SECTOR 10 INC
Form 10-Q
February 14, 2012

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED December 31, 2011

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______________ TO ______________

SECTOR 10, Inc.
(Exact name of small business issuer as specified in its charter)

Delaware	000-24370	33-0565710
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer Identification No.)

14553 South 790 West
Bluffdale, Utah 84065
(Address of principal executive offices, including zip code)

Issuer’s telephone number, including area code (206) 853-4866

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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o.

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

As of February 13, 2012 the issuer had 145,557,217 shares of common stock outstanding.

Transitional Small Business Disclosure Format (check one): Yes o No x

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Part I. Financial Information

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Item 1. FINANCIAL STATEMENTS

The financial statements, related notes and the other information included in this report have not been reviewed by the Company's outside accountant prior to the filing of this report.

Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2011 (Unaudited)	March 31, 2011 (Unaudited)
Current assets:		
Cash	$ -	$ -
Inventory, net	18,409	18,409
Total current assets	18,409	18,409
Fixed assets -cost	22,250	22,250
Less: accumulated depreciation	(17,948)	(14,610)
Net fixed assets	4,302	7,640
Other assets - Network acquisition/development costs	500,000	500,000
Total assets	$ 522,711	$ 526,049
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,125,772	$ 1,659,015
Note payable - short term	245,115	243,050
Total current liabilities	2,370,887	1,902,065
Long term liabilities:		
Note payable	483,000	483,000
Total long term liabilities	483,000	483,000
Total liabilities	2,853,887	2,385,065
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; 145,557,217 and 164,414,570 shares issued and outstanding, respectively	145,557	164,414
Additional paid-in-capital	5,951,619	5,796,956
Deficit accumulated during development stage	(8,428,352)	(7,820,386)
Total shareholders' equity (deficit)	(2,331,176)	(1,859,016)
Total liabilities and shareholders' equity (deficit)	$ 522,711	526,049

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

Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months and Nine Months Ended December 31, 2011 and 2010 and
for the Period From Inception, September 16, 2002 to December 31, 2011

	Three Months Ended		Nine Months Ended		Inception to
	December 31, 2011 (Unaudited)	December 31, 2010 (Unaudited)	December 31, 2011 (Unaudited)	December 31, 2010 (Unaudited)	December 31, 2011
Sales	$ -	$ -	$ -	$ -	$ 18,500
Cost of Sales	-	-	-	-	(18,032)
Gross Profit	-	-	-	-	468
Expenses:					
General and administrative	136,270	892,567	496,829	1,691,013	7,577,672
Depreciation	1,113	1,113	3,338	5,194	19,805
Research and development	-	-	-	-	226,108
Total expenses	137,383	893,680	500,167	1,696,207	7,823,585
Income (loss) from operations	(137,383)	(893,680)	(500,167)	(1,696,207)	(7,823,117)
Interest expense	(33,202)	(55,910)	(107,799)	(239,526)	(474,440)
Other income (expense)	-	-	-	-	(130,795)
Net income (loss) before income taxes	(170,585)	(949,590)	(607,966)	(1,935,733)	(8,428,352)
Provision for income taxes	-	-	-	-	-
Net income (loss) after income taxes	$ (170,585)	$ (949,590)	$ (607,966)	$ (1,935,733)	$ (8,428,352)
Weighted Average Shares Outstanding - basic and diluted	145,557,217	64,743,228	135,691,158	52,087,800	
Basic and diluted income (loss) per share					
Continuing Operations	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.04)	
Net Income (Loss)	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.04)	

