

SECTOR 10 INC  
Form 10-K  
February 13, 2012

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended March 31, 2011

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

Commission File No. 000-24370

Sector 10, Inc.

\_\_\_\_\_  
(Name of small business issuer in its charter)

Delaware  
State or other jurisdiction of incorporation or  
organization)

33-0565710  
(I.R.S. Employer Identification Number)

14553 South 790 West #C  
Bluffdale, UT 84065

\_\_\_\_\_  
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Include Area Code: (206) 853-4866

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities Registered Pursuant to Section 15(d) of the Act:

Common Stock, \$0.001 par value  
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past twelve (12) months (or for such shorter period that the registrant was required to file such reports); and (2) has

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been subject to such filing requirements for the past ninety (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 will not 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-K or any amendment to this Form 10-K.

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Issuer's revenues for its most recent fiscal year were \$0.

State the aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and ask prices of such stock, as of a specified date within the past 60 days:

As of February 9, 2012, the Registrant had 145,557,217 shares of Common Stock issued and outstanding with an average market value of \$.0005 per share for a total market value of \$72,779.

#### DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the part of the form 10-K (e.g. part I, part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or other information statement; and (3) Any prospectus filed pursuant to rule 424(b) or (c) under the Securities Act of 1933: None.

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## TABLE OF CONTENTS

	Page
<b>PART I</b>	
ITEM 1. DESCRIPTION OF BUSINESS	3
ITEM 2. DESCRIPTION OF PROPERTY	4
ITEM 3. LEGAL PROCEEDINGS	4
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	4
<b>PART II</b>	
ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES	5
ITEM 6. SELECTED FINANCIAL DATA	5
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION	5
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	10
ITEM 8. FINANCIAL STATEMENTS	13
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	37
ITEM 9A. CONTROLS AND PROCEDURES	37
ITEM 9B. OTHER INFORMATION	38
<b>PART III</b>	
ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT	38
ITEM 11. EXECUTIVE COMPENSATION	40
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	41
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	42
ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES	43
ITEM 15. EXHIBITS	43
SIGNATURES CERTIFICATIONS	44



PART I

ITEM 1. DESCRIPTION OF BUSINESS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This periodic report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing products, plans and objectives of management. Statements in this periodic report that are not historical facts are hereby identified as “forward-looking statements”.

Business

Organization:

Sector 10, Inc., as currently registered with the State of Delaware was originally incorporated on June 11, 1992 under the name Plasmatronic Technologies, Inc. The initial authorized shares amounted to 20,000,000 common shares and 1,000,000 preferred shares. On May 28, 1998, the Corporation name was officially changed from Plasmatronic Technologies, Inc. to Ecological Services, Inc. On January 2, 2003, the Corporation name was changed from Ecological Services, Inc. to Stanford Capital Corporation. In addition, the authorized capital stock was increased from 20,000,000 common shares to 50,000,000 common shares. On March 16, 2004, the Corporation name was changed from Stanford Capital Corporation to Skreem Entertainment Corporation. On December 1, 2006, the Corporation name was changed from Skreem Entertainment Corporation to SKRM Interactive, Inc.

Sector 10, Services USA, Inc. was formed as a Nevada corporation on September 16, 2002 and was a majority owned subsidiary of Sector 10, Holdings, Inc. The Company had minimal activity in 2002 and has been inactive until immediately prior to the acquisition of SKRM Interactive. The Company was inactive for the full 12 months ended March 31, 2007.

Sector 10, Inc. (formerly known as SKRM Interactive, Inc.) was the acquiring company resulting from the combination of Sector 10 Services USA, Inc, a private company, and SKRM Interactive, a Delaware public company. Sector 10 Services acquired SKRM Interactive through a reverse merger transaction on November 20, 2007. After the merger transaction, the Company had 7,732,030 shares outstanding. Purchase accounting adjustments were made to account for the combination of the entities. Immediately after the merger, the company was called SKRM Interactive, Inc. and continued its reporting obligations under that name. The Company was formally named Sector 10, Inc. on April 15, 2008. The SKRM year end of March 31 was continued with the new entity. On May 19, 2009, the Company affected a 1 for 10 reverse stock split whereby the new trading symbol was changed to SECI effective May 19, 2009.

Summary:

Sector 10 has developed and seeks to market pre-deployed emergency and disaster response equipment with the world’s first patented Stationary Response Units (SRU) and Mobile Response Units (MRU). Sector 10 has patents issued in the United States and patent applications pending with U.S. and international agencies. Sector 10’s initial SRU and MRU design has been developed, produced, nationally test marketed and sold.

