SITESTAR CORP
Form 10-K
March 31, 2011

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2010

SITESTAR CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Commission file number 000-27763

Nevada (State or Other Jurisdiction of Incorporation or Organization)	88-0397234 (I.R.S. Employer Identification No.)
7109 Timberlake Rd., Suite 201, Lynchburg, VA (Address of Principal Executive Offices)	24502 (Zip Code)

(434) 239-4272
(Issuer's telephone number, including area code)
Securities registered under Section 12(b) of the Exchange Act: None
Securities registered under Section 12(g) of the Exchange Act: Common Stock, $0.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section13 or Section 15(d) of the Act.
o Yes x No

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

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o | Accelerated filer o

Non-accelerated filer o	Smaller reporting company x

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

The aggregate value of the voting common equity held by non-affiliates as of December 31, 2010, the last business day of the registrant's most recently completed fourth fiscal quarter, was approximately $650,232 based on the price at which the common stock last sold on such day. This price reflects inter-dealer prices without retail mark up, mark down, or commissions, and may not represent actual transactions.

The number of shares outstanding of Common Stock, $0.001 par value as of March 31, 2011 was approximately 74,735,705.

DOCUMENTS INCORPORATED BY REFERENCE

None.

PART I

This Annual Report on Form 10-K contains statements that are forward-looking, including statements relating to anticipated operating results, growth, financial resources, the development of new markets, the development and acceptance of the Company's business strategy and new applications for Sitestar Corporation's existing products. Readers are cautioned that, although the Company believes that its expectations are based on reasonable assumptions, forward-looking statements involve risks and uncertainties which may affect the Company's business and prospects, including changes in economic and market conditions, acceptance of the Company's products, maintenance of strategic alliances and other factors discussed elsewhere in this Form 10-K.

ITEM 1. BUSINESS

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;

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.

Corporate History

The Company was incorporated under the name White Dove Systems, Inc. in December 1992 under the laws of the State of Nevada.

Effective December 15, 1999, the Company consummated the acquisition of Neocom Microspecialists, Inc. (Neocom) by exchanging 6,782,353 shares of the Company's common stock for 100% of the outstanding shares of Neocom. Effective upon the closing of the acquisition, the Company issued 4,782,353 shares of its common stock and reserved 2,000,000 shares of common stock to issue on the second anniversary of the acquisition based on certain contingencies related to potential unrecorded liabilities. As of January 2002, the remaining 2,000,000 shares were issued to the former shareholders of Neocom.

Neocom has since changed its name to Sitestar.net, Inc. Sitestar.net is an ISP and web development company based in Lynchburg, Virginia. Sitestar.net provides Internet access and other Internet services to its customers in the Southern Virginia area.

Effective November 22, 2000, the Company consummated the acquisition of FRE Enterprises, Inc., a Virginia corporation (doing business as "Lynchburg.net" and "Computers by Design") by exchanging 16,583,980 shares of its common stock for 100% of the outstanding shares of Lynchburg.net. Effective upon the closing of the acquisition, the Company issued 12,437,985 shares of its common stock and reserved 4,145,995 shares of its common stock that the Company had agreed to issue on the third anniversary of the acquisition based on certain contingencies related to potential unrecorded and unknown liabilities. On the third anniversary, November 22, 2003, there were no contingencies that had not been satisfied and the shares were issued on that date. The Company used the market price of its common stock at the acquisition date to determine the acquisition price of $2,487,597.

Lynchburg.net is an ISP and web services company. Computers by Design is a computer sales and service company. In addition, Computers by Design has a division that remanufactures ink and toner cartridges under the name of CBD Toner Recharge. This company is based in Lynchburg, Virginia and provides products and services to its customers in the central and southwestern part of Virginia, as well as, nationwide.

On July 1, 2001, the Company acquired 100% of the equity and voting interest of Advanced Internet Services, Inc., a North Carolina corporation (ADVI). ADVI is an Internet and computer Service Provider located in Mt. Airy, North Carolina. The purchase price was $965,980, which consisted of $150,000 in cash, transaction costs of $30,000, 6,021,818 of the Company's common shares valued at $301,091 and a non-interest bearing promissory note for $1,199,990 (the present value was $484,889) payable in 24 quarterly installments of $51,078. Due to the non-interest bearing nature of the note, the Company imputed a discount rate of 36% to calculate the present value of the note. This discount rate was an estimate of the Company's current cost of capital. This acquisition included goodwill of $702,642 that was the premium the Company paid to have the opportunity to generate revenues and earnings in this market.

Effective October 16, 2002, Sitestar reorganized and the Board named Frank R. Erhartic, Jr. as the new Chairman and CFO to replace Clinton Sallee and Eric Manlunas, who both resigned. Mr. Erhartic later entered into a contract with the former management of Sitestar to buy out their shares of the Company to reduce the number of shares outstanding by approximately 32.5%. Mr. Sallee was retained as a paid consultant for one year.