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

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

	Nine Months Ended		Inception to
	December 31, 2011	December 31, 2010	December 31, 2011
Cash Flows from Operating Activities:			
Net Loss	$ (607,966)	$ (1,935,733)	$ (8,428,352)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock for services	122,806	1,163,621	5,067,634
Depreciation	3,338	5,194	19,805
Net discount on convertible debt	15,065	169,296	206,324
Loss due to Impairment / Gain on restructuring	-	-	130,795
Changes in:			
Inventory and other current assets	-	6,770	(4,869)
Accounts payable and accrued liabilities	466,757	407,711	2,621,065
Net cash used in operating activities	-	(183,141)	(387,598)
Cash Flows from Investing Activities:			
Fixed asset / Other asset purchases	-	(19,296)	(189,541)
Net cash used in investing activities	-	(19,296)	(189,541)
Cash Flows from Financing Activities:			
Net Proceeds from general financing	-	175,000	657,500
Net Proceeds (payments) from shareholder / officers	-	(2,625)	(113,947)
Proceeds from issuance of common stock	-	30,000	33,586
Net cash provided by financing activities	-	202,375	577,139
Net increase (decrease) in cash	-	(62)	-
Beginning of period - continuing operations	-	70	-
End of period - continuing operations	$ -	$ 8	$ -
Cash paid for interest	$ -	$ 8,738	$ 18,295
Cash paid for income taxes	$ -	$ -	$ -

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

SECTOR 10, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of Sector 10, Inc. ("Sector 10" or the "Company"), have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and required by Rule 10-01 of Regulation S-X. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited consolidated financial statements. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

The report filed for the period December 31, 2010 presented the results of operations from the emergency response business as discontinued operations due to the pending acquisition by Solar Tracer Corporation and First Diversified Equities, Inc. Due to the subsequent unilateral cancellation of the transaction, the Company has continued in the emergency response business and as such the results for the emergency response business are treated as continuing operations in the presentation for both the periods ended December 31, 2011 and 2010.

Note 2 – INVENTORY

There were no sales in the nine month period ended December 31, 2011. Therefore, total inventory remains at $18,409 for the nine month period ended December 31, 2011. The carrying value of inventory is periodically reviewed and impairments, if any, are recognized when the expected future benefit from the inventory is less than its carrying value. If applicable, the Company will establish inventory reserves for estimated obsolescence or unmarketable inventory which is equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. For the nine month period ended December 31, 2011, the Company has a reserve of $12,491.

Note 3 – NETWORK ACQUISITION/DEVELOPMENT COSTS

The net Network Asset remaining of $500,000 represents the net transfer costs from the original transfer from Sector 10 Holdings to Sector 10 Inc. in May 2009. The Company believes that future revenues will generate sufficient revenues and net cash flows to recover the remaining Network Asset and thereby prevent any further adjustments to the Network Asset.

The fact that the asset is recorded at transfer cost rather than fair market value is critical in determining the impairment. Since it is Management's opinion that the network asset is recoverable and that the $500,000 cost reflected on the books is less than the estimated fair market value, it is Management's opinion that no further adjustment for impairment is needed for the Network for the nine month period ended December 31, 2011.

Note 4 – NOTES PAYABLE

Related Parties - Shareholder / Officer

The Company previously received funding from a shareholder and officer. The accounts were closed on December 31, 2010 and no interest has accrued since December 31, 2010.

Johnson Financing

The interest accrued for the nine month period ended December 31, 2011 was $3,898.

Dutro Financing:

The contingent reserve - interest includes all interest accrued on the Dutro Company note and all interest accrued after July 1, 2010 for the Vicki Davis and William Dutro note. Interest accrued during the nine month period ended December 31, 2011 was $ 27,168 comprised of Dutro Company - $14,061, Vicki Davis - $9,450 and William Dutro - $3,657. Total contingent reserve - interest for the period ended December 31, 20111is $71,222 comprised of Dutro Company - $45,009, Vicki Davis - $18,900 and William Dutro - $7,313.

Employee Agreement:

The financial statements reflect an accrual of interest on unpaid wages and other compensation in the amount of $93,464 of which $52,032 is accrued during the nine month period ended December 31, 2011.

Other Notes

Individuals – short term

Total interest accrued as of December 31, 2011 was 12,895 of which $5,340 was accrued during the nine month period ended December 31, 2011.

Asher Enterprises, Inc.

The Company entered into multiple financing transactions with Asher Enterprises, Inc. to raise capital for Company operations. Each transaction was structured as a Convertible Debenture due 9 months after the issue accruing interest at an annual rate of 8%

During the nine month period ended December 31, 2011, Asher Enterprises made 2 elections to convert a total of $13,000 a portion of the note payable dated May 26, 2011.