Employees

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As of March 31, 2011, the Company has 2 employees and no current payroll. A total of 2 persons (CEO and CFO) work part time for the company and also work for the majority shareholder Sector 10 Holdings, Inc. Beginning in May, 2009, the CEO and CFO compensation was accrued on the Company books. No cash compensation was paid during the fiscal year.

The Company had anticipated hiring additional employees. Due to serious issues resulting from the prior manufacturer, the Company has been delayed in their sales and production efforts and as a result have not had the funding to hire the personnel needed to assist in its growth. The Company is working on different funding approaches that may provide the ability to close several large sales proposals that currently exist. The Company shall use revenues and additional funding to hire new personnel. Such hiring may not occur until the fiscal year ended March 31, 2013.

#### ITEM 2 DESCRIPTION OF PROPERTIES

The Company's administrative offices are located in an office facility located at 14553 South 790 West #C Bluffdale, UT 84065. The facility contains approximately 2,000 square feet of office space. The lease is maintained by the principal shareholder of the Company. Shared expenses incurred by Sector 10 Holdings were allocated to the Company on a monthly basis through April 2009. The allocation includes a portion for rent expenses. No further rent has been assessed. The Company will seek new office space to accommodate the growth in personnel expected when the sales activity begins in fiscal 2013. No lease discussions regarding arrangement have begun as of the date of this report.

#### ITEM 3. LEGAL PROCEEDINGS

The Company is aware of the following situation regarding litigation, pending or threatened, to which it is a party.

##### Dutro Group, Dutro Company & Reality Engineering

The Dutro Group consists of Dutro Company, Reality Engineering, William Dutro, Vicki Davis and Lee Allen and other parties. The litigation is ongoing and is expected to continue into the fiscal year ended March 31, 2013. The Company has engaged attorneys to dispute the claims filed by the Dutro Group and to vigorously seek relief for the damages incurred by Dutro Group actions. The Company believes that sufficient reserves are included in the financial statements for exposures for the issues represented in these actions.

##### Edward Johnson

The Company is past due on the unpaid balance of a note payable plus accrued interest to Edward Johnson. The note collection and other issues are pending in current litigation. The litigation is not expected to be resolved until at least during the fiscal year ended March 31, 2013. The Company believes that sufficient reserves are included in the financial statements for exposures for this case

##### Doty Scott

Doty Scott is a consultant that delivered services to the Company prior to November 20, 2007 which was the date of the merger between SKRM Interactive, Inc. and Sector 10 USA, Inc. (now Sector 10, Inc.) The amount due the consultant is at dispute in pending litigation. Settlement discussions have been ongoing but no resolution has been achieved as of the date of this filing. The litigation is not expected to be resolved until at least during the fiscal year ended March 31, 2013. Based on the facts of the case, the Company believes that sufficient reserves are included in the financial statements for exposures for this case.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's shareholders through the solicitation of proxies, during the Company's fiscal year ended March 31, 2011, other than those for which the majority of shares entitled to vote upon



were approved as set forth in the Pre 14C Information Statement, filed on March 14, 2011, approving the Certificate of Amendment to the Certificate of Incorporation of the Company, pursuant to the authorization of the reverse stock split. The Solar Tracer shareholders and their representatives were the majority shareholders approving the reverse stock. The Solar Tracer representatives cancelled the Solar Trace acquisition on April 4, 2011 and all of their shares were cancelled. The reverse split was on hold pending a review of the new board of directors and shareholders.

## PART II

## ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASER OF EQUITY SECURITIES

The pending litigation has impacted the Company operations which has caused delays in filing various reports. Due to the late filing, the Company Common Stock trading has been moved from the Over the Counter Bulletin Board under the symbol SECI.OB to trading on the Pink Sheets under the symbol SECI.PK. Prior to May 19, 2009, the stock traded under the symbol "SECT.OB." The Company's stock began trading subsequent to its year end of March 31, 2006. Since its inception, the Company has not paid any dividends on its Common Stock, and the Company does not anticipate that it will pay dividends in the foreseeable future. As of February 3, 2012, the Company had approximately 206 shareholders of record.