Effective December 31, 2002, the Company acquired the Internet assets and Internet customer list of Digital Data Connections, Inc., a local competitor in Martinsville, Virginia. This deal consisted of a cash payment of $50,000 and a promise to pay a certain percentage of revenues generated by their customers for ten months. The Company also accepted a non-compete agreement restricting competition in the Company's existing markets for a period of three years.

On June 30, 2004 the Company acquired 100% of the Internet-related assets of Virginia Link Internet and Network Management, Inc., a Virginia corporation and ISP located in Galax, Virginia and Mt. Airy Networks, LLC, a North Carolina limited liability company, an ISP located in Mount Airy, North Carolina. The total purchase price was $226,314, representing the fair value of the assets acquired, less $50,000 for deferred revenues and less a 10% discount, for a purchase price of $176,314 which consisted of a non-interest bearing note payable over thirty months.

Effective August 31, 2004 the Company entered into a Definitive Agreement to sell the assets of Sitestar Applied Technologies (SAT), the software development division of the Company. Thomas Albanese, the former manager of the SAT division, purchased the assets. The new company is subsequently doing business as Servatus Development, LLC (Servatus). The agreement consisted of Albanese surrendering 1,460,796 shares of the Company's common stock and the Company receiving a 20% share in the gross revenues of Servatus over a period of four years and maintaining the rights to the crisis management software system that was shortly thereafter completed. The Company provided office space, occupancy costs and Internet services for one year.

Effective November 22, 2004, the Company entered into a Definitive Agreement acquiring the Internet related assets of Exchange Computers, Inc. and Exis.net, Inc. Both are Virginia corporations. The deal consisted of the acquisition of the dial-up customers, the related Internet assets and non-compete agreements from the principal officers of the companies. The total purchase price was $150,000, representing the fair value of the assets acquired, which consisted of $30,000 in cash at closing and a non-interest bearing promissory note of $120,000 that was paid over twelve months.

Effective September 16, 2005, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of IDACOMM, an Idaho corporation. The transaction consisted of the acquisition of the dial-up and certain DSL customers, the related Internet assets and non-compete agreements from the company. The total purchase price was $1,698,430, representing the fair value of the assets acquired, less $112,735 for deferred revenues and less a 10% discount, for a net purchase price of $1,545,304 which consisted of a down payment of $250,000 with the balance paid by a non-interest bearing note payable over 7 months. The transaction was accounted for by the purchase method of accounting. Accordingly, the purchase price was allocated to the assets acquired based on the estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair value of tangible assets acquired was attributed to the customer list and non-compete agreement, which were amortized over the estimated three-year life and contractual three-year life, respectively. The value of the customer list was determined by multiplying the current market value per customer times the number of customers purchased at the time of the acquisition.

Effective January 1, 2006, with a closing date of January 6, 2006, the Company entered into a Definitive Agreement acquiring the Common Stock of NetRover Inc., a Canadian ISP and web services corporation. The Definitive Agreement consisted of the acquisition of all of the issued and outstanding shares of NetRover Inc.'s stock and a non-compete agreement of the company. The total purchase price was $604,535 which represented the fair value of the stock acquired. The transaction also consisted of a non-interest bearing promissory note of $403,551 paid over twelve months, amortized over twenty four months with a balloon payment in the twelfth month and a down payment consisting of 2,000,000 shares of the Registrant's common stock at Closing.

Effective March 16, 2006, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of Prolynx, Inc., a Colorado ISP. The total purchase price was $90,000 representing the fair value of the net assets acquired paid in the form of the Company's assumption of $90,000 in operating expenses accrued by Prolynx.

Effective July 1, 2006, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of First USA, Inc., an Ohio ISP. The total purchase price was $725,000 representing the fair value of the assets acquired which consisted of a $250,000 cash payment at closing with the balance paid in six equal monthly payments beginning August 2006.

Effective February 1, 2007, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of Magnolia Internet Services, an Arkansas ISP. The total purchase price was $113,812 representing the fair value of the assets acquired which consisted of a $12,000 cash payment at closing with the balance paid in twelve equal monthly payments beginning March 2007. The purchase price has subsequently been adjusted down to $108,470.

Effective February 28, 2007, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of OW Holdings, Inc., an ISP having customers throughout the Rocky Mountain region and with headquarters in Wyoming. The total purchase price was $900,000 representing the fair value of the assets acquired which consisted of a $600,000 cash payment at closing and the balance was paid in ninety days. The purchase price has been adjusted down to $802,452.

