SITESTAR CORP
Form 10-Q
August 14, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

¨ 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	88-0397234
(State or other jurisdiction of incorporation or organization)	(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 x 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 x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date 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). xYes¨No

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

SITESTAR CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SITESTAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2009 AND DECEMBER 31, 2008

	2009 (Unaudited)	2008 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 888,167	$ 527,553
Accounts receivable, net of allowance of $53,527 and $26,764	938,502	738,824
Prepaid expenses	1,297	1,227
Total current assets	1,827,966	1,267,604
PROPERTY AND EQUIPMENT, net	210,984	225,212
CUSTOMER LIST, net of accumulated amortization of $9,129,655 and $7,973,341	3,105,498	4,224,414
GOODWILL, net of impairment	1,288,559	1,288,559
DEFERRED INCOME TAXES	811,161	421,031
OTHER ASSETS	501,290	583,637
TOTAL ASSETS	$ 7,745,458	$ 8,010,457

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

SITESTAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS, continued
JUNE 30, 2009 AND DECEMBER 31, 2008

	2009 (Unaudited)	2008 (Audited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 149,747	$ 80,892
Accrued income taxes	555,505	754,777
Accrued expenses	87,500	94,882
Deferred revenue	1,173,076	1,157,597
Notes payable	417,114	569,372
Total current liabilities	2,382,942	2,657,520
NOTES PAYABLE, less current portion	750,615	915,615
NOTES PAYABLE - STOCKHOLDERS, less current portion	484,296	539,281
TOTAL LIABILITIES	3,617,853	4,112,416
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 and 91,326,463 shares issued and outstanding on June 30, 2009 December 31, 2008 respectively	91,326	91,326
Additional paid-in capital	13,880,947	13,880,947
Treasury stock, at cost, 13,507,963 and 8,237,805 common shares on June 30, 2009 and December 31, 2008	(657,876)	(64,220)
Accumulated deficit	(9,186,792)	(10,010,012)
Total stockholders' equity	4,127,605	3,898,041
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 7,745,458	$ 8,010,457

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

SITESTAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2009 AND 2008
(UNAUDITED)

	2009	2008
REVENUE	$ 2,291,192	$ 2,614,699
COST OF REVENUE	846,685	562,583
GROSS PROFIT	1,444,507	2,052,116
OPERATING EXPENSES:		
Selling general and administrative expenses	1,363,384	1,618,940
INCOME FROM OPERATIONS	81,123	433,176
OTHER INCOME (EXPENSES)	(29,288)	(36,297)
INCOME BEFORE INCOME TAXES	51,835	396,879
INCOME TAXES (EXPENSE) BENEFIT	562,992	-
NET INCOME	$ 614,827	$ 396,879
BASIC AND DILUTED EARNINGS PER SHARE	$ 0.00	$ 0.00
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	91,326,463	91,326,463

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

SITESTAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(UNAUDITED)

	2009	2008
REVENUE	$ 4,832,611	$ 5,159,244
COST OF REVENUE	1,672,721	1,387,801
GROSS PROFIT	3,159,890	3,771,443
OPERATING EXPENSES:		
Selling general and administrative expenses	2,875,491	2,984,032
INCOME FROM OPERATIONS	284,399	787,411
OTHER INCOME (EXPENSES)	(50,581)	(86,532)
INCOME BEFORE INCOME TAXES	233,818	700,879
INCOME TAXES (EXPENSE) BENEFIT	589,402	-
NET INCOME	$ 823,220	$ 700,879
BASIC AND DILUTED EARNINGS PER SHARE	$ 0.01	$ 0.01
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	91,326,463	91,326,463

