SECTOR 10 INC
Form 10-Q
February 19, 2014

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, 2013

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.)

222 South Main Street, 5th Floor
Salt Lake City, UT 84101

(Address of principal executive offices, including zip code)

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

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

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

As of February 18, 2014 the issuer had 305,778 shares of common stock outstanding.

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

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Item 1. FINANCIAL STATEMENTS

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

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

ASSETS	December 31, 2013 (Unaudited)	March 31, 2013 (Unaudited)
Current assets:		
Cash	$-	$-
Inventory, net	18,409	18,409
Total current assets	18,409	18,409
Fixed assets - cost	22,250	22,250
Less: accumulated depreciation	(22,250)	(22,250)
Net fixed assets	-	-
Total assets	$18,409	$18,409
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued liabilities	$4,117,368	$3,377.328
Note payable - short term	240,615	240,615
Total current liabilities	4,357,983	3,617,943
Long term liabilities:		
Note payable	483,000	483,000
Total long term liabilities	483,000	483,000
Total liabilities	4,840,983	4,100,943
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; 305,778 and 305,778 shares issued and outstanding, respectively	306	306
Additional paid-in-capital	6,148,229	6,148,229
Deficit accumulated during development stage	(10,971,109)	(10,231,069)
Total shareholders' equity (deficit)	(4,822,574)	(4,082,534)
Total liabilities and shareholders' equity (deficit)	$18,409	18,409

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

Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months and Nine Months Ended December 31, 2013 and 2012 and
for the Period From Inception, September 16, 2002 to December 31, 2013

	Three Months Ended		Nine Months Ended		Inception to
	December 31, 2013 (Unaudited)	December 31, 2012 (Unaudited)	December 31, 2013 (Unaudited)	December 31, 2012 (Unaudited)	December 31, 2013
Sales	$-	$-	$-	$-	$18,500
Cost of Sales	-	-	-	-	(18,032)
Gross Profit	-	-	-	-	468
Expenses:					
General and administrative	195,055	226,501	570,879	585,287	9,246,104
Depreciation		785	-	3,010	24,106
Research and development	-	-	-	-	226,108
Total expenses	195,055	227,286	570,879	588,297	9,496,318
Income (loss) from operations	(195,055)	(227,286)	(570,879)	(588,297)	(9,495,850)
Interest expense	(54,652)	(42,752)	(169,161)	(120,197)	(844,464)
Other income (expense)	-	-	-	-	(630,795)
Net income (loss) before income taxes	(249,707)	(270,038)	(740,040)	(708,494)	(10,971,109)
Provision for income taxes	-	-	-	-	-
Net income (loss) after income taxes	$(249,707)	$(270,038)	$(740,040)	$(708,494)	$(10,971,109)
Weighted Average Shares Outstanding - basic and diluted*	305,778	305,778	305,778	305,778	
Basic and diluted income (loss) per share					
Continuing Operations	$(0.82)	$(0.88)	$(2.42)	$(2.32)	
Net Income (Loss)	$(0.82)	$(0.88)	$(2.42)	$(2.32)	

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

Sector 10, Inc.
(A DEVELOPMENT STAGE COMPANY)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended December 31, 2013 and 2012 and
for the Period From Inception, September 16, 2002 to December 31, 2013

	Six Months Ended		Inception to
	December 31, 2013	December 31, 2012	December 31, 2013
Cash Flows from Operating Activities:			
Net Loss	$(740,040)	$(708,494)	$(10,971,109)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock for services	-	24,786	5,114,493
Depreciation	-	3,010	24,106
Net discount on convertible debt	-	-	206,324
Loss due to Impairment / Gain on restructuring	-	-	630,795
Changes in:			
Inventory and other current assets	-	-	(4,869)
Accounts payable and accrued liabilities	740,040	680,698	4,612,662
Net cash used in operating activities	-	-	(387,598)
Cash Flows from Investing Activities:			
Fixed asset / Other asset purchases	-	-	(189,541)
Net cash used in investing activities	-	-	(189,541)
Cash Flows from Financing Activities:			
Net Proceeds from general financing	-	-	657,500
Net Proceeds (payments) from shareholder / officers	-	-	(113,947)
Proceeds from issuance of common stock	-	-	33,586
Net cash provided by financing activities	-	-	577,139
Net increase (decrease) in cash	-	-	-
Beginning of period - continuing operations	-	-	-
End of period - continuing operations	$-	$-	$-
Cash paid for interest	$2,000	$-	$20,295
Cash paid for income taxes	$-	$-	$-

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

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

Note 1 - BASIS OF PRESENTATION

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

Note 2 – INVENTORY

There were no sales in the nine month period ended December 31, 2013. Therefore, total inventory remains at $18,409 for the nine month period ended December 31, 2013. The carrying value of inventory is periodically reviewed and impairments, if any, are recognized when the expected future benefit from the inventory is less than its carrying value. If applicable, the Company will establish inventory reserves for estimated obsolescence or unmarketable inventory which is equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. For the nine month period ended December 31, 2013, the Company has a reserve of $12,491.