Effective June 21, 2007, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of AlaNet Internet Services, Inc., an Alabama ISP. The adjusted purchase price was $45,629 representing the fair value of the assets acquired which consisted of a $4,275 cash payment at closing with the balance paid in eleven monthly installments beginning July 2007.

Effective November 1, 2007, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of United Systems Access, Inc. (d/b/a USA Telephone), a corporation with headquarters in Maine. The total purchase price was $3,750,000 representing the fair value of the assets acquired which consisted of a $1,000,000 cash payment at closing with a second $1,000,000 due in 30 days with the remaining balance due in 36 monthly installments beginning January 2008. The remaining installment balance due on the purchase price was $900,615 as of December 31, 2010.

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 $54,800 representing the fair value of the assets acquired which consisted of a $9,135 cash payment at closing with the remaining balance paid in five monthly installments beginning April 2008. The purchase price has been subsequently adjusted down to $36,818.

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 Internet Service Provider. The total purchase price was $43,790 representing the fair value of the assets acquired which consisted of a $3,650 cash payment at closing with the remaining balance paid in eleven monthly installments beginning May 2008. The purchase price has been subsequently adjusted to $45,821.

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 six monthly installments beginning June 2008.

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 sixty days from closing. The purchase price has been subsequently adjusted down to $263,757.

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-based ISP. The total purchase price was $23,017 representing the fair value of the assets acquired which consisted of a $3,836 cash payment at closing with the remaining balance paid in five monthly installments beginning July 2008. The purchase price has been subsequently adjusted down to $18,542.

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 and the remaining balance has been paid.

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 paid in twelve monthly installments beginning December 2008. The purchase price has been subsequently adjusted down to $447,354.

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 Internet Service Provider. 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.

Effective August 1, 2010, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of Jellico.com, Inc., an ISP with headquarters in Indiana. The total purchase price was $17,020 representing the fair value of the assets acquired which consisted of a $10,000 cash payment at closing with the remaining balance paid in four monthly installments beginning September 2010.

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 assessments with the potential for substantial profits. Management evaluates property as it becomes available with respect to the market value versus what it can be acquired for, 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.

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, December 31, 2010, the Company has invested approximately $515,000 in surplus funds and is continuing the investing process. Management has determined that the Purchase Program will not impair the Company's capital, cash flows or operations.

Sitestar's Business Strategy

The Company's growth strategy is to expand its business by increasing its customer base, services and coverage area. The Company uses marketing, acquisitions and partnerships to accomplish this. Sitestar's mission is to increase stockholder value by increasing revenues, minimizing operational costs and increasing profits, while maintaining superior products and customer service.

Key elements of Sitestar's strategy include:

Increasing the Dial-up Customer Base. The Company intends to retain its large regional customer base plus continue to expand its services to a broader geographic market. The Company attempts to maintain its existing customers by offering them a high quality service at a reasonable price and value-added services such as free anti-virus and spam filtering. To address the broader market potential, the Company has expanded its local coverage areas and has leased infrastructure from its partners which enables the Company to provide service to nearly 100% of the people in the United States and Canada.

Increasing the Broadband Customer Base. The Company offers broadband within its regional and national footprint. The Company anticipates that it will enter into additional partnerships to continue to expand its market footprint. The Company markets Broadband Internet Access through traditional sales channels.

Increasing the Product Offerings. The Company anticipates that it is will continue to offer new products and services, as they become available, through its retail stores and to its existing Internet customer base.

Strategic Acquisitions. The Company has historically acquired companies, assets and customer bases and intends to continue to consider and execute similar opportunities to help grow its business.

Increasing the Economies of Scale. As the Company expands, it is committed to managing costs and maximizing efficiencies. To optimize its operations, the Company has acquired and leverages the services of wholesale managed modem providers to reduce costs and consolidate its network infrastructure. Similarly, the Company has integrated its offices by deploying VoIP services to better utilize its human resources and provide more efficient customer service.

Marketing Channels

The Company deploys a variety of marketing strategies and tactics to promote its products and services, including Web advertisement, affiliate and referral programs. The Company's portfolio of websites generates new business on a consistent and daily basis. In addition, the Company sells its products to customers who visit its retail store locations. The Company's indirect sales channel strategy consists of affiliates such as sales agents, as well as, companies that market and sell the Company's services under their own brand. To date, the Company's most effective sales lead generation has been through its customer referral program.

The Internet services market is extremely competitive and highly fragmented. The Company faces competition from numerous types of ISPs, including other national ISPs, telecommunications providers and cable companies, and anticipates that competition will only intensify in the future as the ISP industry becomes more mature through provider consolidation and pricing commoditization. The Company believes that the primary competitive factors in the Internet services market include:

- Pricing;
- Quality and breadth of products and services;
- Ease of use;
- Personal customer support and service; and
- Brand awareness.