The following chart sets out the Open, High, Low, Close, Volume and Adjusted Close Price for the stock for the period from March 31, 2010 until March 31, 2011. The dates represent the last trading date for the respective month:

Date	Volume	Open	High	Low	Close
2011-03-31	15,000	0.004	0.004	0.004	0.004
2011-02-28	408,500	0.01	0.012	0.01	0.012
2011-01-31	447,000	0.0065	0.006	0.006	0.0065
2010-12-31	153,300	0.0099	0.0083	0.009	0.0086
2010-11-30	48,000	0.02	0.018	0.018	0.02
2010-10-29	36,530	0.034	0.025	0.034	0.03
2010-09-30	256,395	0.031	0.023	0.023	0.029
2010-08-31	14,700	0.02	0.0171	0.0171	0.017
2010-07-30	594,740	0.035	0.0275	0.0275	0.035
2010-06-30	56,600	0.08	0.0601	0.075	0.061
2010-05-28	994,653	0.1	0.06	0.065	0.09
2010-04-30	137,950	0.033	0.021	0.031	0.03
2010-03-31	124,600	0.06	0.051	0.06	0.055

The Company's transfer agent is OTC Stock Transfer, Inc. of Salt Lake City, Utah.

## ITEM 6. SELECTED FINANCIAL DATA

None

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

## Plan of Operation

The Company's cash balance is insufficient to satisfy the Company's cash requirements for the next 12 months. Due to issues surrounding Dutro Group and other pending litigation, the ability to deliver products to customers has been delayed. As of this filing date, the Company is in the process of restructuring its operations in order to raise capital and continue in its efforts to manufacture and distribute its products. The restructuring is expected to be completed by the end of the fiscal year ended March 31, 2012. Potential funding is not expected until sometime in the fiscal year ended March 31, 2013. At that time, the Company will be able to reestablish an outsourced manufacturing partner to provide the needed manufacturing capacity. The Company is continuing its efforts to secure sales opportunities during the restructuring period.



The shareholders approved a sale of the company to Solar Tracer Corporation and First Diversified Equities, Inc. in January 2011. The transaction with Solar Tracer closed in January 2011 and closed with First Diversified in February 2011. Based on the structure of the transactions, the Company anticipated the spin off of the emergency response business in order to devote resources to new business sectors. The management of the Company was appointed by Solar Tracer and First Diversified in February 2011. In April, 2011, Solar Tracer and First Diversified cancelled their commitment to the transaction and returned all common shares received at the original closing. The management and all directors resigned on April 15, 2011. As a result of this cancellation and resignations, the shareholders reappointed the Company's former directors to manage the Company.

The newly appointed management requested an accounting for all activities that occurred during the Solar Tracer and First Diversified management. Minimal information was received. Due to the lack of information, the security and financial reports required to be filed for have been delinquent for the year ended March 31, 2011 and the periods ended June 30, 2011 and September 30, 2011. Due to the late filing, the Company Common Stock trading has been moved from the Over the Counter Bulletin Board under the symbol SECI.OB to trading on the Pink Sheets under the symbol SECI.PK.. The Company is in the process of filing all delinquent reports and expects to be current with filings with the filing of the Form 10-Q for the period ended December 31, 2011 which is due on February 14, 2012. Due to the change in the trading platform, the Company will file all delinquent reports with unaudited financial statements.

Our notes to the financial statements disclose that the cash flow of the Company has been absorbed in operating activities, has incurred net losses for the fiscal year and has a working capital deficiency. Due to the pending litigation and the current restructuring, the Company operations are not likely to produce positive cash flow until at least the fiscal year ended March 31, 2013. These factors raise substantial doubt about our ability to continue as a going concern. Our going concern uncertainty may affect our ability to raise additional capital, and may also affect our relationships with suppliers and customers. Investors should carefully examine our financial statements and read the notes to the financial statements.

Results of Operations for the year ended March 31, 2011 as compared to the year ended March 31, 2010.

Revenues -

The Company had no revenues for the fiscal year ended March 31, 2011.

The Company had no revenues for the fiscal year ended March 31, 2010.

Other Income-

The Company had no other income for the fiscal year ended March 31, 2011.

The Company had no other income for the fiscal year ended March 31, 2010.

Cost of Sales -

The Company had no cost of sales or other operating expenses for the fiscal year ended March 31, 2011.

The Company had no cost of sales or other operating expenses for the fiscal year ended March 31, 2010.

General and Administrative Expenses -

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General and administrative expenses were \$1,846,378 for the fiscal year ended March 31, 2011. These expenses are made up of financing fees - \$678,845, wages - \$592,229, professional fees – legal – \$428,856, other professional fees of \$82,799, payroll tax and benefits of \$31,362, insurance expense – 10,239 and other expenses of \$22,048.

