

SECTOR 10 INC
Form 10-K
February 13, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended March 31, 2011

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

Commission File No. 000-24370

Sector 10, Inc.

(Name of small business issuer in its charter)

Delaware
State or other jurisdiction of incorporation or
organization)

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

14553 South 790 West #C
Bluffdale, UT 84065

(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

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

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

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

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Business

Organization:

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

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

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

Summary:

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

Employees

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

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

ITEM 2 DESCRIPTION OF PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

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

Dutro Group, Dutro Company & Reality Engineering

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

Edward Johnson

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

Doty Scott

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

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

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

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

PART II

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

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

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

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

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

ITEM 6. SELECTED FINANCIAL DATA

None

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

Plan of Operation

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

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

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

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

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

Revenues -

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

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

Other Income-

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

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

Cost of Sales -

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

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

General and Administrative Expenses -

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

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

Depreciation Expense –

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

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

Interest expense

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

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

Other expense

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

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

Liquidity and Capital Resources

Cash and cash equivalents -

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

Total assets -

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

Working capital -

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

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

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

Liabilities -

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

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

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

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

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

Cash flows -

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

Operating Activities -

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

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

Investing Activities -

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

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

Financing Activities -

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

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

Critical Accounting Policies

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

Revenue -

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

Income Taxes -

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

Litigation -

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

Going Concern Qualification

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risks Related to our Business and Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 8. FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

Sector 10, Inc.

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

Year ended March 31, 2011

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

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

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

Note 1 - ORGANIZATION AND BUSINESS OPERATIONS

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 7,732,029 shares outstanding (adjusted for reverse stock split). 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.

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.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

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 consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Since the acquisition on November 20, 2007, there is no activity in the former SKRM company. All activity has been through the company known as Sector 10, Inc. The consolidation of these companies is presented in these financial statements

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

It is the Company's policy to invest cash with financial institutions judged to be highly secure. For purposes of the statement of cash flow, the Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

The Company extends credit to its customers in the normal course of business. The Company reviews outstanding receivables, and provides for estimated losses through an allowance for doubtful accounts. In evaluating the level of established loss reserves, the Company makes judgments regarding its customers' ability to make required payments, economic events and other factors. As the financial condition of these parties change, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required. The Company has no sales and no receivables outstanding for the fiscal year ended March 31, 2011. Due to the size of the sales and related receivables, no reserve was established for the current fiscal year. In the future, the Company expects to use 3rd party financing lease arrangements for many product sales that will minimize the need for providing credit to customers.

Inventory

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Inventory is comprised of finished products that the Company intends to sell to its customers and product demos that are used for presentations to customers. The demos are also available for sale. The Company uses an outsourced manufacturer to produce the product. There was no sales activity and therefore minimal inventory on hand at the fiscal year ended March 31, 2011. The Company will with the assistance of the outsourced manufacturer periodically makes judgments and estimates regarding the future utility and carrying value of its inventory. 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 years ended March 31, 2011 and 2010, the Company had a reserve of \$12,491

.Property and Equipment and Depreciation

Property and equipment are carried at historical cost less accumulated depreciation. The cost of maintenance and repairs is charged to income as incurred, whereas significant renewals and betterments are capitalized. The cost and the related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statement of income.

The Company provides for depreciation of property and equipment principally by use of the straight-line method for financial reporting purposes. Depreciation begins in the month that depreciable assets are placed in service. The only assets currently placed in service are computers and furniture and equipment. Computers and depreciable equipment

are estimated to have a useful life of 5 years. Depreciation is computed based on a straight line basis over the estimated useful life.

Notes Payable

Subsequent to the merger transaction on November 20, 2007, and through the fiscal year ended March 31, 2010 the Company received funding from both Sector 10 Holdings, Inc. (Majority Shareholder) and Pericles DeAvila (an Officer/Shareholder). In addition, the Company shares overhead expenses with Sector 10 Holdings through April 2009. Funding and/or disbursements transactions with the respective sources is accounted for in a separate account for Sector 10 Holdings, Inc. and Pericles DeAvila. The Company has imputed interest at 8% per annum.

Beginning in May 2008 and continuing through the end of the fiscal year March 31, 2011, the Company received funding from outside investors. The Company is currently being restructured in an effort secure new funding opportunities.. No additional funding is expected until at least during the fiscal year ended March 31, 2013.

Contingencies

We account for loss contingencies in accordance with ASC 450 (SFAS No. 5), "Accounting for Contingencies." Accordingly, when management determines that it is probable that an asset has been impaired or a liability has been incurred, we accrue our best estimate of the loss if it can be reasonably estimated. Our legal costs related to litigation are expensed as incurred.

Income Tax

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss, 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 basis. 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 the tax laws and rates on the date of enactment.

Loss Per Share

In accordance with ASC 280 (SFAS No. 128), "Earnings Per Share," we report basic loss per common share, which excludes the effect of potentially dilutive securities, and diluted loss per common share, which includes the effect of all potentially dilutive securities unless their impact is anti-dilutive.

Share-Based Compensation

We may, from time to time, issue common stock, stock options or common stock warrants to acquire services or goods from non-employees. Common stock, stock options and common stock warrants issued to persons other than employees or directors are recorded on the basis of their fair value.

Long Lived Assets

The Company maintains a Long Lived Asset which is reviewed regularly for impairment. In its review for impairment, the Company prepares estimates of future cash flows to assist in the determination of the asset's recoverability. If there is an issue regarding recoverability, an independent valuation will be obtained to determine any required adjustment for impairment. The estimates used in determining for recoverability are updated by the Company on a regular basis to provide guidance for management's quarterly and annual reporting.

Revenue Recognition

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

Impact of Recent Accounting Pronouncements

Sector 10 does not expect the adoption of any recently issued accounting pronouncements to have a material impact on its financial condition or results of operations.

Note 3 – INVENTORY

There were no sales in the year ended March 31, 2011. Therefore, total inventory remains at \$18,409 for the year ended March 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 year ended March 31, 2011, the Company has a reserve of \$12,491.

In January 2011, the Distribution agreement with Sector 10, Holdings, Inc. was terminated as part of the Solar Tracer Acquisition. As part of the termination, the emergency response business assets and activity including inventory were transferred to Sector 10 Services USA, Inc. and the ownership of Sector 10 Services USA, Inc. was transferred to Sector 10 Holdings, Inc. On April 4, 2011, it was confirmed that the Solar Tracer transaction was cancelled by the parties representing Solar Tracer and First Diversified. Based on this information, the transfer of the inventory, fixed assets and network asset did not occur and the assets were retained by the Company as of March 31, 2011.

Note 4 – NETWORK ACQUISITION/DEVELOPMENT COSTS

The net Network Asset of \$931,181 remaining as of March 31, 2010 represents the net transfer costs from the original transfer from Sector 10 Holdings to Sector 10 Inc. in May 2009. The Network Asset is a long lived intangible asset that requires review for impairment on regular basis under ASC 350.

During the current fiscal year, operations of the Company have been hindered by the ongoing litigation involving the Dutro litigation and other litigation. The impact of the litigation has resulted in either lost sale opportunities or delays in the implementation of the Company products and services. Based on the litigation and its impact on the Company operations, the Company has adjusted the Network Asset to reduce the balance from \$931,181 to \$500,000. The adjustment of \$431,181 was treated as a loss due to impairment.

The fact that the asset is recorded at transfer cost rather than fair market value is critical in determining the impairment. The Company believes that future revenues will generate sufficient revenues and net cash flows to recover the remaining Network Asset of \$500,000 and thereby prevent any further adjustments to the Network Asset. 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 year ended March 31, 2011.

