

SECTOR 10 INC
Form 10-Q
February 12, 2009

**UNITED STATES SECURITIES
AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

**▶ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934 FOR THE QUARTERLY PERIOD ENDED **December 31, 2008****

**“ 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.

(Formerly SKRM Interactive, Inc.)

(Exact name of small business issuer as specified in its charter)

Delaware
(State or other

000-24370
(Commission File No.)

33-0565710
(IRS Employer

jurisdiction of incorporation)

Identification No.)

14553 South 790 West

Bluffdale, Utah 84065

(Address of principal executive offices, including zip code)

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

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

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

As of January 31, 2009 the issuer had 96,935,292 shares of common stock outstanding.

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

TABLE OF CONTENTS

Sector 10, Inc.

(formerly SKRM Interactive, Inc.)

Page

Part I. Financial information

Item 1. Financial statements

1

Consolidated Balance Sheets- as of December 31, 2008 (Unaudited) and March 31, 2008 (Audited)

1

Unaudited Consolidated Statements of Operations for the Nine Months Ended December 31, 2008 and 2007 and for the Period From Inception, September 16, 2002 to December 31, 2008

2

Unaudited Consolidated Statements of Operations for the Three Months Ended December 31, 2008 and 2007

3

Unaudited Consolidated Statement of Changes in Shareholders' Equity (Deficit) for the Period March 31, 2008 to December 31, 2008

4

Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2008 and 2007 and for the Period From Inception, September 16, 2002, to December 31, 2008

5

Notes to Unaudited Consolidated Financial Statements

6

Item 2. Management's discussion and analysis or plan of operation

10

Item 3. Controls and procedures

16

Part II. Other Information

Item 2. Unregistered sales of equity securities and use of proceeds

17

Item 6. Exhibits

17

PART I. FINANCIAL INFORMATION**Item 1.****Financial statements****Sector 10, Inc.****(formerly SKRM Interactive, Inc.)****(A DEVELOPMENT STAGE COMPANY)****CONSOLIDATED BALANCE SHEETS**

	December 31,	March 31,
	2008	2008
	(Unaudited)	(Audited)
ASSETS		
Current assets:		
Cash	\$ 75	\$
Accounts receivable	3,000	
Prepaid assets	17,917	
Total current assets	20,992	
Fixed Assets:		
Furniture	9,182	9,182
Computers	13,068	13,068
Total fixed asset cost	22,250	22,250
Less: accumulated depreciation	(4,598)	(1,260)
Net fixed assets	17,652	20,990
Other assets:		
Deposits	25,000	
Network acquisition	1,097,995	
Total other assets	1,122,995	
Total assets	\$ 1,161,639	\$ 20,990
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Bank overdraft	\$	\$ 692
Accounts payable and accrued liabilities	115,662	82,291

Edgar Filing: SECTOR 10 INC - Form 10-Q

Note payable	200,000	
Note payable officer / shareholder	164,908	762,387
Total current liabilities	480,570	845,370
Shareholders' equity (deficit):		
Preferred shares - \$0.001 par value; 1,000,000 authorized, no shares issued or outstanding		
C Common shares - \$0.001 par value; 199,000,000 authorized; 94,935,292 and 77,320,292 shares issued and outstanding, respectively	94,935	77,320
Additional paid in-capital (deficit)	697,967	(774,168)
Retained earnings (deficit) accumulated during the development stage	(111,833)	(127,532)
Total shareholders' equity (deficit)	681,069	(824,380)
Total liabilities and shareholders' equity (deficit)	\$ 1,161,639	\$ 20,990

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

Sector 10, Inc.**(formerly SKRM Interactive, Inc.)****(A DEVELOPMENT STAGE COMPANY)**

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Nine Months Ended December 31, 2008 and 2007 and for the Period From Inception,
September 16, 2002 to December 31, 2008

	Nine Months Ended		Inception to
	December 31,	December 31,	December 31,
	2008	2007	2008
Sales	\$ 31,000	\$	\$ 31,000
Cost of Sales	(23,800)		(23,800)
Gross Profit	7,200		7,200
Expenses:			
General and administrative	491,657	58,845	614,113
Depreciation	3,337		4,598
Total expenses	494,994	58,845	618,711
Income (loss) from operations	(487,794)	(58,845)	(611,511)
Interest expense	(13,707)		(17,522)
Other income: debt restructuring	517,200		517,200
Net Income (loss) before income taxes	15,699	(58,845)	(111,833)
Provision for income taxes			
Net Income (loss) after income taxes	\$ 15,699	\$ (58,845)	\$ (111,833)
Weighted Average Shares Outstanding basic and diluted	91,661,165	54,073,207	
Basic and diluted income (loss) per share			
Continuing Operations	\$ 0.00	\$ (0.00)	
Net Income (Loss)	\$ 0.00	\$ (0.00)	