General and administrative expenses were \$4,315,058 for the fiscal year ended March 31, 2010. These expenses are made up of financing fees - \$1,898,312, distribution fee - \$1,144,000, accrued wages - \$515,983, professional fees – investor relations – \$240,146, R&D expenses of \$161,336, other professional fees of \$253,993, director fees of \$30,000, insurance expense – 24,990 and other expenses of \$46,298.

#### Depreciation Expense –

Depreciation expense was \$6,307 for the fiscal year ended March 31, 2011.

Depreciation expense was \$4,450 for the fiscal year ended March 31, 2010.

#### Interest expense

The Company had interest expense of \$288,581 for the year ended March 31, 2011.

The Company had interest expense of \$51,310 for the year ended March 31, 2010.

#### Other expense

The Company had other expense of \$431,181 for the year ended March 31, 2011. The expense is entirely attributed to the impairment of the Network Acquisition/Development Asset reflected as of the fiscal year end March 31, 2011.

The Company had other expense of \$216,814 for the year ended March 31, 2010. The expense is entirely attributed to the impairment of the Network Acquisition/Development Asset reflected as of the fiscal year end March 31, 2010.

#### Liquidity and Capital Resources

##### Cash and cash equivalents -

We believe our bank balance of \$0 with a deficit in working capital of \$1,883,656 as of March 31, 2011 is not sufficient to meet our working capital requirements for the coming year.

##### Total assets -

We currently have \$526,049 in total assets for the year ended March 31, 2011. Our total assets are comprised of Cash - \$ 0, Inventory – \$18,409, Net fixed assets - \$7,640, and Network acquisition / development costs - \$500,000. The network development and acquisition costs include the development costs originally transferred by Sector 10 Holdings.

##### Working capital -

Since the merger on November 20, 2007, we initially have financed the operations exclusively through advances from shareholders and officers. Beginning in May 2008, outside investors have assisted in provided working capital. Total cumulative outside capital received amounted to \$657,500 as of the fiscal year ended March 31, 2011.

As of this filing date, the Company is in the process of restructuring its operations in order to raise capital and continue in its efforts to manufacture and distribute its products. The restructuring is expected to be completed by the end of the fiscal year ended March 31, 2012. Potential funding is not expected until sometime in the fiscal year ended March 31, 2013.



Our auditors are of the opinion that our continuation as a going concern is in doubt. Our continuation as a going concern is dependent upon continued financial support from our shareholders and other related parties.

Liabilities -

Current liabilities as of March 31, 2011 were \$1,902,065. The balance was composed of accounts payable and accrued liabilities of \$1,659,015 and note payable to outside investors of \$243,050.

Current liabilities as of March 31, 2010 were \$1,416,334. The balance was composed of accounts payable and accrued liabilities of \$1,143,308, note payable to outside investors of \$252,500 and interest and funding advances from Sector 10 Holdings and Peric DeAvila of \$20,526. Accounts payable includes an adjustment for accrued legal fees of \$94,416 which was made to reconcile an amount per the confirmation received from the respective law firm to what was reflected on the books. The Company disagrees with the amount reflected on the confirmation and believes that the differences are attributed to related companies. An analysis will be conducted with the firm to reconcile the amount reflected in the firm's records. This analysis will not be completed until the fiscal year ended March 31, 2011.

Long term liabilities as of March 31, 2011 were \$483,000. The balance consists of Notes Payable to Dutro Company - \$250,000, Vicki Davis Living Trust - \$168,000 and William Dutro - \$65,000.

Long term liabilities as of March 31, 2010 were \$483,000. The balance consists of Notes Payable to Dutro Company - \$250,000, Vicki Davis Living Trust - \$168,000 and William Dutro - \$65,000.

Total liabilities as of March 31, 2011 were \$2,385,065. Total liabilities as of March 31, 2010 were \$1,899,334.

Cash flows -

	Year Ended March 31, 2011	Year Ended March 31, 2010
Sources and Uses of Cash		
Net cash provided by / (used in)		
Operating activities	\$(183,148)	\$ (48,218)
Investing activities	(19,296)	-
Financing activities	202,374	13,272
 Increase/(decrease) in cash and cash equivalents	 \$ (70)	 \$ (34,946)
 Years ended March 31, 2011 and 2010		
Cash and cash equivalents	\$ 0	\$ 70

Operating Activities -

Cash used in operations for the year ended March 31, 2011 was \$183,148. This included a loss from operation of \$2,572,447, stock issued for services of \$1,217,279, loss due to impairment of \$431,181, net discount on convertible debt of \$191,259, change in prepaid expenses of \$6,770, net change in accounts payable and accrued liabilities of \$536,503 and an adjustment for non cash depreciation expense of \$4,450.



