SECTOR 10 INC
Form 10-K
July 21, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended March 31, 2010

o 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 been subject to such filing requirements for the past ninety (90)days. Yes x No o

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. x

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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 June 30, 2010, the Registrant had 43,993,268 shares of Common Stock issued and outstanding with an average market value of $.07 per share for a total market value of $3,079,530.

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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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.

Executive 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.

Speed to market and the effective use of corporate capital are the foundations of the framework for Sector 10 management decisions. The Company’s plan is to embark on a structured domino effect intended to activate company income and operational growth.

Sector10 is focused in developing a new market segment and opportunity thru knowledge-based solutions in a fragmented market. In 2008, SECTOR 10 growth strategy identified numerous opportunities nationally and around the world. Our strategy remains to continue to invest in management and business development, expand the number of customers we cover; be more effective in delivering the entire Firm to our clients; effectively manage risk, capital and expenses; and further strengthen our culture.

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Overview:
Sector 10, Inc. ("Sector 10" or "The Company") is in the business of providing emergency disaster response equipment and related support services. Sector 10 is currently licensed to manufacture and sell all Sector 10 products that were originally developed by Sector 10 Holdings, Inc. Sector 10 develops and markets emergency and disaster response equipment known as Mobile Response Unit ("MRU") and Stationary Response Unit ("SRU"). The MRU and SRU provide an emergency communications system with on-board life safety resources that are needed in an emergency event. The SRU and MRU were developed to promote the concept of pre-deploying life saving tools and supplies in office buildings, factories, schools, construction sites, airports and cruise ships.

Sector 10 is a systems integration company exclusively representing a unique line of proprietary products and technologies focused on the pre-deployment of emergency and leveraging other incorporated asset system such as communication channels and interactive advertising. Sector 10's life saving services center around the placement of stationary kiosks called SRU's in high traffic venues and high-rise buildings. The SRU's or stationary response units contain personal protective equipment (PPE) that can help people, prevent fatalities and injuries during natural disasters, terrorist attacks, and other life threatening situations such as fires. In addition the SRU provides four channels of communication and tracking capabilities that are linked to a command center and can interact with first responders to ensure the greatest number of lives can be saved.

Strategy:
Because of the inherent flexibility of the SRU and MRU design, the potential early markets include multi-level building owners and occupants, industrial users, governmental and military users and humanitarian users. In order to capitalize on its first mover advantage and what the Company perceives to be a growing demand for disaster preparedness, the Company believes it must simultaneously address as many markets as possible. This plan calls for outside funding to fuel potential growth.

The Company intends to sell certain products under bundled contracts of services and long-term product leases, thus securing monthly revenues for many years. Services will include SRU / MRU maintenance and restocking, emergency management training, and system monitoring. The Company proposes to develop the personnel and procedures necessary to provide such services. Markets that require expensive access are to be avoided for at least the first three years, one example being the home consumer market. The Company seeks to penetrate the corporate and institutional marketplace with large multi unit orders, focusing on industrial, construction, large buildings, and humanitarian markets.

If Sector 10 is able to increase the installed base of SRU's / MRU's, of which there can be no assurance, the Company anticipates that the re-supply of materials for the MRU's will be an integral part of its business. Since Sector 10 will be selling directly to building owners and occupants, the Company presents an additional distribution channel to companies currently selling primarily to the emergency services industry. Several manufacturers of innovative new safety and emergency supplies appealing to the non-professional, such as smoke hoods, have already approached Sector 10 to be enlisted as suppliers. Sector 10 has the potential of being a large distribution outlet for smaller manufacturers and innovators. Since the building owners and occupants do not have the same cumbersome purchasing requirements as governmental emergency agencies, the Company believes that it can serve as a catalyst to bringing new and innovative products to market.

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 throughout this Form 10-KSB, 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 our financial statements and notes thereto, which are included elsewhere in this report.

Description of Sector 10 Business:

Sector 10 is a systems integration company exclusively representing a unique line of proprietary products and technologies focused on the pre-deployment of emergency and leveraging other incorporated asset system such as communication channels and interactive advertising. Sector 10's life saving services center around the placement of stationary kiosks called SRU's in high traffic venues and high-rise buildings. The SRU's or stationary response units contain personal protective equipment (PPE) that can help people, prevent fatalities and injuries during natural disasters, terrorist attacks, and other life threatening situations such as fires. In addition the SRU provides four channels of communication and tracking capabilities that are linked to a command center and can interact with first responders to ensure the greatest number of lives can be saved.

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These kiosks or Stationary Response Units (SRU's) can also be utilized as a means of communication during times of normal operation. The video displays create an interactive experience (with search and user menus) that enhances any facility by spreading information efficiently and effectively to patrons through an information and advertising network that caters to the specific needs of each unique building.

Sector 10 products have received endorsements from the Department of Homeland Security, Be Ready Utah, and Former Senator Jake Garn. Sector 10 is in the process of positioning itself as the global leader in pre-deployment emergency response.