Note 3 – NOTES PAYABLE

Johnson Financing

The interest accrued for the nine month period ended December 31, 2013 was $21,442 which includes an adjustment of 14,945 to increase the accrued interest to agree to the litigation settlement reached on November 14, 2013. The rate for accrued interest has been increased from an annual rate of 6% to an annual rate of 12%. The adjustment noted above reflects the cumulative effect of this change.

Dutro Financing:

The contingent reserve - interest includes all interest accrued on the Dutro Company note and all interest accrued after July 1, 2010 for the Vicki Davis and William Dutro note. Interest accrued during the nine month period ended December 31, 2013 was $27,168 comprised of Dutro Company - $14,063, Vick Davis - $9,450 and William Dutro - $3,655. Total contingent reserve - interest for the period ended December 31, 2013 is $143,673 comprised of Dutro Company - $82,510, Vick Davis - $44,100 and William Dutro - $ 17,063.

Employee Agreement:

The financial statements reflect an accrual of interest on unpaid wages and other compensation in the amount of $338,739 of which $111,311 is accrued during the nine month period ended December 31, 2013.

Other Notes

Individuals – short term

Total interest accrued as of December 31, 2013 was $27,135 of which $5,340 was accrued during the nine month period ended December 31, 2013.

Asher Enterprises, Inc.

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

Total interest accrued (without discount amortization) as of December 31, 2013 was $20,002 of which $3,900 was accrued during the nine month period ended December 31, 2013. The current period interest of $3,900 is included as part of other interest.

Summary of Interest and Notes Payable

Interest expense	December 31, 2013	December 31, 2012
Interest – Johnson	21,442	3,898
Interest – Dutro Group	27,168	27,168
Interest - Employee Group	111,311	80,231
Interest – Other Notes	9,240	8,900
Total interest expense	$ 169,161	$ 120,197

Note Payable Balance	December 31, 2013	March 31, 2013
Edward Johnson – Johnson Financing	$ 86,615	$ 86,615
Patrick Madison – Other Notes	20,000	20,000
Lionel Brown – Other Notes	20,000	20,000
Patricia Fielding – Other Notes	22,000	22,000
Mark Madison – Other Notes	10,000	10,000
Richard Long – Other Notes	17,000	17,000
Asher Enterprises, Inc. – Other Notes	65,000	65,000
Total Note Payable – short term	$ 240,615	$ 240,615
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	$ 723,615	$ 723,615

Debt Maturity Schedule

As of September 30, 2013, the annual maturities for notes payable is scheduled as follows:

Fiscal Year	Amount
March 31, 2014	$ 240,615
March 31, 2015	$ 483,000

Total	$	723,615

Note 4 – EQUITY

During the Quarter ended: June 30, 2013:

No equity transactions occurred in the period ended June 30, 2013.

During the Quarter ended: September 30, 2013:

No equity transactions occurred in the period ended September 30, 2013.

During the Quarter ended: December 31, 2013:

No equity transactions occurred in the period ended December 31, 2013.

Note 5 – GOING CONCERN

The Company generated minimal revenues prior to the current fiscal year. No revenues were generated for the nine month period ended December 31, 2013. This level of revenues is not sufficient for the Company to meet its future obligations. This factor raises substantial doubt about the Company's ability to continue as a going concern.

The Company is in the midst of the Dutro litigation and other litigation. The litigation has hindered the operation of the Company and have set back the ability to raise capital and develop ongoing business. The Company is in the process of restructuring the business in order to continue forward as a going concern. It is expected that the restructuring will be completed after the current litigation is completed. After the restructuring is completed, revenues are not expected to be generated at the earliest by the end of the year ended March 31, 2015.

Note 6 - 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, 2013 and 2012 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, 2013 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 2010.

Note 7 – SUBSEQUENT EVENTS

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

1) Litigation involving various parties continues and is expected to continue for the foreseeable future. The impact of the issues surrounding the litigation impact the Company's ability to obtain funding needed to operate the Company according to their strategic plans.

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

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

Overview

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

The Company's cash balance is insufficient to satisfy the Company's cash requirements for the next 12 months. Due to issues surrounding Dutro Group and other pending litigation, the ability to deliver products to customers has been delayed. Litigation involving various parties continues and is expected to continue for the foreseeable future. The impact of the issues surrounding the litigation impact the Company's ability to obtain funding needed to operate the Company according to their strategic plans.

Going Concern Qualification

Our notes to the financial statements disclose that the cash flow of the Company has been absorbed in operating activities, has incurred net losses for the fiscal year and has a working capital deficiency. Due to the pending litigation and the current restructuring, the Company operations are not likely to produce positive cash flow until at least the end

of the fiscal year ended March 31, 2015. These factors raise substantial doubt about our ability to continue as a going concern. Our going concern uncertainty may affect our ability to raise additional capital, and may also affect our relationships with suppliers and customers. Investors should carefully examine our financial statements and read the notes to the financial statements.

Results of Operations

Nine Months Ended December 31, 2013 as Compared to the Nine Months Ended December 31, 2012

Revenues -

The Company had no revenues for the nine months ended December 31, 2013.

The Company had no revenues for the nine months ended December 31, 2012.

Other Income-

The Company had no other income for the nine months ended December 31, 2013.

The Company had no other income for the nine months ended December 31, 2012.

Operating Expenses -

The Company had no operating expenses for the nine months ended December 31, 2013.

The Company had no operating expenses for the nine months ended December 31, 2012.

General and Administrative Expenses -

General and administrative expenses were $570,879 for the nine months ended December 31, 2013 which was made up primarily of Wages - $409,500, Professional fees – Legal & Accounting - $105,000, Payroll tax expense - $40.950 Filing fees - $6,430, Insurance expense - $4,749, Finance Fees - $3,000 and other expenses of $1,250.

General and administrative expenses were $585,287 for the nine months ended December 31, 2012 which was made up primarily of Wages - $398,286, Professional fees – Legal & Accounting - $185,000 and other expenses of $2,001.

Depreciation Expense –

Depreciation expense for the nine months ended December 31, 2013 was $0.

Depreciation expense for the nine months ended December 31, 2012 was $3,010.

Interest Expense –

Interest expense for the nine months ended December 31, 2013 was $169,161.

Interest expense for the nine months ended December 31, 2012 was $120,197.

Three Months Ended December 31, 2013 as Compared to the Three Months Ended December 31, 2012

Revenues -

The Company had no revenues for the three months ended December 31, 2013.

The Company had no revenues for the three months ended December 31, 2012.

Other Income-

The Company had no other income for the three months ended December 31, 2013.

The Company had no other income for the three months ended December 31, 2012.

Operating Expenses -

The Company had no operating expenses for the three months ended December 31, 2013.

The Company had no operating expenses for the three months ended December 31, 2012.

General and Administrative Expenses -

General and administrative expenses were $195,055 for the three months ended December 31, 2013 which was made up primarily of Wages - $136,500, Professional fees – Legal & Accounting - $40,000, Payroll tax expense - $13,650 Filing fees - $1,810, Insurance expense - $1,845, Finance Fees - $1,000 and other expenses of $250.

General and administrative expenses were $226,501 for the three months ended December 31, 2012 which was made up primarily of Wages - $124,500, Professional fees – Legal & Accounting - $100,000 and other expenses of $2,001.

Depreciation Expense –

Depreciation expense for the three months ended December 31, 2013 was $0.

Depreciation expense for the three months ended December 31, 2012 was $785.

Interest Expense –

Interest expense for the three month period ended December 31, 2013 was $54,652.

Interest expense for the three month period ended December 31, 2012 was $42,752.

Liquidity and Capital Resources
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As of December 31, 2013, Sector 10 had cash of $0. This amount is not sufficient to meet the Company's working capital requirements for the balance of the fiscal year ending March 31, 2014 or for any future period.

Total Assets -

The Company had $18,409 in total assets as of December 31, 2013, comprised of cash - $0 and Inventory - $18,409.

Working capital -

As of this filing date, the Company is in the process of restructuring its operations in order to raise capital and continue in its efforts to manufacture and distribute its products. The restructuring is expected to be completed by the end of the fiscal year ended March 31, 2015. Potential funding is not expected until litigation efforts are completed. It is uncertain as to when such litigation will be completed.

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

Total Liabilities -

Current liabilities as of December 31, 2013 were $4,357,983. The balance was composed of accounts payable and accrued liabilities of $4,117,368 and note payable to outside investors of $240,615.

Long term liabilities as of December 31, 2013 were $483,000. The balance consists of Notes Payable to Dutro Company - $250,000, Vicki Davis Living Trust - $168,000 and William Dutro - $65,000.

Total liabilities as of December 31, 2013 were $4,840,983.

Cash flows -

Sources and Uses of Cash	Nine Months Ended December 31, 2013	Nine Months Ended December 31, 2012
Net cash provided by / (used in)		
Operating activities	$ -	$ -
Investing activities	-	-
Financing activities	-	-
Increase/(decrease) in cash and cash equivalents	$ -	$ -
Period ended December 31, 2013 and 2012		
Cash and cash equivalents	$ -	$ -

Operating Activities -

Cash used in operations for the nine months ended December 31, 2013 was $0. Operating activities were affected by net loss – ($740,040) and change in accounts payable and accrued liabilities - $740,040.

Cash used in operations for the nine months ended December 31, 2012 was $0. Operating activities were affected by Net loss from operations – ($708,494), stock for services - $24,786; depreciation expense - $3,010; and change in accounts payable and accrued liabilities - $680,698.

Investing Activities –

Cash used from investing activities for the nine months ended for December 31, 2013 was $0.

Cash used from investing activities for the nine months ended for December 31, 2012 was $0.

Financing Activities -

Cash provided from financing activities for the nine months ended for December 31, 2013 was $0.

Cash provided from financing activities for the nine months ended for December 31, 2012 was $0.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Risks Related to the Company’s Business and Operations

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

Going Concern Qualification

Our notes to the financial statements disclose that the cash flow of the Company has been absorbed in operating activities, has incurred net losses for the fiscal year and has a working capital deficiency. Due to the pending litigation and the current restructuring, the Company operations are not likely to produce positive cash flow until at least the end of the fiscal year ended March 31, 2014. These factors raise substantial doubt about our ability to continue as a going concern. Our going concern uncertainty may affect our ability to raise additional capital, and may also affect our relationships with suppliers and customers. Investors should carefully examine our financial statements and read the notes to the financial statements.

Other risk factors to be considered include the following:

- The Company has not generated revenues and has not executed any significant contracts for the sale of the Company's products.

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

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

- The Company relies on outsourced manufacturers for the production of all Sector 10 products. Litigation is pending regarding the breach of contract by the former outsourced manufacturer and other issues resulting in indefinite delays in production capability and capacity.

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

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

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

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

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

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

Item 4. Controls and Procedures

(a) Based on the evaluation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) required by paragraph (b) of Rules 13a-15 or 15d-15, the Company's principal executive officer and principal financial officer concluded that as of December 31, 2013, the Company's disclosure controls and procedures were effective.

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

Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Dutro Group, Dutro Company & Reality Engineering

The Dutro Group consists of Dutro Company, Reality Engineering, William Dutro, Vicki Davis and Lee Allen and other parties. The litigation is ongoing and is expected to continue until at least during the fiscal year ended March 31, 2014. The Company has filed a claim against the Dutro Group to seek relief for the damages incurred by Dutro Group actions. The Company believes that sufficient reserves are included in the financial statements for exposures for the issues represented in these actions.

Edward Johnson

The Company is past due on the unpaid balance of a note payable plus accrued interest to Edward Johnson. The note collection and other issues were pending in litigation. A settlement was reached in the Johnson case on November 14, 2013. Under the settlement, the parties agreed to retain the judgment for collection of the outstanding debt and drop all other claims and counter claims. Payment of the judgment will be made based on a payment of $2,000 at settlement and then a payment of $2,000 every 90 days. Proceeds from other litigation (if any) will be used as the primary source of funds to pay off the judgment. The judgment including accrued interest was agreed to be $115,198 as of May 1, 2013. Interest will accrue on the principal of $86,615 at an annual rate of 12% until the judgment is paid in full. The outstanding loan had been accruing interest at a rate of 6% per year. The impact of the settlement and the resulting increase in interest to 12% has been reflected in the current financial statements, An adjustment of $14,945 was required to adjust the interest to agree to the settlement. Payments are allocated first to unpaid interest and then principal.

Bank of America

The Company and its affiliates are currently in litigation seeking damages resulting from actions and activities involving certain parties affiliated with the parties involved in the case. The Court dismissed the case under grounds that the Company believes has no legal basis. The Company has filed an appeal to reinstate the litigation. The appeal is expected to be heard by the end of the fiscal year ended March 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None

Item 3. Defaults Upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders
None

Item 5. Other Information
None

Item 6. Exhibits

Exhibit

31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 INS	XBRL Instance Document*
101 SCH	XBRL Schema Document*
101 CAL	XBRL Calculation Linkbase Document*
101 DEF	XBRL Definition Linkbase Document*
101 LAB	XBRL Labels Linkbase Document*
101 PRE	XBRL Presentation Linkbase Document*

* The XBRL related information in Exhibit 101 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document

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 19, 2014 Date	By: /s/ Pericles DeAvila Pericles DeAvila, President
February 19, 2014	By: /s/ Laurence A. Madison

Date	Laurence A. Madison Chief Financial Officer