SECTOR 10 INC
Form 10-Q
February 22, 2011

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED December 31, 2010

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

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

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

3500 Island Blvd. Suite 105
Aventure, FL 33160
(Address of principal executive offices, including zip code)

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

(Former name or former address, if changed since last report)
Former Address
14553 South 790 West
Bluffdale, Utah 84065

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o.

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

As of February 18, 2011 the issuer had 155,662,448 shares of common stock outstanding.

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

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Item 1. FINANCIAL STATEMENTS

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

ASSETS	December 31, 2010 (Unaudited)	March 31, 2010 (Audited)
Current assets:		
Cash	$ 8	$ 70
Prepaid assets	-	6,770
Current assets of discontinued operations	18,409	18,409
Total current assets	18,417	25,249
Net fixed assets of discontinued operations	8,752	12,090
Total net fixed assets	8,752	12,090
Other assets:		
Non-current assets of discontinued operations	931,181	931,181
Total other assets	931,181	931,181
Total assets	$ 958,350	$ 968,520
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued liabilities	$894,808	$542,338
Accrued liabilities – related parties	643,777	600.970
Note payable - short term	256,587	252,500
Note payable - officer/shareholder	-	20,526
Total current liabilities	1,795,172	1,416,334
Long term liabilities:		
Note payable	483,000	483,000
Total long term liabilities	483,000	483,000
Total liabilities	2,278,172	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; 88,279,115 and 42,693,268 shares issued and outstanding, respectively	88,279	42,693
Additional paid-in-capital	5,775,571	4,274,432
Deficit accumulated during development stage	(7,183,672)	(5,247,939)
Total shareholders' equity (deficit)	(1,319,822)	(930,814)
Total liabilities and shareholders' equity (deficit)	$958,350	968,520

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

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Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Nine Months Ended December 31, 2010 and 2009 and for the Period from Inception,
September 16, 2002 to December 31, 2010

	Nine Months Ended		Inception to
	December 31, 2010	December 31, 2009	December 31, 2010
Sales	$ -	$ -	$ -
Cost of Sales	-	-	-
Gross Profit	-	-	-
Expenses:			
General and administrative	-	-	-
Depreciation	-	-	-
Research and development	-	-	-
Total expenses	-	-	-
Income (loss) from operations	-	-	-
Interest expense	(239,526)	(35,355)	(317,586)
Other income: debt restructuring	-	-	-
Other expense: impairment loss	-	-	-
Net income (loss) before income taxes	(239,526)	(35,355)	(317,586)
Provision for income taxes	-	-	-
Net income (loss) from continuing operations	$ (239,526)	$ (35,355)	$ (317,586)
Net income (loss) from discontinued operations	(1,696,207)	(1,140,035)	(6,866,086)
Net income (loss)	$ (1,935,733)	$ (1,175,390)	$ (7,183,672)
Weighted Average Shares Outstanding - basic and diluted	52,087,800	16,541,740	
Basic and diluted income (loss) per share			
Continuing Operations	$ (0.00)	$ (0.00)	
Discontinued Operations	(0.04)	(0.07)	
Net Income (Loss)	$ (0.04)	$ (0.07)	

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

Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended December 31, 2010 and 2009

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009
Sales	$ -	$ -
Cost of Sales	-	-
Gross Profit	-	-
Expenses:		
General and administrative	-	-
Depreciation	-	-
Research and development	-	-
Total expenses	-	-
Income (loss) from operations	-	-
Interest expense	(55,910)	(14,875)
Other income: debt restructuring	-	-
Other expense: impairment loss	-	-
Net income (loss) before income taxes	(55,910)	(14,875)
Provision for income taxes	-	-
Net income (loss) from continuing operations	$ (55,910)	$ (14,875)
Net income (loss) from discontinued operations	(893,680)	(415,396)
Net income (loss)	$ (949,590)	$ (430,271)
Weighted Average Shares Outstanding - basic and diluted	64,743,228	27,128,637
Basic and diluted income (loss) per share		
Continuing Operations	$ (0.00)	$ (0.00)
Discontinued Operations	(0.01)	(0.02)
Net Income (Loss)	$ (0.01)	$ (0.02)

