

SECTOR 10 INC
Form 10-Q/A
November 12, 2008

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

FORM 10-Q/A

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

For the quarterly period ended: June 30, 2008

or

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

For the transition period from: _____ to _____

Commission File Number: 000-24370

SECTOR 10, Inc.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction
of incorporation or organization)*

33-0565710
*(I.R.S. Employer
Identification No.)*

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14553 South 790 West

Bluffdale, Utah 84065

(Address of Principal Executive Office) (Zip Code)

(801) 478-2475

(Registrant's telephone number, including area code)

SKRM Interactive, Inc.

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 Yes No for the past 90 days.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of July 31, 2008 the issuer had 94,060,292 shares of common stock outstanding.

Transitional Small Business Disclosure Format (check one):

Yes No

EXPLANATORY NOTE

The purpose of this Amendment No. 1 to Quarterly Report on Form 10-Q/A is to

- a)
Clarify the discussion on products sold in Note 2 in Notes to Unaudited Consolidated Financial Statements;
- b)
Clarify the discussion of the Network included in the overview in Management's Discussion and Analysis;
- c)
Adjust the conclusion date in Item 3 for Controls and Procedures. An adjustment was made to correct the period for the conclusion as June 30, 2008. Additional changes were made to the wording in Item 3 (a) to be consistent with the language prescribed under Rule 13a-15(e).
- d)
Adjust exhibits to correct Form Reference to Form 10-Q/A

The adjustments had no impact on the financial results presented in the original filing.

The Items which are amended and restated herein are:

- 1.
Item 1 Unaudited Consolidated Financial Statements - Notes to the Unaudited Consolidated Financial Statements
- 2.
Item 2 Management's Discussion and Analysis or Plan of Operation - Overview
- 3.
Item 3 Controls and Procedures part (a)
- 4.

Exhibit 31.1 correct form reference

5.

Exhibit 31.2 correct form reference

6.

Exhibit 32.1 correct form reference

7.

Exhibit 32.2 correct form reference

The remaining Items contained within this Amendment No. 1 to our Quarterly Report on Form 10-Q/A consist of all other Items originally contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 in the form filed with the SEC on August 19, 2008. These remaining Items are not amended hereby, but are included for the convenience of the reader. In order to preserve the nature and character of the disclosures set forth in such Items as originally filed, except as expressly noted herein, this report continues to speak as of the date of the original filing, and we have not updated the disclosures in this report to speak as of a later date. While this report primarily relates to the historical periods covered, events may have taken place since the original filing that might have been reflected in this report if they had taken place prior to the original filing.

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(formerly SKRM Interactive, Inc.)

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ITEM 1.**FINANCIAL STATEMENTS****Sector 10, Inc.****(formerly SKRM Interactive, Inc.)****(A DEVELOPMENT STAGE COMPANY)****CONSOLIDATED BALANCE SHEETS**

	June 30,	March 31,
	2008	2008
	(Unaudited)	(Audited)
ASSETS		
Current assets:		
Cash	\$ 323	\$ -
Prepaid assets	139,169	-
Total current assets	139,492	-
Fixed Assets:		
Furniture	9,182	9,182
Computers	13,068	13,068
Total fixed asset cost	22,250	22,250
Less: accumulated depreciation	(2,373)	(1,260)
Net fixed assets	19,877	20,990
Other assets:		
Network acquisition	1,097,995	-
Total other assets	1,097,995	-
Total assets	\$ 1,257,364	\$ 20,990
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank overdraft	\$ -	\$ 692
Accounts payable and accrued liabilities	87,700	82,291
Note payable	200,000	-
Note payable officer / shareholder	54,301	762,387
Total current liabilities	342,001	845,370

Shareholders' equity:

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; 94,060,292 and 77,320,292 shares issued and outstanding, respectively

	94,060	77,320
Additional paid in-capital (Deficit)	675,092	(774,168)
Retained earnings (deficit) accumulated during the development stage	146,211	(127,532)
Total shareholders' equity (deficit)	915,363	(824,380)
Total liabilities and shareholders' equity (deficit)	\$ 1,257,364	\$ 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 Three Months Ended June 30, 2008 and 2007 and for the Period From Inception,