Total interest accrued (without discount amortization) as of December 31, 2011 was $9,542 of which $4,297 was accrued during the nine month period ended December 31, 2011. The current period interest included as part of other interest. Total amortization of discount included as part of interest expenses amounted to $15,065 for the nine month period ended December 31, 2011. The discount is fully amortized at December 31, 2011.

Mazuma Funding Corp

On June 21, 2010, Mazuma Funding Corp agreed to purchase portions of the outstanding debt of the Company. through various installment transactions. As part of each purchase installment, Mazuma received a convertible note from the Company in the amount of the respective purchase installment. Mazuma elected to immediately convert the note to common shares of the Company. The conversion price was agreed at the transaction date. A discount was provided with the conversion of the stock. All transactions occurred in the prior year and there is no activity in the fiscal year ended March 31, 2012.

Summary of Interest and Notes Payable

Interest expense	December 31, 2011	December 31, 2010
Sector 10 Holdings, Inc. – Shareholder	$ -	$ 483
Pericles DeAvila – Officer	-	392
Total related party interest expense	-	875
Interest – Johnson	3,898	3,990
Interest – Dutro Group	27,168	27,169
Interest - Employee Group	52,032	28,445
Interest – Other Notes	9,637	9,751
Total interest expense without amortization of discount	92,735	70,230
Interest – Amortization of Discount on Asher Enterprises, Inc. Note(s)	15,065	68,296
Interest – Amortization of Discount on Mazuma Funding Note	-	101,000
Total interest expense	$ 107,800	$ 239,526

Note Payable Balance	December 31, 2011	March 31, 2011
Edward Johnson – Johnson Financing	$ 86,615	$ 86,615
Patrick Madison – Other Notes	20,000	20,000
Lionel Brown – Other Notes	20,000	20,000
Patricia Fielding – Other Notes	22,000	22,000
Mark Madison – Other Notes	10,000	10,000
Richard Long – Other Notes	17,000	17,000
Asher Enterprises, Inc. – Other Notes	69,500	82,500
Total Note Payable – short term without discount	245,115	258,115
Net Discount on Convertible Notes (Asher)	-	(15,065)

Total Note Payable – short term	$	245,115	$	243,050
Vicki Davis - Dutro Group	$	168,000	$	168,000
William Dutro – Dutro Group		65,000		65,000
Dutro Company – Dutro Group		250,000		250,000
Total Note Payable – long term	$	483,000	$	483,000
Total Notes Payable	$	728,115	$	726,050

Debt Maturity Schedule

As of December 31, 2011, the annual maturities for notes payable is scheduled as follows:

Fiscal Year	Amount
March 31, 2012	$ 245,115
March 31, 2013	$ 0
March 31, 2014	$ 0
March 31, 2015	$ 483,000
Total	$ 728,115

Note 5 – EQUITY

During the Quarter ended: June 30, 2011:

In April 2011, cancelled 60,000,000 shares due to the unilateral termination of the Solar Tracer and First Diversified Equities acquisition transactions. Reversed entry made in January 2011.

In April 2011, issued 4,117,617 shares at $.0017 per share with a current value at $.00381 per share to Asher Enterprises, Inc. in conversion of $7,000 debt.

In May 2011, issued 7,500,000 shares at $.0008 per share with a current value at $.00187 per share to Asher Enterprises, Inc. in conversion of $6,000 debt.

In June 2011, issued 29,525,000 common shares to shareholders and officers under the anti-dilution provisions of their respective agreements. Market value at authorization was $.0016 per share. shares at $.0030 per share with a current value at $.011 per share to Asher Enterprises, Inc. in conversion of $2,120 interest debt.

In June 2011, authorized the issuance of $12,475,000 common shares to shareholders and officers under the anti-dilution provisions of their respective agreements. Market value at authorization was $.0016 per share. Shares not issued and recorded as accrued stock.

In June 2011, recorded an additional adjustment of $26,296 to additional paid-in capital which represents the fair value of the vested portion of the stock options granted on December 1, 2010. Total adjustments recorded through the period ended June 30, 2011 amounted to $102,751.

