts, internal controls and auditing issues.

Audit Committee Report

The Audit Committee reviews the financial information that will be provided to the shareholders and others, the systems of internal controls established by management and the Board and the independence and performance of the Company's audit process.

The Audit Committee has:

1. Reviewed and discussed with management the audited financial statements included in the Company's Annual Report and Form 10-KSB;
2. Discussed with Webb & Company, P.A. the Company's independent auditors, the matters required to be discussed by statement of Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board;
3. Received the written disclosures and letter from Webb & Company, P.A. as required by Independence Standards Board Standard No. 1; and
4. Discussed with Webb & Company, P.A. its independence.

Based on these reviews and discussions, the Audit Committee has recommended that the audited financial statements be included in the Company's annual report on Form 10-KSB for the year ended December 31, 2007. The Audit Committee has also considered whether the amount and nature of non-audit services provided by Webb & Company, P.A. is compatible with the auditor's independence.

On May 2, 2007, the Registrant received and accepted the letter of resignation from its Independent Registered Public Accounting Firm, Salberg & Company, P.A., Boca Raton, Florida. The decision to change accountants was by mutual consent because of the five years partner rotation requirement of Regulation S-X (17 CFR, Part 210). The Company has had no disagreements with the former accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. The Board of Directors and Audit Committee approved retaining Webb & Company, P. A., Boynton Beach, Florida as the Company's Independent Registered Public Accounting Firm effective May 2, 2007.

Item 10. Executive Compensation

Compensation Discussion and Analysis

Compensation Committee Members

The Compensation Committee of the Board of Directors is appointed by the Board of Directors to discharge the Board's responsibilities with respect to all forms of compensation of the Company's executive officers, to administer the Company's equity incentive plans, and to produce an annual report on executive compensation for use in the Company's 10-KSB. The Compensation Committee consists of one member of the board of directors, Bradley J. Hallock.

Role of Committee

The Compensation Committee discharges the Board's responsibilities relating to general compensation policies and practices and to compensation of our executives. In discharging its responsibilities, the Compensation Committee establishes principles and procedures in order to ensure to the Board and the shareholders that the compensation practices of the Company are appropriately designed and implemented to attract, retain and reward high quality executives, and are in accordance with all applicable legal and regulatory requirements. In this context, the Compensation Committee's authority, duties and responsibilities are:

- To annually review the Company's philosophy regarding executive compensation.
- To periodically review market and industry data to assess the Company's competitive position, and to retain any compensation consultant to be used to assist in the evaluation of directors' and executive officers' compensation.
- To establish and approve the Company goals and objectives, and associated measurement metrics relevant to compensation of the Company's executive officers.
 - To establish and approve incentive levels and targets relevant to compensation of the executive officers.
- To annually review and make recommendations to the Board to approve, for all principal executives and officers, the base and incentive compensation, taking into consideration the judgment and recommendation of the Chief Executive Officer for the compensation of the principal executives and officers.
- To separately review, determine and approve the Chief Executive Officer's applicable compensation levels based on the Committee's evaluation of the Chief Executive Officer's performance in light of the Company's and the individual goals and objectives.
- To periodically review and make recommendations to the Board with respect to the compensation of directors, including board and committee retainers, meeting fees, equity-based compensation, and such other forms of compensation as the Compensation Committee may consider appropriate.

- To administer and annually review the Company's incentive compensation plans and equity-based plans.
- To review and make recommendations to the Board regarding any executive employment agreements, any proposed severance arrangements or change in control and similar agreements/provisions, and any amendments, supplements or waivers to the foregoing agreements, and any perquisites, special or supplemental benefits.
- To review and discuss with management, the Compensation Disclosure and Analysis (CD&A), and determine the Committee's recommendation for the CD&A's inclusion in the Company's annual report filed on Form 10-K with the SEC.

Committee Meetings

Our Compensation Committee meets as often as necessary to perform its duties and responsibilities. The Compensation Committee held eight meetings during fiscal 2007. On an as requested basis, our Compensation Committee receives and reviews materials prepared by management, consultants, or committee members, in advance of each meeting. Depending on the agenda for the particular meeting, these materials may include:

- Minutes and materials from the previous meeting(s);
- Reports on year-to-date Company and Partnership financial performance versus budget;
- Reports on progress and levels of performance of individual and Company performance objectives;
- Reports on the Company's financial and stock performance versus a peer group of companies;
- Reports from the Committee's compensation consultant regarding market and industry data relevant to executive officer compensation;
- Reports and executive compensation summary worksheets, which sets forth for each executive officer: current total compensation and incentive compensation target percentages, current equity ownership holdings and general partner ownership interest, and current and projected value of each and all such compensation elements, including distributions and dividends there from, over a five year period.