Products:

EMERGENCY STATIONARY RESPONSE UNITS - (SRU)
The SRU mobile Response unit is a stationary response center containing the essential equipment needed for disasters and crisis situations. The unit can be placed near stairways, elevators, and transportation terminals. The SRU units utilize the PLX-3D System to deliver real time information, evacuation status, communications, and supplies the facilities to aid victims in crisis.

First and last, Sector 10 products serve a vital public safety function and are emergency response systems. This is particularly true of the SRU, which has no interactive communication system on-board. The primary market for this product is high-rise buildings.

SRUs offer these Emergency Response Features:

- Smoke, chemical and biological masks
- Eye wash system
- Iodide tablets
- Integrated computer system
- Visual touch screen panel
- Wi-Max wireless technology
- Surveillance camera
- Battery backup
- Evacuation chair
- Strobe light
- Siren
- First aid supply packs
- Real-time personnel tracking
- OSHA compliant

But Sector 10 has created additional business value and opportunity with the SRU-M. This innovative product combines life safety resource or the SRU that are vital to emergency response with interactive communications technologies. This creates a new market by penetrating previously impermeable distribution points for advertising. This new market – Pre-deployed public safety systems – is a market segment being created by Sector 10. It is untouched and wide open with staggering potential for growth worldwide.

SRU-Ms are placed in high traffic public venues such as airports, convention centers, mass transit stations, entertainment venues, sports arenas and stadiums, and retail locations - wherever the public is found in masses. These are pre-deployed life saving devices that generate revenue during times of normal operations. The advertising dollars created can more than offset the expense of these multi-purpose units. Imagine the possibilities of a 42" display with multiple sections of interactive user-driven content.

Sector 10 has product placement programs that can place SRU-Media in high traffic areas at discounted prices or at maintenance-only cost to the end user... With the widespread adoption of pre-deployed emergency response systems, Sector 10 is building one of the largest proprietary digital networks in the world. Each day tens of thousands of people will be exposed to ads displayed on SRU-Ms, and the number will continue to grow.

With the SRU-M Sector 10 is creating a new market, a new way to deliver advertising messages to both large, gathered publics and to highly targeted audiences. This will be achieved by:

- Finding large, high traffic public venues which need both emergency response systems for public safety and the ability to deliver advertising messages to these publics. These venues include various high traffic locations such as malls, conventions centers, arenas, airports, and big box retailers throughout the United States.

- Negotiating with the venue management for the placement of the emergency response systems which contains the advertising message delivery components. The venue's need for emergency response systems allows Sector 10 to gain access to high traffic real estate that otherwise would be too expensive or simply not available, thus solving the real estate expense problem of many advertising vehicles.

- Finding sponsors to fund the placement of the advertising/emergency response systems in exchange for a portion of the revenues derived from the sale of advertising. Typical sponsors will be individuals and institutions looking for predictable return on a passive investment.

- Developing a national advertising sales management team to work with established advertising agencies to represent the Sector 10 advertising opportunity to their clients. It is not anticipated that Sector 10 advertising will be the sole advertising medium employed and therefore we expect that partnering with ad agencies will be the most cost effective means of generating ad sales.

Through this model Sector 10 will have two primary revenue streams:

- The sale and placement of the advertising/emergency response systems. This revenue will be provided by the sponsors who fund the placement of the systems.

- The on-going sale of advertising that is placed on the communications delivery components of the emergency response system during times of normal operation.

A more traditional sales model applies to the SRU. This product is intended for strictly safety applications, primarily in high rise buildings where the emergency response preparation needs remain acute but the public traffic is not as heavy. The SRU contains needed life safety resources, but has no messaging systems. Preliminary market response indicates that a lease will be the most attractive placement model for potential customers.

EMERGENCY MOBILE RESPONSE UNITS - (MRU)

Permanently placed MRU's on location provide the fastest and most efficient security and first aid, working with the incident commander to build a unified command center.

MRU's are rush delivered to a disaster site to enable disasters to be quelled and victims to treated and saved. The MRU mobile Response unit is a self-contained response center armed with all the essential equipment needed for disasters and crisis situations. The mobile unit can be delivered to a crisis site to administer first-aid and other medical needs. The unit is deliverable by air-drop or truck hitch mounted lift system

MRU Features:

- Completely portable tent with automated easy deployment-->
- Eye wash system
- Integrated computer system
- Wi-Max wireless technology provides the latest speed and security
- Networkable via network cable, wireless, and cell access
- Satellite communications and networking for remote locations
- Web based controllable camera
- OSHA compliant
- 110VAC hookups with battery and solar backup
- Utility sink and clean water supply
- All the doors convert to a stretcher, table, and bench
- Compliant with PLX-3D Systems
- Modular shelves, drawers, bins, and cabinets
- First aid supply packs with tracking technology
- Plug and Play setup and installation

MRU-OH
MRU Standard Product Features Include: eyewash, potable water, hand-wash, postings panel, soap and cup dispenser, garbage refuse, water delivery and recovery systems, compartments for fall protection, electrical TAG programs, MSDS, and Safety Program folders, a foldout plan or command table, forklift and crane lift points, lockable wheels and many other features that help meet and mitigate OSHA, EPA, NIOSH and many other related requirements.