The Company believes that it competes favorably based on these factors, particularly due to:

- National brand name;
- Highly responsive customer support and service;
- High reliability; and
- Competitive pricing.

The Company currently competes, or expects to compete, with the following types of companies:

- Local and regional ISPs and Computer Companies;
- National Internet Service Providers, such as, AOL, MSN (Microsoft Network) and EarthLink;
- Local, regional and national broadband cable providers, such as Comcast and Cox Communications;
- Providers of Web hosting, co-location and other Internet-based business services;
- Computer hardware and other technology companies that provide Internet connectivity with their own or other products, including IBM and Microsoft;
- National telecommunication providers, such as Verizon, AT&T and Qwest;
- Regional Bell Operating Companies (RBOCs), Competitive Local Exchange Carriers (CLECs) and other local telephone companies;
- Providers of free or discount Internet service, including United Online’s and NetZero;
- Terrestrial wireless and satellite providers, such as Clearwire, and HughesNet; and
- Non-profit or educational ISPs.

The Company’s primary competitors include large companies that have substantially greater market presence, brand-name recognition and financial resources than the Company presently enjoys. Secondary competitors include local or regional ISPs that may benefit from relationships within a particular community.

The residential broadband Internet access market is dominated by cable companies, telecommunications companies and CLECs who respectively offer Internet connectivity through the use of cable modems or Digital Subscriber Line (DSL) programs that provide high speed Internet access using the existing copper wire telephone infrastructure. Other alternative service companies provide Internet connectivity via wireless terrestrial and satellite-based service technologies. These competitors enjoy the advantage of being able to leverage their existing relationships with customers to promote high-speed Internet services. In addition, they provide incentives for customers to purchase Internet access by offering discounts for bundled service offerings (i.e., phone, television, Internet). While the Company is a reseller of broadband services including DSL and fiber services, its profit margin is influenced by the aforementioned threats. Thus, should the Company be unable to provide technologically competitive service in the marketplace or compete with companies bundling Internet service with their products, its revenues and profit margins may decline.

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Additionally, a new dial-up Internet access market segment has been created similar to the discount or "no frills" airlines. These ISPs deliver dial-up Internet access at substantially discounted rates with complimentary spam and virus protection, but charge their customers for technical support. Many ISPs have responded in turn by creating similar service and pricing plans and or reducing the cost of their traditional service plans to remain competitively viable. Similarly, a second dial-up market segment has emerged where value-added services including web acceleration, spyware and pop-up ad protection are delivered at a premium price. Thus, the Company believes that if it is unable to compete with lower-cost and premium service providers, its revenues and profit margins may decline.

To address these competitive challenges, the Company will continue to distinguish itself by offering competitively priced and packaged products, value-added services and proven customer support. The Company also believes that its ability to respond quickly and adroitly in providing solutions to its customers' Internet needs will be a key advantage.

Government Regulations

There is currently only a small body of laws and regulations directly applicable to access or commerce on the Internet. However, it is possible that a number of laws and regulations may be repealed, modified or adopted at the international, federal, state and local levels with respect to the Internet, covering issues such as user privacy, freedom of expression, pricing, characteristics and quality of products and services, taxation, advertising, intellectual property rights, information security and the convergence of traditional telecommunications services with Internet communications which do, or could affect the Company.

In addition, there is substantial uncertainty as to the applicability to the Internet of existing laws governing issues such as property ownership, copyrights and other intellectual property issues, taxation, libel, obscenity and personal privacy. The vast majority of the laws were adopted prior to the advent of the Internet and, as a result, did not contemplate the unique issues and environment of the Internet. Future developments in the law might decrease the growth of the Internet, impose taxes or other costly technical requirements, create uncertainty in the market or in some other manner have an adverse effect on the Internet. These developments could, in turn, have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

The Company provides its services through data transmissions over public telephone lines and other facilities provided by telecommunications companies. These transmissions are subject to regulation by the Federal Communications Commission (FCC), state public utility commissions and foreign governmental authorities. However, the Company is not subject to direct regulation by the FCC or any other governmental agency, other than regulations applicable to businesses generally. Nevertheless, as Internet services and telecommunications services converge or the services the Company offers expand, there may be increased regulation of its business, including regulation by agencies having jurisdiction over telecommunications services. Additionally, existing telecommunications regulations affect the Company's business through regulation of the prices it pays for transmission services and through regulation of competition in the telecommunications industry.

The FCC has ruled that calls to ISPs are jurisdictionally interstate and that ISPs should not pay access charges applicable to telecommunications carriers. Several telecommunications carriers are advocating that the FCC regulate the Internet in the same manner as other telecommunications services by imposing access fees on ISPs. The FCC is examining inter-carrier compensation for calls to ISPs, which could affect ISPs' costs and consequently substantially increase the costs of communicating via the Internet. This increase in costs could slow the growth of Internet use and thereby decrease the demand for the Company's services.