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

Sector 10, Inc.**(formerly SKRM Interactive, Inc.)****(A DEVELOPMENT STAGE COMPANY)****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**
For the Three Months Ended December 31, 2008 and 2007

	Three Months Ended	
	December 31,	December 31,
	2008	2007
Sales	\$ 25,000	\$
Cost of Sales	(20,000)	
Gross Profit	5,000	
Expenses:		
General and administrative	120,921	37,859
Depreciation	1,112	
Total expenses	122,033	37,859
Income (loss) from operations	(117,033)	(37,859)
Interest expense	(5,865)	
Other income: debt restructuring		
Net Income (loss) before income taxes	(122,898)	(37,859)
Provision for income taxes		
Net Income (loss) after income taxes	\$ (122,898)	\$ (37,859)
Weighted Average Shares Outstanding basic and diluted	94,174,422	62,175,348
Basic and diluted income (loss) per share		
Continuing Operations	\$ (0.00)	\$ (0.00)
Net Loss	\$ (0.00)	\$ (0.00)

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

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

	Common stock		Additional Paid-In Capital	Equity (Deficit) Accumulated During the Development Stage
	Shares	Amount		
Balance at March 31, 2008	77,320,292	\$ 77,320	\$ (774,168)	\$ (127,532)
Issue shares on April 4, 2008 @\$.11 per share to Capital Group Communications (unaudited)	3,040,000	3,040	330,960	
Issue shares on May 8, 2008 @\$.11 per share to Jeffrey Martin debt conversion (unaudited)	1,200,000	1,200	130,800	
Issue shares on May 19, 2008 @\$.08 per share to Sector 10 Holdings, Inc. for transfer of Network ownership (unaudited)	12,500,000	12,500	987,500	
Issue shares on November 3, 2008 @\$.025 per share to Peter Kristensen for Investor relations consulting services (unaudited)	500,000	500	12,000	
Issue shares on December 19, 2008 @\$.03 per share to QualityStocks for Investor Relations Services (unaudited)	375,000	375	10,875	
Net income for the period (unaudited)				15,699
Balance at December 31, 2008 (unaudited)	94,935,292	\$ 94,935	\$ 697,967	\$ (111,833)

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

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

	Nine Months Ended		Inception to
	December 31,	December 31,	December 31,
	2008	2007	2008
Cash Flows from Operating Activities:			
Net income (loss)	\$ 15,699	\$ (58,845)	\$ (111,833)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock for services	339,834		339,834
Depreciation	3,337		4,598
Gain on debt restructuring	(517,200)		(517,200)
Changes in			
Accounts receivable	(3,000)		(3,000)
Deposits	(25,000)		(25,000)
Accounts payable and accrued liabilities	129,466	50,147	164,337
Net cash used in operating activities	(56,864)	(8,698)	(148,264)
Cash Flows from Investing Activities:			
Fixed asset purchases			(22,250)
Network acquisition / development costs	(97,995)		(97,995)
Net cash used in investing activities	(97,995)		(120,245)
Cash Flows from Financing Activities:			
Bank overdraft	(692)		
Proceeds from general financing	200,000		200,000
Proceeds from Shareholder /Officers	161,238		780,784
Payments to Shareholder/Officers	(205,612)		(715,786)
Net reverse merger adjustments		8,854	
Proceeds from issuance of common stock			3,586
Net cash provided by financing activities	154,934	8,854	268,584

Edgar Filing: SECTOR 10 INC - Form 10-Q

Net increase (decrease) in cash and cash equivalents	75	156	75
Beginning of the period cash balance			
Ending of the period cash balance	\$ 75	\$ 156	\$ 75
Cash Paid for interest	\$	\$	\$
Cash paid for income taxes	\$	\$	\$

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

SECTOR 10, INC.