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

SITESTAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(UNAUDITED)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 823,220	$ 700,879
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	1,287,293	1,486,286
Bad debt expense	4,119	38,914
(Increase) decrease in:		
Accounts receivable	(203,799)	(419,398)
Prepaid expenses	(71)	(27,376)
Increase (decrease) in:		
Accounts payable	68,856	(43,686)
Accrued expenses	(206,654)	(17,474)
Deferred revenue	15,481	4,207
Deferred income taxes	(390,130)	-
Net cash provided by operating activities	1,398,315	1,722,352
CASH FLOWS FROM INVESTING ACTIVITIES:		
Other assets held for resale	(403)	500
Purchase of property and equipment	(3,000)	(12,000)
Purchase of non-compete	(1,000)	(70,000)
Purchase of customer list	(67,398)	(648,875)
Net cash (used in) investing activities	(71,801)	(730,375)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from notes payable	-	350,855
Repayment of notes payable – stockholders	(54,984)	(87,010)
Purchase treasury stock	(593,657)	
Repayment of notes payable	(317,259)	(1,140,680)
Net cash (used in) financing activities	(965,900)	(876,835)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	360,614	115,142
CASH AND CASH EQUIVALENTS –BEGINNING OF PERIOD	527,553	232,249
CASH AND CASH EQUIVALENTS -END OF PERIOD	$ 888,167	$ 347,391

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

SITESTAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (continued)
(UNAUDITED)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

During the six months ended June 30, 2009 and 2008, the Company accrued income taxes (benefit) expense of $(589,402) and $0 and paid interest expense of approximately $48,000 and $111,000, respectively.

NON-CASH INVESTING AND FINANCING TRANSACTIONS:

During the six months ended June 30, 2009, the Company issued no shares of common stock.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – 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 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, 2008 included in the Company’s Annual Report on Form 10-K. The results for the six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year ending December 31, 2009.

NOTE 2 – EARNINGS PER SHARE

The Financial Accounting Standards (FAS) No. 128, "Accounting for Earnings Per Share" 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 six months ended June 30, 2009 and June 30, 2008:

	2009	2008
Net income available to common shareholders	$ 823,220	$ 700,879
Weighted average number of common shares	91,326,463	91,326,463
Basic and diluted income per share	$ 0.01	$ 0.01

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SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – COMMON STOCK

During the six months ended June 30, 2009, the Company issued no shares of common stock.

NOTE 4 – SEGMENT INFORMATION

The Company has two business units that have been aggregated into two reportable segments: Corporate and Internet.

The Corporate group is the holding company and oversees the operation of the other business unit. The Corporate group also arranges financing for the entire organization. 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 table for the three months ended June 30, 2009 and 2008:

June 30, 2009

	Corporate	Internet	Consolidated
Revenue	$ -	$ 2,291,192	$ 2,291,192
Operating Income (loss)	$ (52,500)	$ 133,623	$ 81,123
Depreciation and amortization	$ -	$ 624,409	$ 624,409
Interest expense	$ -	$ 26,567	$ 26,567
Intangible assets	$ -	$ 4,624,501	$ 4,624,501
Total assets	$ -	$ 7,745,458	$ 7,745,458

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 – SEGMENT INFORMATION, continued

June 30, 2008	Corporate		Internet		Consolidated	
Revenue	$	-	$	2,614,699	$	2,614,699
Operating Income (loss)	$	(26,239)	$	459,415	$	433,176
Depreciation and amortization	$	-	$	763,876	$	763,876
Interest expense	$	-	$	38,832	$	38,832
Intangible assets	$	-	$	6,427,429	$	6,427,429
Total assets	$	-	$	7,998,974	$	7,998,974

Summarized financial information concerning the Company's reportable segments is shown in the following table for the six months ended June 30, 2009 and 2008:

June 30, 2009	Corporate		Internet		Consolidated	
Revenue	$	-	$	4,832,611	$	4,832,611
Operating Income (loss)	$	(79,615)	$	364,014	$	284,399
Depreciation and amortization	$	-	$	1,287,293	$	1,287,293
Interest expense	$	-	$	48,451	$	48,451
Intangible assets	$	-	$	4,624,501	$	4,624,501
Total assets	$	-	$	7,745,458	$	7,745,458

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 – SEGMENT INFORMATION, continued

	June 30, 2008		
	Corporate	Internet	Consolidated
Revenue	$ -	$ 5,159,244	$ 5,159,244
Operating Income (loss)	$ (69,708)	$ 857,119	$ 787,411
Depreciation and amortization	$ -	$ 1,486,286	$ 1,486,286
Interest expense	$ -	$ 110,518	$ 110,518
Intangible assets	$ -	$ 6,427,429	$ 6,427,429
Total assets	$ -	$ 7,998,974	$ 7,998,974

NOTE 5 – RECENTLY ISSUED ACCOUNTING PROUNCEMENTS

In March 2008, the FASB issued FASB No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133.

FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, does not provide adequate information about how derivative and hedging activities affect an entity's financial position, financial performance and cash flows. Accordingly, this Statement requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the effect the adoption of FASB No. 161, but believes it will not have a material impact on its financial position or on the results of operations.

In May 2008, the FASB issued FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy). The Board concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB and is issuing this Statement to achieve that result. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company is currently evaluating the effect the adoption of FASB No. 162, but believes it will not have a material impact on its financial position or on the results of operations.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5 – RECENTLY ISSUED ACCOUNTING PROUNCEMENTS, continued

In May 2008, the FASB issued FASB Statement No. 163, Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60. This Statement clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. These clarifications will increase comparability in financial reporting of financial guarantee insurance contracts by insurance enterprises. This Statement requires expanded disclosures about financial guarantee insurance contracts. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. The Company is currently evaluating the effect the adoption of FASB No. 163, but believes it will not have a material impact on its financial position or on the results of operations.

NOTE 6 – ACQUISITIONS

Comcation, Inc.
Effective March 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of Comcation, Inc., a Pennsylvania ISP. The total purchase price was $38,500 representing the fair value of the assets acquired which consisted of a $9,135 cash payment at closing with the remaining balance paid in 5 monthly installments beginning April 2008.

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.

Customer list	$ 62,223
Non-compete agreement	5,000
Accounts receivable	2,343
Deferred revenue	(22,858)
Purchase price	$ 46,708

Because the acquisition of Comcation was consummated effective March 1, 2008, there are limited results of operations of Comcation in the consolidated financial statements for the six months ended June 30, 2008.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – ACQUISITIONS, continued

The following table presents the unaudited pro forma condensed statement of operations for the six months ended June 30, 2008 and reflects the results of operations of the Company as if the acquisition of Comcation had been effective January 1, 2008. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions been effective as of that date, or of the anticipated results of operations, due to cost reductions and operating efficiencies that are expected as a result of the acquisitions.

	2008
Net sales	$ 5,200,601
Gross profit	$ 3,802,982
Selling, general and administrative expenses	$ 3,001,920
Net income	$ 714,530
Basic income per share	$ 0.01

N2 the Net, LLC
Effective April 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of N2 the Net, LLC, a Tennessee ISP. The total purchase price was $48,156 representing the fair value of the assets acquired which consisted of a $3,650 cash payment at closing with the remaining balance paid in 11 monthly installments beginning May 2008. The purchase price has been subsequently adjusted down to $45,821.

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.

Customer list	$ 40,512
Non-compete agreement	5,000
Accounts receivable	2,328
Equipment	10,000
Deferred revenue	(12,019)
Purchase price	$ 45,821

Because the acquisition of N2 the Net was consummated effective April 1, 2008, there are limited results of operations of Comcation in the consolidated financial statements for the six months ended June 30, 2008.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – ACQUISITIONS, continued

The following table presents the unaudited pro forma condensed statement of operations for the six months ended June 30, 2008 and reflects the results of operations of the Company as if the acquisition of N2 the Net had been effective January 1, 2008. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions been effective as of that date, or of the anticipated results of operations, due to cost reductions and operating efficiencies that are expected as a result of the acquisitions.

	2008
Net sales	$ 5,208,905
Gross profit	$ 3,801,185
Selling, general and administrative expenses	$ 2,999,684
Net income	$ 714,752
Basic income per share	$ 0.01

Dial Assurance, Inc.
Effective May 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of Dial Assurance, Inc., a Georgia-based wholesale managed modem solution provider. The total purchase price was $229,900 representing the fair value of the assets acquired which consisted of a $100,000 cash payment at closing with the remaining balance paid in 6 monthly installments beginning June 2008.

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.

Customer list	$ 250,000
Non-compete agreement	5,000
Deferred revenue	(25,100)
Purchase price	$ 229,900

Because the acquisition of Dial Assurance was consummated effective May 1, 2008, there are limited results of operations of Dial Assurance in the consolidated financial statements for the six months ended June 30, 2008.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – ACQUISITIONS, continued

The following table presents the unaudited pro forma condensed statement of operations for the six months ended June 30, 2008 and reflects the results of operations of the Company as if the acquisition of Dial Assurance had been effective January 1, 2008. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions been effective as of that date, or of the anticipated results of operations, due to cost reductions and operating efficiencies that are expected as a result of the acquisitions.