The Company purchases some components of its broadband services from local carriers and from other DSL providers that purchase components from local carriers. In November 1999, the FCC issued a ruling that allowed competitive local phone companies to "line-share" their broadband DSL services over a phone customer's local phone line. The U.S. Court of Appeals changed this decision in May 2002 and in February 2003, the FCC decided to eliminate "line-sharing" over a three-year phase out. Although the inability to buy these discounted lines could affect a very small part of the Company's business, it could cause the growth of its broadband business to slow if some of its partners, like Covad Communications Group, Inc., have to pay full-price for their lines. On the other-hand, however, this may cause less competition in the Company's local markets where it offers broadband services.

Employees

As of March 1, 2011, the Company employed fifteen full-time individuals. Of these, the Company has three in management, three in administration, and nine technicians. The Company also employed three part-time individuals. Of these, the Company has two technicians and one in management. The Company's employees are not unionized and it considers its relations with its employees to be favorable.

Available Information

Sitestar Corporation files annual, quarterly, and current reports and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act. The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet web site that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The public can obtain any documents that the Company files with the SEC at http://www.sec.gov. The Company also has available though EDGAR its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The Company owns a 12,000 square foot office building in Martinsville, Virginia located at 29 West Main Street, Martinsville, VA 24112, which was acquired along with the acquisition of Neocom. This facility was closed in 2010. The Company now out-sources the services to provide service for the customers in this area and the Company's other offices provide technical and billing support for those customers previously provided at this location. The Company leases a 7,200 square feet office facility in Lynchburg, Virginia which serves as its corporate office.

Here the Company handles the executive, marketing, corporate accounting functions, customer service, technical support, and billing and houses Internet equipment. In addition, the Company markets local Internet service under the Lynchburg.net and SurfWithUs.net brands, sells computer hardware and services under the name Computers by Design and remanufactures toner and ink cartridges under the name CBD Toner Recharge at this location. This facility has an annual rent of $48,000. The facility is located at 7109 Timberlake Road, Lynchburg, VA 24502, is leased from Frank R. Erhartic, Jr. a Company Director and Officer and this lease expires on November 1, 2012.

The Company leases a 2,000 square foot office facility in Chatham, Ontario where it sells Internet services under the name of NetRover. The Company also houses Internet equipment there to serve its customers in Canada. This facility has an annual rent of $18,000 Canadian Dollars (CAD) or approximately $17,426 in United States Dollars (USD). The facility is located at 48 Fifth Street, Chatham, Ontario N7M 4V8 and is leased from Duff Enterprises and this lease expires in November 2013.

The Company anticipates that it may require additional space for its ISP operations as it expands, and it believes that it will be able to obtain suitable space as needed on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

On or about January 16, 2008, the Company filed a Complaint in the Circuit Court in the Orange County Superior Court of the State of California against Frederick T. Manlunas, a former executive and director of the Company, for breach of contract, specific performance and declaratory relief.

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 complaint demands judgment of approximately $150,000. The Company has vigorously defended this claim. This matter was dismissed by the plaintiff on December 11, 2009. This case was re-filed on December 9, 2010 and the Company is in the process of preparing the first set of interrogatories and requests for production of documents for service on the plaintiff.

ITEM 4. SUBMISSION OR MATTERS TO A VOTE OF SECURITY HOLDERS

Reserved and omitted.

PART II

ITEM 5. MARKET FOR COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET FOR COMMON EQUITY

Set forth below are the high and low closing bid prices for the Company's common stock on the Over-the-Counter Bulletin Board for each quarterly period commencing January 1, 2009.

	High	Low
2009		
For the quarter ended March 31, 2009	$ 0.09	$ 0.05
For the quarter ended June 30, 2009	$ 0.07	$ 0.05
For the quarter ended September 30, 2009	$ 0.07	$ 0.05
For the quarter ended December 31, 2009	$ 0.06	$ 0.04
2010		
For the quarter ended March 31, 2010	$ 0.05	$ 0.03
For the quarter ended June 30, 2010	$ 0.04	$ 0.03
For the quarter ended September 30, 2010	$ 0.04	$ 0.02
For the quarter ended December 31, 2010	$ 0.03	$ 0.01

Such quotations reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not necessarily represent actual transactions.

RECORD HOLDERS

The closing bid price for the Company's common stock was $0.01 on March 29, 2011. As of March 29, 2011 the Company had approximately 120 shareholders of record. Additional holders of the Company's Common Stock hold such stock in street name with various brokerage firms.