(formerly SKRM INTERACTIVE, 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 NETWORK ACQUISITION

On May 19, 2008 Sector 10, Inc. (Sector 10 or Company) entered into an agreement with its major shareholder Sector 10 Holdings, Inc. (Holdings). Holdings currently owns over 50% of the outstanding shares of Sector 10. Holdings had developed a Server Network to maintain and administer products and services that have been developed by Holdings including the SRU and MRU safety products. Sector 10 has been restructured to act as the primary sales and distribution unit for Sector 10 Holdings products and services.

The network has fully integrated capabilities for distribution services including the worldwide transmission of video and audio broadcasts, with content management services that archive data under a redundant system with various server clusters across the nation to service Sector 10's National and world-wide requirements. In addition to providing for the normal Sector 10 products such as the SRU and SRU- Media, the Network also has the capability to provide other services.

The network was transferred from Holdings to the Company at a cost of \$1,000,000 which reflects the prior costs incurred by Holdings prior to the transfer. As part of the agreement, the Company agreed to pay for development costs that were due in the month of transfer. This expense amounted to \$97,995 in May 2008. The transfer was reflected as Network acquisition costs and the Company issued 12,500,000 common shares that were valued at \$.08 per share for total value of \$1,000,000.

The Network is not in service as of December 31, 2008. The Company is currently reviewing the performance of the administrator and is considering whether to make a change in administrators. A change in administrators is likely. A final decision is expected in the next fiscal quarter.

Note 3 DEBT CONVERSION

On May 8, 2008, Sector 10, Inc. (Sector 10) and Jeffrey Martin (Martin) agreed to convert all outstanding debt owed Martin to common shares of Sector 10, Inc. A brief description of the transaction and the related background is as follows.

Martin transferred 1,200,000 SKRM Interactive, Inc. common shares (Martin Transfer) that were owned by Martin and/or related parties to various individuals in satisfaction of pre-acquisition debt. As a result of the Martin transfer, Sector 10 recorded \$649,200 in liabilities due Martin on its books for the fiscal year end March 31, 2008.

Martin agreed to convert the debt into Sector 10 shares in an amount equal to the number of shares used by Martin in the Martin Transfer. Sector 10 agrees to issue 1,200,000 new shares of Sector 10, Inc. in complete and total satisfaction of the \$649,200 debt to Martin and in satisfaction of any other unrecorded debt that may exist between Martin and Sector 10.

SECTOR 10, INC.

(formerly SKRM INTERACTIVE, INC)

(A DEVELOPMENT STAGE COMPANY)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The 1,200,000 shares were issued during the quarter ended June 30, 2008. The accounting for the debt conversion consisted of reclassification of the note payable of \$649,200 to additional paid-in-capital ((\$130,800) and capital stock (\$1,200). The value of the shares issued on May 8, 2008 was \$132,000. The \$517,200 difference between the value and the debt converted was treated as other income.

Note 4 NOTES PAYABLE

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). Funding and/or disbursements transactions with the respective sources is accounted for in a separate account for Sector 10 Holdings, Inc. and Pericles DeAvila. Interest is charged on the account at a rate of 8% per annum. Total interest accrued on the accounts is \$6,094 which is comprised of Pericles DeAvila - \$420 and Sector 10 Holdings - \$5,674.

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%

The note has been recorded as a short term note. Interest has been accrued and is recorded as an accrued expense. Interest is accrued at \$1,000 per month until payments are made as agreed from network revenues. Total interest accrued at December 31, 2008 is \$7,613 of which \$3,000 was accrued during the three months ending December 31, 2008.

Note 5 DEPOSIT

The Company has been approached by DPO Medical, Inc. with respect to the possible acquisition of a medical product that (if acquired) could produce immediate revenues to assist in providing the Company with cash flow during their growth period. In order to hold the rights during its due diligence review, the Company on September 15, 2008, placed a \$25,000 refundable deposit with DPO Medical, Inc. The Company completed its due diligence review subsequent to the quarter ended September 30, 2008 and decided that it was not in the Company's best interest to pursue the acquisition of the medical product offered by DPO Medical. Accordingly, the Company has requested the full refund of the \$25,000 deposit. The deposit has been recorded as an asset on the balance sheet for the period ended

December 31, 2008. A total of \$15,000 of the deposit was received in January 2009. The balance of \$10,000 is expected to be received in the 4th quarter for the fiscal year ended March 31, 2009.