Note 5 – NOTES PAYABLE

Related Parties - Shareholder / Officer

Subsequent to the merger transaction on November 20, 2007, the Company received funding from both Sector 10 Holdings, Inc. (Majority Shareholder) and Pericles DeAvila (an Officer/Shareholder). This continued in the fiscal year ended March 31, 2009 and subsequent years. Funding and/or disbursements transactions with the respective sources is accounted for in a separate account for Sector 10 Holdings, Inc. and Pericles DeAvila. Payments during the period to Sector 10 Holdings, Inc included the distribution of the vehicle that was purchased in May 2010. The net asset transferred was \$17,439. Interest is charged on the account at a rate of 8% per annum. Total interest accrued during the year ended March 31, 2011 on the accounts was \$875 which was comprised of Pericles DeAvila - \$392 and Sector 10 Holdings - \$483. The accounts were closed on December 31, 2010 and the balance remaining to Pericles DeAvila of \$4,181 was transferred to accounts payable.

Johnson Financing

The loan is in default. An investor had been secured that has structured transactions to acquire the Ed Johnson note in installments in exchange for Company common shares. The agreed amount to payoff is \$226,615 which includes accrued interest of \$26,615. This payoff was valid through July 31, 2010. The total amount paid through July 31, 2010 was \$140,000 leaving a net balance of \$86,615. The net balance at July 31, 2010 continues to accrue interest at an annual rate of 6% until paid in full. Interest of \$3,745 was accrued after July 31, 2010 on the unpaid \$86,615 balance. Due to changing market conditions, the investor used to assist in payoff of the note was unable to make further payments. The note collection and other issues are pending under litigation and no further payments are expected until such litigation is resolved. The litigation is not expected to be resolved until at least during the fiscal year ended March 31, 2013.

The accrued interest of \$26,615 was transferred to notes payable in order to account for the agreed remaining balance of \$86,615. The interest accrued from August 1, 2010 through the year ended March 31, 2011 was \$3,745.

Dutro Financing:

All Dutro Group promissory notes are treated as long term notes payable. All notes expire on May 31, 2014. Interest is accrued at an annual rate of 7.5%. Interest is payable quarterly. Total interest expense for the Dutro Group for the year ended March 31, 2011 is \$36,225.

Due to the pending litigation involving all members of the Dutro Group, no interest payment was made in October and no future interest payments are expected to be made until the litigation is resolved. All accrued but unpaid interest associated with the Dutro Group has been recorded as contingent reserve – interest and included in accounts payable. 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. Total contingent reserve - interest for the year ended March 31, 2011 is \$44,054 comprised of Dutro Company - \$30,948, Vick Davis - \$9,450 and William Dutro - \$ 3,656.

Employee Agreement:

On February 26, 2010, the CEO and CFO executed employment agreements with the Company which cover the period through the end of the fiscal year ended March 31, 2016. Due to the limited cash flows of the Company, the officers have not received any significant payments as required under their agreements. The majority of the compensation under the agreements remains accrued but unpaid. The agreements include the following provision:

The financial statements reflect an accrual of interest on unpaid wages and other compensation in the amount of \$41,432 all of which is accrued during the year ended March 31, 2011. As of March 31, 2011, no election has been made to convert any portion of the balance due under the agreement to common shares.

Other Notes

Individuals – short term

In order to generate short term funding, the Company provided individual investors with an opportunity to receive common shares equal to their investment plus a promissory note to return principal within 180 days. Interest is accrued at an annual rate of 8%. A conversion option is provided at the end of the term to provide the investor with a right to convert all or a portion of the principal into common shares of the Company. The agreement further provides the issuance of warrants to provide the investor with subsequent opportunities to acquire Company common shares. The short term funding program was initially offered in September 2009. A total of \$52,500 (including \$31,500 cash and \$21,000 non-cash benefits) was received under this program under 4 different notes issued on or before December 31, 2009. An additional \$20,000 was received during the year ended March 31, 2011 and 1 additional note for \$17,000 with the same terms as the other individual notes was assumed in settlement for dilution with the Company shareholder. The Company has elected to extend the notes until March 31, 2011 and have verbal understanding that the notes may be extended further. No payment was made on the notes by March 31, 2011. Total interest accrued as of March 31, 2011 was \$7,133 of which \$5,608 was accrued during the year ended March 31, 2011.

Calm Seas Capital, LLC

A term sheet was signed with Calm Seas, LLC on March 12, 2010 to provide bridge funding. On April 28, 2010, \$10,000 in funding was received from Calm Seas Capital. No other funding has been received. In accordance with the terms of the agreement, interest is accrued at an annual rate of 10% on the amount of funds received. Total interest accrued as of September 30, 2010 was \$422 of which \$422 was accrued during the year ended March 31, 2011.

On September 2, 2010, the Company sent a letter to Illuminated Financial Corp, a major partner in Calm Seas, demanding performance under their obligations on or before September 20, 2010. If no performance is received, the Company demanded the return of all fees paid to Illuminated and related parties. Total returned fee request was \$375,000. No performance occurred during the period ended September 30, 2010 and no fees were returned as of March 31, 2011. The Company has transferred the \$10,000 note payable due to Calm Seas to a contingent reserve pending settlement with the Calm Seas' principals and Illuminated Financial. No further interest shall be accrued on the former note payable during the settlement period. No response has been received as of the filing date of this report.

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%

After 90 days, each respective note may be converted at anytime to Sector 10, Inc. common shares. The conversion price is determined as the market price multiplied by the applicable percentage. The market price is defined as the average 3 lowest trading prices during the 10 day trading period ending one day before the conversion notice was sent to the Company via fax ("Conversion Date"). Trading Price means the closing bid price on any day on the over the counter bulletin board. The applicable percentage shall equal 42%. The investor shall be limited to convert no more than 4.99% of the issued and outstanding shares at the time of the conversion. Asher elected to convert the full \$53,000 balance of the Note Payable dated April 30, 2010 prior to March 31, 2011 and additional conversion of \$2,120 of accrued interest in the note fully converted. Asher elected to convert a total of \$10,000 of the Note Payable dated May 26, 2010 prior to March 31, 2011 and additional conversion of \$7,000 on April 7, 2011 and \$6,000 on May

5, 2011. No other conversions have been elected as of February 3, 2012.

As part of the transaction, the Company was required to pay legal fees for document preparation. The funds were withdrawn from the loan proceeds. In addition, the Company has a financing fee arrangement to pay 10% of the funds raised to the referral source.

The following summarizes the funding received from Asher Enterprises, Inc. through various transactions through the year ended March 31, 2011:

Transaction Date	Total Funding	Legal Fees	Financing Fee	Net funds	Date Received
April 30, 2010	\$ 53,000	\$ 3,000	\$ 5,300	\$ 44,700	May 10, 2010
May 26, 2010	\$ 30,000	\$ 2,500	\$ 2,700	\$ 24,800	June 2, 2010
July 8, 2010	\$ 30,000	\$ 2,500	\$ 2,700	\$ 24,800	July 16, 2010
December 9, 2010	\$ 32,500	\$ 2,500	\$ 2,800	\$ 27,200	December 15, 2010
Total	\$ 145,500	\$ 10,500	\$ 13,500	\$ 121,500	

ASC 470-20 requires that issuers of applicable convertible debt shall separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when a beneficial conversion feature is embedded in the convertible debt instrument. The value of the embedded beneficial conversion feature in the current transaction is the difference between the fair value of the stock price at commitment date and the conversion price in the note.