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

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deficit Accumulated During Development Stage
Balance at March 31, 2010	42,693,268	$42,693	$4,274,432	$ (5,247,939)
Issue shares on June 24, 2010 @ $0.0423 per share in conversion of $55,000 debt. (unaudited)	1,300,000	1,300	53,700	-
Issue shares on July 1, 2010 @ $0.04 per share in conversion of $40,000 debt. (unaudited)	1,000,000	1,000	39,000	-
Issue shares on July 8, 2010 @ $0.03 per share in conversion of $45,000 debt. (unaudited)	1,500,000	1,500	43,500	-
Issue shares on July 13, 2010 @ $.03 per share from Form S-8 filing for option exercise. (unaudited)	1,000,000	1,000	29,000	-
Adjustment to bring option exercise to fair value @ $.07 per share. (unaudited)	-	-	40,000	-
Issue shares on July 13, 2010 @ $.07 per share from a Form S-8 filing for legal fees under agreement. (unaudited)	1,000,000	1,000	69,000	-
Issue shares on August 1, 2010 @ $0.03 per share for investor relations services. (unaudited)	750,000	750	21,750	-
Issue shares on September 15, 2010 @ $0.01 per share for investor relations services. (unaudited)	500,000	500	4,500	-
Issue shares on November 16, 2010 @ $.013 per share in conversion of $7,500 debt (unaudited)	576,923	577	6,923	-
Issue shares on November 24, 2010 @ $.024 per share for extension of short term notes payable. (unaudited)	89,000	89	2,047	-
Issue shares on November 24, 2010 @ $.06 per share for anti-dilution shares for the period ended 3/31/2010 authorized in prior period. (unaudited)	4,287,000	4,287	252,933	-
Issue shares on November 24, 2010 @ $.06 per share for anti-dilution shares for the period ended 6/30/2010 authorized in prior period. (unaudited)	1,709,500	1,710	100,860	-
Issue shares on November 24, 2010 @ $.01 per share for anti-dilution shares for the period ended 9/30/2010 authorized in prior period. (unaudited)	8,872,000	8,872	79,848	-
Issue shares on November 24, 2010 @ $.024 per share for anti-dilution shares for the period ended 11/24/2010. (unaudited)	11,900,000	11,900	273,700	-

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

	Common Stock Shares	Amount	Additional Paid-In Capital	Deficit Accumulated During Development Stage
Issue shares on November 24, 2010 @ $.024 per share for reimbursement of shares provided for the benefit of the Company. (unaudited)	4,610,330	4,610	106,038	-
Issue shares on November 24, 2010 @ $.038 per share for officer bonus and director fees authorized in prior period. (unaudited)	900,000	900	34,100	-
Issue shares on November 24, 2010 @ $.024 per share for S-8 grant shares. (unaudited)	3,000,000	3,000	69,000	-
Issue shares on December 1, 2010 @ $.0095 per share in conversion of $10,000 debt (unaudited)	1,052,632	1,053	8,947	-
Vesting of stock option at December 31, 2010. (unaudited)			51,507	-
Issue shares on December 22, 2010 @ $.0065 per share in conversion of $10,000 debt (unaudited)	1,538,462	1,538	8,462	-
Discount on convertible notes (unaudited)	-	-	206,324	-
Net loss for the period (unaudited)	-	-	-	(1,935,733)
Balance at December 31, 2010	88,279,115	$88,279	$5,775,571	$ (7,183,672)

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

Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended December 31, 2010	December 31, 2009	Inception to December 31, 2010
Cash Flows from Operating Activities:			
Net Loss from continuing operations	$(239,526)	$ (35,355)	$ (317,586)
Net loss from discontinued operation	(1,696,207)	(1,140,035)	(6,866,086)
Net Loss	(1,935,733)	(1,175,390)	(7,183,672)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock for services	1,163,621	478,381	4,891,170
Depreciation	5,194	3,338	15,354
Net discount on convertible debt	169,296	-	169,296
Gain on debt restructuring	-	-	(517,200)
Loss due to impairment	-	-	216,814
Changes in:			
Accounts receivable	-	2,000	-
Prepaid expenses	6,770	-	13,540
Inventory	-	-	(18,409)
Deposits	-	10,000	-
Accounts payable and accrued liabilities	407,711	608,413	2,025,516
Increase (decrease) in deferred revenue	-	(18,500)	-
Net cash used in operating activities	(183,141)	(91,758)	(387,591)
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	93,786	657,500
Proceeds from shareholder / officers	1,835	31,516	934,898
Payments to shareholders / officers	(4,460)	(64,220)	(1,048,844)
Proceeds from issuance of common stock	-	-	3,586
Proceeds from option exercise	30,000	-	30,000
Net cash provided by financing activities	202,375	61,082	577,140
Net increase (decrease) in cash	(62)	(30,676)	8
Beginning of period - continuing operations	70	35,016	-
End of period - continuing operations	$8	$ 4,340	$ 8
Cash paid for interest	$8,738	$ 882	$ 24,913
Cash paid for income taxes	$-	$ -	$ -