MRU-Specialty
MRU's provide the modularity, mobility, customization, and personalization to first responders when they arrive at a disaster site effectively providing a "portable village" — a desperately needed safe environment for victims and emergency professionals so that lives can be saved. These Response Units offer shelter, utilities, comforts, supplies and equipment.

MRU Specialty Types:
MRU-D Dental Unit
MRU-S Surgical Unit
MRU-V Vaccine Unit
MRU-X X-ray Processing Center

MRU Solutions:
Emergency response
Disaster aid
Remote medical and health center
Hazardous area clean up and response
Remote locations
3rd World Countries

Rural work sites and construction zones
Mining facilities

Global Communications Network

The Sector 10 network is a global communications network that manages the delivery of emergency and commercial messaging to SRU-Ms. This network will be used for content distribution, secure remote data storage (to facilitate Sarbanes-Oxley compliance), voice communications, and site monitoring with video surveillance. A true networked digital signage solution ensures that digital advertisements play in designated zones, at designated times. The network will be fully integrated with the Emergency Alert System (EAS) including emergency alerts issued by the Department of Homeland Security and Amber Alerts.

The Market

The market for Sector 10 products and services is largely untapped because we are creating and pioneering the market ourselves through our unique products unprecedented combination of business and public needs. There are many disaster preparedness needs in our nation's cities as well as unlimited advertising opportunities. Superior technology, unrivaled emergency and safety response systems and unique messaging features distinguish Sector 10 products.

Major US markets for the SRU-M devices include more than 700 malls, 10,000 big box retail stores, 150 convention centers, 150 arenas, and 100 airports. These combined US venues represent a potential of more than 144,000 product placements. More specific information on these opportunities is located in the financial projection.

Sector10 products represent a new product category in the market and an important step for emergency life safety markets across the world.

SRU/MRU's are available in various standard configurations, including emergency response equipment, disaster rescue response, spill-decon equipment, school emergency compliance, fire life & safety response, industrial safety & hygiene, clean room response, respiratory response, agricultural safety and hygiene, construction safety and hygiene. Customers can purchase the standard MRU's in any combination or design their own custom configuration to respond to their special needs.

The following are examples of Sector 10 applications available or under development as noted that solve problems at disaster sites, where "unified command sectors" are created.

Major markets defined by the company include Multi-Story Buildings, Military/Homeland Security, Construction/Industrial Sites, Schools, Hospitals, Hazmat/Decontamination Teams and Humanitarian Services.

The Multi-Story Building market is the initial target market for Sector 10. Customers consist primarily of building owners and managers, institutions and the building tenants. Targeting the top 20 building managers in the U.S. is central to the Company's sales implementation strategy. This complements the 80/20 principle, where a small number of building managers will make up over 80% of the market place. Sector 10 believes there are over 6 million U.S. buildings, of which approximately 943,000 are over 7 stories and approximately 400,000 are skyscrapers.

Humanitarian Vision – Sponsorship of MRU donations could become very widespread through the multi-national corporate community, world health organizations, charitable foundations, major church relief agencies, government relief agencies, the Red Cross, the US military, and through individual donors. Sector 10 also envisions being a provider of pre-prepared food storage and equipment for food delivery inside MRUs. This would include emergency dry-pack or other quick preparation foods and utilities. Sector 10 would do everything in its power to streamline the process for fulfilling these orders and minimizing the costs.

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Large Scale Disaster Applications - A solution at a disaster site is to help the incident commander build the mobile unified command sector, in other words a unified cohesive solution to the disaster at hand. Sector 10 provides products, processes and systems to improve disaster site preparedness. Because Sector 10's MRU's are so mobile and modularized, they are a reliable resource for all sizes of tented facilities when constructing a "unified command sector" for an effective mobile shelter. This includes tents and equipment for erecting medical triage, command center, decontamination tent, supply and equipment shelter, utilities, etc.

Building Shareholder Value

The market opportunity available for Sector 10 products and its services is largely untapped. We have created patented products and processes to specifically address our target markets and give us a clear edge over future competition. There are many disaster preparedness needs in our nation's cities, our unprecedented combination of business solutions and public needs delivers not only a real need, but also creates a new product category in the market. Advanced technology, unrivaled emergency safety response systems and our unique messaging features distinguish Sector 10 products from other products currently on the market.