Note 6 EQUITY

During the Quarter ended: June 30, 2008:

In April 2008, 3,040,000 shares were issued to Capital Group Communications as part of a fee arrangement to provide the Company with investor relations services. The value of the shares was \$334,000 which was reflected as an adjustment to capital stock and paid in capital. The stock was issued for professional fees related to investor relations services. The total fees of \$334,000 were split between the expense recognized of \$194, 831 for the period ended June 30, 2008, expenses recognized of \$83,499 for the 3 month period ended September 30, 2008 and expenses recognized of \$55,670 for the 3 month period ended December 31, 2008. No other expenses are expected under this agreement. The current agreement extended through December 17, 2008. Since services received were less than expected, the agreement was not renewed. The Company is considering options in requesting a return of a portion of the stock provided under the agreement.

SECTOR 10, INC.

(formerly SKRM INTERACTIVE, INC)

(A DEVELOPMENT STAGE COMPANY)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In May, 2008, 1,200,000 shares were issued to Jeffrey Martin in exchange for the conversion of \$649,200 debt. A net adjustment of \$132,000 reflecting the value of the equity was made to capital stock and paid in capital. The difference between the value and the debt converted was treated as other income.

In May 2008, 12,500,000 shares were authorized to be issued to Sector 10 Holdings as part of the Network Acquisition. The shares were valued at \$.08 per share based on the closing price at May 19, 2008. The agreement for the acquisition requires that the shares retain the \$1 Million required value at the end of six months. If value is not retained, then additional shares may be issued to retain the full value at \$1 Million. On November 12, 2008, Sector 10 Holdings requested that no additional shares be issued as a result of the decrease in value at the end of six months.

Sector 10 Holdings acknowledged that the 12,500,000 common shares received represents the total amount of shares to be received as a result of the Network transfer under the Agreement dated May 19, 2008.

During the Quarter ended: September 30, 2008:

There were no equity transactions and/or equity shares issued during the quarterly period ended September 30, 2008.

During the Quarter ended: December 31, 2008:

In November 2008, 500,000 shares were issued to Peter Kristensen as part of a fee arrangement to provide the Company with investor relations and capital services. The agreement is for a 12 month period beginning in November 2008. The value of the shares was \$12,500 which was reflected as an adjustment to capital stock and paid in capital. The stock was issued for professional fees related to investor relations services. The total fees of \$12,500 were split between the expense recognized of \$2,083 for the period ended December 31, 2008 and Prepaid Expense of 10,417 which will be allocated over the remained of the agreement.

In December 2008, the Company entered into an agreement with Quality Stocks, LLC to provide investor relations and marketing services. The agreement is for a 6 month period beginning in December 2008. As part of this agreement, the Company agreed to pay professional service fees for each 3 month period under the agreement as follows: \$7,500 cash, issue stock of 375,000 restricted shares and issue 175,000 unrestricted shares. As of December 31, 2008, the 375,000 restricted shares were issued and the \$7,500 cash fees were accrued and subsequently paid in February 2009. The 175,000 unrestricted shares have not been issued and are not reflected in the financial statements. The total fees accrued under this agreement as of December 31, 2008 was \$18,750 including the \$7,500 accrued expense plus the \$11,250 valuation for the 375,000 shares issued. The value of the shares was \$11,250 which was reflected as an adjustment to capital stock and paid in capital will be amortized over 3 months. The stock and professional fees related to investor relations services. The total fees of \$18,750 were split between the expense recognized of \$11,250 for the period ended December 31, 2008 and Prepaid Expense of \$7,500 which will be allocated through February 2009. No value for the 175,000 shares that have not been issued has been reflected in the financial statements for the period ending December 31, 2008. The value will be reflected in the period when the stock is authorized and issued by the Company. The shares are expected to be authorized and issued in the 4th quarter for the

fiscal year ending March 31, 2009.

Note 7 GOING CONCERN

As of December 31, 2008, the Company generated initial revenues of \$31,000 through the 3rd quarter ended December 31, 2008. 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 November 5, 2008. Management expects revenues to increase in the 4th quarter of the current fiscal year and in the next fiscal year ended March 31, 2010. Management also 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.

SECTOR 10, INC.

(formerly SKRM INTERACTIVE, INC)

(A DEVELOPMENT STAGE COMPANY)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8 INCOME TAXES

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carryforwards. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized.

