

SITESTAR CORP
Form 10-Q/A
April 19, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

000-27763

(Commission file number)

SITESTAR CORPORATION

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

NEVADA

(State or other jurisdiction of
incorporation or organization)

88-0397234

(I.R.S. Employer Identification No.)

7109 Timberlake Road, Lynchburg, VA 24502

(Address of principal executive offices)

(434) 239-4272

(Issuer's telephone number)

N/A

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 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 large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer (Do not check if a smaller reporting Company) Smaller Report Company

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

As of May 14, 2012, the issuer had 91,326,463 shares of common stock issued and 74,085,705 outstanding

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SITESTAR CORPORATION AND SUBSIDIARIES

EXPLANATORY NOTE

This Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, initially filed with the Securities and Exchange Commission on May 14, 2012, is being filed to reflect restatements of Sitestar Corporation's Condensed Consolidated Balance Sheets as of March 31, 2012, and the related Condensed Consolidated Statement of Income and Condensed Consolidated Statement of Cash Flows for the three months then ended (the "Financial Statements"). The restatements reflect the effects of adjustments for the accounting related to various matters detailed in Note 1 to the Financial Statements. These restatements reflect adjustments related to errors in calculation of income tax related accounts including deferred tax assets, income taxes payable, and current and deferred tax expense. Additionally, our independent auditors advised us to re-evaluate our historical and current practices with respect to recognition of deferred revenue and whether it is being properly recorded in accordance with generally accepted accounting principles in the United States (GAAP), which led to restatements of revenue and general and administrative expenses.

In addition, results for 2011 have been restated with respect to the accounting for such matters where appropriate.

Sitestar Corporation is also revising the discussion under Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 4, Controls and Procedures in order to reflect the effects of these restatements.

Except with respect to these matters, the Financial Statements in this Form 10-Q/A do not reflect any events that have occurred after the 2012 Form 10-Q was originally filed.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****SITESTAR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****MARCH 31, 2012 AND DECEMBER 31, 2011****ASSETS**

	2012 (Unaudited) Restated	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 170,149	\$ 17,268
Accounts receivable, net of allowance of \$4,923 and \$2,586	60,765	53,090
Prepaid expenses	90,830	75,883
Real estate, at cost	2,504,107	2,464,694
Total current assets	2,825,851	2,610,935
PROPERTY AND EQUIPMENT, net	161,238	164,159
CUSTOMER LIST, net of accumulated amortization of \$12,293,838 and \$12,286,712	26,835	33,961
GOODWILL, net of impairment	1,288,559	1,288,559
DEFERRED TAX ASSETS	333,601	433,550
OTHER ASSETS	265,988	266,180
TOTAL ASSETS	\$4,902,072	\$4,797,344

See the accompanying notes to the unaudited condensed consolidated financial statements.

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SITESTAR CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS, continued****MARCH 31, 2012 AND DECEMBER 31, 2011****LIABILITIES AND STOCKHOLDERS' EQUITY**

	2012 (Unaudited) Restated	2011
CURRENT LIABILITIES		
Accounts payable	\$28,446	\$71,136
Accrued expenses	33,626	31,433
Deferred revenue	456,627	461,640
Notes payable, current portion	900,615	900,615
 Total current liabilities	 1,419,314	 1,464,824
 NOTES PAYABLE – STOCKHOLDERS, less current portion	 82,845	 95,958
 TOTAL LIABILITIES	 1,502,159	 1,560,782
STOCKHOLDERS' EQUITY		
Preferred Stock, \$.001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding	—	—
Common stock, \$.001 par value, 300,000,000 shares authorized, 91,326,463 shares issued in 2012 and 2011 and 74,085,705 shares outstanding in 2012 and 2011	91,326	91,326
Additional paid-in capital	13,880,947	13,880,947
Treasury stock, at cost, 17,240,758 common shares	(789,518)	(789,518)
Accumulated deficit	(9,782,842)	(9,946,193)
 Total stockholders' equity	 3,399,913	 3,236,562
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$4,902,072	 \$4,797,344

See the accompanying notes to the unaudited condensed consolidated financial statements.