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

Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
None Months ended December 31, 2010

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	-	-	-	55,000	(1,300)	(53,700)
Mazuma purchase of note payable and conversion to common stock and APIC	-	-	-	40,000	(1,000)	(39,000)
Mazuma purchase of note payable and conversion to common stock and APIC	-	-	-	45,000	(1,500)	(43,500)
Transfer Johnson accrued interest to Notes Payable	-	-	26,615	(26,615)	-	-
Transfer accrued interest to contingent reserve A/P	-	27,487	(27,487)	-	-	-
Transfer from Note Payable to Contingent Reserve AP	-	(10,000)	-	10,000	-	-
Asher Conversion of note payable to common stock and APIC	-	-	-	27,500	(3,168)	(24,332)
Transfer Officer note payable to A/P		(4,181)	-	4,181	-	-
Transfer accrued expenses to A/P	-	580,380	(580,380)	-	-	-
Total	$ (17,440)	$ 593,686	$(581,252)	$172,506	$(6,968)	$(160,532)

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

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

Note 1 - BASIS OF PRESENTATION

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

Note 2 – INVENTORY

There were no sales in the nine month period ended December 31, 2010. Therefore, total inventory remains at $18,409 for the period ended December 31, 2010. 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 period ended December 31, 2010, 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 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. All of the assets transferred in this transaction, including inventory, were reflected by the Company as assets from discontinued operations in the current financial report.

Note 3 – NETWORK ACQUISITION/DEVELOPMENT COSTS

The net Network Asset remaining of $931,181 represents the net transfer costs from the original transfer from Sector 10 Holdings to Sector 10 Inc. in May 2009. The Company believes that future revenues will generate sufficient revenues and net cash flows to recover the remaining Network Asset and thereby prevent any further adjustments to the Network Asset.

The fact that the asset is recorded at transfer cost rather than fair market value is critical in determining the impairment. Since it is Management's opinion that the network asset is recoverable and that the $931,181 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 period ended December 31, 2010.

In January 2011, as part of the Solar Tracer Stock Exchange Agreement, the Distribution Agreement with Sector 10, Holdings, Inc. was terminated. With this termination, the emergency response business assets and activity including network acquisition/development costs were transferred to Sector 10 Services USA, Inc. and the ownership of Sector 10 Services USA, Inc. was transferred to Sector 10 Holdings, Inc. All of the assets transferred in this transaction, including network acquisition/development costs, were reflected by the Company as assets from discontinued operations in the current financial report.

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Note 4 – 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 nine month period ended December 31, 2010 on the accounts is $875 which is comprised of Pericles DeAvila - $392 and Sector 10 Holdings - $483. The accounts were closed on December 31 and the balance remaining to Pericles DeAvila of $4,181 was transferred to accounts payable.

Johnson Financing

On May 11, 2008, Sector 10, Inc. ("Sector 10") entered into an agreement with Edward Johnson ("Johnson") to provide short term financing to provide assistance with the development and expansion of the business of Sector 10.
The loan will be for term of 9 months with 1 automatic extension of 6 months allowed if so requested by Sector 10. The 6 month loan extension was requested by Sector 10 on February 5, 2009. Interest on the loan is fixed at rate equal to prime plus 1 (As published in the Wall Street Journal as of the effective date of this agreement). The effective prime rate as of May 11, 2008 was 5%. The rate under the agreement is 6%. Total interest expense at December 31, 2010 is $3,990 of which $1,650 was accrued during the three month period ended June 30, 2010 and $2,340 was accrued from August 1, 2010 through the period ended December 31, 2010.

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 $2,340 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 in the 3rd quarter. It is expected that payments will continue in the 4th quarter and the Company expects the full balance to be paid during the 4th quarter of the fiscal year ended March 31, 2011.

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 period ended December 31, 2010 was $2,340.

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 nine month period ended December 31, 2010 is 27,169.

Total interest due for payment in April 2010 was $9,056 which is allocated as follows: Vicki Davis - $3,150, William Dutro - $1,219 and Dutro Company - $4,687. Payments were made to Vicki Davis and William Dutro for the full accrued amount in April 2010. No payment was sent to Dutro Company since Dutro Company did not comply with the request for return of Company property.