		2008
Net sales	$	5,238,441
Gross profit	$	3,792,389
Selling, general and administrative expenses	$	3,035,948
Net income	$	669,909
Basic income per share	$	0.01

United Systems Access, Inc.
Effective May 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired certain broadband digital subscriber line (DSL) accounts and related assets of United Systems Access, Inc., (d/b/a USA Telephone), a corporation with its headquarters in Maine. The net purchase price was $297,965 representing the fair value of the assets acquired which consisted of a $130,000 cash payment at closing with the remaining balance paid in 60 days from closing. The purchase price has been subsequently adjusted down to $263,757.

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.

Customer list	$ 277,965
Non-compete agreement	50,000
Deferred revenue	(64,208)
Purchase price	$ 263,757

Because the acquisition of was consummated effective May 1, 2008, there are limited results of operations of USA Telephone in the consolidated financial statements for the six months ended June 30, 2008.

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SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – ACQUISITIONS, continued

The following table presents the unaudited pro forma condensed statement of operations for the six months ended June 30, 2008 and reflects the results of operations of the Company as if the acquisition of USA Telephone had been effective January 1, 2008. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions been effective as of that date, or of the anticipated results of operations, due to cost reductions and operating efficiencies that are expected as a result of the acquisitions.

	2008
Net sales	$ 5,463,841
Gross profit	$ 3,955,404
Selling, general and administrative expenses	$ 3,070,697
Net income	$ 798,175
Basic income per share	$ 0.01

AdaNet
Effective June 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of AdaNet, an Oklahoma ISP. The total purchase price was $20,667 representing the fair value of the assets acquired which consisted of a $3,836 cash payment at closing with the remaining balance paid in 5 monthly installments beginning July 2008. The purchase price has been subsequently adjusted down to $18,542.

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.

Customer list	$ 15,428
Non-compete agreement	5,000
Accounts receivable	164
Equipment	2,000
Deferred revenue	(4,050)
Purchase price	$ 18,542

Because the acquisition of AdaNet was consummated effective June 1, 2008, there are limited results of operations of AdaNet in the consolidated financial statements for the six months ended June 30, 2008.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – ACQUISITIONS, continued

The following table presents the unaudited pro forma condensed statement of operations for the six months ended June 30, 2008 and reflects the results of operations of the Company as if the acquisition of AdaNet had been effective January 1, 2008. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions been effective as of that date, or of the anticipated results of operations, due to cost reductions and operating efficiencies that are expected as a result of the acquisitions.

		2008
Net sales	$	5,174,149
Gross profit	$	3,784,285
Selling, general and administrative expenses	$	2,993,117
Net income	$	704,636
Basic income per share	$	0.01

Velocity West, Inc.
Effective August 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of Velocity West, Inc., an ISP and wholesale managed modem solution provider with headquarters in Texas. The total purchase price was $360,000 representing the fair value of the assets acquired which consisted of a $100,000 cash payment at closing with the remaining balance paid beginning September 2008.

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.

Customer list	$ 400,000
Non-compete agreement	10,000
Deferred revenue	(50,000)
Purchase price	$ 360,000

The following table presents the unaudited pro forma condensed statement of operations for the six months ended June 30, 2008 and reflects the results of operations of the Company as if the acquisition of Velocity West had been effective January 1, 2008. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions been effective as of that date, or of the anticipated results of operations, due to cost reductions and operating efficiencies that are expected as a result of the acquisitions.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – ACQUISITIONS, continued

	2008
Net sales	$ 5,332,210
Gross profit	$ 3,881,000
Selling, general and administrative expenses	$ 3,044,777
Net income	$ 836,223
Basic income per share	$ 0.01

ISP Holding Company, LLC
Effective November 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of ISP Holding Company, LLC d/b/a DONOBi Internet Services, an ISP with headquarters in Washington. The total purchase price was $475,000 representing the fair value of the assets acquired which consisted of a $150,000 cash payment at closing with the remaining balance due in 12 monthly installments beginning December 2008.

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.