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SITESTAR CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF INCOME****FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011****(UNAUDITED)**

	2012 Restated	2011 Restated
REVENUE		
Internet	\$819,192	\$1,054,518
Real estate	487,875	—
	1,307,067	1,054,518
COST OF REVENUE		
Internet	444,052	491,485
Real estate	382,540	—
	826,592	491,485
GROSS PROFIT	480,475	563,033
OPERATING EXPENSES:		
Selling general and administrative expenses	214,556	384,844
INCOME FROM OPERATIONS	265,919	178,189
OTHER INCOME (EXPENSES):		
Other income (expenses)	(531)	908
Interest expense	(2,089)	(864)
TOTAL OTHER INCOME (EXPENSE)	(2,620)	44
INCOME BEFORE INCOME TAXES	263,299	178,233
INCOME TAXES EXPENSE	(99,949)	(67,658)
NET INCOME	\$163,350	\$110,575
BASIC AND DILUTED EARNINGS PER SHARE	\$0.00	\$0.00
WEIGHTED AVERAGE SHARES		
OUTSTANDING - BASIC AND DILUTED	74,085,705	74,691,038

See the accompanying notes to the unaudited condensed consolidated financial statements.

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SITESTAR CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011****(UNAUDITED)**

	2012	2011 Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 163,350	\$ 110,575
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	10,242	135,879
Allowance for doubtful accounts	2,337	656
Deferred income taxes	99,949	55,521
Increase in accounts receivable	(10,012)	(11,973)
Increase in prepaid expenses	(14,947)	(18,789)
Increase in real estate	(39,413)	(862,970)
Decrease in accounts payable	(42,690)	(15,565)
Increase in accrued expenses	2,193	5,772
Decrease in deferred revenue	(5,013)	(5,903)
Decrease in accrued income taxes	—	(88,609)
Net cash provided by (used in) operating activities	165,996	(695,406)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in other assets held for resale	(2)	2
Increase in other assets	—	(1,500)
Purchase of non-compete	—	(1,000)
Purchase of customer list	—	(64,000)
Net cash used in investing activities	(2)	(66,498)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable – stockholders	(13,113)	(49,460)
Proceeds from notes payable – stockholders	—	89,920
Purchase of treasury stock	—	(1,770)
Net cash provided by (used in) financing activities	(13,113)	38,690
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	152,881	(723,214)
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	17,268	939,328
CASH AND CASH EQUIVALENTS – END OF PERIOD	\$ 170,149	\$ 216,114

See the accompanying notes to the unaudited condensed consolidated financial statements.

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SITESTAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(UNAUDITED)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

During the three months ended March 31, 2012 and 2011, the Company paid income taxes of \$64,000 and \$100,746 and paid interest expense of approximately \$2,000 and \$1,000, respectively.

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SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 1-RESTATEMENT OF FINANCIAL STATEMENTS

The Company is restating its condensed consolidated financial statements for the quarters ended March 31, 2012 and 2011 to reflect adjustments for errors in the calculation of income tax related accounts including deferred tax assets, income taxes payable, and current and deferred tax expense balances. Additionally, during our audit for the year ended December 31, 2012, our independent auditors advised us to re-evaluate our historical and current practices with respect to recognition of deferred revenue and whether it is being properly recorded in accordance with generally accepted accounting principles in the United States (GAAP). As a result of that review, it was determined that changes in deferred revenue were not being properly classified in the income statement, which has resulted in restatements to revenue and operating expenses.

The following is a summary of the effects of these changes on the Company's condensed consolidated balance sheets, statements of income and cash flows:

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SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 1-RESTATEMENT OF FINANCIAL STATEMENTS, continued

Consolidated Balance Sheets

As of March 31, 2012	As Previously Reported	Adjustments	As Restated
Prepaid expenses	1,504	89,326	90,830
Deferred tax asset	778,442	(444,841)	333,601
Total assets	5,257,587	(355,515)	4,902,072
Accrued income taxes	125,988	(125,988)	—
Total current liabilities	1,545,302	(125,988)	1,419,314

Consolidated Statements of Income

For the Three Months Ended March 31, 2012	As Previously Reported	Adjustments	As Restated
Revenue internet	814,179	5,013	819,192
Selling general and administrative expenses	209,543	5,013	214,556
Income tax (expense) benefit	(55,280)	(44,669)	(99,949)
Net income	208,019	(44,669)	163,350
Basic and diluted income per share	.00	.00	.00