Total interest due for payment in July 2010 was $9,056 which is allocated as follows: Vicki Davis - $3,150, William Dutro - $1,219 and Dutro Company - $4,687. No payment was sent to Dutro Company since Dutro Company did not comply with the request for return of Company property.

The payment due in October was allocated in the same manner as the July payment. 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 at 12/31/2010 is $34,998 comprised of Dutro Company - $26,260, Vick Davis - $6,300 and William Dutro - $ 2,438.

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. The agreement confirmed the verbal agreement for compensation for the fiscal year ended March 31, 2010 and set forth minimum salaries for the remaining fiscal years under the agreement

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:

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 provisions set forth under Section 5 but not paid within 30 days from the date earned or approved. This provision shall initially apply to any unpaid compensation at the end of the fiscal year ended March 31, 2010 and interest, if any shall be applied beginning in the fiscal year ended March 31, 2011. Employee may elect to convert any portion of the unpaid balance including interest to common shares of the Company based on written notice to the Company of such election. The conversion to shares will be computed based on the closing share price at on the date of election by the Employee to convert.

The financial statements reflect an accrual of interest on unpaid wages and other compensation in the amount of $28,445 all of which is accrued during the nine month period ended December 31, 2010. As of December 31, 2010, 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 period ended December 31, 2010 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 December 31, 2010 and have an option to extend to March 31, 2011. No payment was made on the notes by December 31, 2010 and the Company elected to extend the notes until March 31, 2011. Total interest accrued as of December 31, 2010 was $5,353 of which $3,828 was accrued during the nine month period ended December 31, 2010.

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Calm Seas Capital, LLC

A term sheet was signed with Calm Seas, LLC on March 12, 2010 to provide bridge funding of $200,000 plus use best efforts to raise up to an additional $2 Million. No funds were received on or before March 31, 2010 and no liability is recorded for the period March 31, 2010. Under the terms of the agreement, investor relations services were required to be performed during the full term. The investor relations agreement with Illuminated Financial Corp, a related party to Calm Seas, was extended on March 25, 2010 to provide services during the Calm Seas Agreement. For this extension, an additional 1,500,000 common shares were issued to Illuminated to cover the extension and other terms set forth in the original agreement dated January 7, 2009. On April 28, 2010, $10,000 in funding was received from Calm Seas Capital. No other funding has been received as of August 10, 2010. 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 nine month period ended December 31, 2010.

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 February 14, 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.

Asher Enterprises, Inc.

The Company entered into a financing transaction 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 a total of $27,500 of the Note Payable dated April 30, 2010 prior to December 31, 2010 and additional conversion of $15,000 on January 10, 2011. No other conversions have been elected as of February 14, 2011.

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 period ended December 31, 2010:

Transaction Date					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 in the period ended December 31, 2010 in the amount of $118,000. 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 comittment 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. A total of $27,500 of the note payable was converted by December 31, 2010. The unamortized discount attributed to the portion of the disount was amortized at the time of the conversion. Total amortization in the nine month period ended December 31, 2010 was $36,335 which was reflected as interest expense.

$30,000 Note:

The firm comittment 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). Total amortization in the nine month period ended December 31, 2010 was $16,877 which was reflected as interest expense

$30,000 Note:

The firm comittment 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 nine month period ended December 31, 2010 was $13,315 which was reflected as interest expense

$32,500 Note:

The firm comittment 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 nine month period ended December 31, 2010 was $1,769 which rerpesents a partial month amortization 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 nine month period ended December 31, 2010 was $68,296. The net discount remaining after amortization is $37,028 ($105,324-$68,296).

Asher Enterprises made 3 elections to convert a total of $27,500 of the note payable dated April 30, 2010 which may be summarized as follows:

Conversion of Asher Debt

Conversion Date		Loan	100% stock price	Conversion rate	Shares at discount	Allocate discount
	Beginning Loan Balance	$53,000				$ 38,400
11/16/2010	Conversion #1	7,500	$ 0.0340	$ 0.0130	576,923	5,434
12/1/2010	Conversion #2	10,000	$ 0.0200	$ 0.0095	1,052,632	7,246
12/22/2010	Conversion #3	10,000	$ 0.0178	$ 0.0065	1,538,462	7,246
	Conversions @ 12/31/2010	27,500			3,168,017	19,926
	Balance @ 12/31/2010	$25,500				$ 18,474

Total interest accrued (without discount amortization) as of December 31, 2010 was $5,500 of which $5,500 was accrued during the nine month period ended December 31, 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 period ended December 31, 2010:

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 period ended December 31, 2010.