Cash used in operations for the year ended March 31, 2010 was \$48,218. This included a loss from operation of \$4,587,632, stock issued for services of \$3,180,841, loss due to impairment of \$216,814, change in accounts receivable of \$2,000, change in prepaid expenses of \$6,770, change in deposits of \$10,000, net change in accounts payable and accrued liabilities of \$1,137,039, change in deferred revenue of \$18,500 and an adjustment for non cash depreciation expense of \$4,450.

Investing Activities -

Cash used in Investing Activities for the year ended March 31, 2011 was \$19,296.

There was no cash used in Investing Activities for the year ended March 31, 2010.

Financing Activities -

Cash provided in financing activities for the year ended March 31, 2011 was \$202,374. This was comprised of note payable from outside investors of \$175,000, net advances from related parties including Sector 10 Holdings / Peric DeAvila of \$(2,626) and proceeds from option exercise \$30,000.

Cash provided in financing activities for the year ended March 31, 2010 was \$13,272. This was comprised of note payable from outside investors of \$31,500, net advances from related parties including Sector 10 Holdings / Peric DeAvila of \$18,228.

Critical Accounting Policies

The discussions and analysis of our financial condition and results of operations, including the discussion on liquidity and capital resources, are based upon the financial statements, which have been prepared in accordance with US GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management re-evaluates its estimates and judgments, particularly those related to the determination of the impairment of its intangible assets. Actual results could differ from the estimates. We believe the following are the critical accounting policies used in the preparation of the consolidated financial statements.

Revenue -

The Company had no sales activity during the current fiscal year ended March 31, 2011. The Company records sales of its products based upon the terms of the contract; when title passes to its customers; and, when collectability is reasonably assured.

Income Taxes -

The amount of income taxes recorded by us requires the interpretation of complex rules and regulations of various taxing jurisdictions throughout the world. We have recognized deferred tax assets and liabilities for all significant temporary differences, operating losses and tax credit carryforwards. We routinely assess the potential realization of our deferred tax assets and reduce such assets by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. We routinely assess potential tax contingencies and, if required, establish accruals for such contingencies. The accruals for deferred tax assets and liabilities are subject to a significant amount of judgment by us and we review and adjust routinely our estimates based on changes in facts and circumstances. Although we believe our tax accruals are adequate, material changes in these accruals may occur in the future, based on the progress of ongoing tax audits, changes in legislation and resolution of pending tax matters.

#### Litigation -

An estimated loss from a loss contingency is recorded when information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as legal matters requires the use of judgment as to the probability of the outcome and the amount. Many legal contingencies can take years to be resolved. An adverse outcome could have a material impact on our financial condition, operating results and cash flows.

#### Going Concern Qualification

Our notes to the consolidated financial statements disclose that the cash flow of the Company has been absorbed in operating activities and has incurred net losses for the three months, and have a working capital deficiency. In the event that funding from internal sources or from public or private financing is insufficient to fund the business at current levels, we will have to substantially cut back our level of spending which could substantially curtail our operations. These factors raise substantial doubt about our ability to continue as a going concern. Our going concern uncertainty may affect our ability to raise additional capital, and may also affect our ability to raise additional capital, and may also affect our relationships with suppliers and customers. Investors should carefully examine our financial statements.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Risks Related to our Business and Operations

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below, and all of the other information set forth in this Report before deciding to invest in shares of our common stock. In addition to historical information, the information in this Report contains forward-looking statements about our future business and performance. Our actual operating results and financial performance may be different from what we expect as of the date of this Report. The risks described in this Report represent the risks that management has identified and determined to be material to our company. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may also materially harm our business operations and financial condition.

We have not paid any cash dividends on our common stock to date and do not anticipate any cash dividends being paid to holders of our common stock in the foreseeable future. While our dividend policy will be based on the operating results and capital needs of the business, it is anticipated that any earnings will be retained to finance our future expansion. As we have no plans to issue cash dividends in the future, our common stock could be less desirable to other investors and as a result, the value of our common stock may decline, or fail to reach the valuations of other similarly situated companies who have paid dividends.

**Dependence upon Suppliers and Other Third Parties:** The Company relies on outsourced manufacturers for the production of all Sector 10 products. Dutro Company was the exclusive outsourced manufacturer through September 30, 2009 under a manufacturing agreement. The agreement was terminated and the Company claims that Dutro breached the agreement and damaged the Company's business. Litigation is pending regarding the breach of contract and other issues resulting in significant delays in production capability and capacity.