Consolidated Statements of Cash Flows

For the Three Months Ended March 31, 2012	As Previously Reported	Adjustments	As Restated
Net income	208,019	(44,669)	163,350
Deferred income taxes	(15,835)	115,784	99,949
(Increase) decrease in prepaid expenses	11,533	(26,480)	(14,947)
Increase (Decrease) in accrued income taxes	44,635	(44,635)	-

Consolidated Balance Sheets

As of March 31, 2011	Adjustments	As Restated
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	As Previously Reported		
Deferred tax asset	1,030,223	(351,329)	678,894
Total assets	4,745,131	(351,329)	4,393,802
Accrued income taxes	37,405	(35,188)	2,217
Total current liabilities	1,677,375	(35,188)	1,642,187

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SITESTAR CORPORATION**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****UNAUDITED**

Consolidated Statements of Income

For the Three Months Ended March 31, 2011	As Previously Reported	Adjustments	As Restated
Revenue internet	1,048,615	5,903	1,054,518
Selling general and administrative expenses	378,941	5,903	384,844
Income tax (expense) benefit	276,756	(344,414)	(67,658)
Net income	454,989	(344,414)	110,575
Basic and diluted income per share	.01	(.01)	.00

Consolidated Statements of Cash Flows

For the Three Months Ended March 31, 2011	As Previously Reported	Adjustments	As Restated
Net income	454,989	(344,414)	110,575
Deferred income taxes	(267,190)	322,711	55,521
Decrease in accrued income taxes	(110,312)	21,703	(88,609)

NOTE 2 – BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements have been prepared by Sitestar Corporation (the “Company” or “Sitestar”), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended December 31, 2011 included in the Company’s Annual Report on Form 10-K. The results for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year ending December 31, 2012.

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SITESTAR CORPORATION**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****UNAUDITED****NOTE 3 – EARNINGS PER SHARE**

GAAP requires dual presentation of basic and diluted earnings per share on the face of the statements of income and requires a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculation. Basic earnings per share are calculated based on the weighted average number of shares of common stock outstanding during each period. Diluted income per share is computed using weighted average shares outstanding adjusted to reflect the dilutive effect of all potential common shares that were outstanding during the period.

For the three months ended March 31, 2012 and 2011:

	2012	2011
Net income available to common shareholders	\$163,350	\$110,575
Weighted average number of common shares	74,085,705	74,691,038
Basic and diluted income per share	\$0.00	\$0.00

NOTE 4 – COMMON STOCK

During the three months ended March 31, 2012, the Company issued no shares of common stock and repurchased no treasury shares.

NOTE 5 – SEGMENT INFORMATION

The Company has three business units that have been aggregated into three reportable segments: Corporate, Real estate and Internet.

The Corporate group is the holding company and oversees the operation of the other business units. The Corporate group also arranges financing for the entire organization. The real estate group invests in, refurbishes and markets real estate for resale. The Company's Internet group consists of multiple sites of operation and services customers

throughout the U.S. and Canada.

The Company evaluates the performance of its operating segments based on income from operations before income taxes, accounting changes, non-recurring items and interest income and expense.

Summarized financial information concerning the Company's reportable segments is shown in the following tables as of and for the three months ended March 31, 2012 and 2011:

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SITESTAR CORPORATION**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****UNAUDITED****NOTE 5 – SEGMENT INFORMATION, continued**

March 31, 2012

	Corporate	Real estate	Internet	Consolidated
Revenue	\$—	\$487,875	\$819,192	\$1,307,067
Operating income (loss)	\$(42,926)	\$105,335	\$203,510	\$265,919
Depreciation and amortization	\$—	\$—	\$10,242	\$10,242
Interest expense	\$—	\$—	\$2,089	\$2,089
Real estate	\$—	\$2,504,107	\$—	\$2,504,107
Intangible assets	\$—	\$—	\$1,316,477	\$1,316,477
Total assets	\$—	\$2,504,107	\$2,397,965	\$4,902,072

March 31, 2011

	Corporate	Real estate	Internet	Consolidated
Revenue	\$—	\$—	\$1,054,518	\$1,054,518
Operating income (loss)	\$(33,115)	\$—	\$211,304	\$178,189
Depreciation and amortization	\$—	\$—	\$135,879	\$135,879
Interest expense	\$—	\$—	\$864	\$864
Real estate	\$—	\$1,378,172	\$—	\$1,378,172
Intangible assets	\$—	\$—	\$1,548,898	\$1,548,898
Total assets	\$—	\$1,378,172	\$3,419,172	\$4,797,344

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SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 6 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

No new accounting pronouncement issued or effective during the three months ended March 31, 2012 has had or is expected to have a material impact on the consolidated financial statements.