$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 period ended December 31, 2010.

$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 period ended December 31, 2010.

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 December 31, 2010 was $11,276 of which $9,751 was accrued during the nine month period ended December 31, 2010.

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

Interest expense	December 31, 2010	December 31, 2009
Sector 10 Holdings, Inc. – Shareholder	$ 483	$ 483
Pericles DeAvila – Officer	392	399
Total related party interest expense	875	882
Interest – Johnson	3,990	9,750
Interest – Dutro Group	27,169	20,954
Interest - Employee Group	28,445	3,294
Interest – Other Notes	9,751	475
Total interest expense without amortization of discount	70, 230	35,355
Interest – Amortization of Discount on Asher Enterprises, Inc. Note(s)	68,296	-
Interest – Amortization of Discount on Mazuma Funding Note	101,000	-
Total interest expense	$ 239,526	$ 35,355

Note Payable Balance	December 31, 2010	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	118,000	-
Total Note Payable – short term without discount	293,615	252,500
Net Discount on Convertible Notes (Asher)	(37,028)	-
Total Note Payable – short term	$ 256,587	$ 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	$ 739,587	$ 756,026

Debt Maturity Schedule

As of December 31, 2010, the annual maturities for notes payable are scheduled as follows:

Fiscal Year	Amount
March 31, 2011	$ 224,087
March 31, 2012	32,500
March 31, 2013	-
March 31, 2014	-
March 31, 2015	483,000
Total	$ 739,587

Note 5 – EQUITY

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.

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Note 6 - 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. According to the terms of the service agreement, the Company is entitled to refund of a portion of the service fee. The refundable fee has been written off at December 31, 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.

In January 2011, the Company entered into a transaction with Solar Tracer Corporation and First Diversified Equities, Inc. The terms of these transactions resulted in a change in voting control of the Company. The effect of the change in control is to result in immediate vesting for the officers in all options as of the date of the change in control. The change occurred on January 7, 2011. The Board authorized the continuation of the stock option plans under the original terms and conditions after the change in control. Accordingly the officers are evenly allocated the following options; 3,000,000 are exercisable at $0.03 and 4,000,000 are exercisable at $0.06 and 4,000,000 are exercisable at $0.09 3mi.llion. Based on the date of grant and the vesting occurring in January 2011, the Company computed the fair value of the stock options using the black scholes model. The value was determined to be $206,029. A total of $51,507 was recognized during the period which represent the 25% vesting on January 1, 2011. The Company has recognized that the change in control resulting from the acquisition of Solar Tracer Corporation and First Diversified Securities results in full vesting at the date of the change on control. The vested amount will be recognized in the period of the change which is expected in the 4th quarter for the fiscal year ended March 31, 2011.

Note 7 – GOING CONCERN

The Company generated minimal revenues prior to the current fiscal year. No revenues were generated for the nine month period ending December 31, 2010. 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.

Management has several contracts under review and three large transactions under negotiation as of December 31, 2010. The finalization and implementation of these contracts has been significantly delayed due to serious issues encountered with the former manufacturer which are now in litigation. A claim was recently filed against the former manufacturer that has claims for significant damages.

Management is working with these contracts and in arranging new manufactures for its products. The Company expects to have agreements finalized during the fiscal year ended March 31, 2011. The contracts involve obtaining funding from government agencies. These discussions have been negotiated and are now ready to proceed with the final approval process. Revenues under these contracts will be significant and should provide sufficient capital to move the Company forward as a going concern.

Revenues are expected to be generated initially in the fiscal year ended March 31, 2011 with significant increases expected in the fiscal year ended March 31, 2012 as the contracts mature. As the contracts are solidified, the Company will be able to obtain more sources of financing. Accordingly, Management intends to seek additional capital through equity and/or debt financing to assist the Company until profitable operations can be achieved. There can be no assurance that such increase in revenues will be generated or that financed funds will be available to the Company or available on terms acceptable to the Company. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Note 8 - INCOME TAX

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

The Company’s financial statements for the nine month period ended December 31, 2010 and 2009 do not include any provision for income taxes. No income tax accrual has been recorded based on the expectation that the Company will be in a net loss position for the overall applicable fiscal year. Accordingly, deferred tax assets have been entirely offset by valuation allowances. The difference between the amounts of income tax benefit that would result from applying domestic federal statutory income tax rates to the net loss and the net deferred tax assets is related to certain nondeductible expenses, state income taxes, and the change in the valuation allowance.