Compliance with existing and new regulations of corporate governance and public disclosure may result in additional expenses.

Compliance with changing laws, regulations, and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and other SEC regulations, requires large amounts of management attention and external resources. This may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Our directors, executive officers and principal stockholders have effective control of the company, preventing non-affiliate stockholders from significantly influencing our direction and future.

Our directors, officers, and 5% stockholders and their affiliates control in excess of 50% of our outstanding shares of common stock. There are anti-dilution provisions in agreements that are expected to provide this group to continue to control a majority of our outstanding common stock following any financing transactions projected for the foreseeable future. These directors, officers and affiliates effectively control all matters requiring approval by the stockholders, including any determination with respect to the acquisition or disposition of assets, future issuances of securities, declarations of dividends and the election of directors. This concentration of ownership may also delay, defer, or prevent a change in control and otherwise prevent stockholders other than our affiliates from influencing our direction and future.

There is a public market for our stock, but it is thin and subject to manipulation.

The volume of trading in our common stock is limited and can be dominated by a few individuals. The limited volume, if any, can make the price of our common stock subject to manipulation by one or more stockholders and will significantly limit the number of shares that one can purchase or sell in a short period of time. An investor may find it difficult to dispose of shares of our common stock or obtain a fair price for our common stock in the market.

The market price for our common stock is volatile and may change dramatically at any time.

The market price of our common stock, like that of the securities of other early-stage companies, is highly volatile. Our stock price may change dramatically as the result of announcements of our quarterly results, the rate of our expansion, significant litigation or other factors or events that would be expected to affect our business or financial condition, results of operations and other factors specific to our business and future prospects. In addition, the market price for our common stock may be affected by various factors not directly related to our business, including the following:

- intentional manipulation of our stock price by existing or future stockholders;
- short selling of our common stock or related derivative securities;
- a single acquisition or disposition, or several related acquisitions or dispositions, of a large number of our shares;
- the interest, or lack of interest, of the market in our business sector, without regard to our financial condition or results of operations;
- the adoption of governmental regulations and similar developments in the United States or abroad that may affect our ability to offer our products and services or affect our cost structure;
- developments in the businesses of companies that purchase our products; and
- economic and other external market factors, such as a general decline in market prices due to poor economic indicators or investor distrust.

Our business may be affected by increased compensation and benefits costs.

We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business. We do not anticipate paying any cash dividends in the foreseeable future, and it is unlikely that investors will derive any current income from ownership of our stock. This means that your potential for economic gain from ownership of our stock depends on appreciation of our stock price and will only be realized by a sale of the stock at a price higher than your purchase price.

Our common stock is a “low-priced stock” and subject to regulation that limits or restricts the potential market for our stock.



Shares of our common stock may be deemed to be “low-priced” or “penny stock,” resulting in increased risks to our investors and certain requirements being imposed on some brokers who execute transactions in our common stock. In general, a low-priced stock is an equity security that:

- Is priced under five dollars;
- Is not traded on a national stock exchange, the Nasdaq Global Market or the Nasdaq Capital Market;
- Is issued by a company that has less than \$5 million in net tangible assets (if it has been in business less than three years) or has less than \$2 million in net tangible assets (if it has been in business for at least three years); and
- Is issued by a company that has average revenues of less than \$6 million for the past three years.

We believe that our common stock is presently a “penny stock.” At any time the common stock qualifies as a penny stock, the following requirements, among others, will generally apply:

- Certain broker-dealers who recommend penny stock to persons other than established customers and accredited investors must make a special written suitability determination for the purchaser and receive the purchaser’s written agreement to a transaction prior to sale.
- Prior to executing any transaction involving a penny stock, certain broker-dealers must deliver to certain purchasers a disclosure schedule explaining the risks involved in owning penny stock, the broker-dealer’s duties to the customer, a toll-free telephone number for inquiries about the broker-dealer’s disciplinary history and the customer’s rights and remedies in case of fraud or abuse in the sale.
- In connection with the execution of any transaction involving a penny stock, certain broker-dealers must deliver to certain purchasers the following:
  - O bid and offer price quotes and volume information;
  - O the broker-dealer’s compensation for the trade;
  - O the compensation received by certain salespersons for the trade;
  - O monthly accounts statements; and
  - O a written statement of the customer’s financial situation and investment goals.