The Company's financial statements for the Nine month period ended December 31, 2008 and 2007 do not include any provision for income taxes. No income tax accrual has been recorded based on the expectation that the additional losses expected to be incurred in the balance of the fiscal year and net operating losses are sufficient to offset the debt forgiveness income that was reflected in the 1st quarter. 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.

In June 2006, FASB issued FIN 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109. It is effective for fiscal years beginning after December 15, 2006. The Company has determined that the application of FIN 48 is immaterial to the Company's financial statements for the current period. As the Company expects the business to change significantly in the future, an evaluation regarding the impact of FIN 48 will be reviewed on a quarterly basis.

Note 9 SUBSEQUENT EVENTS

On January 5, 2009, the Company entered into a 6 month arrangement with Illuminated Financial Services Corp regarding financial advisory, strategic planning and investor relations services. In accordance with this agreement, the Company issued 2,000,000 shares of restricted common shares. The shares were valued at \$.04per share for a total value of \$80,000. This value will be allocated over the 6 month period of the agreement beginning in January 2009. No other common shares have been authorized for issue by the Company as of the date of this report.

Item 2.

Management's Discussion And Analysis Or Plan Of Operation

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

Overview

Sector 10 has completed its initial sale of 2 MRU units to a company in San Jose, CA. In addition, 2 SRU-M media units have been ordered to be placed in College facilities that have engaged the Company services. The MRU customer has recently called to order more units and to refer several customers that have expressed interest. Sector 10 has been developing relationships and presently has contracts under review that could generate significant revenues for the Company. Currently under review are approximately 40 units that would be placed in high rise buildings in San Francisco. Additional opportunities are being pursued in high rise facilities in New York City. The customer(s) are interested in additional units after these have been completed. Management is hopeful that the negotiations may be completed by the end of the 4th quarter with placement of product beginning in the 1st quarter of the next fiscal year ended March 31, 2010. If the Company is successful in negotiating and executing purchase contracts, and if the Company is able to expand its operations to fulfill product orders which could be issued under those contracts, neither possibility of which the Company can presently assure, the Company's management believes the Company's revenues and related cash flows of the Company would have a material impact on the Company financial statements.

The Network that was transferred to Sector 10 in the 1st quarter will be used for the administration and maintenance of the SRU units placed with customers. The network also has the capability to provide other telecom services. The outside network administrator has not been successful in engaging any telecom business for the network. At this time, it does not appear that any significant telecom revenues will be generated in the short term. The Company is considering changing network administrators. Such a change appears likely. A final decision regarding this matter is expected in the 4th quarter.

The Company placed a \$25,000 deposit to hold the rights to a medical product offered for sale by DPO Medical, Inc. The deposit is fully refundable pending the decision on how to proceed after the due diligence review is completed. The Company has completed the due diligence and determined that the acquisition of the DPO Medical product would not be in the best interest of the Company. The Company has requested a full refund of the deposit. The deposit was not returned by December 31, 2008. A portion of the deposit (\$15,000) was received in January 2009. The balance is expected to be received in the 4th quarter of the current fiscal year.

The Company generated revenues of \$6,000 during the 2nd quarter and \$25,000 during the 3rd quarter. Based on the distribution agreement entered into on September 1, 2007 with Sector 10 Holdings, the liability for the distribution rights fees are not incurred in any respective market until a minimum of \$100,000 in sales are generated in the

respective authorized distribution markets. Each of the initial markets identified in the agreement require a distribution rights fee of \$250,000 to \$500,000 per market (depending on market size) with a maximum cumulative fee of \$5 Million. The fee may not exceed 20% of the cumulative sales in the market. Therefore, the fee may be paid over a period of time as sales are initiated in a new market. Based on the sales activity that is currently in negotiation, it is expected that the distribution rights fees will not be incurred until the next fiscal year ended March 31, 2010. The fee cannot be determined until sales are confirmed and the specific locations are identified.

Going Concern Qualification

The notes to the Company's consolidated financial statements disclose that the limited cash flow of the Company has been absorbed in operating activities and the Company has incurred net losses from operations since inception, and the Company has a working capital deficiency. In the event that funding from internal sources or from public or private financing is insufficient to fund the Company's business, the Company will have to

substantially cut back its level of spending, which could substantially curtail the Company's operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's going concern uncertainty may affect its ability to raise additional capital, and may also affect its ability to raise additional capital, and may also affect its relationships with suppliers and customers. Investors should carefully examine the Company's financial statements.