NOTE 7 – ACQUISITIONS

NCISP.net

Effective March 1, 2011, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of NCISP.net, a North Carolina-based Internet Service Provider. The total purchase price was \$88,000 representing the fair value of the assets acquired which consisted of a \$55,000 cash payment at closing with the remaining balance paid in 6 monthly installments beginning April 2011.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition. Sitestar has assessed the valuations of certain intangible assets as represented below.

Equipment	\$—
Customer list	97,000
Non-compete agreement	1,000
Deferred revenue	(10,000)
Purchase price	\$88,000

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SITESTAR CORPORATION**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****UNAUDITED****NOTE 8 -- PROVISION FOR INCOME TAXES**

The provision for federal and state income taxes for the three months ended March 31, 2012 and 2011 included the following:

	2012	2011
Current provision:		
Federal	\$—	\$10,219
State	—	1,919
Deferred provision:		
Federal	84,151	46,745
State	15,798	8,775
Total income tax provision	\$99,949	\$67,658

Deferred tax assets and liabilities reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at March 31, 2012 and December 31, 2011 are as follows:

	2012	2011
Accounts receivable	\$4,923	\$2,586
Amortization of Intangible assets	2,750,925	2,853,211
Less valuation allowance	(2,422,247)	(2,422,247)
Deferred tax asset	\$333,601	\$433,550

At March 31, 2012 and December 31, 2011, the Company has provided a valuation allowance for a portion of the deferred tax asset that management has not been able to determine that realization is more likely than not. The Company is subject to Federal income taxes as well as income taxes of state jurisdictions. For Federal and state tax purposes, tax years 2008 through 2011 remain open to examination.

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SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 9 – INTANGIBLE ASSETS

The Company continually monitors its intangible assets to determine whether any impairment has occurred. In making such determination with respect to these assets, the Company evaluates the performance, on a discounted cash flow basis, of the intangible assets or group of assets. Should impairment be identified, a loss would be reported to the extent that the carrying value of the related intangible asset exceeds its fair value using the discounted cash flow method. The Company's customer lists are being amortized over three years. Total amortization expense was \$7,321 and \$132,958 for the three months ended March, 31, 2012 and 2011.

NOTE 10 – DEFERRED REVENUE

Deferred revenue represents collections from customers in advance for services not yet performed and are recognized as revenue in the period service is provided.

Revenue Recognition

Internet

The Company sells Internet services under annual and monthly contracts. Under the annual contracts, the subscriber pays a one-time annual fee, which is recognized as revenue ratably over the life of the contract. Under the monthly contracts, the subscriber is billed monthly and revenue is recognized for the period to which the service relates. Sales of computer hardware are recognized as revenue upon delivery and acceptance of the product by the customer. Sales are adjusted for any returns or allowances.

Real Estate

Revenue from real estate is recognized upon closing of the sale, as all conditions for full revenue recognition have been met at that time. All costs associated with the property sold are removed from the consolidated balance sheets and charged to cost of revenue at that time.

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SITESTAR CORPORATION**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****UNAUDITED****NOTE 11 - NOTES PAYABLE**

Notes payable at March 31, 2012 and December 31, 2011 consist of the following:

	2012	2011
Non-interest bearing amount due on acquisition of USA Telephone.	\$900,615	\$900,615
Totals	900,615	900,615
Less current portion	(900,615)	(900,615)
Long-term portion	\$—	\$—

The future principal maturities of these notes are as follows:

Twelve months ending March 31, 2013	\$900,615
Twelve months ending March 31, 2014	—
Twelve months ending March 31, 2015	—
Twelve months ending March 31, 2016	—
Twelve months ending March 31, 2017	—
Thereafter	—
Total	\$900,615

NOTE 12 - NOTES PAYABLE – STOCKHOLDERS

Notes payable - stockholders at March 31, 2012 and December 31, 2011 consist of the following:

2012	2011
\$32,845	\$45,958

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Note payable to officer and stockholder on a line of credit of \$750,000 at an annual interest rate of 10%. The accrued interest and principal are due on January 1, 2014.