In addition to our pre-deployed features the SRU-M products present enhanced revenue opportunities to Sector10 and its shareholders. Alternative forms of advertising and marketing are on the rise. More and more, advertisers are looking to other forms of media, many of them un-measurable and un-quantified to meet their marketing needs. Ad agencies traditional ways of reaching their consumers are giving way to new media and new ways of engaging an audience. Advertisers now know that traditional TV as well as print ads are no longer sufficient ways to reach people affectively and as a result are directing their dollars to more new inventive ways of reaching the target market. If they want to remain competitive, agencies must take a serious look at new opportunities. These opportunities gave rise to Google, Yahoo and many others.

Because of the mobility of the consumer walking by the SRU-M's, ads will typically be shorter in length unless they stop and engage the SRU-M. The interactivity would allow the consumer to see a longer version of the ad or click for more information on the company of which S-10 would be able to charge more from the advertiser. " Pre-deployed Emergency Response thru Media Placement"

Employees

As of June 30, 2010, 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

Two other employees (COO and Director of Business Development) had employment agreements that began in April/May 2009. The employment relationship and underlying employment agreements were either suspended or severed as of December 31, 2009. They are not considered employees as of the fiscal year ended March 31, 2010.

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 top 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 3rd quarter of the fiscal year ended March 31, 2011.

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 is seeking new office space to accommodate the growth in personnel expected when the sales activity begins in fiscal 2011. No lease arrangement has been finalized 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. At the previous year end, certain financing relationships with the Dutro Group were not settled. Final documented settlements were negotiated with Dutro Company, Vicki Davis and William Dutro. Lee Allen refused to negotiate the $18,000 advances loaned the Company. His balance of $18,000 is recorded in Accounts Payable and is now included in pending litigation.

The Company resolved all outstanding issues regarding research and development expenses and other expenses incurred by Dutro Company on behalf of the Company. An agreement was signed on August 6, 2009 with all parties agreeing to payment. Subsequent to the agreement, the Company requested the return of detail information concerning the R&D expenditures including drawings, engineering information and other property and supplies held by Dutro Company. Dutro Company has refused to provide any requested information and/or property.

The Company also learned that Dutro Company and members of the Dutro Group may be involved in the manufacturing, sale and /or distribution of a product that is similar to the Sector 10 MRU. Such activity is in violation of the Master Product Manufacturing and Purchase Agreement dated October 1, 2007, between Dutro Company and the Company and possibly a violation of patents held on the MRU. The Company sent Dutro Company and members of the Dutro Group a Cease and Desist letter on August 25, 2009 to stop such activity. The Company is monitoring the status of this request.

Based on the fact that property owned by the Company was not returned and the fact that unauthorized production has been performed, the Company notified that Dutro Company was in breach of the Manufacturing Agreement. The Manufacturing Agreement was scheduled to terminate on September 30, 2009 unless an extension was agreed by the parties. No extension was agreed and the Manufacturing Agreement terminated on September 30, 2009.

Reality Engineering is managed by Lee Allen, a member of the Dutro Group. Reality Engineering agreed to assist the Company in enhancing the PLX-3D software. The agreed fee was $50,000. Reality completed the project and has attempted to collect over $168,000 for the services. Reality Engineering has not provided the Company with any useable product until the higher fee is paid. Reality Engineering has rejected all offers proposed by the Company to settle the difference in fee arrangement and has still never provided the Company with any useable end product from their services. On October 24, 2009, the Company informed Reality Engineering that they will no longer seek the end product derived from their services since no agreement could be reached on the fees. Accordingly, no fees will be paid to Reality as a result of their final rejection. The Company will review all actions taken by Reality Engineering and their impact on the Company.

Interest payments were due under the Dutro Group promissory note arrangements in January 2010. Total interest due for payment in January was $23,685 which is allocated as follows: Vicki Davis - $11,300, William Dutro - $4,875 and Dutro Company - $7,510. Payments were made to Vicki Davis and William Dutro for the full accrued amount. No payment was sent to Dutro Company in January. The promissory note required Dutro Company to return all materials to the Company upon request by the Company. The Company has made multiple requests for property still held at the Dutro Company facility. This includes various raw materials, supplies, molds, detail plans and specifications and other items. A letter was issued to Dutro Company in January 2010 requesting the return of all of the Company's property in accordance with the underlying promissory note agreement and manufacturing agreement. The letter stated that all interest payments under the promissory note would be withheld pending receipt of all requested information.

On November 9, 2009, Lee Allen filed a claim against the Company in an effort to collect on the $18,000 owed him plus interest accruing at an annual rate of 7.5%

On February 19, 2010, Dutro Company filed a claim against the Company seeking full payment of the $250,000 promissory note plus interest.

On March 10, the Company was served notice that Dutro Company and Reality Engineering had filed a claim against the Company for collection of the fees owed Reality Engineering.

In April, 2010, the Company filed responses to the Dutro claims.