The books have reflected the notes payable for Asher for the year ended March 31, 2011 in the amount of \$82,500. This does not reflect any adjustment for discounts for a beneficial conversion option. Under ASC 470-20-25-5, we have computed the intrinsic value of the beneficial conversion feature for each note as follows:

\$53,000 Note:

The firm commitment on April 30, 2010 was based on stock prices as of the close on April 29, 2010 when the stock price was \$.04. The conversion price provided a 42% discount on the market price at the time of conversion which is considered a beneficial conversion feature under ASC 470-20. The discount was valued at \$38,400 to reflect the impact of the market discount and to record the value of the beneficial conversion feature. The discount shall be amortized over the 9 month period of the note starting in May 2010. Monthly amortization equals \$4,267 (38,400/9). The corrected discount was computed at \$38,400. All accumulated amortization has been adjusted to the new discount at December 31, 2010. The total note was converted in the fiscal year ended March 31, 2011. The unamortized discount attributed to the portion of the discount was amortized at the time of the conversion. Total amortization in the year ended March 31, 2011 was \$38,400 which was reflected as interest expense.

\$30,000 Note:

The firm commitment on May 26, 2010 was based on stock prices as of the close on May 25, 2010 when the stock price was \$.07. The conversion price provided a 42% discount on the market price at the time of conversion which is considered a beneficial conversion feature under ASC 470-20. The discount was valued at \$21,700 to reflect the impact of the market discount and to record the value of the beneficial conversion feature. The discount shall be amortized over the 9 month period of the note starting in June 2010. Monthly amortization equals \$2,411 (21,700/9). A total of \$10,000 of the note was converted prior to the fiscal year ended March 31, 2011 and \$13,000 was converted subsequent to the year end March 31, 2011. The discount amortization was fully amortized in the year ended March 31, 2011 was \$21,700 which was reflected as interest expense.

\$30,000 Note:

The firm commitment on July 8, 2010 was based on stock prices as of the close on July 7, 2010 when the stock price was \$.06. The conversion price provided a 42% discount on the market price at the time of conversion which is considered a beneficial conversion feature under ASC 470-20. The discount was valued at \$21,724 to reflect the impact of the market discount and to record the value of the beneficial conversion feature. The discount shall be amortized over the 9 month period of the note starting in July 2010. Monthly amortization equals \$2,414 ($21,724/9$). Total amortization in the year ended March 31, 2011 was \$20,557 which was reflected as interest expense

\$32,500 Note:

The firm commitment on December 9, 2010 was based on stock prices as of the close on December 8, 2010 when the stock price was \$.01. The conversion price provided a 42% discount on the market price at the time of conversion which is considered a beneficial conversion feature under ASC 470-20. The discount was valued at \$23,500 to reflect the impact of the market discount and to record the value of the beneficial conversion feature. The discount shall be amortized over the 9 month period of the note starting in December 2010. Monthly amortization equals \$2,611 ($23,500/9$). Total amortization in the year ended March 31, 2011 was \$9,602 which was reflected as interest expense

The discount for the four notes was valued at \$105,324 (\$38,400+\$21,700+\$21,724+\$23,500) is accounted for as a discount to the outstanding debt of this note with an equal amount equal to that discount recorded in additional paid-in capital at the time of the issuance. The discount is amortized as interest expense (non-cash) over the life of the note. Each note has a life of 9 months. Total amortization of discount during the year ended March 31, 2011 was \$90,259. The net discount remaining after amortization is \$15,065 (\$105,324-\$90,259).

During the year ended March 31, 2011, Asher Enterprises made 5 elections to fully convert the note payable dated April 30, 2010 and made 1 election to convert a portion of the note payable dated May 26, 2011 which may be summarized as follows:

Conversion of Asher Debt - Note
Payable Dated April 30, 2010

Conversion Date	Loan	Interest	100% stock price	Conversion rate	Shares at discount
Beginning Loan Balance	53,000				
11/16/2010 #1	7,500		0.0340	0.0130	576,923
12/1/2010 #2	10,000		0.0200	0.0095	1,052,632
12/22/2010 #3	10,000		0.0178	0.0065	1,538,462
1/10/2011 #4	15,000		0.0180	0.0045	3,333,333
2/23/2011 #5	10,500		0.0110	0.0030	3,500,000
2/23/2011 Interest		2,120	0.0110	0.0030	706,667
Balance at 3/31/2011	0	2,120			6,833,333

Conversion of Asher Debt - Note
Payable Dated May 26, 2010

Conversion Date	Loan	Interest	100% stock price	Conversion rate	Shares at discount
Beginning Loan Balance	30,000				
3/28/2010 #6	10,000		0.0040	0.0022	4,545,455
Balance at 3/31/2011	20,000	0			4,545,455

Total interest accrued (without discount amortization) as of December 31, 2010 was \$7,365 of which \$7,365 was accrued during the year ended March 31, 2011. Of the amount accrued, a total of \$2,120 interest was paid as part of the full conversion of note payable dated April 30, 2010.

Mazuma Funding Corp

On June 21, 2010, Mazuma Funding Corp has agreed to purchase all or portions of the amount due on the Ed Johnson Note dated May 11, 2008 through various installment transactions. Johnson has agreed to fix the payment of the amount due including interest at \$226,615. This amount is valid if paid in full on or before July 31, 2010. Any unpaid balance remaining after July 31, 2010 will accrue interest at an annual rate of 8%. Purchase and Assignment Agreement for each installment portion of the note was (or will be) signed by all parties including Mazuma, Johnson and the Company. 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.

The following summarizes the Mazuma Funding Corp. Purchase of Ed Johnson Note closed during the year ended March 31, 2011:

Transaction Date	Amount Purchased	Conversion Rate per share	Common Shares issued	Net Balance of Johnson Note
Beginning Balance				\$ 226,615
June 21, 2010	\$ 55,000	\$.0423	1,300,000	\$ 171,615
July 1, 2010	\$ 40,000	\$.04	1,000,000	\$ 131,615
July 8, 2010	\$ 45,000	\$.03	1,500,000	\$ 86,215

The June 21, 2010 transaction was the only transaction that closed during the period ended June 30, 2010. Under the terms of the agreement, the note received upon the purchase of the applicable portion of the Ed Johnson note was immediately converted to common shares of the Company at the agreed conversion rate. The note was recorded as converted to capital and no interest is accrued on any portion of the transaction.

ASC 470-20 requires that issuers of applicable convertible debt shall separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when a beneficial conversion feature is embedded in the convertible debt instrument. The value of the embedded beneficial conversion feature in the current transaction is the difference between the fair value of the stock price at commitment date and the conversion price in the note.

\$55,000 Note

The fair value at the commitment date was \$.07 per share. The authorized conversion rate was \$.0423. The difference valued at \$36,000 is accounted for as a discount to the outstanding debt of this note with an amount equal to that discount recorded in additional paid-in capital at the time of the issuance. The discount is amortized as interest expense (non-cash) over the life of the note. Since the note was converted immediately, the full discount of \$36,000 was recognized as interest expense during the year ended March 31, 2011.

\$40,000 Note

The fair value at the commitment date was \$.06 per share. The authorized conversion rate was \$.04. The difference valued at \$20,000 is accounted for as a discount to the outstanding debt of this note with an amount equal to that discount recorded in additional paid-in capital at the time of the issuance. The discount is amortized as interest expense (non-cash) over the life of the note. Since the note was converted immediately, the full discount of \$20,000 was recognized as interest expense during the year ended March 31, 2011.

\$45,000 Note

The fair value at the commitment date was \$.06 per share. The authorized conversion rate was \$.03. The difference valued at \$45,000 is accounted for as a discount to the outstanding debt of this note with an amount equal to that discount recorded in additional paid-in capital at the time of the issuance. The discount is amortized as interest expense (non-cash) over the life of the note. Since the note was converted immediately, the full discount of \$45,000 was recognized as interest expense during the year ended March 31, 2011.

Total other notes include information for the individual short term notes, Calm Seas Capital, Asher Enterprises and Mazuma Funding Corp. Total interest accrued (without regard to discount) as of March 31, 2011 was \$14,921 of which \$13,396 was accrued during the year ended March 31, 2011.