Note payable to stockholder for \$50,000 at an annual interest rate of 8 % interest. The accrued interest and principal are due on January 1, 2014.	50,000	50,000
Totals	82,845	95,958
Less current portion	—	—
Long-term portion	\$82,845	\$95,958

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SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 12 - NOTES PAYABLE – STOCKHOLDERS, continued

The future principal maturities of these notes are as follows:

Twelve months ending March 31, 2013	\$—
Twelve months ending March 31, 2014	82,845
Twelve months ending March 31, 2015	—
Twelve months ending March 31, 2016	—
Twelve months ending March 31, 2017	—
Total	82,845

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Stockholders are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, the Company's ability to expand the Company's customer base, make strategic acquisitions, general market conditions and competition and pricing.

Although the Company believes the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements contained in the report will prove to be accurate.

General

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The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related footnotes for the year ended December 31, 2011 included in the Annual Report on Form 10-K.

The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

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SITESTAR CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued

Overview

Internet

Sitestar is an Internet Service Provider (ISP) that offers consumer and business-grade Internet access, wholesale managed modem services for downstream ISPs and Web hosting. Sitestar also delivers value-added services including spam, virus and spyware protection, pop-up ad blocking and web acceleration. The Company maintains multiple sites of operation and provides services to customers throughout the U.S. and Canada.

The products and services that the Company provides include:

- Internet access services;
- Web acceleration services;
- Web hosting services;

The Company's Internet division markets and sells narrow-band (dial-up and ISDN) and broadband services (DSL, fiber-optic and wireless), and supports these products utilizing its own infrastructure and affiliations. Value-added services include web acceleration, spam and virus filtering, as well as, spyware protection. Additionally, the Company markets and sells web hosting and related services to consumers and businesses.

Real Estate

The real estate group invests in, refurbishes and markets real estate for resale. The increase in real estate sales marks the beginning of the Company's efforts to turn investments of excess cash from the Internet division into a new revenue stream. With the increased inventory of real estate investments, the sales should become a more prominent source of revenue.

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SITESTAR CORPORATION**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued****Results of operations**

The following tables show financial data for the three months ended March 31, 2012.

	Corporate	Internet	Real estate	Total
Revenue	\$—	\$819,192	\$487,875	\$1,307,067
Cost of revenue	—	444,052	382,540	826,592
Gross profit	—	370,127	110,348	480,475
Operating expenses	42,926	171,630	—	214,556
Income (loss) from operations	(42,926)	198,497	110,348	265,919
Other income (expense)	—	(2,620)	—	(2,620)
Income (loss) before income taxes	(42,926)	195,877	110,348	263,299
Income taxes (expense) benefit	—	(59,964)	(39,985)	(99,949)
Net income (loss)	\$(42,926)	\$135,913	\$70,363	\$163,350

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SITESTAR CORPORATION**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued**

The following tables show financial data for the three months ended March 31, 2011.

	Corporate	Internet	Real estate	Total
Revenue	\$—	\$1,054,518	\$ —	\$1,054,518
Cost of revenue	—	491,485	—	491,485
Gross profit	—	563,033	—	563,033
Operating expenses	33,115	351,729	—	384,844
Income (loss) from operations	(33,115)	211,304	—	178,189
Other income (expense)	—	44	—	44
Income (loss) before income taxes	(33,115)	211,348	—	178,233
Income taxes (expense) benefit	—	(67,658)	—	(67,658)
Net income (loss)	\$(33,115)	\$143,690	\$ —	\$110,575

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) consists of revenue less cost of revenue and operating expense. EBITDA is provided because it is a measure commonly used by investors to analyze and compare companies on the basis of operating performance. EBITDA is presented to enhance an understanding of the Company's operating results and is not intended to represent cash flows or results of operations in accordance with GAAP for the periods indicated. EBITDA is not a measurement under GAAP and is not necessarily comparable with similarly titled measures for other companies. See the Liquidity and Capital Resource section for further discussion of cash generated from operations.

The following tables show a reconciliation of EBITDA to the GAAP presentation of net income for the three months ended March 31, 2012 and 2011.