Compensation Philosophy

General Philosophy

Our compensation philosophy is based on the premise of attracting, retaining and motivating exceptional leaders, setting high goals, working toward the common objectives of meeting the expectations of customers and stockholders, and rewarding outstanding performance. Following this philosophy, in determining executive compensation, we consider all relevant factors, such as the competition for talent, our desire to link pay with performance, the use of equity to align executive interests with those of our stockholders, individual contributions, teamwork and performance, each executive's total compensation package, and internal pay equity. We strive to accomplish these objectives by compensating all employees with total compensation packages consisting of a combination of competitive base salary and incentive compensation.

Pay for Performance

At the core of our compensation philosophy is our strong belief that pay should be directly linked to performance. We believe in a pay for performance culture that places a significant portion of executive officer total compensation as contingent upon, or variable with, individual performance, Company performance and achievement of strategic goals including increasing shareholder value.

Setting Performance Objectives

The Company's business plans and strategic objectives are generally presented by management at the Company's annual board meeting. The board engages in an active discussion concerning the financial targets, the appropriateness of the strategic objectives, and the difficulty in achieving same. In establishing the compensation plan, our Compensation Committee then utilizes the primary financial objectives from the adopted business plan, operating cash flow, as the primary targets for determining the executive officers' short-term cash incentives and long term equity incentive compensation. The Committee also establishes additional non-financial performance goals and objectives, the achievement of which is required for funding of a significant portion, twenty five percent, of the executive officers' incentive compensation. In 2007, these non financial performance goals and objectives included achieving accurate financial reporting and timely SEC filings; demonstrating full compliance and superior performance in the Company's environmental, health and safety practices; performing appropriate SOX/404 remediation activities and achieving successful testing of and compliance with SOX requirements; and general and administrative expense management.

Annual Evaluation

The Chief Executive Officer recommends the actual incentive award amounts for all other executives based on actual company performance relative to the targets as well as on individual performance, and recommends the executives' base salaries levels for the coming year. The Compensation Committee considers these recommendations generally at the end of each fiscal year in determining its recommendations to the Board of Directors for the final short-term cash incentive and long-term equity award amounts for each executive and for the executive's base salary levels. The actual incentive amounts awarded to each executive are ultimately subject to the discretion of the Compensation Committee and the Board of Directors.

Additional equity-based awards may be also granted to executives, as well as other employees, upon commencement of employment, for promotions or special performance recognition, or for retention purposes, based on the recommendation of the Chief Executive Officer. In determining whether to recommend additional grants to an executive, the Chief Executive Officer typically considers the individual's performance and any planned change in functional responsibility.

Elements of Executive Compensation

Total Compensation

Total compensation for our executives consists of three elements: (i) base salary; (ii) incentive cash award based on achieving specific performance targets as measured by cash flow and other objectives; and (iii) equity incentive award, which is also performance based and paid out over a future period in the form of restricted stock or warrants. Base salaries are the value upon which both the incentive compensation percentage targets are measured against. For evaluation and comparison of overall compensation of the executives, and to assist it in making its compensation decisions, the Compensation Committee reviews an executive compensation summary, which sets forth for each executive: current compensation and current equity ownership holdings as well as the projected value of each and all such compensation elements, including distributions and dividends therefrom.

Base Salaries

Base salaries are designed to compensate executives commensurate with their respective level of experience, scope of responsibilities, and to reward sustained individual performance and future potential. The goal has been to provide for base salaries that are sufficiently competitive with other similar-sized companies, both regionally and nationally, in order to attract and retain talented leaders.