## ITEM 8. FINANCIAL STATEMENTS

Sector 10, Inc.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED BALANCE SHEETS  
For the Years Ended March 31, 2011 and 2010

	March 31, 2011 (Unaudited)	March 31, 2010 (Audited)
<b>ASSETS</b>		
Current assets:		
Cash	\$ -	\$ 70
Inventory, net	18,409	18,409
Prepaid assets	-	6,770
Total current assets	18,409	25,249
Fixed assets - cost	22,250	22,250
Less: accumulated depreciation	(14,610 )	(10,160 )
Net fixed assets	7,640	12,090
Other assets - Network acquisition/development costs	500,000	931,181
Total assets	\$ 526,049	\$ 968,520
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,659,015	\$ 1,143,308
Note payable - short term	243,050	252,500
Note payable - officer/shareholder	-	20,526
Total current liabilities	1,902,065	1,416,334
Long term liabilities:		
Note payable	483,000	483,000
Total long term liabilities	483,000	483,000
Total liabilities	2,385,065	1,899,334
Shareholders' equity (deficit)		
Preferred shares - \$0.001 par value; 1,000,000 authorized, no shares issued or outstanding	-	-
Common shares - \$0.001 par value; 199,000,000 authorized; 164,414,570 and 42,693,268 shares issued and outstanding, respectively	164,414	42,693
Additional paid-in-capital	5,796,956	4,274,432
Deficit accumulated during development stage	7,820,386 )	(5,247,939)
Total shareholders' equity (deficit)	(1,859,016)	(930,814 )
Total liabilities and shareholders' equity (deficit)	\$ 526,049	968,520

The accompanying notes are an integral part of these consolidated financial statements.



Sector 10, Inc.  
(A DEVELOPMENT STAGE COMPANY)  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the Years Ended March 31, 2011 and 2010 and for the Period From Inception,  
September 16, 2002 to March 31, 2011

	Years Ended March 31, 2011 (Unaudited)	March 31, 2010 (Audited)	Inception to March 31, 2011
Sales		\$ -	\$ 18,500
Cost of Sales		-	(18,032 )
Gross Profit	-	-	468
<b>Expenses:</b>			
General and administrative	1,846,378	4,153,722	7,080,843
Depreciation	6,307	4,450	16,467
Research and development	-	161,336	226,108
Total expenses	1,852,685	4,319,508	7,323,418
Income (loss) from operations	(1,852,685 )	(4,319,508 )	(7,322,950)
Interest expense	(288,581 )	(51,310 )	(366,641 )
Other income: debt restructuring	-	-	517,200
Other expense: impairment loss	(431,181 )	(216,814 )	(647,995 )
Net income (loss) before income taxes	(2,572,447 )	(4,587,632 )	(7,820,386)
Provision for income taxes	-	-	-
Net income (loss) after income taxes	\$ (2,572,447 )	\$ (4,587,632 )	\$ (7,820,386)
Weighted Average Shares Outstanding - basic and diluted	76,792,626	22,272,414	
Basic and diluted income (loss) per share			
Continuing Operations	\$ (0.03 )	\$ (0.20 )	
Net Income (Loss)	\$ (0.03 )	\$ (0.20 )	

The accompanying notes are an integral part of these consolidated financial statements

Sector 10, Inc.  
(A DEVELOPMENT STAGE COMPANY)  
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT  
For the period from September 16, 2002 (inception) through March 31, 2011

	Common Stock		Additional	Deficit
	Shares	Amount	Paid-In Capital	Accumulated During Development Stage
Balance at Inception, September, 16, 2002	-	\$ -	\$ -	\$ -
Issued Shares	5,000,000	5,000	(1,414 )	-
Net loss for the period	-	-	-	(3,586 )
Balance at December 31, 2002	5,000,000	5,000	(1,414 )	(3,586 )
Net loss for the period	-	-	-	-
Balance at December 31, 2003	5,000,000	5,000	(1,414 )	(3,586 )
Net loss for the period	-	-	-	-
Balance at December 31, 2004	5,000,000	5,000	(1,414 )	(3,586 )
Net loss for the period	-	-	-	-
Balance at December 31, 2005	5,000,000	5,000	(1,414 )	(3,586 )
Net loss for the period	-	-	-	-
Balance at March 31, 2006	5,000,000	5,000	(1,414 )	(3,586 )
Net loss for the period	-	-	-	-
Balance at March 31, 2007	5,000,000	5,000	(1,414 )	(3,586 )
Recapitalization	2,732,030	2,732	(703,166 )	-
Net loss for the period	-	-	-	(123,946 )
Balance at March 31, 2008	12,732,030	12,732	(705,994 )	(127,532 )
Issued Shares	(2,588,500 )	(2,588 )	1,704,152	-
Gain on extinguishment of debt	-	-	10,850	-
Net loss for the period	-	-	-	(532,775 )
Balance at March 31, 2009	10,143,530	10,144	1,009,008	(660,307 )
Issued Shares	32,549,738	32,549	3,265,424	-
Net loss for the period	-	-	-	(4,587,632)
Balance at March 31, 2010	42,693,268	42,693	4,274,432	(5,247,939)
Issued Shares (unaudited)	121,721,302	121,721	1,199,745	-
Adjustment to bring option exercise to fair value (unaudited)	-	-	40,000	-
Adjustment to value unexercised stock options at March 31, 2011 (unaudited)	-	-	76,455	-
Discount on Convertible notes (unaudited)	-	-	206,324	-
Net loss for the period (unaudited)	-	-	-	(2,572,447)
Balance at March 31, 2011 (unaudited)	164,414,570	\$ 164,414	\$ 5,796,956	\$ (7,820,386)