Results of Operations

Nine Months Ended December 31, 2008 as Compared to the Nine Months Ended December 31, 2007

Revenues -

The Company had initial revenues of \$31,000 for the nine months ended December 31, 2008. The Company is currently negotiating various contracts which the Company's management currently believes will generate additional revenues in the 4th quarter for the fiscal year ending March 31, 2009 and in the next fiscal year ended March 31, 2010.

The Company had no revenues for the nine months ended December 31, 2007.

Other Income-

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

The Company had no other income for the nine months ended December 31, 2007.

Cost of Sales -

The Company had sales of \$31,000 during the nine months ended December 31, 2008. The Cost of Sales associated with the sales for this period was \$23,800 which was \$1,900 per MRU unit and \$10,000 per SRU-M unit.

The Company had no cost of sales or other operating expenses for the nine months ended December 31, 2007.

General and Administrative Expenses -

General and administrative expenses were \$491,657 for the nine months ended December 31, 2008. These expenses are made up of professional fees - investor relations 347,333, expense allocation from Sector 10 Holdings of \$90,000, other professional fees of \$35,811 and other expenses of \$18,513.

General and administrative expenses were \$58,845 for the nine months ended December 31, 2007. These expenses are made up in large part by accounting, consulting and professional fees of \$52,438 and other expenses of \$6,407.

Depreciation Expense

Depreciation expense for the nine months ended December 31, 2008 was \$3,337.

There was \$0 depreciation expense reported for the nine months ended December 31, 2007.

Interest Expense

Interest expense for the nine month period ended December 31, 2008 was \$13,707. There was no interest expense for the nine month period ended December 31, 2007.

Three Months Ended December 31, 2008 as Compared to the Three Months Ended December 31, 2007

Revenues -

The Company had revenues of \$25,000 for the three months ended December 31, 2008. The Company is currently negotiating various contracts which the Company's management currently believes will generate additional revenues in the 4th quarter for the fiscal year ending March 31, 2009 and in the next fiscal year ended March 31, 2010.

The Company had no revenues for the three months ended December 31, 2007.

Other Income-

The company had no other income for the three months ended December 31, 2008.

The Company had no other income for the three months ended December 31, 2007.

Cost of Sales -

The Company had sales of \$25,000 during the three months ended December 31, 2008. The Cost of Sales associated with the sales for this period was \$20,000 which was \$10,000 per SRU-M unit.

The Company had no cost of sales or other operating expenses for the three months ended December 31, 2007.

General and Administrative Expenses -

General and administrative expenses were \$120,921 for the three months ended December 31, 2008. These expenses are made up of professional fees investor relations 69,003, expense allocation from Sector 10 Holdings of \$30,000, other professional fees of \$16,250 and other expenses of \$5,668.

General and administrative expenses were \$37,859 for the three months ended December 31, 2007. These expenses are made up in large part by accounting, consulting and professional fees of \$34,085 and other expenses of \$3,774.

Depreciation Expense

Depreciation expense for the three months ended December 31, 2008 was \$1,112.

There was \$0 depreciation expense reported for the three months ended December 31, 2007.

Interest Expense

Interest expense for the three month period ended December 31, 2008 was \$5,865. There was no interest expense for the three month period ended December 31, 2007.

Liquidity and Capital Resources

As of December 31, 2008, Sector 10 had cash of \$75. This amount is not sufficient to meet the Company's working capital requirements for the balance of the fiscal year ending March 31, 2009 or for any future period.

Sector 10 has completed its initial sale of 2 MRU units to a company in San Jose, CA. In addition, 2 SRU-M media units have been ordered to be placed in College facilities that have engaged the Company services. The MRU customer has recently called to order more units and to refer several customers that have expressed interest. Sector 10 has been developing relationships that could generate significant revenues for the Company. Currently under review are approximately 40 units that would be placed in high rise buildings in San Francisco. Additional opportunities are being pursued in high rise facilities in New York City. The customer(s) are interested in additional units after these have been completed. Management is hopeful that the negotiations may be completed by the end of the 4th quarter with placement of product beginning in the 1st quarter of the next fiscal year ended March 31, 2010. The Company is negotiating financing arrangements with various investor groups. The Company may consider also generating funding from the sale of shares of Common Stock to in private transactions. There is no guarantee that the Company will be successful in arranging financing on acceptable terms. If the Company is not able to raise additional debt or equity, the Company's ability to continue its business operations is highly unlikely.