On July 8, 2010, The Company filed a claim against Dutro Company, Reality Engineering and all individuals included in the Dutro Group. The Company is seeking relief for the significant damages resulting from Dutro Group actions including breach of the Manufacturing agreement, breach of the promissory note, failure to perform on the Reality Engineering project, loss of patent rights due to Dutro actions, unauthorized use of confidential materials and other claims as they relate to interference with business, financial relational relationships causing delays and serious financial losses to the Company and investors.

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 $200,000 note payable plus accrued interest to Edward Johnson. The Note was originally due in February 2009 and extended to June 2009. The Company continued in discussions to work out payment arrangement after that period. Johnson filed a claim against the Company on February 8, 2010 to collect the debt plus interest.

In June 2010, The Company and Johnson have agreed to assign the loan to a 3rd party via a securities purchase and assignment agreement in an effort to pay Johnson for his loan plus agreed interest. It was agreed that the balance including accrued interest was $226,615. This balance is final if paid in full on or before July 31, 2010. Any unpaidbalance after July 31, 2010 will accrue interest at an annual rate of 6%. Through this assignment process, the Company will provide common shares to the purchaser of the note. As of July 10, 2010, a total of $140,000 has been paid toward the balance due Johnson. The remaining balance of $86,615 is expected to be paid in full on or before July 31, 2010.

The parties have agreed to halt all legal proceedings while the payment process is conducted. Upon full payment, the claim will be withdrawn and all parties will be released from any further current or future claims regarding this matter.

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 at that time was approximately $16,000. This amount was treated as pre-acquisition debt and included in accounts payable. The Company has been informed of an agreement that was signed on November 13, 2007 (pre-acquisition) that the consultant argues that carried a promissory note arrangement should the fees not be paid within a specific time period. Under the promissory note, additional compensation may be due. The consultant claims that they are entitled to over 3 million shares of common shares of the Company to fulfill their obligation. The Company reviewed the details of the claims presented by the consultant and has rejected their claims.

The Consultant's attorney provided an e-mail of a complaint that he filed in a court in San Diego, CA. on October 16, 2009. The Company Registered Agent was served regarding the Complaint on October 20, 2009. The Company disagrees with the consultant claims and argues that the benefits requested are far in excess of any reasonable benefits that should be due if the original $16,000 fees can be validated. There is no signed promissory note contained in any agreement. Nor is there any signed promissory note contained in the claim documentation that was filed. The Company will vigorously argue against any claims presented by the consultant in this matter. An attorney has been engaged to respond to the claim filed on October 16, 2009.

The attorney filed a response on November 19, 2009 and requested that the case be removed to Federal Court in an effort to better protect the Company from frivolous claims that may be asserted by the consultant. Federal Court has met with the parties in an attempt for settlement. No such settlement was reached. The Court has established procedural deadlines at various dates throughout 2010 and a final date for all motions to be made on or before February 18, 2011. A mandatory settlement conference is scheduled for October 12, 2010.

Based on the facts of the case, the Company believes that sufficient reserves are included in the financial statements for exposures for this case.

Syptec, Inc.

Syptec, Inc. was engaged by Sector 10 Holdings, Inc. and Sector 10 Connex, Inc. (a company owned by Sector 10 Holdings) to provide administration services for the system network. The network was transferred from Holdings to the Company in May 2009 along with the administration.

The Network is not in service as of March 31, 2010. The Company has determined that the performance of the administrator has been inadequate and the administration agreement was cancelled. The performance issues have resulted in various disagreements with the administrator. As part of the termination, the Company has requested the return of all servers and related software and other equipment for deployment in other secure facilities with a new administrator. The administrator has not provided the return of the equipment at this stage. In addition, the administrator is seeking payment of fees and has filed a claim for $58,732 of fees due. Although the fees at issue are attributable to services for the Company, the claim was not filed against the Company.

The Company disagrees with the total fees but has recorded the full amount in the financial statements. The Company has disputed this claim and considering legal options to provide the transfer the equipment to anotheradministrator. The disputed fees include charges for consulting fees that are being challenged since the network is not in service. Removing the consulting fees included in the $58,732 and the consulting fees paid with the acquisition of the equipment, the Company has a credit balance of approximately $4,000.

Syptec filed a claim on March 17, 2009 for collection of the $58,732. The claim was not received until April 26, 2009. The Company has filed a counterclaim stating that the fees are not due and to request return of all equipment that was under the control of the administrator. No action has resulted in this case and case is still pending. It is our understanding that the claimant is having financial difficulties which may cause delays in the proceedings.

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, 2010, 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 August 25, 2008, approving the Certificate of Amendment to the Certificate of Incorporation of the Company, pursuant to the authorization of the reverse stock split. The Company received correspondence from the Securities and Exchange Commission that required the Company to hold off on any further actions related to the reverse stock split until a no further comment letter was received from the SEC regarding the Pre 14C filed on August 25, 2008. The no further comment letter was received on January 6, 2009. Additional shareholder approval was received on April 22, 2009. A Definitive 14C was filed on April 24, 2009 regarding the amendments for the reverse stock split. The reverse stock split was effective on May 19, 2009. Due to the reverse stock split, the Company trading symbol was changed to SECI effective May 19, 2009.