September 16, 2002 to June 30, 2008

	Three Months Ended		Inception to
	June 30,	June 30,	June 30,
	2008	2007	2008
Expenses:			
General and administrative	\$ 240,132	\$ -	\$ 363,849
Total expenses	240,132	-	363,849
Income (loss) from operations	(240,132)	-	(363,849)
Interest expense	(3,325)	-	(7,140)
Other income: debt restructuring	517,200	-	517,200
Net Income (loss)	\$ 273,743	\$ -	\$ 146,211
Weighted Average Shares Outstanding basic and diluted	86,694,798	50,000,000	
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	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	-
Net income for the period				273,743
Balance at June 30, 2008	94,060,292	\$ 94,060	\$ 675,092	\$ 146,211

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**

	Three Months Ended		Inception to
	June 30,	June 30,	June 30,
	2008	2007	2008
Cash Flows from Operating Activities:			
Net income (loss)	\$ 273,743	\$ -	\$ 146,211
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock for services	194,831	-	194,831
Depreciation	1,113	-	2,373
Gain on debt restructuring	(517,200)	-	(517,200)
Changes in			
Accounts payable and accrued liabilities	37,121	-	71,993
Net cash used in operating activities	(10,392)	-	(101,792)
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	32,808	-	652,354
Payments to Shareholder/Officers	(123,406)	-	(633,580)
Proceeds from issuance of common stock	-	-	3,586
Net cash provided by financing activities	108,710	-	222,360

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Net increase (decrease) in cash and cash equivalents		323		-		323
Beginning of the year cash balance		-		-		-
Ending of the period cash balance	\$	323	\$	-	\$	323
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 it; major shareholder Sector 10 Holdings, Inc. (Holdings). Holdings currently owns approximately 70% 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 Sector10'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.

Since the transfer was from a related party, the transfer was recorded at the \$1 Million prior costs incurred by Holdings. 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 value of the shares will be reviewed after 6 months to verify that value is maintained. Additional shares may be issued if the value is lower than \$1 Million.

The Company has agreed to pay Sector 10 Holdings the following based on future transactions

1.

10% interest in net revenues generated from the total network payable monthly. This interest has no expiration.

2.

50% equity interest in future sale or transfer of network to third parties for the sales proceeds up to \$6 Million and

3.

25% equity interest in future sale or transfer of network to third parties for the sales proceeds in excess of \$6 Million. Proceeds capped at \$20 Million when considering all previous payments and distributions.

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.

Sector 10 acquired SKRM Interactive in November 2007. The name SKRM Interactive, Inc was subsequently changed to Sector 10, Inc. in April 2008. At the time of the acquisition, there were numerous debts and obligations owed by SKRM Interactive, Inc. (Pre-acquisition debt).

SECTOR 10, INC.

(formerly SKRM INTERACTIVE, INC)

(A DEVELOPMENT STAGE COMPANY)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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.

The following agreement was reached by Martin and Sector 10:

a)

Martin agrees that the total amount due from Sector 10 is \$649,200 and that Martin desires to convert the debt into Sector 10 shares in an amount equal to the number of shares used by Martin in the Martin Transfer

b)

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.

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 charge on the account at a rate of 8% per annum. Total interest accrued on the accounts is \$1,712 which is comprised of Pericles DeAvila - \$102 and Sector 10 Holdings - \$1,610.

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.

Under the terms of the Agreement dated, May 11, 2008, Sector 10 and Johnson agree to a short term financing \$200,000 obligation as follows:

a)

Johnson will provide Sector 10 with a short term loan in the amount of \$200,000 immediately upon execution of this Agreement. The loan will be for term of 9 months with 1 automatic extension of 6 months allowed if so requested by Sector 10. 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%

b)

Sector 10 agrees to allocate 20% of the net monthly cash available from the revenues generated by the Network from outside business to pay off the loan principal and interest. Sector 10 at its discretion may allocate more than 20% of the net cash available from the network.

c)

The Network revenues from the Non-Sector 10 Product business will be the only revenues allocated under this agreement. Revenues generated from other Sector 10 business activities including SRU-Media, maintenance or other revenues are not included in any calculation of net revenues under this agreement.

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 mont