EQUITY COMPENSATION PLANS

The Company does not have any plans under which options, warrants or other rights to subscribe for or acquire shares of the Company's common stock may be granted and there are no outstanding options, warrants or other rights to subscribe for or acquire shares of Company common stock. From time to time, the Board of Directors may grant shares of the Company's common stock to its officers, employees and contractors in lieu of salary, fees or as a bonus. The Board of Directors made no grants during fiscal years 2010 and 2009.

DIVIDENDS

The Company has never declared or paid any cash dividends on its common stock. The Company currently intends to retain all available funds for use in its business and therefore does not anticipate paying any cash dividends in the foreseeable future. Any future determination relating to dividend policy will be made at the discretion of the Board of Directors and will depend on a number of factors, including the future earnings, capital requirements, financial condition and future prospects and such other factors, as the Board of Directors may deem relevant.

RECENT SALES OF UNREGISTERED SECURITIES

On December 24, 2007, the Company issued 5,263,158 shares of its common stock in connection with a Stock Purchase Agreement as reflected in the Form 8-K filed with the SEC dated December 24, 2007. The Company reacquired the 5,263,158 shares on February 3, 2009 and placed them in treasury.

PURCHASES OF EQUITY SECURITIES BY THE COMPANY AND AFFILIATED PURCHASERS

On October 22, 2008 the Board of Directors of the Company authorized a stock repurchase program which calls for the repurchase of up to 10,000,000 shares of its common stock.

The repurchases are to be made from time to time in the open market as conditions allow and will be structured to comply with Commission Rule 10b-18. Management reports monthly to the Board of Directors on the status of the repurchase program. The Board of Directors has reserved the right to suspend, terminate, modify or cancel this repurchase program at any time for any reason.

The following chart provides information regarding purchases of Company equities by the Company and affiliated purchasers since the program was put in place in October 2008:

Period	Total Number of Shares Purchased	Average Price Paid Per Share ($)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
Month # 1 October 2008	-	-	-	10,000,000
Month # 2 November 30, 2008	-	-	-	10,000,000
Month # 3 December 31, 2008	19,500	$ 0.06	19,500	9,980,500
Total 2008	19,500	$ 0.06	19,500	9,980,500
Month # 4 January 31, 2009	25,000	0.06	25,000	9,955,500
Month # 5 February 28, 2009	5,263,158	0.1121	5,263,158	4,692,342
Month # 6 March 31, 2009	34,000	0.051	34,000	4,658,342
Month # 7 April 30, 2009	-	-	-	4,658,342
Month # 8 May 31, 2009	7,000	0.051	7,000	4,651,342
Month # 9 June 30, 2009	-	-	-	4,651,342
Month # 10 July 31, 2009	10,000	0.05	10,000	4,641,342
Month # 11 August 31, 2009	-	-	-	4,461,342
Month # 12	1,460,795	0.05	1,460,795	3,180,547

September 30, 2009				
Month # 13 October 31, 2009	39,000	0.05	39,000	3,141,547
Month # 14 November 30, 2009	30,000	0.043	30,000	3,111,547
Month # 15 December 31, 2009	20,000	0.048	20,000	3,091,547
Total 2009	6,888,953	0.097	6,888,953	3,091,547
Month # 16 January 31, 2010	840,000	0.04	840,000	2,251,547
Month # 17 February 28, 2010	40,000	0.04	40,000	2,211,547
Month # 18 March 31, 2010	-	-	-	2,211,547
Month # 19 April 30, 2010	80,000	0.035	80,000	2,131,547
Month # 20 May 31, 2010	40,000	0.03	40,000	2,091,547
Month # 21 June 30, 2010	-	-	-	2,091,547
Month # 22 July 31, 2010	40,000	0.03	40,000	2,051,547
Month # 23 August 31, 2010	120,000	0.024	120,000	1,931,547
Month # 24 September 30, 2010	-	-	-	1,931,547
Month # 25 October 31, 2010	62,000	0.023	62,000	1,869,547
Month # 26 November 30, 2010	142,000	0.022	142,000	1,727,547
Month # 27 December 31, 2010	100,000	0.013	100,000	1,627,547
Total 2010	1,464,000	0.028	1,464,000	1,627,547
Totals	8,372,453	0.061	8,372,453	1,627,547

ITEM 6. SELECT FINANCIAL DATA

GENERAL

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related footnotes for the years ended December 31, 2010 and December 31, 2009 included in this 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;
- 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, cable 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.

RESULTS OF OPERATIONS

The following tables show financial data for the years ended December 31, 2010 and 2009. Operating results for any period are not necessarily indicative of results for any future period.