S-8 Option Exercise

A Form S-8 Registration statement was filed on July 13, 2010. The S-8 registration statement covers options to key officers, directors and consultants for up to 16,000,000 shares of common stock that may be issued pursuant to three types of option awards granted outside of the registrant's stock option plans (the "2010 Special Stock Option Awards"): (i) option awards granted to certain members of senior management and consultants of the registrant to purchase up to an aggregate of 12,000,000 shares of common stock of which 4,000,000 are exercisable at \$0.03 and 4,000,000 are exercisable at \$0.06 and 4,000,000 are exercisable at \$0.09 (ii) stock grant for 4,000,000 shares.

As part of a legal retainer agreement, Ronald Kaufman and or his firm was entitled to receive options under the S-8. Mr. Kaufman contributed \$30,000 to the Company in an exercise of a \$.03 per share option as provided under the S-8 registration. As a result of the exercise, 1 Million shares were issued on July 13, 2010. At the time of issuance, the market value of the common shares was \$.07 per share. The difference between the market value (\$.07) and the exercise price (\$.03) was recorded as legal services. The total additional amount was computed as \$40,000 (\$.04 share price differential x 1 Million shares). This amount was recorded to legal expense and to additional paid in capital.

Summary of Interest and Notes Payable

	March 31, 2011	March 31, 2010
Interest expense		
Sector 10 Holdings, Inc. – Shareholder	\$ 483	\$ 696
Pericles DeAvila – Officer	392	530
Total related party interest expense	875	1,226
Interest – Johnson	5,395	13,000
Interest – Dutro Group	36,225	30,010
Interest - Employee Group	41,432	5,549
Interest – Other Notes	13,395	1,525
Total interest expense without amortization of discount	97,322	51,310
Interest – Amortization of Discount on Asher Enterprises, Inc. Note(s)	90,259	-
Interest – Amortization of Discount on Mazuma Funding Note	101,000	-
Total interest expense	\$ 288,581	\$ 51,310

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Note Payable Balance	March 31, 2011	March 31, 2010
Sector 10 Holdings, Inc. – Shareholder	\$ -	\$ 13,737
Pericles DeAvila – Officer	-	6,789
Total Note Payable – Officer / Shareholder	\$ -	\$ 20,526
Edward Johnson – Johnson Financing	\$ 86,615	\$ 200,000
Patrick Madison – Other Notes	20,000	15,000
Lionel Brown – Other Notes	20,000	7,500
Patricia Fielding – Other Notes	22,000	20,000
Mark Madison – Other Notes	10,000	10,000
Richard Long – Other Notes	17,000	-
Asher Enterprises, Inc. – Other Notes	82,500	-
Total Note Payable – short term without discount	258,115	252,500
Net Discount on Convertible Notes (Asher)	(15,065)	-
Total Note Payable – short term	\$243,050	\$ 252,500
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	\$726,050	\$ 756,026

Debt Maturity Schedule

As of March 31, 2011, the annual maturities for notes payable are scheduled as follows:

Fiscal Year	Amount
March 31, 2011	\$ 180,550
March 31, 2012	62,500
March 31, 2013	-
March 31, 2014	-

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March 31, 2015	483,000
Total	\$ 726,050

In order to meet the appropriate maturity schedules, the Company is working with the applicable lenders to either extend terms or workout satisfactory payment arrangements.

Note 6 – EQUITY

During the Quarter ended: June 30, 2009:

In April 2009, John Gargett was added to the Board of Directors and was later hired to be the Company COO. In accordance with an employment agreement dated April 24, 2009, Mr. Gargett received 50,000 shares of Common stock for joining the Board of Directors and received 50,000 shares of stock under the terms of the employment agreement. The employment agreement provides for Mr. Gargett to receive an additional 150,000 shares of common shares in 50,000 share installments due on July 1, 2009, September 1, 2009 and November 1, 2009. The shares for July 1, 2009 were requested to be issued by the transfer agent in accordance with this agreement. The shares for September 1, 2009 and November 1, 2009 were issued in December 2009.

In April 2009, the Company issued at total of 27,500 common shares as follows: 25,000 shares to Layne Davis and 2,500 shares to his son Layne Davis. These shares were issued in consideration for product design work performed in the development of Sector 10 MRU and SRU design through the Dutro Company. No other obligations or consideration is expected.

In April 2009, 37,500 shares were issued to QualityStocks, LLC in accordance with the terms of an Investor Relations Agreement. No additional equity is required under the terms of the agreement.

In April 2009, Illuminated Financial received 25,000 of newly issued restricted stock from the Company. In addition, Sector 10 Holdings, Inc. transferred 250,000 free trading shares to Illuminated for services rendered to the Company. New shares were issued to Sector 10 Holdings, Inc. to replace the shares transferred on behalf of the Company. The 250,000 shares were issued during the period ended September 30, 2009. The value of the shares was determined to be \$77,500. This amount was accrued as a future stock award. When the shares are issued, the accrual will be adjusted to additional paid in capital.

In May 2009, Patrick Love was hired as Director of Business Development for the Company. In accordance with the terms of his employment agreement, he received 10,000 common shares. The employment agreement provides for Mr. Love to receive an additional 40,000 shares of common shares in 10,000 share installments due on July 1, 2009, October 1, 2009, January 1, 2010 and April 1, 2010. The shares for July 1, 2009 were requested to be issued by the transfer agent in accordance with this agreement. The shares for October 1, 2009 were issued in December 2009. The employment agreement was terminated on December 31, 2009, the remaining shares due in January 1, 2010 and April 1, 2010 were not issued due to the termination of the agreement.

In May 2009, the Board of Directors authorized the issuance of 900,000 shares to officers and directors for prior services. The shares were issued based on services performed on or before March 31, 2009. The shares were authorized on May 1, 2009.

In May 2009, the Board of Directors authorized the issuance of 150,000 shares to directors (on the Board as of April 1, 2009) for Board services for the fiscal year ended March 31, 2010. This adjustment was completed to be consistent with the stock issued for the new director added in April 2009. The shares were authorized on May 1, 2009.

In May 2009, the Company affected a 1 to 10 reverse stock split. Total outstanding shares at the time of the split was 103,435,292 shares. Total shares outstanding after the reverse split was 10,343,573. Approximately 43 shares were issued in the split to account for fractional shares. All shares noted in this report are reflected as post split amounts.

During the Quarter ended: September 30, 2009:

In July 2009, the Company issued 50,000 shares to John Gargett in accordance with the requirements set forth in his employment agreement. The shares were required to be issued based on his employment as of July 1, 2009.

In July 2009, the Company issued 10,000 shares to Patrick Love in accordance with the requirements set forth in his employment agreement. The shares were required to be issued based on his employment as of July 1, 2009.

In September 2009, issued a total of 50,000 shares - 25,000 shares to John McCloskey and 25,000 shares to Hugh Cholmondeley for their acceptance as members of the Company Board of Advisors. The membership was accepted in July 2009.

In September 2009, issued 1,050,000 shares to officers and directors for past services rendered and for current director services. The shares were authorized on May 1, 2009 by the Board. Shares were allocated as follows: Pericles DeAvila – 550,000 shares, Laurence A Madison – 400,000 shares and Alan Rouleau – 100,000 shares.

In September 2009, issued 5,000 shares to John Ketcham for services in connection with R&D and development of manufacturing specs of all Sector 10 products.

In September 2009, issued 15,000 shares to Patrick Madison in connection with short term promissory note agreement dated September 14, 2009

In September 2009, issued a total of 270,834 shares to Sector 10 Holdings for reimbursement for shares provided to Illuminated Financial Services and Moody Capital on behalf of the Company.