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SITESTAR CORPORATION**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued**For the three months ended March 31, 2012

	Corporate	Internet	Real estate	Total
EBITDA	\$(42,926)	\$208,208	\$110,348	\$275,630
Interest expense	—	(2,089)	—	(2,089)
Taxes	—	(59,964)	(39,985)	(99,949)
Depreciation	—	(2,921)	—	(2,921)
Amortization	—	(7,321)	—	(7,321)
Net income (loss)	\$(42,926)	\$135,913	\$70,363	\$163,350

For the three months ended March 31, 2011

	Corporate	Internet	Real estate	Total
EBITDA	\$(33,115)	\$348,091	\$ —	\$314,976
Interest expense	—	(864)	—	(864)
Taxes	—	(67,658)	—	(67,658)
Depreciation	—	(2,921)	—	(2,921)
Amortization	—	(132,958)	—	(132,958)
Net income (loss)	\$(33,115)	\$143,690	\$ —	\$110,575

Pursuant to the approval of the board of directors, the Company's management believes that it is in the best interests of the Corporation to implement a program to purchase ("Purchase Program"), as investments, real estate with the Company's surplus cash flows. Any real estate purchased pursuant to the Purchase Program will be held as investment until such time or times as the Board of Directors, in its discretion, may deem advisable to sell or otherwise dispose of the property.

The current real estate market presents the unique opportunity to acquire properties at deep discounts from fair market value with the potential for substantial profits. Management evaluates property as it becomes available with respect to

the market value versus the acquisition cost, in addition to other conditions that could affect the resale value. Renovations are made as needed to maximize the market appeal and value prior to listing for sale.

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SITESTAR CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued

Management believes that there is sustainable cash flow potential for the near future in real estate and is actively pursuing the program. As of the balance sheet date, March 31, 2012, the Company has invested approximately \$2,504,107 in surplus funds and is continuing the investing process.

THREE MONTHS ENDED MARCH 31, 2012 COMPARED TO MARCH 31, 2011

REVENUE

Total revenue for the three months ended March 31, 2012 increased by \$252,549 or 23.9% from \$1,054,518 for the three months ended March 31, 2011 to \$1,307,067 for the same period in 2012. Internet sales decreased \$235,326 or 22.3% from \$1,054,518 for the three months ended March 31, 2011 to \$819,192 for the same period in 2012. Real estate sales for the three months ended March 31, 2012 were \$487,875 and were zero for the same period in 2011.

The decrease in Internet sales is attributed to the lack of acquisitions of Internet access and web hosting customers of ISPs. Although the Company continues to sign up new customers, competition from ubiquitous nationwide telecommunications and cable providers threatens significant and sustainable organic growth. To insure continued strength in revenues, the Company has acquired and plans to continue to acquire the assets of additional ISPs, folding them into its operations to provide future revenues. The continued success of the new real estate division is the result of providing a product with market appeal, sold at a discount while still providing a profitable revenue stream.

COST OF REVENUE

Total costs of revenue for the three months ended March 31, 2012 increased by \$335,107 or 68.2% from \$491,485 for the three months ended March 31, 2011 to \$826,592 for the same period in 2012. Cost of revenue Internet revenue decreased \$47,433 or 9.7% from \$491,485 for the three months ended March 31, 2011 to \$444,052 for the same period in 2012 as a result of declining revenue. Cost of real estate revenue increased \$382,540 or 100.0% from zero for the three months ended March 31, 2011 to \$382,540 for the same period in 2012.

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SITESTAR CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued

OPERATING EXPENSES

Operating expenses for the three months ended March 31, 2012 decreased \$170,288 or 44.2% from \$384,844 for the three months ended March 31, 2011 to \$214,556 for the same period in 2012. This decrease is primarily due to lower amortization expense as a result of intangibles being fully amortized. Amortization expense decreased \$125,637 or 94.5% from \$132,958 for the three months ended March 31, 2011 to \$7,321 for the same period in 2012.

INCOME TAXES

For the three months ended March 31, 2012 and March 31, 2011 corporate income tax expenses of \$99,949 and \$67,658 were incurred.

INTEREST EXPENSE

Interest expense for the three months ended March 31, 2012 increased by \$1,225 or 141.8% from \$864 for the three months ended March 31, 2011 to \$2,089 for the same period in 2012.