	For the year ended December 31, 2010		
	Corporate	Internet	Total
Revenue	$ -	$ 5,051,916	$ 5,051,916
Cost of revenue	-	2,330,477	2,330,477
Gross profit	-	2,721,439	2,721,439
Operating expenses	97,364	2,990,548	3,087,912
Income (loss) from operations	(97,364)	(269,109)	(366,473)
Other income (expense)	-	(36,141)	(36,141)
Income (loss) before income taxes	(97,364)	(305,250)	(402,614)
Income taxes expense (benefit)	-	354,795	354,795
Net income (loss)	$ (97,364)	$ (660,045)	$ (757,409)

	For the year ended December 31, 2009		
	Corporate	Internet	Total
Revenue	$ -	$ 7,692,908	$ 7,692,908
Cost of revenue	-	2,945,566	2,945,566
Gross profit	-	4,747,342	4,747,342
Operating expenses	147,700	4,161,928	4,309,628
Income (loss) from operations	(147,700)	585,414	437,714
Other income (expense)	-	(87,127)	(87,127)
Income (loss) before income taxes	(147,700)	498,287	350,587
Income taxes expense (benefit)	-	270,590	270,590
Net income (loss)	$ (147,700)	$ 227,697	$ 79,997

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) consists of revenue less cost of revenue and cash 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 Generally Accepted Accounting Principals (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 years ended December 31, 2010 and 2009.

	For the year ended December 31, 2010		
	Corporate	Internet	Total
EBITDA	$ (97,364)	$ 1,632,839	$ 1,535,475
Interest expense	-	(28,009)	(28,009)
Income tax expense	-	(354,795)	(354,795)
Depreciation	-	(15,871)	(15,871)
Amortization	-	(1,894,209)	(1,894,209)
Net income (loss)	$ (97,364)	$ (660,045)	$ (757,409)

	For the year ended December 31, 2009		
	Corporate	Internet	Total
EBITDA	$ (147,700)	$ 3,051,413	$ 2,903,713
Interest expense	-	(79,609)	(79,609)
Taxes		(270,590)	(270,590)
Depreciation	-	(34,497)	(34,497)
Amortization	-	(2,439,020)	(2,439,020)
Net income (loss)	$ (147,700)	$ 227,697	$ 79,997

ITEM 7. MANAGEMENT'S DISCUSSIONS AND ANALYSIS OR PLAN 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 years ended December 31, 2010 and December 31, 2009 included in this 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.

YEAR ENDED DECEMBER 31, 2010 COMPARED TO DECEMBER 31, 2009

REVENUE. Revenue for the year ended December 31, 2010 decreased by $2,640,992 or 34.3% from $7,692,908 for the year ended December 31, 2009 to $5,051,916 for the same period in 2010. 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 Company also plans to market more aggressively on a national level utilizing scalable tactics and targeting a much larger Internet customer base.

COST OF REVENUE. Costs of revenue for the year ended December 31, 2010 decreased by $615,089 or 20.9% from $2,945,566 for the year ended December 31, 2009 to $2,330,477 for the same period in 2010. The decrease is due primarily to lower volume of revenue. Cost of revenue as a percentage of sales increased 7.8% from 38.3% for the year ended December 31, 2009 to 46.1% for the same period in 2010 resulting primarily from more costly forms of broadband service. The Company is continuing to attempt to negotiate more favorable contracts with telecommunication vendors and making the network capacity more efficient. The Company expects to continue creating these efficiencies through wholesale businesses recently acquired.

OPERATING EXPENSES. Selling, general and administrative expenses decreased $1,207,329 or 28.1% from $4,292,032 for the year ended December 31, 2009 to $3,084,703 for the same period in 2010. This is due primarily to a decrease in amortization, wages and bad debt expenses. Amortization expense, including impairment decreased $544,811 or 22.3% from $2,439,020 for the year ended December 31, 2009 to $1,894,209 for the same period in 2010. Wages decreased $116,770 or 18.8% from $621,199 for the year ended December 31, 2009 to $504,429 for the same period in 2010. Bad debt expense decreased $326,648 or 59.8% from $546,319 for the year ended December 31, 2009 to $219,671 for the same period in 2010.

INTEREST EXPENSE. Interest expense for the year ended December 31, 2010 decreased by $51,600 or 64.8% from $79,609 for the year ended December 31, 2009 to $28,009 for the same period in 2010. This decrease was a result of the satisfaction of debt from financing recent acquisitions of customer bases.

INCOME TAXES. For the years ended December 31, 2010 and 2009 corporate income tax expense of $354,795 and $270,590 were accrued.