During the Quarter ended: December 31, 2009:

In November 2009, the Company issued 1,554,000 shares to Sector 10 Holdings, Inc. in accordance with anti dilution provision for transaction closed on or before November 1, 2009.

In November 2009, the Company issued 11,363,636 shares to Mariennie & Associates and assignees. The issue was based on conversion of \$1,144,000 of distribution fee in accordance with provisions under Distribution Agreement between Sector 10 Holdings, Inc. and Sector 10, Inc.

In November 2009, the Company issued shares 13,250,000 shares to Sector 10 Holdings, Inc. in accordance with reimbursement and anti-dilution provisions.

In November 2009, the Company issued 1,325,000 shares to Sector 10 Holdings, Inc. in accordance with fee arrangement for seeking funding.

In December 2009, the Company issued 7,700 shares to John McCloskey for consulting services rendered in connection with the San Francisco Pilot project.

In December 2009, the Company issued 7,500 shares to Lionel Brown for short term funding based on promissory note dated December 3, 2009.

In December 2009, the Company issued 20,000 shares to Patricia Fielding for short term funding based on promissory note dated December 3, 2009.

In December 2009, the Company issued 50,000 shares to John Gargett in accordance with the requirements set forth in his employment agreement. The shares were required to be issued based on his employment as of September 1, 2009.

In December 2009, the Company issued 50,000 shares to John Gargett in accordance with the requirements set forth in his employment agreement. The shares were required to be issued based on his employment as of November 1, 2009.

In December 2009, the Company issued 10,000 shares to Patrick Love in accordance with the requirements set forth in his employment agreement. The shares were required to be issued based on his employment as of October 1, 2009.

In December 2009, the Company issued 10,000 shares to Mark Madison for short term funding based on promissory note dated December 17, 2009.

During the Quarter ended: March 31, 2010:

In March 2010, the Company issued 1,084,200 shares to John Gargett in connection with the Suspension and Conversion Agreements whereby Gargett elected to convert all principal and accrued interest outstanding on employee note. The conversion price was \$.08 per share and the total amount converted was \$83,736.

In March 2010, the Company issued 676,825 shares to Patrick Love in connection with the Severance and Conversion Agreements whereby Love elected to convert all principal and accrued interest outstanding on employee note. The conversion price was \$.08 per share and the total amount converted was \$54,146.

In March 2010, issued 1,500,000 shares to Illuminated Financial Corp for extension of the Investor Relations Management Agreement with the Company and for reimbursement of additional shares required due to the reverse split that occurred in May 2009. Shares were valued at \$.07 per share

During the Quarter ended: June 30, 2010:

In June 2010, issued 1,300,000 shares valued at \$.0423 per share to Mazuma Funding Corp in connection with the conversion of a \$55,000 note obtained from the purchase of a portion of the Ed Johnson note payable.

In May/June 2010 recorded a discount of \$61,500 to additional paid-in capital which represents the intrinsic value as determined under ASC 470-20 of the embedded beneficial conversion feature included in the Asher Enterprises convertible notes upon issuance.

In June 2010 recorded a discount of \$36,000 to additional paid-in capital which represents the intrinsic value as determined under ASC 470-20 of the embedded beneficial conversion feature included in the Mazuma Funding convertible notes upon issuance.

During the Quarter ended: September 30, 2010:

In July 2010, issued 1,000,000 shares valued at \$.04 per share to Mazuma Funding Corp in connection with the conversion of a \$40,000 note obtained from the purchase of a portion of the Ed Johnson note payable.

In July 2010 recorded a discount of \$20,000 to additional paid-in capital which represents the intrinsic value as determined under ASC 470-20 of the embedded beneficial conversion feature included in the Mazuma Funding convertible notes upon issuance.

In July 2010, issued 1,500,000 shares valued at \$.03 per share to Mazuma Funding Corp in connection with the conversion of a \$45,000 note obtained from the purchase of a portion of the Ed Johnson note payable.

In July 2010 recorded a discount of \$45,000 to additional paid-in capital which represents the intrinsic value as determined under ASC 470-20 of the embedded beneficial conversion feature included in the Mazuma Funding convertible notes upon issuance.

In July 2010 recorded a discount of \$21,724 to additional paid-in capital which represents the intrinsic value as determined under ASC 470-20 of the embedded beneficial conversion feature included in the Asher Enterprises convertible notes upon issuance.

In July 2010, issued 1,000,000 shares valued at \$.03 per share to Ronald Kaufman based on exercise of \$.03 per share option provided under S-8 filing.

In July 2010 recorded a discount of \$40,000 to additional paid-in capital which represents the intrinsic value as determined under ASC 470-20 of the embedded beneficial conversion feature included in the exercise of the S-8 option at \$.03 per share.

In July 2010, issued 1,000,000 shares from S-8 filing valued at \$.07 per share to Ronald Kaufman for attorney fees based on agreement dated April 2, 2010.

In August 2010, issued 750,000 shares valued at \$.03 per share to CityVac for investor relations services from August 1, 2010 to December 1, 2010.

In September 2010, issued 500,000 shares valued at \$.01 per share to CityVac for investor relations services from August 1, 2010 to December 1, 2010.

During the Quarter ended: December 31, 2010:

In November 2010, issued 576,923 shares valued at \$.013 per share to Asher Enterprises, Inc. in conversion of \$7,500 debt.

In November 2010, issued 4,287,000 shares valued at \$.06 per share to shareholder and officers for anti-dilution shares for the period 3/31/2010 computed and approved in prior periods.

In November 2010, issued 1,709,500 shares valued at \$.06 per share to shareholder and officers for anti-dilution shares for the period 6/30/2010 computed and approved in prior periods.

In November 2010, issued 8,872,000 shares valued at \$.01 per share to shareholder and officers for anti-dilution shares for the period 9/30/2010 computed and approved in prior periods.

In November 2010, issued 89,000 shares valued at \$.024 per share to short term note holders for extension of notes.

In November 2010, issued 11,900,000 shares valued at \$.024 per share to shareholder and officers for anti-dilution shares for the period 11/24/2010 computed and approved in prior periods.

In November 2010, issued 4,610,330 shares valued at \$.024 per share to shareholder for reimbursement of shares provided for the benefit of the Company.

In November 2010, issued 900,000 shares valued at \$.038 per share to officers and directors for previously approved director fee and officer bonus.

In November 2010, issued 3,000,000 shares valued at \$.024 per share to officers for S-8 grant shares.

In December 2010, issued 1,052,632 shares valued at \$.0095 per share to Asher Enterprises, Inc. in conversion of \$10,000 debt.

In December 2010 recorded an adjustment for \$51,507 to additional paid-in capital which represents the fair value of the vested portion of the stock options granted on December 1, 2010.

In December 2010, issued 1,538,462 shares valued at \$.0065 per share to Asher Enterprises, Inc. in conversion of \$10,000 debt.

During the Quarter ended: March 31, 2011:

In January 2011, issued 4,050,000 shares valued at \$.00086 per share to shareholder and officers for anti-dilution shares for the period through December 16, 2010 computed and approved in the prior period.

In January 2011, issued 60,000,000 shares under the Solar Tracer Acquisition transaction which were cancelled and returned on April 4, 2011. No value or services were received or provided. Reflected as no net increase in equity.

In January 2011, issued 3,333,333 shares at \$.0045 per share with a current value at \$.018 per share to Asher Enterprises, Inc. in conversion of \$15,000 debt.

In February 2011, issued 3,500,000 shares at \$.0030 per share with a current value at \$.011 per share to Asher Enterprises, Inc. in conversion of \$10,500 debt.

In February 2011, issued 706,667 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 March 2011, issued 4,545,455 shares at \$.0022 per share with a current value at \$.040 per share to Asher Enterprises, Inc. in conversion of \$2,120 interest debt.