The Company does not currently have any arrangements for financing and the Company may not be able to find such financing if required. Obtaining additional financing would be subject to a number of factors, including investor sentiment. Market factors may make the timing, amount, terms or conditions of additional financing unavailable to the Company.

The Company's continuation as a going concern is dependent upon continued financial support from the Company's shareholders or other parties.

Total Assets -

The Company had \$1,161,639 in total assets as of December 31, 2008, comprised of cash - \$75, Accounts Receivable - \$3,000, Prepaid Assets \$17,917, Net Fixed Assets - \$17,652, Deposits - \$25,000 and Network Acquisition/Development Costs - \$1,097,995.

Total Liabilities -

The Company had \$480,570 in total liabilities as of December 31, 2008. The Company's total liabilities as of December 31, 2008 were comprised of \$115,662 of accounts payable and accrued liabilities; \$164,908 in notes payable to a shareholder/officer and \$200,000 other notes payable. All of the outstanding debt is classified as current liabilities.

Operating Activities -

Cash used in operations for the nine months ended December 31, 2008 was (\$56,864). Operating activities were affected by stock for services - \$339,834; depreciation expense - \$3,337; gain on debt restructuring - (\$517,200); change in accounts receivable (\$3,000); change in deposits - (\$25,000) and change in accounts payable and accrued liabilities -\$129,466.

Cash used in operations for the nine months ended December 31, 2007 was (\$8,698) which was affected by change in accounts payable and accrued liabilities -\$50,147.

Investing Activities -

Cash used from investing activities for the nine months ended for December 31, 2008 was \$97,995.

There was no cash used from investing activities for the nine month period ended December 31, 2007.

Financing Activities -

Cash provided from financing activities for the nine months ended December 31, 2008 was \$154,934 comprised of general financing proceeds - \$200,000, net proceeds on shareholder / officer notes (\$44,374) and bank overdraft of (\$692).

Cash provided from financing for the nine months ended December 31, 2007 was \$8,854.

Risks Related to the Company's Business and Operations

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

Going Concern Qualification

The Company has generated limited cash flow, has incurred net losses since inception and has a working capital deficiency. In the event that contracts are not executed, the Company will not be able to generate revenues sufficient to cover anticipated expenses. Existing funding from internal sources or from public or private financing is

insufficient to fund the Company's business. If the Company is unable to quickly generate capital from operating activities or from external sources, the Company will have to substantially curtail its operations and will likely need to suspend its operations entirely. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's going concern uncertainty will likely affect its ability to raise additional capital, and may also affect its relationships with suppliers and prospective customers. Investors should carefully examine the Company's financial statements.

The Company uses outside sources to fulfill contract obligations and has limited control over the provider's ability to meet the Company obligations.

The Company will be required to supply various equipment and services under the contracts currently under negotiation. If the contracts are executed, of which the Company can provide no assurance, the Company intends to engage third-party suppliers to manufacture the products the Company proposes to sell under the contracts. The Company has no control over such third-party suppliers. If any or all of those third-party suppliers fails to supply sufficient products on a timely basis to meet the terms of any contract, the Company would be unable to perform its obligations to its customers, if any. If the Company is successful in negotiating and executing contracts for the sale of its products and if a third-party supplier fails to perform its obligations under its arrangement with the Company, the Company's financial condition and results of operation would be materially and adversely affected.

The directors, executive officers and principal shareholders of the Company have effective control of the Company, preventing non-affiliate shareholders from significantly influencing the Company's direction and future.

The Company's directors, officers, and principal shareholders and their affiliates control in excess of 80% of the Company's outstanding shares of common stock and are expected 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 Company's shareholders, 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 management's affiliates from influencing the Company's direction and future.

The market for the Company's stock is thin and subject to manipulation.

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

The market price for the Common Stock is volatile and may change dramatically at any time.

The market price of the Common Stock is highly volatile. The price for the Common Stock may change dramatically as the result of announcements of the Company's operating or financial results, the rate of the Company's expansion, significant litigation or other factors or events that would be expected to affect the Company's business or financial condition, results of operations and other factors specific to the Company's business and future prospects. In addition, the market price for the Common Stock may be affected by various factors not directly related to the Company's business, including the following:

.
intentional manipulation of the price of the Common Stock by existing or future stockholders;

.
short selling of the Common Stock or related derivative securities;

.
a single acquisition or disposition, or several related acquisitions or dispositions, of a large number of the Company's shares of Common Stock;

.
the interest, or lack of interest, of the market in the Company's business sector, without regard to the Company's financial condition or results of operations;

.
the adoption of governmental regulations and similar developments in the United States or abroad that may affect the Company's ability to offer the Company's products and services or affect the Company's cost structure;

.
developments in the businesses of companies that purchase the Company's 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.