Customer list	$ 530,000
Non-compete agreement	20,000
Deferred revenue	(75,000)
Purchase price	$ 475,000

Because the acquisition of DONOBi Internet Services was consummated effective November 1, 2008, there are no results of operations of ISP Holding Company in the consolidated financial statements for the six months ended June 30, 2008.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – ACQUISITIONS, continued

The following table presents the unaudited pro forma condensed statement of operations for the six months ended June 30, 2008 and reflects the results of operations of the Company as if the acquisition of DONOBi Internet Services had been effective January 1, 2008. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions been effective as of that date, or of the anticipated results of operations, due to cost reductions and operating efficiencies that are expected as a result of the acquisitions.

	2008
Net sales	$ 5,693,315
Gross profit	$ 4,108,040
Selling, general and administrative expenses	$ 3,098,406
Net income	$ 900,940
Basic income per share	$ 0.01

Pulaski Networks, LLC
Effective February 10, 2009, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of Pulaski Networks, LLC, a Virginia-based ISP. The total purchase price was $24,907 representing the fair value of the assets acquired which consisted of applying the amount owed to the Company by Pulaski Networks for wholesale dial-up service to the purchase price.

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	$ 3,000
Customer list	62,907
Non-compete agreement	1,000
Deferred revenue	(42,000)
Purchase price	$ 24,907

Because the acquisition of Pulaski Networks was consummated effective February 10, 2009, there are limited results of operations of Pulaski Networks in the consolidated financial statements for the six months ended June 30, 2009.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – ACQUISITIONS, continued

The following table presents the unaudited pro forma condensed statement of operations for the six months ended June 30, 2009 and reflects the results of operations of the Company as if the acquisition of Pulaski Networks had been effective January 1, 2009. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions been effective as of that date, or of the anticipated results of operations, due to cost reductions and operating efficiencies that are expected as a result of the acquisitions.

		2009
Net sales	$	5,222,828
Gross profit	$	3,826,474
Selling, general and administrative expenses	$	3,000,953
Net income	$	738,989
Basic income per share	$	0.01

NOTE 7 — PROVISION FOR INCOME TAXES

The reconciliation of the effective income tax rate to the federal statutory rate as of June 30, 2009 and December 31, 2008 is as follows:

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 June 30, 2009 and December 31, 2008 are as follows:

		2009		2008
Accounts receivable	$	21,411	$	19,762
Amortization of Intangible assets		3,342,165		2,953,689
Less valuation allowance		2,552,420		2,552,420
Deferred tax asset	$	811,156	$	421,031

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SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7 — PROVISION FOR INCOME TAXES, continued

At June 30, 2009 and December 31, 2008, the Company has provided a valuation allowance for the deferred tax asset since management has not been able to determine that the realization of that asset is more likely than not. Net operating loss carry forwards was entirely applied for the year ended December 31, 2007.

NOTE 8 – 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 an undiscounted 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. Amortization expense was $1,270,065 and $1,467,168 for the six months ended June 30, 2009 and 2008.

NOTE 9 – 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

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 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.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 10 - NOTES PAYABLE

Notes payable at June 30, 2009 and December 31, 2008 consist of the following:

	2009	2008
Non-interest bearing amount due on acquisition of N2theNet paid in eleven monthly installments of $4,046 starting May 2008.	$ -	$ 11,921
Non-interest bearing amount due on acquisition of DONOBI payable in twelve monthly installments of $27,083 through November 2009	117,114	257,451
Non-interest bearing amount due on acquisition of USA Telephone payable in thirty six monthly installments starting January 2008	1,050,615	1,215,615
Total	1,167,729	1,484,987
Less current portion	(417,114)	(569,372)
Long-term portion	$ 750,615	$ 915,615

The future principal maturities of these notes are as follows:

Twelve months ending June 30, 2010	$ 417,114
Twelve months ending June 30, 2011	300,000
Twelve months ending June 30, 2012	300,000
Twelve months ending June 30, 2013	150,615
Twelve months ending June 30, 2014	-
Thereafter	-
Total	$ 1,167,729

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 11 - NOTES PAYABLE - STOCKHOLDERS

Notes payable - stockholders at June 30, 2009 and December 31, 2008 consist of the following:

	2009	2008
Note payable to officer and stockholder on a line of credit of $750,000 at an annual interest rate of 10% interest. The accrued interest and principal are due on January 1, 2012.	$ 379,711	$ 379,711
Note payable to stockholder. The note is payable on January 1, 2012 and bears interest at an annual rate of 8.0%.	104,585	104,585
Note payable to stockholder. The note was paid in full on June 30, 2009 and bears interest at an annual rate of 8.0%.	-	54,985
Less current portion	-	-
Long-term portion	$ 484,296	$ 539,281

The future principal maturities of these notes are as follows:

Year ending June 30, 2010	$ -
Year ending June 30, 2011	-
Year ending June 30, 2012	484,296
Year ending June 30, 2013	-
Year ending June 30, 2014	-
Total	$ 484,296

SITESTAR CORPORATION

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

General

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, 2008 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.

Overview

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;
· End-to-end e-commerce solutions; and
· Toner and ink cartridge remanufacturing services.

The Company's Internet division markets and sells narrow-band (dial-up and ISDN) and broadband services (DSL, fiber-optic, satellite 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.

The Company also markets, sells and manufactures computer systems, computer hardware, computer software, networking services, repair services and toner and ink cartridge remanufacturing services from the Lynchburg, Virginia location.

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 six months ended June 30, 2009 and 2008. Operating results for any period are not necessarily indicative of results for any future period.

	For the six months ended June 30, 2009 (unaudited)		
	Corporate	Internet	Total
Revenue	$ -	$ 4,832,611	$ 4,832,611
Cost of revenue	-	1,672,721	1,672,721
Gross profit	-	3,159,890	3,159,890
Operating expenses	79,615	2,795,876	2,875,491
Income (loss) from operations	(79,615)	364,014	284,399
Other income (expense)	-	(50,581)	(50,581)
Income (loss) before income taxes	(79,615)	313,433	233,818
Income taxes	(589,402)	-	(589,402)
Net income (loss)	$ 509,787	$ 313,433	$ 823,220

SITESTAR CORPORATION

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

	For the six months ended June 30, 2008 (unaudited)		
	Corporate	Internet	Total
Revenue	$ -	$ 5,159,244	$ 5,159,244
Cost of revenue	-	1,387,801	1,387,801
Gross profit	-	3,771,443	3,771,443
Operating expenses	69,708	2,914,324	2,984,032
Income (loss) from operations	(69,708)	857,119	787,411
Other income (expense)	-	(86,532)	(86,532)
Income (loss) before income taxes	(69,708)	770,587	700,879
Income taxes	-	-	-
Net income (loss)	$ (69,708)	$ 770,587	$ 700,879

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 six months ended June 30, 2009 and 2008.

	For the six months ended June 30, 2009		
	Corporate	Internet	Total
EBITDA	$ (79,615)	$ 1,649,177	$ 1,569,562
Interest expense	-	(48,451)	(48,451)
Taxes	589,402	-	589,402
Depreciation	-	(17,228)	(17,228)
Amortization	-	(1,270,065)	(1,270,065)
Net income (loss)	$ 509,787	$ 313,433	$ 823,220

SITESTAR CORPORATION

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

	For the six months ended June 30, 2008		
	Corporate	Internet	Total
EBITDA	$ (69,708)	$ 2,367,391	$ 2,297,683
Interest expense	-	(110,518)	(110,518)
Taxes	-	-	-
Depreciation	-	(19,118)	(19,118)
Amortization	-	(1,467,168)	(1,467,168)
Net income (loss)	$ (69,708)	$ 770,587	$ 700,879

SIX MONTHS ENDED JUNE 30, 2009 COMPARED TO JUNE 30, 2008 (Unaudited)

REVENUE

Revenue for the six months ended June 30, 2009 decreased by $326,633 or 6.3% from $5,159,244 for the six months ended June 30, 2008 to $4,832,611 for the same period in 2009. Internet sales decreased primarily due to customer attrition to broadband services and offset in part by the addition of Internet customers from asset acquisitions. To insure continued strength in revenues, the Company has acquired and plans to continue to acquire the assets of additional ISPs and fold them into its operations to provide future revenues.