In March 2011, recorded an additional adjustment of \$24,948 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 in the year ended March 31, 2011 amounted to \$76,455.

Note 7 - S-8 OPTIONS: PLAN/ EXERCISE

A Form S-8 Registration statement was filed on July 13, 2010. The S-8 registration statement covers options to key officers, directors and consultants for up to 16,000,000 shares of common stock that may be issued pursuant to three types of option awards granted outside of the registrant's stock option plans (the "2010 Special Stock Option Awards"): (i) option awards granted to certain members of senior management and consultants of the registrant to purchase up to an aggregate of 12,000,000 shares of common stock of which 4,000,000 are exercisable at \$0.03 and 4,000,000 are exercisable at \$0.06 and 4,000,000 are exercisable at \$0.09 (ii) stock grant for 4,000,000 shares.

As part of a legal retainer agreement, Ronald Kaufman and or his firm was entitled to receive options under the S-8. Mr. Kaufman contributed \$30,000 to the Company in an exercise of a \$.03 per share option as provided under the S-8 registration. As a result of the exercise, 1,000,000 shares were issued on July 13, 2010. At the time of issuance, the market value of the common shares was \$.07 per share. The difference between the market value (\$.07) and the exercise price (\$.03) was recorded as legal services. The additional amount was computed as \$40,000 (\$.04 share price differential x 1 Million shares). This amount was recorded to legal expense and to additional paid in capital. Mr. Kaufman's services were terminated in September 2010. As a result of termination. Kaufman, his firm and any other related party no longer has any rights to further options provided under the S-8 registration.

The Company issued the remaining 3,000,000 grant shares to the officers on November 24, 2010. Due to the termination of the legal services agreement to Ronald Kaufman and the resignation of a former director, the Board authorized the allocation of the remaining options in the S-8 registration to the remaining two officers. The options were granted on December 1, 2010. Initial vesting of 25% occurred on January 1, 2010 (Vesting Date). The vesting schedule provides vesting of the remaining 75% ratably over 24 months beginning at the end of January 2011. The options are available until the end of the current employment agreements which expire on March 31, 2016. Therefore the term is 5.3 years from the date of grant. On December 1, 2010, the Board approved the granting the following

options to the two officers of the Company.

Based on the date of grant and the vesting occurring through the year ended March 31, 2011, the Company computed the fair value of the stock options using the black scholes model. The value was determined to be \$203,879. A total of \$76,455 was recognized during the period which represent the 37.5% vesting on March 31, 2011.

Note 8 – GOING CONCERN

The Company generated minimal revenues prior to the current fiscal year. No revenues were generated for the fiscal year ended March 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 hindered the operation of the Company and have 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 end of the year ended March 31, 2013.

NOTE 9 - CALLABLE SECURED CONVERTIBLE NOTES PAYABLE AND WARRANTS

In November 2007, a repurchase agreement was entered into with the investors that had (i) \$600,000 in callable secured convertible notes and (ii) warrants to purchase 1,000,000 shares of common stock at an exercise price of \$17.50 per share (As adjusted for stock splits). The convertible note was retired and the exercise price for the warrants was fixed at \$1.75 which was adjusted to \$17.50 after the stock split. These warrants represent the only warrants outstanding.

The summary of the outstanding warrants at March 31, 2011 is as follows:

Activity for year ended March 31, 2011	Warrants
Outstanding, beginning of year	1,000,000
Granted	-
Exercised	-
Expired or cancelled	-
Outstanding, end of year	1,000,000
Exercisable, end of year	1,000,000
Available for grant, end of year	-

The warrant exercise price is fixed at \$17.50 at the fiscal year ended March 31, 2011. The warrants expire on November 30, 2013.

In May 2009, the Company completed a 1 for 10 reverse stock split. The warrants are subject to the split. The above presentation reflects the impact of the reverse stock split. The outstanding warrants before the reverse stock split were 10,000,000 and the conversion price was \$1.75 per share.

Note 10 - 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.

Net deferred tax assets /liabilities consist of the following components as of March 31, 2010 and 2009:

	March 31, 2011	March 31, 2010
Deferred tax assets:		
NOL Carryover	\$ 433,761	\$ 284,086
Related Party Accruals	269,357	134,541
Accrued Expenses	377,659	100,316
Deferred tax liabilities		
Depreciation	(463))	(2,332)
Valuation allowance	(1,080,314))	(516,611)
Net deferred tax asset	\$ -	\$ -

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rate to pretax income from continuing operations for the years ended March 31, 2009 and 2008 due to the following:

	March 31, 2011	March 31, 2010
Book Income	\$ (1,003,254))	\$ (1,789,176)
Depreciation	(136)	523
Meals & Entertainment	72	161
Stock for Services & Finance	412,837	1,228,625
Related Party Accruals	135,295	131,303
Accrued Expenses	65,831	65,216
Impairment Loss	168,161	84,557
Valuation Allowance	221,194	278,791
	\$ -	\$ -

At March 31, 2011, the Company had net operating loss carryforwards of approximately \$1,112,200 that may be offset against future taxable income from the year 2011 through 2031. No tax benefit has been reported in the March 31, 2011 financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carryforwards may be limited as to use in future years.

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 March 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 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, payables, and notes payable. The carrying amount of cash and cash equivalents and payables approximates fair value because of the short-term nature of these items. The carrying amount of the notes payable approximates fair value as the individual borrowings bear interest at rates that approximate market interest rates for similar debt instruments.

Note 12 – DISCONTINUED OPERATIONS

At December 31, 2010, Sector 10, Inc owned 75% of the common shares of Sector 10 Services USA, Inc., and maintained a distribution agreement with Sector 10 Holdings, Inc. currently the 52.43% majority shareholder of Sector 10, Inc. Prior to the consummation of the transaction under the Solar Tracer Corporation Stock Exchange Agreement, Sector 10 Holdings, Inc. terminated the distribution agreement with Sector 10, Inc. As part of the termination/dissolution, the full shares of Sector 10 Services USA, Inc. were distributed to Sector 10 Holdings, Inc. in partial settlement of the termination/liquidation of the distribution agreement. In addition, it was planned to distribute the rights to the emergency response business together with all associated technology and related assets, inventory, contracts and agreements, whether proposed, pending or in force to Sector 10 Holdings, Inc. in settlement of the termination/liquidation of the distribution agreement.

Due to the expected termination of the primary business, the results of the emergency response business were treated as discontinued operations in the Form 10-Q report filed for the period ended December 31, 2010. On April 4, 2011, the common shares that were issued to Solar Tracer and First Diversified as part of the acquisition transaction were returned and the Company was notified that Solar Tracer and First Diversified had unilaterally cancelled the agreed transaction. In light of the cancellation, the Company retained the rights to the emergency response business and all of the assets. No further distributions were made to Sector 10 Holdings, Inc. Since the Company retained the rights to the emergency response business, the prior results are reported as continuing operations and no longer as discontinued operations. This reporting is expected to continue in future financial reporting.

Note 13 – 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) A change in voting control of Sector 10, Inc. occurred based on the terms and conditions of the Stock Exchange Agreement between Sector 10, Inc. and Solar Tracer Corporation. A change in voting control occurred with the initial issuance of the 60,000,000 common shares plus the voting proxy for 30,000,000 shares by Sector 10 Holdings, Inc. Solar Tracer used their control to complete the acquisition of First Diversified Equities, Inc. On February 3, 2011. Solar Tracer and First Diversified replaced all management and Directors of the Company after February 24, 2011.

The Management of Sector 10, Inc., under the direction of Solar Tracer Corporation and First Diversified Equities, Inc. filed a Preliminary For 14-C relating to the reverse stock split required under the Solar Tracer

Corporation Stock Exchange Agreement and the First Diversified Stock Exchange Agreement. This reverse stock split never became effective.