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

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

The Company includes interest and penalties arising from the underpayment of income taxes in the consolidated statements of operations in the provision for income taxes. As of December 31, 2010 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 2006.

Note 9 – 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 10 – 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 emergency response business together with all associated technology and related assets, inventory, contracts and agreements, whether proposed, pending or in force, and the full shares of Sector 10 Services USA, Inc. were distributed to Sector 10 Holdings, Inc. in settlement of the termination/liquidation of the distribution agreement.

The assets transferred under this distribution included the following:

Asset Description		Total
Inventory	$	18,409
Net Fixed Assets		8,752
Network Acquisition and Development Costs		931,181
Total	$	958,342

The assets and related operating activities for the emergency response business are reflected as discontinued operations in the financial reports for the period ended December 31, 2010.

All operating activities associated with the emergency response business are treated as discontinued operations in the financial reports for the period ended December 31, 2010. Losses from discontinued operations for the nine month and three month period ended December 31, 2010 are summarized as follows:

	Nine Months Ended				Inception to	
		December 31, 2010		December 31, 2009		December 31, 2010
Sales	$	-	$	-	$	18,500
Cost of Sales		-		-		(18,032)
Gross Profit		-		-		468
Expenses:						
General and administrative		1,691,013		1,136,697		6,625,092
Depreciation		5,194		3,338		15,354
Research and development		-		-		226,108
Total expenses		1,696,207		1,140,035		6,866,554
Income (loss) from discontinued operations	$	(1,696,207)	$	(1,140,035)	$	(6,866,086)

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	Three Months Ended December 31, 2010	December 31, 2009
Sales	$ -	$ -
Cost of Sales	-	-
Gross Profit	-	-
Expenses:		
General and administrative	892,567	414,283
Depreciation	1,113	1,113
Research and development	-	-
Total expenses	893,680	415,396
Income (loss) from discontinued operations	$ (893,680)	$ (415,396)

Note 11 – 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.

a) Acquisition of Solar Tracer Corporation

A definitive Agreement was entered into on January 7, 2011 with the signing of the Stock Exchange Closing Statement between Sector 10, Inc. and Solar Tracer Corporation documenting the acquisition of Solar Tracer Corporation by Sector 10, Inc.

Sector 10, Inc. entered into a tentative Stock Exchange Agreement with Solar Tracer Corporation dated December 22, 2010. The tentative agreement called for the acquisition of Solar Tracer Corporation subject to the terms and conditions set forth in the agreement. The agreement was tentative subject to the results of the due diligence review by both parties. Due diligence reviews were to be completed on or before January 7, 2011. Closing was scheduled for January 7, 2011. Due diligence was completed on January 7, 2011. The Board of Directors for Sector 10, Inc. approved the closing of the Stock Exchange Agreement on January 7, 2011.

Under the Stock Exchange Agreement, Sector 10, Inc acquired 100% of Solar Tracer Corporation, an alternative energy R&D company seeking to capitalize on the $450 Billion global alternative energy market by developing Solar Tracer™, a low cost, high efficiency solar concentrator for national and international licensing and sale. In terms of domestic applications, Solar Tracer™ will use concentrating solar power technology to capture energy from the sun and use it to provide hot water for homes. In terms of large, commercial applications, Solar Tracer™ will use concentrating solar power technology to capture energy from the sun and transfer it in the form of heat to run steam turbine generators which, in turn, produce electricity which is then sold to power grids. The company believes that Solar Tracer™ will exceed the performance of the current generation of linear concentrator systems. (www.solartracer.com)

Under the terms of the Stock Exchange Agreement dated December 22, 2010 that was completed on January 7, 2011 though the Stock Exchange Closing Agreement, the significant terms and conditions agreed to by the parties is as follows:

1) Solar Corporation Exchange. Solar Tracer Corporation ("Solar") transfers to Sector 10, Inc., 1,500 shares of common stock of Solar which represents 100% of the issued and outstanding shares of the capital stock of Solar as of the date of this Agreement and will represent 100% of the issued and outstanding shares of capital stock of Solar as of the date of the Closing.

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2) Sector 10, Inc. Exchange. Sector 10, Inc. transfers to Solar, a total of 60,000,000 shares of common stock of Sector 10, Inc. The new issued common shares of Sector 10, Inc. issued under this Agreement will not be registered pursuant to the provisions of the Securities Act of 1933, as amended (the "Securities Act") and will be subject to Rule 144 of the Securities and Exchange Commission.