During the Quarter ended: September 30, 2011:

In September 2011, recorded an additional adjustment of $25,414 to additional paid-in capital which represents the fair value of the vested portion of the stock options granted on December 1, 2010. Total adjustments recorded through the period ended September 30, 2011 amounted to $128,165.

During the Quarter ended December 31, 2011:

In December 2011, recorded an additional adjustment of $23,266 to additional paid-in capital which represents the fair value of the vested portion of the stock options granted on December 1, 2010. Total adjustments recorded through the period ended December 31, 2011 amounted to $151,431.

Note 6 – GOING CONCERN

The Company generated minimal revenues prior to the current fiscal year. No revenues were generated for the nine month period ended December 31, 2011. This level of revenues is not sufficient for the Company to meet its future obligations. This factor raises substantial doubt about the Company’s ability to continue as a going concern.

The Company is in the midst of the Dutro litigation and other litigation. The litigation has impacted the operation of the Company and has set back the ability to raise capital and develop ongoing business. The Company is in the process of restructuring the business in order to continue forward as a going concern. It is expected that the restructuring will be completed during the year ended March 31, 2012. After the restructuring is completed, revenues are not expected to be generated at the earliest by the year ended March 31, 2013.

Note 7 - INCOME TAX

Income taxes are accounted for using the asset and liability method. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company's financial statements for the nine month period ended December 31, 2011 and 2010 do not include any provision for income taxes. No income tax accrual has been recorded based on the expectation that the Company will be in a net loss position for the overall applicable fiscal year. Accordingly, deferred tax assets have been entirely offset by valuation allowances. The difference between the amounts of income tax benefit that would result from applying domestic federal statutory income tax rates to the net loss and the net deferred tax assets is related to certain nondeductible expenses, state income taxes, and the change in the valuation allowance.

The Financial Accounting Standards Board ("FASB") has issued ASC 740 for Accounting for Income Taxes that clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. As a result of the implementation of ASC 740, the Company performed a review of its material tax positions in accordance with recognition and measurement standards established by ASC 740.

The Company had no unrecognized tax benefit which would affect the effective tax rate if recognized.

The Company includes interest and penalties arising from the underpayment of income taxes in the consolidated statements of operations in the provision for income taxes. As of December 31, 2011 the Company had no accrued interest or penalties related to uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction and in the states of Delaware, Utah and any other jurisdiction where required. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2007.

Note 8 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events per the requirements of ASC Topic 855 and has determined that the following events should be disclosed.

1) The Form 10-K for the period ending March 31, 2011 was due on June 29, 2011; the Form 10-Q for the period ended June 30, 2011 was due on August 15, 2011and the Form 10-Q for the period ended September 30, 2011 was due on December 14, 2011. Due to the pending litigation and the difficulties in receiving complete and critical information from the prior Directors and Officers who resigned on April 15, 2011, the Form 10-K for the fiscal year ended March 31, 2011and the Form 10-Q for the periods ended June 30, 2011 and September 30, 2011 were not completed as of the original filing deadline. 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 late reports are expected to be filed on or before February 14, 2012.

2) Reverse Stock Split. The Company is in the process of restructuring its organization as well as its operations. A Definitive Schedule 14C was filed on January 9, 2012 regarding the 500-1 reverse stock split approved by the majority shareholders. The Company is currently working with the regulatory authorities to process this request for a reverse split. The impact of this restructuring will assist the Company in its efforts to reestablish its operations and to move forward as a going concern in 2012.

Item 2. Management's Discussion And Analysis Or Plan Of Operation

This report contains forward-looking statements within the meaning of Section 29a of the Securities Act of 1933, as amended, and Section 21e of the Securities Exchange Act of 1934, as amended. These forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from historical or anticipated results. You should not place undue reliance on such forward-looking statements, and, when considering such forward-looking statements, you should keep in mind the risk factors noted in this report, including the section of this report entitled “Risks Related to Our Business and Operations.” You should also keep in mind that all forward-looking statements are based on management’s existing beliefs about present and future events outside of management’s control and on assumptions that may prove to be incorrect. The following discussion and analysis should be read in conjunction with the Company’s financial statements and notes thereto, which are included elsewhere in this report.

Overview

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.