MARCH 31, 2012 COMPARED TO DECEMBER 31, 2011

FINANCIAL CONDITION

Net accounts receivable increased \$7,675 or 14.5% from \$53,090 on December 31, 2011 to \$60,765 on March 31, 2012. Investment in real estate increased net \$39,413 or 1.6% from \$2,464,694 on December 31, 2011 to \$2,504,107 on March 31, 2012. Accounts payable decreased by \$42,690 or 60.0% from \$71,136 on December 31, 2011 to \$28,446 on March 31, 2012. Deferred revenue decreased by \$5,013 or 1.1% from \$461,640 on December 31, 2011 to \$456,627 on March 31, 2012 representing decreased volume of customer accounts that have been prepaid. Long-term notes payable to shareholders decreased \$13,113 or 13.7% from \$95,958 on December 31, 2011 to \$82,845 on March 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled \$170,149 and \$17,268 at March 31, 2012 and at December 31, 2011. EBITDA was \$275,630 for the three months ended March 31, 2012 as compared to \$314,976 for the same period in 2011.

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SITESTAR CORPORATION**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued**

The aging of accounts receivable as of March 31, 2012 and December 31, 2011 is as shown:

	2012		2011	
Current	\$26,007	43 %	\$33,362	63 %
30 < 60	13,862	23 %	13,123	25 %
60+	20,896	34 %	6,605	12 %
Total	\$60,765	100 %	\$53,090	100 %

OFF-BALANCE SHEET TRANSACTIONS

The Company is not a party to any off-balance sheet transactions.

CRITICAL ACCOUNTING POLICY AND ESTIMATES

The Company's Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses its condensed consolidated financial statements, which have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation.

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SITESTAR CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued

Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. These accounting policies are described at relevant sections in this discussion and analysis and in the condensed consolidated financial statements included in this quarterly report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

None.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures:

In connection with the restatement discussed above in the explanatory note to this Form 10-Q/A and in Note 1 to our financial statements, under the direction of our Chief Executive Officer and Chief Financial Officer, we reevaluated our disclosure controls and procedures. We identified the following material weaknesses in our internal control over financial reporting:

We did not maintain proper segregation of duties for the preparation of our financial statements. Due to the size of 1.our administrative staff, all accounting and reporting functions are handled by a single individual, our Chief Financial Officer, with little or no oversight and review.

We did not have adequate policies and procedures in place to provide reasonable assurance that revenues and deferred revenues were being properly recorded in accordance with GAAP. Historically, deferred revenues have 2.been adjusted through our bad debt expense account, rather than through our revenue account. It has been determined that deferred revenue adjustments should properly be recorded through our revenue account to properly reflect revenues earned during the period.

3.We did not have effective review procedures in place to provide reasonable assurance that calculations related to income tax account balances were free of material error. This is largely related to our inability to maintain proper

segregation of duties noted above.

As a result of these material weaknesses, we concluded that our disclosure controls and procedures were not effective as of March 30, 2012.

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SITESTAR CORPORATION

In March 2013, management implemented new procedures with regard to the recording of revenues and deferred revenues, and believes these procedures will effectively mitigate the related material weakness. We are currently unable to achieve proper segregation of duties, including sufficient review during our financial reporting close process given the size of our administrative staff. Despite this, management believes that there are no material inaccuracies or omissions of fact in this quarterly report, as amended. However, we cannot provide assurance that we will not, in the future, identify further material weaknesses or significant deficiencies in our internal control over financial reporting that we have not discovered to date.

Changes in Internal Control over Financial Reporting:

Except as noted above, no change in the Company's internal control over financial reporting occurred during the fiscal quarter ended March 31, 2012, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Not required for small business.

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

(a) The following are filed as exhibits to this form 10-Q:

31.1 Certification of President Pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SITESTAR CORPORATION

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.

SITESTAR CORPORATION

Date: April 19, 2013

By: /s/ Frank Erhartic, Jr.

Frank Erhartic, Jr.

President, Chief Executive Officer

(Principal Executive Officer and

Principal Accounting Officer)

Date: April 19, 2013

By: /s/ Daniel A. Judd.

Daniel A. Judd

Chief Financial Officer

(Principal Financial Officer)

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