The Company is currently negotiating various contracts that may generate increased revenues in future quarters. If the Company is able to execute any such contracts, of which there can be no assurance, the Company intends to new personnel to assist in the development and conduct of the Company's business operations. The increased compensation and benefits associated with any new hires will impact the net results of the Company.

The Company has not paid dividends and does not anticipate paying dividends in the future.

The Company has not paid any cash dividends on its common stock to date and does not anticipate any cash dividends being paid to holders of its common stock in the foreseeable future. While the Company's 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 the Company's future expansion. As the Company has no plans to issue cash dividends in the future, its 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 issued cash dividends.

The Common Stock is a low-priced stock and subject to regulation that limits or restricts the potential market for the stock.

Shares of the Common Stock should be considered to be low-priced or penny stock, resulting in increased risks to investors and certain requirements being imposed on some brokers who execute transactions in the 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;

Edgar Filing: SECTOR 10 INC - Form 10-Q

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.

The Company believes the Common Stock is presently a penny stock. At any time that the Common Stock qualifies as a penny stock, the following requirements, among others, will generally apply:

.

Certain broker-dealers who recommend penny stock to persons other than established customers and accredited investors must make a special written suitability determination for the purchaser and receive the purchaser's written agreement to a transaction prior to sale.

.

Prior to executing any transaction involving a penny stock, certain broker-dealers must deliver to certain purchasers a disclosure schedule explaining the risks involved in owning penny stock, the broker-dealer's duties to the customer, a toll-free telephone number for inquiries about the broker-dealer's disciplinary history and the customer's rights and remedies in case of fraud or abuse in the sale.

.

In connection with the execution of any transaction involving a penny stock, certain broker-dealers must deliver to certain purchasers the following:

o

bid and offer price quotes and volume information;

o

the broker-dealer's compensation for the trade;

o

the compensation received by certain salespersons for the trade;

o

monthly accounts statements; and

o

a written statement of the customer's financial situation and investment goals.

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.

Item 3.

Controls and Procedures

(a)

Based on the evaluation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) required by paragraph (b) of Rules 13a-15 or 15d-15, the Company's principal executive officer and principal financial officer concluded that as of December 31, 2008, the Company's disclosure controls and procedures were effective.

(b)

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

PART II - OTHER INFORMATION

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

On September 12, 2007, the Company, Jeffrey Martin, Sector 10 Services, Sector 10 Holdings, and the DeAvila Institute the Section 10 Transaction Exchange Agreement. The offer and sale of shares of common stock in the Sector 10 Transaction were effected in reliance upon the exemptions for sales of securities not involving a public offering, as set forth in Section 4(2) of the Securities Act and/or Regulation D promulgated thereunder, based upon the following: (a) there was no public offering or general solicitation with respect to the Sector 10 Transaction offering; (b) each of Sector 10 Holdings and the DeAvila Institute investor was provided with certain disclosure materials and all other information requested with respect to the Company; (c) each of Sector 10 Holdings and the DeAvila Institute acknowledged that all securities being purchased were restricted securities for purposes of the Securities Act, and agreed to transfer such securities only in a transaction registered under the Securities Act or exempt from registration under the Securities Act; and (d) a legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if subsequently registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

Item 6.

Exhibits

See the Exhibit Index attached hereto following the signature page.

SIGNATURES

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

Sector 10, Inc.

February 12, 2009
Date

By: /s/ PERICLES DEAVILA
Pericles DeAvila,
President

February 12, 2009
Date

By: /s/ LAURENCE A. MADISON
Laurence A. Madison
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Exhibit	Incorporated by Reference/ Filed Herewith
	[Discuss other exhibits]	
<u>31.1</u>	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith
<u>31.2</u>	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith
<u>32.1</u>	Section 1350 Certification of Chief Executive Officer	Filed herewith
<u>32.2</u>	Section 1350 Certification of Chief Financial Officer	Filed herewith