Management of the Company as installed by Solar Tracer Corporation and First Diversified Equities, Inc. submitted resignations effective April 15, 2011. On or before these resignations, the Solar Tracer Corporation, its shareholders, representatives and management returned to Treasury the 60,000,000 common shares it received under the Solar Tracer Stock Exchange Agreement o January 7, 2011. As a result of this return of shares, Sector 10 Holdings, Inc. becomes the largest shareholder of record based on a shareholder report dated May 11, 2011.

A special shareholder meeting was held on May 12, 2011 to reappoint Pericles DeAvila and Laurence A. Madison as directors of the Company and acting Management. The shareholders requested that a review of the circumstances surrounding the Solar Tracer/First Diversified termination be conducted. The review triggered an investigation that is ongoing. The results thus far indicate outside interference that led to the reversal of the acquisitions and the resignation of management.

Going Concern Qualification

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

Results of Operations

Nine Months Ended December 31, 2011 as Compared to the Nine Months Ended December 31, 2010

Revenues -

The Company had no revenues for the nine months ended December 31, 2011.

The Company had no revenues for the nine months ended December 31, 2010.

Other Income-

The Company had no other income for the nine months ended December 31, 2011.

The Company had no other income for the nine months ended December 31, 2010.

Operating Expenses -

The Company had no operating expenses for the nine months ended December 31, 2011.

The Company had no operating expenses for the nine months ended December 31, 2010.

General and Administrative Expenses -

General and administrative expenses were $496,829 for the nine months ended December 31, 2011 which was made up primarily of Wages - $412,476, Financing Fee - $68,041, Professional fees – Legal & Accounting - $14,731and other expenses of $1,581.

General and administrative expenses were $1,691,013 for the nine months ended December 31, 2010 which was made up primarily of Financing Fee - $678,845, Wages - $463,781, Professional fees – Legal & Accounting - $453,381, Payroll/Benefits tax, insurance and expenses - $41,601, Professional fees - investor relations $34,270, Filing fees - $5,995, Director and Business Advisory Board fees - $5,226 and other expenses of $7,914.

Depreciation Expense –

Depreciation expense for the nine months ended December 31, 2011 was $3,338.

Depreciation expense for the nine months ended December 31, 2010 was $5,194.

Interest Expense –

Interest expense for the nine months ended December 31, 2011 was $107,799.

Interest expense for the nine months ended December 31, 2010 was $239,526.

Three Months Ended December 31, 2011 as Compared to the Three Months Ended December 31, 2010

Revenues -

The Company had no revenues for the three months ended December 31, 2011.

The Company had no revenues for the three months ended December 31, 2010.

Other Income-

The Company had no other income for the three months ended December 31, 2011.

The Company had no other income for the three months ended December 31, 2010.

Operating Expenses -

The Company had no operating expenses for the three months ended December 31, 2011.

The Company had no operating expenses for the three months ended December 31, 2010.

General and Administrative Expenses -

General and administrative expenses were $136,270 for the three months ended December 31, 2011 which was made up primarily of Wages - $135,766 and other expenses of $504.

General and administrative expenses were $892,567 for the three months ended December 31, 2010 which was made up primarily of Financing Fees - $476,855, Wages - $227,007, Professional fees – Legal & Accounting - $160,550, Professional fees - investor relations $15,250, Payroll/Benefits tax, insurance and expenses - $10,018 and other expenses of $2,887.

Depreciation Expense –

Depreciation expense for the three months ended December 31, 2011 was $1,113.

Depreciation expense for the three months ended December 31, 2010 was $1,113.

Interest Expense –

Interest expense for the three month period ended December 31, 2011 was $33,202.

Interest expense for the three month period ended December 31, 2010 was $55,910.

Liquidity and Capital Resources
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As of December 31, 2011, Sector 10 had cash of $0. This amount is not sufficient to meet the Company's working capital requirements for the balance of the fiscal year ending March 31, 2012 or for any future period.

Total Assets -

The Company had $522,711 in total assets as of December 31, 2011, comprised of cash - $0, Inventory - $18,409, Net Fixed Assets - $4,302 and Network Acquisition/Development Costs - $500,000.

Working capital -

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.