PART II

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

The Company's Common Stock trades on the Over the Counter Bulletin Board under the symbol SECI.OB. 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 June 30, 2009, the Company had approximately 185 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, 2009 until March 31, 2010. The dates represent the last trading date for the respective month:

Date	Open	High	Low	Close	Volume	Adj. Close
2010-03-31	0.06	0.06	0.05	0.06	124,600	0.06
2010-02-26	0.07	0.14	0.07	0.12	6,614,900	0.12
2010-01-29	0.11	0.11	0.10	0.10	40,000	0.10
2009-12-31	0.18	0.22	0.18	0.19	1,191,300	0.19
2009-11-30	0.08	0.08	0.08	0.08	5,000	0.08
2009-10-30	0.10	0.10	0.10	0.10	0	0.10
2009-09-30	0.12	0.12	0.12	0.12	14,700	0.12
009-08-31	0.11	0.11	0.11	0.11	0	0.11
2009-07-31	0.17	0.17	0.17	0.17	1,700	0.17
2009-06-30	0.25	0.30	0.25	0.27	127,100	0.27
2009-05-29	0.19	0.20	0.15	0.20	10,900	0.20
2009-04-30	0.30a	0.30a	0.30a	0.30a	20,000	0.30a
2009-03-31	0.30a	0.30a	0.30a	0.30a	12,000	0.30a

Note (a): The Company completed a reverse stock split on May 19, 2009. The information for March and April 2009 in the above table have been adjusted to reflect the impact of the reverse stock split.

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, the ability to deliver products to customers has been delayed. The Company is dependent will need outside funding from the sale of shares or debt financing in order to continue operations beyond that point. The Company is currently negotiating a line of credit facility that is expected to provide sufficient funding for the next fiscal year.

The Company anticipates that it will acquire additional furniture and computers during the next twelve months. Any acquisitions would be furniture and computers for new personnel that may be hired and potential costs associated with relocation of corporate offices.

As of June 30, 2010, 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

Two other employees (COO and Director of Business Development had employment agreements that began in April/May 2009. The employment relationship and underlying employment agreements were either suspended or severed as of December 31, 2009. They are not considered employees as of the fiscal year ended March 31, 2010.

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 top 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 3rd quarter of the fiscal year ended March 31, 2011. Our independent registered public accounting firm issued a report on their audit of our financial statements for the fiscal year ended March 31, 2010. Our notes to the financial statements disclose that the cash flow of the Company has been absorbed in operating activities and has incurred net losses for the fiscal year, 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. The independent registered public accounting firm's report contains an explanatory paragraph indicating that 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 read the independent registered public accounting firm's report and examine our financial statements.

Results of Operations for the year ended March 31, 2010 as compared to the year ended March 31, 2009.

Revenues -

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

The Company had net initial revenues of $18,500 for the fiscal year ended March 31, 2009 consisting of total sales of $37,000 less customer deposits of $18,500. The deferred revenue was recognized to account for the product sales that were not shipped by the fiscal year ended March 31, 2009.

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Other Income-

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

The company had other income of $517,200 for the period ended June 30, 2008. The income was a result of the difference in the value of the shares provided in the conversion of debt to equity. No other income was reported during the fiscal year ended March 31, 2009.

Cost of Sales -

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

The Cost of Sales associated with the sales for this period was $18,032 which was approximately $1,900 per MRU unit and $10,000 per SRU-M unit plus shipping. Cost of sales, inventory and other manufacturing costs were determined under an outsourced manufacturing agreement.

General and Administrative Expenses -

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.

General and administrative expenses were $1,023,058 for the fiscal year ended March 31, 2009. These expenses are made up of professional fees – investor relations – $556,458, expense allocation from Sector 10 Holdings of $120,000, other professional fees of $99,858, wages of $75,000, R&D expenses of $64,772, network and computer fees of $58,859, director fees of $15,000 and other expenses of $33,111.

Depreciation Expense –

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

Depreciation expense was $4,450 for the fiscal year ended March 31, 2009.

Interest expense

The Company had interest expense of $51,310 for the year ended March 31, 2010. The Company had interest expense of $22,935 for the year ended March 31, 2009.

Other expense

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.

The Company had on other expense for the fiscal year ended March 31, 2009.

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Liquidity and Capital Resources

Cash and cash equivalents -

We believe our bank balance of $70 with a deficit in working capital of $1,391,085 as of March 31, 2010 is not sufficient to meet our working capital requirements for the coming year.

Total assets -

We currently have $968,520 in total assets for the year ended March 31, 2010. Our total assets are comprised of Cash - $ 70, Inventory – $18,409, Prepaid Assets – 6,770, Net fixed assets - $12,090, and Network acquisition / development costs - $931,181. The network development and acquisition costs include the development costs 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 outside capital received is $735,500 as of the fiscal year ended March 31, 2010.