COST OF REVENUE

Costs of revenue for the six months ended June 30, 2009 increased by $284,920 or 20.5% from $1,387,801 for the six months ended June 30, 2008 to $1,672,721 for the same period in 2009. Cost of revenue increased as a result of increasing the product mix with more broadband services which carries a higher cost of providing bandwidth and connectivity. This is a reflection of the acquisitions of fiber and DSL customers late in the second quarter and fourth quarters of 2008.

SITESTAR CORPORATION

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

OPERATING EXPENSES

Operating expenses for the six months ended June 30, 2009 decreased $108,541 or 3.6% from $2,984,032 for the six months ended June 30, 2008 to $2,875,491 for the same period in 2009. Amortization expense decreased $197,103 or 13.4% from $1,467,168 for the six months ended June 30, 2008 to $1,270,065 for the same period in 2009. Wages decreased $71,678 or 19.1% from $375,950 for the six months ended June 30, 2008 to $304,272 for the same period in 2009. These decreases were offset in part by an increase in bad debt expense of $132,062 or 16.6% from $796,035 for the six months ended June 30, 2008 to $928,097 for the same period in 2009. Corporate expenses for the six months ended June 30, 2009 and June 30, 2008 consisted primarily of professional fees of $74,303 and 65,466.

INCOME TAXES

For the six months ended June 30, 2009 and June 30, 2008 corporate income tax (expense) benefit of $589,402 and $0 were accrued.

INTEREST EXPENSE

Interest expense for the six months ended June 30, 2009 decreased by $62,067 or 56.2% from $110,518 for the six months ended June 30, 2008 to $48,451 for the same period in 2009. This decrease is a result of reducing debt to finance the acquisition of additional customers.

JUNE 30, 2009 (Unaudited) COMPARED TO DECEMBER 31, 2008 (Audited)

FINANCIAL CONDITION

Net accounts receivable increased $199,678 or 27.0% from $738,824 on December 31, 2008 to $938,502 on June 30, 2009. This increase is substantially due to the addition of customers from acquisitions. Due to the slow moving nature of inventory, management has reclassified it on the balance sheets from current assets to other assets held for resale which increased by $607 or 0.9% from $70,239 on December 31, 2008 to $70,846 on June 30, 2009. Accounts payable increased by $68,855 or 85.1% from $80,892 on December 31, 2008 to $149,747 on June 30, 2009. Accrued expenses decreased by $7,382 or 1.3% from $94,882 on December 31, 2008 to $87,500 on June 30, 2009.

SITESTAR CORPORATION

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

Deferred revenue increased by $15,479 or 1.3% from $1,157,597 on December 31, 2008 to $1,173,076 on June 30, 2009 representing increased volume of customer accounts that have been prepaid. The current portion of notes payable decreased $152,258 or 26.7% from $569,372 on December 31, 2008 to $417,114 on June 30, 2009. This is due to the curtailment of term notes financing the purchase of customer bases. Long-term notes payable decreased $165,000 or 18.0% from $915,615 on December 31, 2008 to $750,615 on June 30, 2009. This is due to the curtailment of term notes financing the purchase of customer bases. Long-term notes payable to shareholders decreased $54,985 or 10.2% from $539,281 on December 31, 2008 to $484,296 on June 30, 2009. This is due to the early payoff of one note.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled $888,167 and $527,553 at June 30, 2009 and at December 31, 2008. EBITDA was $1,569,562 for the six months ended June 30, 2009 as compared to $2,297,683 for the same period in 2008.

	2009	2008
EBITDA for the six months ended June 30,	$ 1,569,562	$ 2,297,683
Interest expense	(48,451)	(110,518)
Taxes	589,402	-
Depreciation	(17,228)	(19,118)
Amortization	(1,270,065)	(1,467,168)
Net income for the six months ended June 30,	$ 823,220	$ 700,879

The aging of accounts receivable as of June 30, 2009 and December 31, 2008 is as shown:

	2009		2008	
Current	$ 624,033	67%	$ 433,518	59%
30 < 60	162,902	16%	159,585	22%
60 +	151,567	17%	145,721	19%
Total	$ 938,502	100%	$ 738,824	100%

SITESTAR CORPORATION

OFF-BALANCE SHEET TRANSACTIONS

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

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.