Total Liabilities -

Current liabilities as of December 31, 2011 were $2,370,887. The balance was composed of accounts payable and accrued liabilities of $2,125,772 and note payable to outside investors of $245,115.

Long term liabilities as of December 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.

Total liabilities as of December 31, 2011 were $2,853,887.

Cash flows -

Sources and Uses of Cash	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010

Net cash provided by / (used in)				
Operating activities	$	-	$	(183,141)
Investing activities		-		(19,296)
Financing activities		-		202,375
Increase/(decrease) in cash and cash equivalents	$	-	$	(62)
Period ended December 31, 2011 and 2010				
Cash and cash equivalents	$	-	$	8

Operating Activities -

Cash used in operations for the nine months ended December 31, 2011 was $0. Operating activities were affected by Net loss from operations – ($607,966), stock for services - $122,806; depreciation expense - $3,338; net discount on convertible debt - $15,065 and change in accounts payable and accrued liabilities - $466,757.

Cash used in operations for the nine months ended December 31, 2010 was ($183,141). Operating activities were affected by stock for services - $1,163,621; depreciation expense - $5,194; change in prepaid expenses – $6,770; and change in accounts payable and accrued liabilities - $407,711.

Investing Activities -

Cash used from investing activities for the nine months ended for December 31, 2011 was $0.

Cash used from investing activities for the nine months ended for December 31, 2010 was ($19,296) which represented the full asset cost of the vehicle transferred to a shareholder.

Financing Activities -

Cash provided from financing activities for the nine months ended for December 31, 2010 was $0.

Cash provided from financing activities for the nine months ended for December 31, 2010 was $202,375 comprised from net proceeds from notes payable of $175,000, cash exercise of options for $30,000, proceeds from shareholder/officers - $1,835 and net payments on shareholder / officer notes of ($4,460).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Risks Related to the Company's Business and Operations

Investing in the 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 the Company's common stock. In addition to historical information, the information in this report contains forward-looking statements about the Company's future business and performance. The Company's actual operating results and financial performance may be different from what the Company's management expects as of the date of this report. The risks described in this report represent the risks that the Company's management has identified and determined to be material to the Company. Additional risks and uncertainties not currently known to the Company's management, or that the Company's management currently deems to be immaterial, may also materially harm the Company's business operations and financial condition.

Going Concern Qualification

The Company has generated limited cash flow, has incurred net losses since inception and has a working capital deficiency. In the event that funding from internal sources or from public or private financing is insufficient to fund the Company's business, the Company will not be able to generate revenues sufficient to cover anticipated expenses. If the Company is unable to quickly generate capital from operating activities or from external sources, the Company will have to substantially curtail its operations and will likely need to suspend its operations entirely. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's going concern uncertainty will likely affect its ability to raise additional capital, and may also affect its relationships with suppliers and prospective customers. Investors should carefully examine the Company's financial statements.

Other risk factors to be considered include the following:

- The Company has not generated revenues and has not executed any significant contracts for the sale of the Company's products.
- The Company uses outside sources to fulfill contract obligations and has limited control over the provider's ability to meet the Company obligations.
- The directors, executive officers and principal shareholders of the Company have effective control of the Company, preventing non-affiliate shareholders from significantly influencing the Company's direction and future.
- The market for the Company's stock is thin and subject to manipulation.
- The market price for the Common Stock is volatile and may change dramatically at any time.
- Our business may be affected by increased compensation and benefits costs.
- The Company has not paid dividends and does not anticipate paying dividends in the future.
- The Common Stock is a "low-priced stock" or "penny stock" and subject to regulation that limits or restricts the potential market for the stock.
- Compliance with existing and new regulations of corporate governance and public disclosure may result in additional expenses.

Item 4. Controls and Procedures

(a) Based on the evaluation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) required by paragraph (b) of Rules 13a-15 or 15d-15, the Company's principal executive officer and principal financial officer concluded that as of December 31, 2011, the Company's disclosure controls and procedures were effective.

(b) There have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit	Exhibit
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sector 10, Inc.

February 14, 2012 Date	By: /s/ Pericles DeAvila Pericles DeAvila, President
February 14, 2012 Date	By: /s/ Laurence A. Madison Laurence A. Madison Chief Financial Officer