We expect to finance operations through the sale of equity and or debt financing. Additional capital arrangements have been established in the fiscal year ended March 31, 2011 which has generated funding and the purchase of certain existing notes payable. We anticipate that sales activity will begin in the fiscal year ended March 31, 2011. Sales activity is expected to generate sufficient cash flow to fund the ongoing operations of the business. There is no guarantee that we will be successful in arranging financing on acceptable terms or that future sales activity will be sufficient for funding operations.

The Company is currently negotiating a credit facility with various investors that is expected to provide sufficient funding for the next fiscal year. Various funding transactions are expected to close over the next several months. Obtaining additional financing would be subject to a number of factors, including investor sentiment. Market factors may make the timing, amount, terms or conditions of additional financing unavailable to us.

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, 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.

Current and total liabilities as of March 31, 2009 were $908,406. The balance was composed of accounts payable and accrued liabilities of $400,152, Note payable to outside investors of $451,000, deferred revenue of $18,500 and interest and funding advances from Sector 10 Holdings and Peric DeAvila of $38,754.

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. The Notes Payable to Vicki Davis Living Trust and William Dutro were finalized in June 2009 and resulted from funding received through the fiscal year ended March 31, 2009. No loan agreement was in place at the end of the prior fiscal year. Dutro Company represents a settlement of all prior R&D expenses which was agreed in August 2009.
There were no long term liabilities as of March 31, 2009

Total liabilities as of March 1, 2010 were $1,899,334. Total liabilities as of March 31, 2009 were $908,406.

Cash flows -

Sources and Uses of Cash	Year Ended March 31, 2010	Year Ended March 31, 2009
Net cash provided by / (used in)		
Operating activities	$ (48,218)	$ (64,832)
Investing activities	-	(147,995)
Financing activities	13,272	247,843
Increase/(decrease) in cash and cash equivalents	$ (34,946)	$ 35,016
Years ended March 31, 2010 and 2009		
Cash and cash equivalents	$ 70	$ 35,016

Operating Activities -

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.

Cash used in operations for the year ended March 31, 2009 was $64,832. This included a loss from operation of $532,775, stock issued for services of $546,708, adjustment for non-cash gain in restructuring of $517,200, change in accounts receivable of $2,000, change in inventory of $18,409, a change in deposits of $10,000, a net change in accounts payable and accrued liabilities of $445,894, change in deferred revenue of $18,500 and an adjustment for non cash depreciation expense of $4,450.

Investing Activities -

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

Investing Activities include current year additions to the Network Acquisition / Development Costs of $147,995 for the year ended March 31, 2009.

Financing Activities -

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.

Cash provided in financing activities for the year ended March 31, 2009 was $247,843. This was comprised of note payable from outside investors of $451,000, net advances from related parties including Sector 10 Holdings / Peric DeAvila of $202,465 and a net bank overdraft reversal of $692.

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, 2010. 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. New outsourced manufacturers have been identified and nonexclusive manufacturing agreements are under negotiation with multiple manufacturing concerns for the production of all Sector 10 products. Much of the consumable medical supplies included in the MRUs are obtained from a limited number of distributors. Although alternative sources of supply may be available, the Company would likely experience operational disruptions if it were unable to obtain its products or related supplies from existing suppliers. Furthermore, the Company might incur significant unanticipated costs in engaging new suppliers. Because production of Sector 10 products requires specialized equipment, the Company would likely experience delay in switching to an alternative manufacturer.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Sector 10, Inc.
(A Development Stage Company)
Bluffdale, Utah

We have audited the accompanying consolidated balance sheets of Sector 10, Inc. (A Development Stage Company) as of March 31, 2010 and 2009, and the related consolidated statements of operations, stockholders equity (deficit) and cash flows for the years ended March 31, 2010 and 2009 and from inception of the development stage on September 16, 2002 through March 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sector 10, Inc. as of March 31, 2010 and 2009, and the results of their operations and their cash flows for the years ended March 31, 2010 and 2009 and from inception of the development stage on September 16, 2002 through March 31, 2010, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment about the effectiveness of Sector 10, Inc.'s internal control over financial reporting as of March 31, 2010 and, accordingly, we do not express an opinion thereon.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 10 to the consolidated financial statements, the Company has a working capital deficit. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 12. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ HJ & Associates, LLC
Salt Lake City, Utah
July 21, 2010

Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS
For the Years Ended March 31, 2010 and 2009

	March 31, 2010	March 31, 2009
ASSETS		
Current assets:		
Cash	$70	$35,016
Accounts receivable	-	2,000
Inventory, net	18,409	18,409
Prepaid assets	6,770	37,291
Total current assets	25,249	92,716
Fixed Assets:		
Furniture	9,182	9,182
Computers	13,068	13,068
Total fixed asset cost	22,250	22,250
Less: accumulated depreciation	(10,160)	(5,710)
Net fixed assets	12,090	16,540
Other assets:		
Deposits	-	10,000
Network acquisition/development costs	931,181	1,147,995
Total other assets	931,181	1,157,995
Total assets	$968,520	$1,267,251

