

**Waytronx, Inc.**  
**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 two members of the board of directors.

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 2006. 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.

The performance based compensation for our executives may be in the form of (i) annual cash incentives to promote achievement of, and accountability for, shorter term performance plans and strategic goals, and (ii) equity grants, designed to align the long-term interests of our executive officers with those of our shareholders, by creating a strong and direct link between executive compensation and shareholder return over a multiple year performance cycle. Long term incentive equity awards are granted in restricted stock. These shares/units generally vest over a two-year period. This opportunity for share ownership was provided in order to provide incentive and retain key employees and align their interests with our long term strategic goals.

#### Base Compensation to be Competitive within Industry

A key component of an executive's total compensation base salary is designed to compensate executives commensurate with their respective level of experience, scope of responsibilities, 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.

#### **Compensation Setting Process**

##### Management's Role in the Compensation Setting Process.

Management plays a significant role in the compensation-setting process. The most significant aspects of management role are:

- Assisting in establishing business performance goals and objectives;
- Evaluating employee and company performance;
- CEO recommending compensation levels and awards for executive officers;
- Implementing the Board approved compensation plans; and
- Assistance in preparing agenda and materials for the Committee meetings.

The Chief Executive Officer and the General Counsel and Secretary generally attend the Committee meetings. However, the Committee also regularly meets in executive session. The Chief Executive Officer makes recommendations with respect to financial and corporate goals and objectives, and makes non CEO executive compensation recommendations to the Compensation Committee based on company performance, individual performance and the peer group compensation market analysis. The Compensation Committee considers and deliberates on this information and in turn makes recommendations to the Board of Directors, for the Board's determination and approval of the executives' and other members of senior management's compensation, including base compensation, short-term cash incentives and long-term equity incentives. The Chief Executive Officer's performance and compensation is reviewed, evaluated and established separately by the Compensation Committee and ratified and approved by the Board of Directors.

##### Setting Compensation Levels

To evaluate our total compensation is competitive and provides appropriate rewards to attract and retain talented leaders, as discussed above, we may rely on analyses of peer companies performed by independent compensation consultants and on other industry and occupation specific survey data available to us. Our general benchmark is to establish both base salary and total compensation for the executive officers at the 50th percentile of the peer group data, recognizing that a significant portion of executive officer total compensation should be contingent upon, or variable with, achievement of individual and Company performance objectives and strategic goals, as well as being

variable with stockholder value. Further, while the objective for base salary is at the 50th percentile of the peer group data, executives' base salaries are designed to reward core competencies and contributions to the Company, and may be increased above this general benchmark based on (i) the individual's increased contribution over the preceding year; (ii) the individual's increased responsibilities over the preceding year; and (iii) any increase in median competitive pay levels.

#### 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 (25%) of the executive officers' incentive compensation. In 2006, 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.