Management of the Company 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 on 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.

In light of the unilateral actions taken by Solar Tracer Corporation including its shareholders, representatives and management and First Diversified Equities, Inc., including its shareholders, representatives and management, the Sector 10 Holdings, Inc. Board of Directors revoked the voting proxy for 30,000,000 common shares of Sector 10, Inc. The termination of the voting proxy was effective on 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.

- 2) 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, 2011 and the Form 10-Q for the period ended September 30, 2011 was due on December 14, 2011. Due to 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, 2011 and the Form 10-Q for the periods identified above were not completed as of the original filing deadline. The Form 10-Q for the period ended December 31, 2011 is due on or before February 14, 2012.
- 3) 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 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Due to the late filing of the Form 10-K for the period ended March 31, 2011 and the late filing for the Form 10-Q for the period ended June 30, 2011 and the Form 10-Q for the period ended September 30, 2011, the Company was moved from trading on the Over the Counter Bulletin Board to trading on the Pink Sheets. In an effort to get filings current as soon as possible, the Company filed and/or will file all of the late reports with unaudited financial statements which is acceptable for a company trading on the Pink Sheets. The Company will engage their audit firm to conduct an audit of the year ended March 31, 2011 and March 31, 21012 in an effort to move back to the Over the Counter Bulletin Board.

There are no disagreements with the accountants on accounting and/or financial disclosures.

ITEM 9A. CONTROLS AND PROCEDURES

Critical Accounting Policies

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e). The Company's disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching the Company's desired disclosure control objectives. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period being reported upon, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level.

Due to the unilateral termination of the Solar Tracer and First Diversified transaction, the Company was left with inadequate reporting information for the period managed by the Solar Tracer Representatives. The lack of complete information resulted in the late filing of several financial reports. The Company has inserted new management since he resignation of Solar Tracer and has established controls to prevent late filing of financial reports in the future.

There have been no other significant changes in our internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

- (a) Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our President, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. The disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and

reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our President, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Management's Annual Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Our management, with the participation of the President, evaluated the effectiveness of the Company's internal control over financial reporting as of March 31, 2011. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer, concluded that, as of March 31, 2011, our internal control over financial reporting were not effective.

- (b) Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal controls over financial reporting, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company expects to seek capital after the restructuring is complete in an effort to begin production and distribution of their products. This is not expected to begin until the fiscal year ended March 31, 2013 at which time a detailed analysis of all internal controls will be conducted to assure efficiency and compliance with all regulations and agreements. Any changes to the internal control procedures are expected to be reviewed and completed in the fiscal year ended March 31, 2013.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only Management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information Regarding Present Directors and Executive Officers

The following table sets forth as of February 9, 2012, the name, age, and position of each executive officer and director and the term of office of each director of the Company.

Name	Age	Title	Director or Officer Since
Pericles DeAvila	41	Chairman of the Board and Acting President, Chief Executive Officer	May 12, 2011
Laurence A. Madison	55	Director and Acting Chief Financial Officer / Secretary / Treasurer	May 12, 2011

The following is the business background of each officer and director:

Pericles (Peric) DeAvila: Chairman of the Board and Acting President, CEO

Pericles DeAvila is the inventor of the SRU-M, and the associated PLX-3DSsystem, the first self-contained emergency response systems in the emergency and safety market. He has had years of entrepreneurial experience nationally and internationally. His experience in leading large groups of people was expanded when he continued his construction experience as the commercial/industrial construction manager on large projects in Silicon Valley and in the Seattle area; he is fluent in Portuguese, Italian, French, Spanish, as well as English.

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In the development of Sector 10, Mr. DeAvila brought together and leads a seasoned team of experts such as Russell Marriott Jr., who pioneered the first government approved Deferred Compensation 401(K) and PAYSOP plans in the United States; Linda Chandler, former Senior Vice President of Sutro & Company; and Jake Garn, former U.S. Senator, Astronaut and Brigadier General, U.S. Air Force, amongst others. Mr. DeAvila experienced firsthand the power of a natural disaster through an earthquake in the Azores Islands in 1980. He lost a close friend and experienced human devastation and disease and believes that Sector 10 is the fulfillment of an essential need affecting our daily lives.

In 2002, he was the recipient of a Congressional National Leadership Award. He was appointed as special advisor to the Chairman of the Congressional Committee on the Business Advisory Council.

Laurence A. Madison, Director and Acting CFO, Secretary and Treasurer

Mr. Madison has more than 30 years experience in public accounting, tax and financial consulting. He has experience as the Chief Financial Officer in both public and private companies. Madison brings Sector 10 experience and expertise in Sarbanes-Oxley compliance and corporate governance. He comes to Sector 10 from the Chicago office of the international accounting and management consulting firm Grant Thornton where he served in the tax quality assurance department. Prior to joining Grant Thornton, Mr. Madison worked with a large national internal audit consulting firm where he was responsible for reviewing financial processes and controls for large multi-national public companies to ensure compliance under Sarbanes- Oxley. Mr. Madison worked for 12 years in “Big Four” accounting firms and for 15 years running his own financial consulting firm where he specialized in providing Chief Financial Officer, tax and financial consulting services to private companies and assisted in raising capital for growth companies. Mr. Madison is licensed in Illinois as a Certified Public Accountant and a member of the AICPA and Illinois CPA Society. He has a Bachelors of Accounting from Purdue University and a Master’s of Science in Taxation from DePaul University.

Except as indicated below, to the knowledge of management, during the past five years, no present or former director, or executive officer of the Company:

- (1) filed a petition under the federal bankruptcy laws or any state insolvency law, nor had a receiver, fiscal agent or similar officer appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing.
Prior to joining the Company, Laurence Madison filed Chapter 7 Bankruptcy on July 27, 2007. Discharge was finalized on December 6, 2007
- (2) was convicted in a criminal proceeding or named subject of a pending criminal proceeding (excluding traffic violations and other minor defenses);
- (3) was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from or otherwise limiting, the following activities:
 - (i) acting as a future commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, associated person of any of the foregoing, or as an investment advisor, underwriter, broker or dealer in securities, or as an affiliate person, director or employee of any investment company or engaging in or continuing any conduct or practice in connection with such activity;
 - (ii) engaging in any type of business practice; or
 - (iii) engaging in any activity in connection with the purchased or sale of any security or commodity or in connection with any violation of federal or state securities laws or federal commodities laws;
- (4) was the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any federal or state authority barring, suspending, or otherwise limiting for more than 60 days the right of such person to engage in any activity described above under this Item, or to be associated with persons engaged in any such activity;
- (5) was found by a court of competent jurisdiction in a civil action or by the Securities and Exchange Commission to have violated any federal or state securities law, and the judgment in such civil action or finding by the Securities and Exchange Commission has not been subsequently reversed, suspended, or vacated.
- (6) was found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any federal commodities law, and the judgment in such civil action or finding by

the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated.

ITEM 11. EXECUTIVE COMPENSATION

The following tables set forth certain summary information concerning the compensation paid or accrued for each of the Company's last three completed fiscal years to the Company's or its principal subsidiaries chief executive officer and each of its other executive officers that received compensation in excess of \$100,000 during such period (as determined at March 31, 2006, the end of the Company's last completed fiscal year):

Name	Fiscal Year	Compensation
Peric DeAvila	2011	\$ 216,000
Laurence A. Madison	2011	\$ 198,000
Peric DeAvila	2010	\$ 183,333
Laurence A. Madison	2010	\$ 160,417
Peric DeAvila	2009	\$ None
Laurence A. Madison	2009	\$ None

Cash Compensation

On February 26, 2010, the CEO and CFO executed employment agreements with the Company which cover the period through the end of the fiscal year ended March 31, 2011.