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

Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS
For the Years Ended March 31, 2010 and 2009

	March 31, 2010	March 31, 2009
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$1,143,308	$400,152
Deferred revenue	-	18,500
Note payable - short term	252,500	451,000
Note payable – officer / shareholder	20,526	38,754
Total current liabilities	1,416,334	908,406
Long term liabilities:		
Note payable	483,000	-
Total long term liabilities	483,000	-
Total liabilities	1,899,334	908,406
Shareholders' equity (deficit)		
Preferred shares - $0.001 par value; 1,000,000 authorized, no shares issued or outstanding		
C Common shares - $0.001 par value; 199,000,000 authorized; 42,693,268 and 10,143,530 shares issued and outstanding, respectively	42,693	10,144
Additional paid- in-capital	4,274,432	1,009,008
Deficit accumulated during the development stage	(5,247,939)	(660,307)
Total shareholders' equity (deficit)	(930,814)	358,845
Total liabilities and shareholders' equity	$968,520	$1,267,251

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

Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended March 31, 2010 and 2009 and for the Period From Inception, September 16, 2002 to March 31, 2010

	Years Ended March 31, 2010	Years Ended March 31, 2009	Inception to March 31, 2010
Sales			
Cost of Sales	$-	$ 18,500	$18,500
Gross Profit	-	(18,032)	(18,032)
	-	468	468
Expenses:			
General and administrative	4,153,722	958,286	5,234,465
Depreciation	4,450	4,450	10,160
Research & development	161,336	64,772	226,108
Total expenses	4,319,508	1,027,508	5,470,733
Income (loss) from operations	(4,319,508)	(1,027,040)	(5,470,265)
Interest expense	(51,310)	(22,935)	(78,060)
Other income: debt restructuring	-	517,200	517,200
Other expense: impairment loss	(216,814)	-	(216,814)
Net Income (loss) before income taxes	(4,587,632)	(532,775)	(5,247,939)
Provision for income taxes	-	-	-
Net Income (loss) after income taxes	$(4,587,632)	$ (532,775)	$(5,247,939)
Weighted Average Shares Outstanding – basic and diluted	22,272,414	9,246,849	
Basic and diluted income (loss) per share			
Continuing Operations	$(0.20)	$ (0.06)	
Net Income (Loss)	$(0.20)	$ (0.06)	

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

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Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
For the period from September 16, 2002 (inception) through March 31, 2010

	Common stock (1) Shares	Amount	Additional Paid-In Capital	Deficit Accumulated During the Development Stage
Balance at Inception, September 16, 2002	-	$-	$ -	$ -
Issuance of common stock for cash	4,700,000	4,700	(1,325)	-
Issuance of common stock for services	300,000	300	(89)	-
Net loss from September 16, 2002 to December 31, 2002		-	-	(3,586)
Balance at December 31, 2002	5,000,000	5,000	(1,414)	(3,586)
Net loss		-	-	-
Balance at December 31, 2003	5,000,000	5,000	(1,414)	(3,586)
Net loss		-	-	-
Balance at December 31, 2004	5,000,000	5,000	(1,414)	(3,586)
Net loss		-	-	-
Balance at December 31, 2005	5,000,000	5,000	(1,414)	(3,586)
Net loss	-	-	-	-
Balance at March 31, 2006	5,000,000	5,000	(1,414)	(3,586)
Net loss	-	-	-	-
Balance at March 31, 2007	5,000,000	5,000	(1,414)	(3,586)
Recapitalization	2,732,030	2,732	(703,166)	-
Net loss	-	-	-	(123,946)
Balance at March 31, 2008	7,732,030	7,732	(704,580)	(127,532)
Issue shares on April 4, 2008 @$1.10 per share for investor relations services	304,000	304	334,096	-
Issue shares on May 8, 2008 @$1.10 per share for debt conversion	120,000	120	131,880	-
Issue shares on May 19, 2008 @$.80 per share for Network Ownership and Development rights transfer	1,250,000	1,250	998,750	-
Issue shares on November 3, 2008 @$.25 per share for investor relations consulting services	50,000	50	12,450	-
Issue shares on December 19, 2008 @$.30 per share for investor relations services	37,500	38	11,212	-
Issue shares on January 5, 2009 @$.40 per share for investor relations services	200,000	200	79,800	-
Issue shares on March 31, 2009 for extinguishment of related party payable at $.30 per share.	450,000	450	134,550	-
Gain on extinguishment of related party payable	-	-	10,850	
Net loss	-	-	-	(532,775)
Balance at March 31, 2009	10,143,530	$10,144	$1,009,008	$(660,307)

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Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

Common stock (1)		Additional	Deficit Accumulated
		Paid-In	During the Development
Shares	Amount	Capital	Stage