SITESTAR CORPORATION

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

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 in accordance with accounting principles generally accepted in the United States of America as promulgated by the Public Company Accounting Oversight Board. 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. 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

Item 4. Controls and Procedures

The Company has evaluated the effectiveness of the disclosure controls and procedures and internal controls over financial reporting as of June 30, 2009. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Principal Executive Officer and Principal Financial Officer. Based on this evaluation, these officers have concluded that the disclosure controls and procedures are effective. There were no changes in internal control over financial reporting during the last fiscal quarter ended June 30, 2009 that materially affected, or is reasonably likely to materially affect internal control over financial reporting.

SITESTAR CORPORATION

Controls and Procedures, continued

Disclosure controls and procedures and internal controls over financial reporting are designed to ensure that information required to be disclosed by the Company in the reports that the Company file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that the Company file under the Exchange Act is accumulated and communicated to the Company management, including Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Disclosure Controls and Internal Control over Financial Reporting

Company management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. Management did not use a framework to conduct the required evaluation of the effectiveness of the Company's internal control over financial reporting since, in the view of management, comparison with a framework was unwarranted because the size of the Company's current operations are such that management is aware of all current transactions.

An evaluation was conducted under the supervision and with the participation of the Company's management, including the President (Principal Executive Officer) and Chief Financial Officer (Principal Accounting and Financial Officer), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the quarter ended June 30, 2009 covered by this quarterly report on Form 10-Q.

Material Weaknesses in Internal Controls

Bagell, Josephs, Levine & Company, L.L.C. ("Bagell") our independent registered public accounting firm, has provided us with an unqualified report on our consolidated financial statements for the fiscal year ended December 31, 2008. However, during the conduct of our audit for the year ended December 31, 2008 Bagell identified a material weakness in the calculation of the tax provision and have advised our board of directors that the following material weakness existed at December 31, 2008. As defined by the Public Company Accounting Oversight Board Auditing Standard No. 5, a material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness exists in the internal control over financial reporting with respect to accounting for the income tax provision, namely, that we did not have adequately designed procedures to calculate or review the tax provision. Solely as a result of this material weakness, we concluded that our disclosure controls and procedures were not effective as of December 31, 2008.

SITESTAR CORPORATION

Controls and Procedures, continued

While this material weakness did not have an effect on our reported results, it nevertheless constituted a deficiency in our controls. In light of this material weakness and the requirements enacted by the Sarbanes-Oxley act of 2002, and the related rules and regulations adopted by the SEC, our Chief Executive Officer and Chief Accounting Officer concluded that, as of December 31, 2008, our controls and procedures needed improvement and were not effective at a reasonable assurance level. Despite this deficiency in our internal controls, management believes that there were no material inaccuracies or omissions of material fact in this annual report.

Since the discovery of the material weaknesses in the tax provision we began evaluating the tax provision and remediated the related internal control weakness. We have evaluated our disclosure controls and procedures as currently in effect, including the remedial actions discussed above, and we have concluded that, as of this date, our disclosure controls and procedures are effective.

We have discussed our corrective actions and future plans with our board of directors and Bagell as of the date of this annual report, and believe the planned actions should serve to correct the above listed material weaknesses in our internal controls. However, we cannot provide assurance that either we or our independent auditors 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.

Inherent Limitations of the Effectiveness of Internal Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

The Company's management, including the President (Principal Executive Officer) and Chief Financial Officer (Principal Accounting and Financial Officer), confirm that there was no change in the Company's internal control over financial reporting during the quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

SITESTAR CORPORATION

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

A complaint has been filed in Belmont County, Ohio by First USA, Inc. alleging a breach of agreement for the purchase and sale of Internet Service Provider accounts dated July 1, 2006. The Company took a purchase price adjustment based on a material warranty misrepresentation of customer counts and revenues by First USA. The complaint demands judgment of approximately $150,000. The Company will vigorously defend this claim. A pre-trial or scheduling conference has been rescheduled in the third quarter of 2009.

Item 1A. Risk Factors

None.

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

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: August 14, 2009

By: /s/ Frank Erhartic, Jr.
Frank Erhartic, Jr.
President, Chief Executive Officer
(Principal Executive Officer and
Principal Accounting Officer)

Date: August 14, 2009

By: /s/ Daniel A. Judd.
Daniel A. Judd
Chief Financial Officer
(Principal Financial Officer)