3) Reverse Split and Additional Stock Issue. Subsequent to the closing of the transaction, the Sector 10, Inc. Board of Directors shall authorize Sector 10, Inc. to restructure the Sector 10, Inc. Capital Stock through a 26-1 reverse stock split. All shareholders of record as of the transaction date will receive 1 new share for every 26 common shares owned at the transaction date. After the 26-1 reverse split is completed and approved by regulatory authorities including FINRA, additional Sector 10, Inc. post split common shares of 60,000,000 common shares will be issued to Solar or its assigns. The new issued common shares of Sector 10, Inc. issued under this Agreement will be not registered pursuant to the provisions of the Securities Act of 1933, as amended (the "Securities Act") and will be subject to Rule 144 of the Securities and Exchange Commission.

4) Reserve and Proxy. In addition to the new issued shares above, Sector 10,Inc.'s current majority shareholder, Sector 10 Holdings, Inc., shall place in reserve not less than 30,000,000 shares of Sector 10 Common shares. For all Sector 10, Inc. common shares held in reserve, Sector 10 Holdings, Inc. agrees to transfer voting rights via proxy to Solar. Upon the execution and/or completion of the reverse split described above, any reserved shares shall be released to Sector 10 Holdings, Inc. and any proxy associated with such shares will be terminated.

5) Change on Control. The shares issued pursuant to item 2 and 3 above and the reserve and proxy provided under item 4 shall result in a Change in Voting Control of Sector 10, Inc. at the time of the issuance of the shares under item 2 and the reserve/proxy under item 4.

b) Distribution of Emergency Response Business and Related Assets:

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 emergency response business together with all associated technology and related assets, inventory, contracts and agreements, whether proposed, pending or in force, and the full shares of Sector 10 Services USA, Inc. were distributed to Sector 10 Holdings, Inc. in settlement of the termination/liquidation of the distribution agreement.

The assets transferred under this distribution included the following:

Asset Description		Total
Inventory	$	18,409
Net Fixed Assets		8,752
Network Acquisition and Development Costs		931,181
Total	$	958,342

The assets and related operating activities for the emergency response business are reflected as discontinued operations in the financial reports for the period ended December 31, 2010.

c) Acquisition of First Diversified Equities, Inc.

On January 7, 2011, Sector 10, Inc. closed on the acquisition of Solar Tracer Corporation. As part of that transaction, Solar Tracer Corporation obtained voting control of the Company and the Company continued to pursue the review of other acquisition prospects. The representatives of Solar Tracer Corporation presented First Diversified Equities, Inc. as another candidate for acquisition. Solar Tracer Corporation representatives authorized and approved the acquisition transaction with First Diversified Equities, Inc. Accordingly, the following documents the acquisition of First Diversified Equities, Inc.

Under the Stock Exchange Agreement, Sector 10, Inc acquired 100% of First Diversified Equities, Inc. First Diversified Equities, Inc. is a business development, licensing and acquisition firm. First Diversified counts among its assets, American Beverage Distributors, which has entered into a joint venture agreement to acquire exclusive right to distribute an internationally known name brand energy drink in the North and South American markets. First Diversified Equities holds certain marketing and distribution rights to the Tonino Lamborghini Energy Drink and the Sugar Crush Diabetic Drink line of Products. Sales of these products are currently underway nationally and internationally and news and events are expected to be disclosed later in the 4th quarter as developments materialize.

A definitive Agreement was entered into on February 3, 2011 with the signing of the Stock Exchange Closing Statement between Sector 10, Inc. and First Diversified Equities, Inc. documenting the acquisition of First Diversified Equities, Inc. by Sector 10, Inc.

Sector 10, Inc. entered into a tentative Stock Exchange Agreement with First Diversified Equities, Inc. dated January 21, 2011. The tentative agreement called for the acquisition of First Diversified Equities, Inc. subject to the terms and conditions set forth in the agreement. The agreement was tentative subject to the results of the due diligence review by both parties. Due diligence reviews were to be completed on or before February 1, 2011. 2011. The period for due diligence review was extended and due diligence was completed on February 3, 2011. The Board of Directors for Sector 10, Inc. approved the closing of the Stock Exchange Agreement on February 3, 2011 and the closing was completed on February 3, 2011.