Incentive Compensation

Incentive compensation is intended to align compensation with business objectives and performance and enable the company to attract, retain and reward high quality executive officers whose contributions are critical to short and long-term success of the Company. The executives' incentive awards are based upon three key performance metrics: 1) the Company's operating cash flow; 2) achievement of agreed-upon strategic and corporate performance goals; and 3) each executive's departmental and individual goals and performance. The actual incentive amounts awarded to each executive are ultimately subject to the discretion of the Compensation Committee and the Board of Directors

Incentive Plan Compensation

Incentive awards are paid out in cash, restricted common stock or warrant awards. The incentive award targets for the executives are established at the beginning of the year as a percentage of their base salary, and the actual awards are determined at the following year's Annual Board of Directors meetings based on actual company performance relative to established goals and objectives, as well as on evaluation of the executive's relevant departmental and individual performance during the past year. The award of restricted common stock generally vests over a two year term in four equal six months tranches. The award of restricted common stock purchased through warrants generally vests immediately upon issuance of the warrant which generally has a validity of three years and a per share purchase price of the fair market value of our common stock on the date of grant. The awards are intended to serve as a means of incentive compensation for performance.

Retirement Plans

The Company does not maintain an employee retirement plan or a 401(k) plan nor do we provide any supplemental retirement benefits to our senior executives.

Change in Control Agreements

Our executives are not awarded any type of protection upon a change in control.

Perquisites

The Company does not provide for any perquisites or any other benefits for its senior executives that are not generally available to all employees.

Compensation Committee Report

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2007.

Submitted by: Bradley J Hallock, Chairman
Compensation Committee

Summary Compensation Table

The following table sets forth the compensation paid by the Company for the fiscal years 2006 and 2007 to the Company's Chief Executive Officer and two most highly compensated executive officers of the Company. During fiscal year 2007, the Company changed Chief Executive Officers.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Incentive Compensation (\$)	Deferred Compensation Earnings (\$)	Change in Pension Value and Non-Nonqualified Equity Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Russell L. Wall, Former CEO / President/Director (1)	2007	-	-	-	-	-	-	-	-	-
	2006	-	-	-	-	-	-	-	-	-
Charles R. Baker, Former CEO / President (2)	2007	-	-	-	-	-	-	-	-	-
	2006	271,764	100,000	-	-	-	-	-	9,000	380,764
Mark R. Chandler Former COO / CFO (3)	2007	95,628	-	-	-	-	-	-	6,000	101,628
	2006	180,000	5,000	520,000	-	-	-	-	-	705,000
Clifford Melby, COO (5)	2007	60,000	-	-	-	-	-	-	-	60,000
	2006	-	-	-	-	-	-	-	-	-
William J. Clough CEO / General Counsel/Director (4)	2007	180,000	27,000	-	-	-	-	-	13,000	193,000
	2006	180,000	50,000	-	16,000	-	-	-	11,000	257,000

1. Mr. Wall was named President/CEO effective November 9, 2006 and also served as a member of the Company's Board of Directors. Mr. Wall did not stand for re-election to the Board of Directors and stepped down as CEO September 13, 2007
2. Mr. Baker joined the Company on June 13, 2005 and stepped down as president August 28, 2006. During 2005, per his employment contract, Mr. Baker was issued by the Company a warrant to purchase 2,000,000 restricted common shares within three years from date of issuance at a per share price of \$0.01. During 2005 as recognition for services as a Director of the Company, Mr. Baker was issued a warrant to purchase 100,000 restricted common shares within three years from date of issuance at a per share price of \$0.75. Per the terms of his employment agreement, Mr. Baker was paid a one time sign on bonus of \$100,000 which was payable upon the successful completion of an equity round of financing by the Company.
3. Mr. Chandler was issued 250,000 shares of the Company's Series A Convertible Preferred Stock and 1,000 shares of the Company's Series B Convertible Preferred Stock during 2006. He was issued 240,000 shares of the Company's Series A Convertible Preferred Stock during 2005. Mr. Chandler was the CFO until June 4, 2007.

4. Mr. Clough joined the Company on September 1, 2005. During 2006 as recognition for services as a Director of the Company, Mr. Clough was issued a warrant to purchase 100,000 restricted common shares within three years from date of issuance at a per share price of \$0.20. Per the terms of his employment agreement, Mr. Clough was paid a one time sign on bonus of \$50,000 which was payable upon the successful completion of an equity round of financing by the Company. Effective September 13, 2007, Mr. Clough was appointed CEO/President.
5. Mr. Melby joined the Company September 2007 as Chief Operating Officer. During 2007 Mr. Melby received restricted common stock valued at \$60,000 for services rendered for the months of September, October and November 2007/

Outstanding Equity Awards at Fiscal Year-end

The following table sets forth the outstanding equity awards at December 31, 2007 to each of the named executive officers:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value