There was \$73,870 in cash compensation to officers in the fiscal year ended March 31, 2011 and no cash compensation was paid in the year ended March 31, 2010. No cash compensation has been paid since October 2010. Unpaid compensation was accrued in the fiscal year ended March 31, 2011 and March 31, 2010. The amount accrued was based on the terms set forth in the employment agreements.

Bonuses and Deferred Compensation

The CEO and CFO have executed Employment agreements with the company that covers the period through the end of the fiscal year ended March 31, 2016. Under the agreement, the parties are entitled to a cash bonus and a stock bonus.

In March 2010, the Board authorized a Stock Incentive Plan for the benefit of employees and others who perform services on behalf of the Company. No options were issued under the plan as of March 31, 2010. A Form S-8 Registration statement was filed on July 13, 2010 to authorize the issuance of Company options to key officers, directors and consultants.

No current deferred compensation programs are established as of March 31, 2010. The Company reserves the right to establish such a plan in the future.

Compensation Pursuant to Plans.

The CEO and CFO have executed Employment agreements with the company that covers the period through the end of the fiscal year ended March 31, 2016.

Pension Table

The Company reserves the right to establish a Company retirement plan. No such plan exists at the March 31, 2010

Other Compensation

The CEO and CFO have executed Employment agreements with the company that covers the period through the end of the fiscal year ended March 31, 2016. Under the agreement, the following other provisions.

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Welfare, Benefit, Savings and Retirements

Treatment of Unpaid Wages or Other Compensation. Employee shall have the right to interest at an annual rate of 8% for any salary or other compensation that is earned under the employment agreement not paid when earned or approved.

Anti-Dilution. The Company provides Employee with anti-dilution protection for common shares that are issued to other parties after the effective date and during the term of this agreement.

Expenses. During the Employment Period, the Employee shall be provided a Company Credit Card and/or shall be reimbursed for all reasonable expenses incurred by the Employee in accordance with the policies, practices and procedures of the Company. Employee agrees to seek approval for expenses in excess of \$1,000 before committing Company resources.

Compensation of Directors.

The Company compensates all Directors with the issuance of Company common shares. A total of 50,000 shares are issued for a year of service as a director. As the Company develops and/or new directors are added, the Board may revise the compensation for directors.

Termination of Employment and Change of Control Arrangement

The CEO and CFO have executed employment agreements that provide minimum base salary, bonuses and other benefits. The agreement continues through the fiscal year ended March 31, 2016. If a change in control of the Company occurs, the provisions require immediate vesting in all unpaid benefits under the agreement. The minimum due under such an arrangement for any change in control would be an amount equal to three times the compensation due in the last fiscal year under the agreement. The amount shall be due and payable the day before any transaction resulting in such change of control.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 31, 2010 the name and the number of shares of the Company's Common Stock, par value \$.001 per share, held of record or beneficially by each person who held of record, or was known by the Company to own beneficially, more than 5% of the 42,693,268 issued and outstanding shares of the Company's Common Stock and 47,503,268 shares that include issued and outstanding shares plus shares that have been accrued but not issued as of March 31, 2010 (after reflecting the impact of the reverse stock split), and the name and shareholdings of each director and of all officers and directors as a group.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
OFFICERS, DIRECTORS AND FIVE PERCENT SHAREHOLDERS			
Common	Peric DeAvila	3,760,400 (1)	2.29%
Common	Laurence Madison	3,513,100 (1)	2.24%
Common		50,152,580 (1)	30.50%

Sector 10
Holdings,
Inc.

All officers and Directors as a Group

(3) Persons (3)	7,273,500	4.53%
Including officer, directors and 5% shareholder	57,426,080	35.03%

(1)The total stock outstanding includes 60,000,000 common share that are reflected in the March 31, 2011 balance of issued shares but were returned by Solar Tracer on April 4, 2011. If these shares were eliminated, the above officers and shareholders percentage interest would be changed as follows: Pericles DeAvila – 3.60%, Laurence A. Madison – 3.36%, Sector 10 Holdings, Inc. – 48.03% and Total Group – 54.99%

(2)Anti-dilution agreements were entered into with Sector 10 Holdings, Inc. in November 2009 and officers Peric DeAvila and Laurence Madison in February 2010. The above percentages do not reflect all shares that the anti-dilution provisions provide the shareholders. Therefore the percentages would be increased by approximately 5% total if such dilution shares were issued.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the Year ended March 31, 2010:

In September 2009, issued 1,050,000 shares to officers and directors for past services rendered and for current director services. The shares were authorized on May 1, 2009 by the Board. Shares were allocated as follows: Pericles DeAvila – 550,000 shares, Laurence A Madison – 400,000 shares and Alan Rouleau – 100,000 shares.

In September 2009, issued a total of 270, 834 shares to Sector 10 Holdings for reimbursement for shares provided to Illuminated Financial Services and Moody Capital on behalf of the Company.

In November 2009, the Company issued 1,554,00 shares to Sector 10 Holdings , Inc. in accordance with anti dilution provision for transaction closed on or before November 1, 2009.

In November 2009, the Company issued 11,363,636 shares to Mariennie & Associates and assignees. The issue was based on conversion of \$1,144,000 of distribution fee in accordance with provisions under Distribution Agreement between Sector 10 Holdings, Inc. and Sector 10, Inc.

In November 2009, the Company issued shares 13,250,000 shares to Sector 10 Holdings, Inc. in accordance with reimbursement and dilution provisions. Shares are held by the Company pending receipt of funding.

In November 2009, the Company issued 1,325,000 shares to Sector 10 Holdings, Inc. in accordance with fee arrangement for seeking funding. Shares are held by the Company pending funding.

In March 2010, accrue the issuance of 4,287,000 shares to Principal shareholders – (4,100,000 shares) and executive officers (187,000 shares) under anti-dilution arrangements to reimburse for shares issued in the 4th quarter of the fiscal year ended March 31, 2011. The shares were valued at \$.06 per share as of March 31, 2010 resulting in a value of \$257,220 recorded as accrued liabilities. Shares are unissued at the fiscal year end.

During the Year ended March 31, 2011:

In November 2010, issued 4,287,000 shares valued at \$.06 per share to shareholder and officers for anti-dilution shares for the period 3/31/2010 computed and approved in prior periods.

In November 2010, issued 1,709,500 shares valued at \$.06 per share to shareholder and officers for anti-dilution shares for the period 6/30/2010 computed and approved in prior periods.

In November 2010, issued 8,872,000 shares valued at \$.01 per share to shareholder and officers for anti-dilution shares for the period 9/30/2010 computed and approved in prior periods.

In November 2010, issued 11,900,000 shares valued at \$.024 per share to shareholder and officers for anti-dilution shares for the period 11/24/2010 computed and approved in prior periods.

In November 2010, issued 4,610,330 shares valued at \$.024 per share to shareholder for reimbursement of shares provided for the benefit of the Company.

In November 2010, issued 900,000 shares valued at \$.038 per share to officers and directors for previously approved director fee and officer bonus.

In November 2010, issued 3,000,000 shares valued at \$.024 per share to officers for S-8 grant shares.

In January 2011, issued 4,050,000 shares valued at \$.0086 per share to shareholder and officers for anti-dilution shares for the period through December 16, 2010 computed and approved in the prior period.

TRANSACTIONS WITH PROMOTERS

There have been no transactions between the Company and promoters during the last fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES -

	2011	2010
Audit Fees	\$ 48,529	\$ 46,200
Audit and Related Fees	-	-
Tax Fees		
All Other Fees		
Total	\$ 48,529	\$ 46,200

(1) Audit fees consist of fees billed for the audit of the Company's consolidated financial statements and review of the interim consolidated financial statements.

ITEM 15. EXHIBITS

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.