The accompanying notes are an integral part of these consolidated financial statements.

Sector 10, Inc.  
(A DEVELOPMENT STAGE COMPANY)  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
For Years Ended March 31, 2011 and 2010  
and for the Period From Inception,  
September 16, 2002, to March 31, 2011

	Years Ended March 31, 2011	March 31, 2010	Inception to March 31, 2011
<b>Cash Flows from Operating Activities:</b>			
Net Loss	\$ (2,572,447)	\$ (4,587,632)	\$ (7,820,386)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock for services	1,217,279	3,180,841	4,944,828
Depreciation	6,307	4,450	16,467
Net discount on convertible debt	191,259	-	191,259
Gain on debt restructuring	-	-	(517,200 )
Loss due to impairment	431,181	216,814	647,995
Changes in:			
Accounts receivable	-	2,000	-
Prepaid expenses	6,770	6,770	13,540
Inventory	-	-	(18,409 )
Deposits	-	10,000	-
Accounts payable and accrued liabilities	536,503	1,137,039	2,154,308
Deferred Revenue	-	(18,500 )	-
Net cash used in operating activities	(183,148 )	(48,218 )	(387,598 )
<b>Cash Flows from Investing Activities:</b>			
Fixed asset purchases	(19,296 )	-	(41,546 )
Network acquisition / development costs	-	-	(147,995 )
Net cash used in investing activities	(19,296 )	-	(189,541 )
<b>Cash Flows from Financing Activities:</b>			
Proceeds from notes payable	175,000	31,500	657,500
Payments on notes payable	-	-	-
Proceeds from shareholder / officers	1,835	50,242	934,898
Payments to shareholders / officers	(4,461 )	(68,470 )	(1,048,845)
Proceeds from issuance of common stock	-	-	3,586
Proceeds from option exercise	30,000	-	30,000
Net cash provided by financing activities	202,374	13,272	577,139
Net increase (decrease) in cash	(70 )	(34,946 )	-
Beginning of period - continuing operations	70	35,016	-
End of period - continuing operations	\$ -	\$ 70	\$ -
Cash paid for interest	\$ 2,120	\$ 16,175	\$ 18,295
Cash paid for income taxes	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements



Sector 10, Inc.

(A DEVELOPMENT STAGE COMPANY)  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended March 31, 2011

Supplemental disclosures:	Net Fixed Assets	Accounts Payable	Accrued Expenses	Note Payable	Common Stock	APIC
Noncash investing & financing activities disclosure:						
Transfer vehicle via distribution to shareholder	\$ (17,440 )	\$ -	\$ -	\$ 17,440	\$ -	\$ -
Mazuma purchase of note payable and conversion to common stock and APIC	-	-	-	140,000	(3,800 )	(136,200)
Transfer Johnson accrued interest to Notes Payable	-	-	26,615	(26,615 )	-	-
Transfer accrued interest to contingent reserve A/P	-	(42,835 )	42,835	-	-	-
Transfer from Note Payable to Contingent Reserve AP	-	(10,000 )	-	10,000	-	-
Asher Conversion of note payable to common stock and APIC	-	-	-	65,120	(15,253 )	(49,867 )
Transfer Officer note payable to A/P	-	(4,181 )	-	4,181	-	-
Transfer accrued expenses to A/P	-	(683,880)	683,880	-	-	-
Stock issued in cancelled transaction	-	-	-	-	(60,000 )	60,000
Total	\$ (17,440 )	\$ (740,896)	\$ 753,330	\$ 210,126	\$ (79,053 )	\$ (126,067)

The accompanying notes are an integral part of these consolidated financial statements

Sector 10, Inc.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS