

SECTOR 10 INC
Form 10-Q
November 21, 2016

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 September 30, 2016

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 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 November 17, 2015 the issuer had 305,778 shares of common stock outstanding.

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

TABLE OF CONTENTS

Sector 10, Inc.

Part I. Financial Information

Item 1.	Unaudited Consolidated Financial Statements	
	Unaudited Condensed Consolidated Balance Sheets as of September 30, 2016 and March 31, 2016	3
	Unaudited Condensed Consolidated Statements of Operations for the three months and six months ended September 30, 2016 and 2015 and for the period from inception, September 16, 2002 to September 30, 2016	4
	Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2016 and 2015 and for the period from inception, September 16, 2002, to September 30, 2016.	5
	Notes to the Unaudited Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis or Plan of Operation	9
Item 3	Quantitative and Qualitative Disclosures about Market Risk	13
Item 4.	Controls and Procedures	15
Part II. Other Information		
Item 1.	Legal Proceedings	15
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	16
Item 3.	Defaults Upon Senior Securities	16
Item 4.	Submission of Matters to a Vote of Security Holders	16
Item 5.	Other Information	16
Item 6.	Exhibits	16
	Signatures	17

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

	September 30, 2016 (Unaudited)	March 31, 2016 (Unaudited)
ASSETS		
Current assets:		
Cash	\$-	\$-
Inventory, net	-	-
Total current assets	-	-
Fixed assets –cost	22,250	22,250
Less: accumulated depreciation	(22,250)	(22,250)
Net fixed assets	-	-
Total assets	\$-	\$-
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued liabilities	\$7,119,832	\$6,568,430
Note payable - short term	753,615	723,615
Total current liabilities	7,873,447	7,292,045
Long term liabilities:		
Note payable	-	-
Total long term liabilities	-	-
Total liabilities	7,873,447	7,292,045
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	(14,021,982)	(13,440,580)
Total shareholders' equity (deficit)	(7,873,447)	(7,292,045)
Total liabilities and shareholders' equity (deficit)	\$-	-

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 Six Months Ended September 30, 2016 and 2015 and
for the Period From Inception, September 16, 2002 to September 30, 2016

	Three Months Ended		Six Months Ended		Inception to
	September	September	September	September	September
	30,	30,	30,	30,	30,
	2016	2015	2016	2015	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Sales	\$-	\$-	\$-	\$-	\$18,500
Cost of Sales	-	-	-	-	(18,032)
Gross Profit	-	-	-	-	468
Expenses:					
General and administrative	218,396	208,395	406,897	414,161	11,497,656
Depreciation	-	-	-	-	24,106
Research and development	-	-	-	-	226,108
Total expenses	218,396	208,395	406,897	414,161	11,747,870
Income (loss) from operations	(218,396)	(208,395)	(406,897)	(414,161)	(11,747,402)
Interest expense	(89,053)	(75,372)	(174,505)	(147,723)	(1,643,785)
Other income (expense)	-	-	-	-	(630,795)
Net income (loss) before income taxes	(307,449)	(283,767)	(581,402)	(561,884)	(14,021,982)
Provision for income taxes	-	-	-	-	-
Net income (loss) after income taxes	\$(307,449)	\$(283,767)	\$(581,402)	\$(561,884)	\$(14,021,982)
Weighted Average Shares Outstanding - basic and diluted*	305,778	305,778	305,778	305,778	
Basic and diluted income (loss) per share Continuing Operations	\$(1.01)	\$(0.93)	\$(1.90)	\$(1.84)	
Net Income (Loss)	\$(1.01)	\$(0.93)	\$(1.90)	\$(1.84)	

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 Six Months Ended September 30, 2016 and 2015 and

for the Period From Inception, September 16, 2002 to September 30, 2016

	Six Months Ended September 30, 2016	September 30, 2015	Inception to September 30, 2016
Cash Flows from Operating Activities:			
Net Loss	\$(581,402)	\$(561,884)	\$(14,021,982)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock for services	-	-	5,114,493
Depreciation	-	-	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	551,402	561,884	7,633,535
Net cash used in operating activities	(30,000)	-	(417,598)
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	30,000	-	687,500
Net Proceeds (payments) from shareholder / officers	-	-	(113,947)
Proceeds from issuance of common stock	-	-	33,586
Net cash provided by financing activities	30,000	-	607,139
Net increase (decrease) in cash	-	-	-
Beginning of period - continuing operations	-	-	-
End of period - continuing operations	\$-	\$-	\$-
Cash paid for interest	\$-	\$2,000	\$24,295
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 three months ended September 30, 2016. The inventory reflected on the books was \$0 for the six months ended September 30, 2016.

Note 3 – NOTES PAYABLE

Johnson Financing

The interest accrued for the six month period ended September 30, 2016 was \$5,197.

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 six month period ended September 30, 2016 was \$ 18,113 comprised of Dutro Company - \$9,375, Vick Davis - \$6,300 and William Dutro - \$2,438. Total contingent reserve - interest for the period ended September 30, 2016 is \$234,235 comprised of Dutro Company - \$134,073, Vick Davis - \$78,750 and William Dutro - \$30,469.

Employee Agreement:

The financial statements reflect an accrual of interest on unpaid wages and other compensation in the amount of 975,426 of which \$144,484 is accrued during the six month period ended September 30, 2016

Other Notes

Individuals – short term

An additional individual short term note of \$30,000 was issued in July 2016 to pay for legal fees. The note accrues interest at an annual rate of 8%. Total interest accrued as of September 30, 2016 was \$47,267 of which \$4,111 was accrued during the six month period ended September 30, 2016.

Asher Enterprises, Inc.

Total interest accrued as of September 30, 2016 was \$34,302 of which \$2,600 was accrued during the six month period ended September 30, 2016. The current period interest is included as part of other notes interest.

Summary of Interest and Notes Payable

	September 30, 2016	March 31, 2016
<u>Interest expense</u>		
Interest – Johnson	5,197	10,394
Interest – Dutro Group	18,113	36,225
Interest - Employee Group	144,484	249,838
Interest – Other Notes	6,711	12,320
Total interest expense	\$ 174,505	\$ 308,777
	September 30, 2016	March 31, 2016
<u>Note Payable Balance</u>		
Edward Johnson – Johnson Financing	\$ 86,615	\$ 86,615
Various Individuals – Other Notes	119,000	89,000
Asher Enterprises, Inc. – Other Notes	65,000	65,000
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 – short term	\$ 753,615	\$ 723,615
Total Note Payable – long term	-	\$-
Total Notes Payable	\$ 753,615	\$ 723,615

Debt Maturity Schedule

As of September 30, 2016, the annual maturities for notes payable are scheduled as follows:

<u>Fiscal Year</u>	Amount
March 31, 2017	\$ 723,615
March 31, 2018	\$ 30,000
Total	\$ 753,615

All interest is due under the terms of the various agreements. However future interest payments will not be made until all pending litigation is resolved and a satisfactory revised payment arrangement is completed by all parties.

Note 4 – EQUITY

During the Quarter ended: June 30, 2016:

No equity transactions occurred in the period ended June 30, 2016.

During the Quarter ended: September 30, 2016:

No equity transactions occurred in the period ended September 30, 2016.

Note 5 – GOING CONCERN

The Company generated minimal revenues prior to the current fiscal year. No revenues were generated for the six month period ended September 30, 2016. 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 Duto 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 in order to continue forward as a going concern. It is expected that litigation will continue to hinder the ability to continue as a going concern through the end of the fiscal year ended March 31, 2017 and beyond.

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 six month period ended September 30, 2016 and 2015 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 September 30, 2016 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 2013.

8

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.

Litigation involving Dutro Company, Reality Engineering, William Dutro, Vicki Davis, Lee Allen, Valley Inception, LLC, Incisive Software Corporation and Promixex Corporation continues and is expected to continue for 1) the foreseeable future. Recently the defendants filed for a dismissal with prejudice. The dismissal request was denied. The case was moved for continuance in the Utah State Court. A Court Management Order (CMO) is expected to be filed soon.

The Company is in discussion with multiple legal representatives to take over the management of the litigation on a contingency basis and to pursue litigation with respect to patent infringement by ADT Corp (ADT) and Tyco International Ltd (TYC) and for all other patent infringement against the defendants, their affiliates and related parties currently pursued in the Utah State Court in Salt Lake City. In anticipation of the new counsel coming in on a contingency basis, the current attorney has withdrawn from the case. Sector 10 intends to pursue in Federal Courts all other known and unknown licensees of Sector 10's technology that have been distributed by the defendant, their affiliates and other related parties. Sector 10 believes that it has collected sufficient evidence and related party interests and has sent out nearly 50 subpoenas to parties that are believed to have colluded and/or 2) helped to defraud a publically traded company (Sector 10: SECI) and sell its technology assets to another publically traded company. In addition, Sector 10 has learned of new facts with respect to the Bank of America (BAC) case and their subsidiary Merrill Lynch which may have prevented the dismissal of the case. Also new facts have come to light regarding how former contingency attorneys inappropriately allowed two key parties to the case to be dismissed with prejudice immediately before abandoning the case. These parties, John Gargett (former Board member of Sector 10) and Trusys, Inc. are believed to have been cooperative with the Dutro Group. These new facts may also enhance the current litigation. Sector 10 will be seek the assistance of the Securities & Exchange Commission (SEC) to open an investigation into these matters Sector 10 has also requested assistance from the Federal Bureau of Investigation (FBI) to assist in obtaining a stay for the Salt Lake City case while matters are pursued in Federal Courts.

3) 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.

4) Federal and State authorities have and will continue to be updated on the litigation issues and proceedings

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

Six Months Ended September 30, 2016 as Compared to the Six Months Ended September 30, 2015

Revenues -

The Company had no revenues for the six months ended September 30, 2016.

The Company had no revenues for the six months ended September 30, 2015.

Other Income-

The Company had no other income for the six months ended September 30, 2016.

The Company had no other income for the six months ended September 30, 2015.

Operating Expenses -

The Company had no operating expenses for the six months ended September 30, 2016.

The Company had no operating expenses for the six months ended September 30, 2015.

General and Administrative Expenses -

General and administrative expenses were \$406,897 for the six months ended September 30, 2016 which was made up primarily of Wages - \$330,000, Professional fees – Legal & Accounting fees \$30,000, Accrued payroll tax - \$31,500, Insurance - \$10,862, Filing fees – \$2,940 , State fees – \$1,395 and other expense - \$200.

General and administrative expenses were \$414,161 for the six months ended September 30, 2015 which was made up primarily of Wages - \$327,000, Professional fees – Legal & Accounting fees \$40,000, Accrued payroll tax - \$32,700, Insurance - \$8,115, Filing fees – 4,030 , State fees – 2,116 and other expense - \$200.

10

Depreciation Expense –

Depreciation expense for the six months ended September 30, 2016 was \$0.

Depreciation expense for the six months ended September 30, 2015 was \$0.

Interest Expense –

Interest expense for the six month period ended September 30, 2016 was \$174,505.

Interest expense for the six month period ended September 30, 2015 was \$147,723.

Three Months Ended September 30, 2016 as Compared to the Three Months Ended September 30, 2015

Revenues -

The Company had no revenues for the three months ended September 30, 2016.

The Company had no revenues for the three months ended September 30, 2015.

Other Income-

The Company had no other income for the three months ended September 30, 2016.

The company had no other income for the three months ended September 30, 2015.

Operating Expenses -

The Company had no operating expenses for the three months ended September 30, 2016.

The Company had no operating expenses for the three months ended September 30, 2015.

General and Administrative Expenses -

General and administrative expenses were \$218,396 for the three months ended September 30, 2016 which was made up primarily of Wages - \$165,000, Professional fees – Legal & Accounting fees \$30,000, Accrued Payroll Taxes - \$15,000, Insurance - \$5,431, Filing Fees - \$1,470, State fees – 1,395 and other expenses - \$100.

General and administrative expenses were \$208,395 for the three months ended September 30, 2015 which was made up primarily of Wages - \$163,500, Professional fees – Legal & Accounting fees \$20,000, Accrued Payroll Taxes - \$16,350, Insurance - \$4,055, Filing Fees - \$2,820, State fees – 1,570 and other expenses - \$100.

Depreciation Expense –

Depreciation expense for the three months ended September 30, 2016 was \$0.

Depreciation expense for the three months ended September 30, 2015 was \$0.

Interest Expense –

Interest expense for the three month period ended September 30, 2016 was \$89,053.

Interest expense for the three month period ended September 30, 2015 was \$75,372.

Liquidity and Capital Resources

As of September 30, 2016, 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, 2017 or for any future period.

Total Assets -

The Company had no assets as of September 30, 2016.

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 not expected to be completed by the end of the fiscal year ended March 31, 2017. 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 September 30, 2016 were \$7,873,447. The balance was composed of accounts payable and accrued liabilities of \$7,119,832 and note payable to outside investors of \$753,615.

Long term liabilities as of September 30, 2016 were \$0.

Total liabilities as of September 30, 2016 were \$7,873,447.

Cash flows -

	Six Months Ended September 30, 2016	Six Months Ended September 30, 2015
Sources and Uses of Cash		
Net cash provided by / (used in)		
Operating activities	\$ (30,000)-	\$ -
Investing activities	-	-
Financing activities	30,000	-
Increase/(decrease) in cash and cash equivalents	\$ -	\$ -
Period ended September 30, 2016 and 2015		
Cash and cash equivalents	\$ -	\$ -

Operating Activities -

Cash used in operations for the six months ended September 30, 2016 was \$(30,000). Operating activities were affected by net loss – (\$581,402) and change in accounts payable and accrued liabilities - \$551,402.

Cash used in operations for the six months ended September 30, 2015 was \$0. Operating activities were affected by net loss – (\$561,884) and change in accounts payable and accrued liabilities - \$561,884.

Investing Activities –

Cash used from investing activities for the six months ended for September 30, 2016 was \$0.

Cash used from investing activities for the six months ended for September 30, 2015 was \$0.

Financing Activities –

Cash provided from financing activities for the six months ended September 30, 2016 was \$30,000. Amount reflects proceeds from short term note used to fund legal fees.

Cash provided from financing activities for the six months ended September 30, 2015 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 Company has generated no revenue or cash flow, has incurred net losses for the fiscal year and has a working capital deficiency. Due to the pending litigation, the Company operations are not likely to produce positive cash flow until at least the end of the fiscal year ended March 31, 2018. 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 September 30, 2016, 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 Company has filed a claim against the Dutro Group and other defendants to seek relief for the damages incurred by Group's actions. The Dutro Group consists of Dutro Company, Reality Engineering, William Dutro, Vicki Davis, Lee Allen, Valley Inception, LLC, Incisive Software Corporation and Promixex Corporation.

The Company seeks relief and recovery from the breach of contract and the breakup and transfer by the parties of the technology which ended up with The ADT Corp ("ADT") / Tyco Corp ("TYC") under the label of "Surveillint".

The litigation has been ongoing for multiple years and is expected to continue at least into the fiscal year ended March 31, 2017.

The Company is in discussion with multiple legal representatives to take over the management of the litigation on a contingency basis and to pursue litigation with respect to patent infringement by ADT Corp (ADT) and Tyco International Ltd (TYC) and for all other patent infringement against the defendants, their affiliates and related parties currently pursued in the Utah State Court in Salt Lake City. In anticipation of the new counsel coming in on a contingency basis, the current attorney has withdrawn from the case. Sector 10 intends to pursue in Federal Courts all other known and unknown licensees of Sector 10's technology that have been distributed by the defendant, their affiliates and other related parties. Sector 10 believes that it has collected sufficient evidence and related party interests and has sent out nearly 50 subpoenas to parties that are believed to have colluded and/or helped to defraud a publically traded company (Sector 10: SECI) and sell its technology assets to another publically traded company. In addition, Sector 10 has learned of new facts with respect to the Bank of America (BAC) case and their subsidiary Merrill Lynch which may have prevented the dismissal of the case. Also new facts have come to light regarding how former contingency attorneys inappropriately allowed two key parties to the case to be dismissed with prejudice immediately before abandoning the case. These parties, John Gargett (former Board member of Sector 10) and Trusys, Inc. are believed to have been cooperative with the Dutro Group. These new facts may also enhance the current litigation. Sector 10 will be seek the assistance of the Securities & Exchange Commission (SEC) to open an investigation into these matters. Sector 10 has also requested assistance from the Federal Bureau of Investigation (FBI) to assist in obtaining a stay for the Salt Lake City case while matters are pursued in Federal Courts.

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

16

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.

November 21, 2016 By: /s/ Pericles DeAvila
Date Pericles DeAvila, President

November 21, 2016 By: /s/ Laurence A. Madison
Date Laurence A. Madison
Chief Financial Officer

17