Under the terms of the Stock Exchange Agreement dated January 21, 2011 that was closed on February 3, 2011 though the Stock Exchange Closing Agreement, the significant terms and conditions agreed to by the parties is as follows:

1) First Diversified Exchange. On the terms and subject to the conditions set forth in this Agreement, at the closing of the transaction contemplated by this Agreement (the "Closing"), which is more particularly described in Article IV below, First Diversified will transfer to Sector 10, Inc., 25,000,000 shares of common stock of First Diversified which represents 100% of the issued and outstanding shares of the capital stock of First Diversified as of the date of this Agreement and will represent 100% of the issued and outstanding shares of capital stock of First Diversified as of the date of the Closing ("the Closing Date").

2) Assignment of Rights to Post Split Shares. The Stock Exchange Agreement between Sector 10, Inc. and Solar Tracer Corporation dated December 22, 2010 ("Solar Tracer Stock Exchange Agreement") required that Sector 10, Inc. complete a 26-1 reverse stock split. Upon final approval of the reverse stock split, 60,000,000 shares were authorized to be issued to a designated shareholder of Solar Tracer Corporation. As agreed by all parties under the Solar Tracer Stock Exchange Agreement, the issued shares including the post reverse split shares would be issued to Sterling, LLC. Sterling, LLC has agreed to assign its full rights to the post reverse common shares of Sector 10 Inc. to First Diversified as part of this Agreement. Accordingly, in consideration of the exchange of 100% of the First Diversified shares set forth in Section 1.1 above, all parties agree that the 60,000, 000 shares to be issued after the reverse stock split will be issued to First Diversified or its assignees as consideration for the exchange of 100% of the First Diversified common shares exchanged under Section 1.1 above. This issue will be made based solely on the assignment by Sterling, LLC as set forth in this Section 1.2. Sterling, LLC and Solar Tracer Corporation are part of this Agreement only to the extent of confirming the assignment of the shares required under this Section 1.2. Sterling, LLC and Solar Tracer Corporation have no other involvement or obligation under this agreement. Except for the assignment of the shares discussed herein, there are no other changes to the rights, obligations or other terms and conditions set forth in the Solar Tracer Stock Exchange Agreement.

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3) Reverse Split and Additional Stock Issue. Subsequent to the Closing of the Transaction contemplated under this Agreement, the Sector 10, Inc. Board of Directors shall authorize Sector 10, Inc. to restructure the Sector 10, Inc. capital stock through a 26-1 reverse stock split. All shareholders of record as of the transaction date will receive 1 new share for every 26 common shares owned at the transaction date. After the 26-1 reverse split is completed and approved by regulatory authorities including FINRA, additional post split common shares of 60,000,000 will be issued to First Diversified or its assigns based on the assignment set forth in Section 1.2 above. Upon completion of this secondary issuance, First Diversified shall own a total of 60,000,000 common shares after the 26-1 reverse split. The new issued common shares of Sector 10, Inc. issued under this Agreement will be not registered pursuant to the provisions of the Securities Act of 1933, as amended (the "Securities Act") and will be subject to Rule 144 of the Securities and Exchange Commission.

4) Management and Board Changes. The First Diversified Stock Exchange Agreement requires that First Diversified Equities, Inc. and Solar Tracer Corporation review any changes to Management and the Board of Directors in order to integrate First Diversified Management into Sector 10, Inc. Initial changes in the CEO are expected to be implemented after the filing of the Form 10-Q for the period ended December 31, 2010. Other changes will be integrated and completed as agreed by all parties and effective on or before the fiscal year ended March 31, 2011.

5) Payment of Liabilities. The First Diversified Equities, Inc. Stock Exchange Agreement and Solar Tracer Corporation Stock Exchange Agreement requires First Diversified Equities, Inc. and Solar Tracer Corporation to assume the responsibility for payment and/or satisfying all debts and obligations of Sector 10, Inc. in effect as of the acquisition date. Current Sector 10, Inc. Management has agreed to work with First Diversified Equities, Inc. and Solar Tracer Corporation in an effort to work out a payment plan acceptable by all applicable creditors.

d) Impact of Acquisition of Solar Tracer Corporation and First Diversified Equities, Inc.

The following balance sheet adjustments are estimated to project the impact of the acquisitions of Solar Tracer Corporation and First Diversified Equities, Inc.

	DR (CR)					
	Assets	Current Liabilities	Long Term Liabilities	Capital Stock	APIC	Retained Earnings
Balance @ December 31, 2010	$958,350	$ (1,795,172)	$ (483,000)	$ (88,279)	$(5,775,571)	$ 7,183,672