BALANCE SHEET. Net accounts receivable decreased $381,104 or 83.6% from $455,773 on December 31, 2009 to $74,669 on the same date in 2010. Customer list decreased $1,739,300 or 86.2% from $2,018,375 on December 31, 2009 to $279,075 on December 31, 2010. This decrease is substantially due to scheduled amortization. Deferred tax assets increased $2,172 from $760,861 on December 31, 2009 to $763,033 on December 31, 2010. This is due to the recognition of tax benefits of timing differences of certain tax deductions. Investments increased $515,202 from $0 on December 31, 2009 to $515,202 on December 31, 2010. This increase is the result of investing in real estate to employ idle cash in anticipation of economic recovery. Other assets decreased $191,064 or 38.5% from $496,314 on December 31, 2009 to $305,250 on December 31, 2010. This is substantially due to writing off prepaid expenses that management determined has lost its value. Accounts payable decreased by $116,033 or 88.2% from $131,598 on December 31, 2009 to $15,565 for the same period in 2010. A disputed telecommunications invoice which was resolved in the first quarter of 2010 resulted in the lower balance on December 31, 2010. Accrued income taxes decreased $267,098 from $414,815 on December 31, 2009 to $147,717 on December 31, 2010. Accrued expenses decreased by $6,524 or 22.5% from $29,052 on December 31, 2009 to $22,527 on December 31, 2010. Deferred revenue decreased by $267,197 or 31.0% from $861,235 on December 31, 2009 to $594,038 on December 31, 2010 representing corresponding reduced revenue from which customers have prepaid services on December 31, 2010. Notes payable, less current portion, were unchanged from December 31, 2009 to December 31, 2010.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled $939,328 and $1,090,807 at December 31, 2010 and 2009, respectively. EBITDA was $1,535,475 for the year ended December 31, 2010 as compared to $2,903,713 for the year ended December 31, 2009.

		2010		2009
EBITDA for the year ended December 31,	$	1,535,475	$	2,903,713
Interest expense		(28,009)		(79,609)
Tax benefits (expense)		(354,795)		(270,590
Depreciation		(15,871)		(34,497)
Amortization		(1,894,209)		(2,439,020)
Net income for the year ended December 31,	$	(757,409)	$	79,997

Sales of Internet services which are not automatically processed via credit card or bank account drafts have been the Company's highest exposure to collection risk. To help offset this exposure, the Company has added a late payment fee to encourage timely payment by customers. Another effort to improve customer collections was the implementation of a uniform manual invoice processing fee, which has also helped to accelerate collections procedures. These steps and more aggressive collection efforts have shifted accounts receivable to a more current status which is easier to collect. The accounts receivable balance in the Current category decreased from 76.0% to 51.0% of total accounts receivable from December 31, 2009 to December 31, 2010. The balance in the 30+ day category increased from 13.0% to 30.0% of total accounts receivable from December 31, 2009 to December 31, 2010. The balance in the 60+ day category decreased from 11.0% to 19% of total accounts receivable from December 31, 2009 to December 31, 2010.

The aging of accounts receivable as of December 31, 2010 and 2009 is as shown:

	2010		2009	
Current	$ 38,037	51.0%	$ 347,752	76.0%
30 +	22,550	30.0%	59,482	13.0%
60 +	14,082	19.0%	48,539	11.0%
90 +	-	-%	-	-%
Total	$ 74,669	100.0%	$ 455,773	100.0%

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 assessments 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.

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, December 31, 2010, the Company has invested approximately $515,000 in surplus funds and is continuing the investing process. Management has determined that the Purchase Program will not impair the Company's capital, cash flows or 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 its customer base, make strategic acquisitions, general market conditions, 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.

ITEM 7A. QUANTATITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

None

ITEM 8. FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Sitestar Corporation
Lynchburg, VA 24502-2334

We have audited the accompanying consolidated balance sheets of Sitestar Corporation as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sitestar Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Santora CPA Group
Newark, DE 19713-4309

March 31, 2011

SITESTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 and 2009

ASSETS

CURRENT ASSETS		2010		2009
Cash and cash equivalents	$	939,328	$	1,090,807
Accounts receivable, net of allowances of $5,433 and $14,316		74,669		455,773
Prepaid expenses		1,500		1,430
Total current assets		1,015,497		1,548,010
PROPERTY AND EQUIPMENT, net		177,844		193,715
CUSTOMER LIST, net of accumulated amortization of $11,977,598 and $10,216,778		279,075		2,018,375
GOODWILL, net		1,288,559		1,288,559
DEFERRED TAX ASSETS		763,033		760,861
INVESTMENTS		515,202		-
OTHER ASSETS		305,250		496,314
TOTAL ASSETS	$	4,344,460	$	6,305,834

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

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SITESTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 and 2009

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	2010	2009
Accounts payable	$ 15,565	$ 131,598
Accrued income taxes	147,717	414,815
Accrued expenses	22,528	29,052
Deferred revenue	594,038	861,235
Notes payable, current portion	900,615	900,615
Note payable - stockholders, current portion	-	-
Total current liabilities	1,680,463	2,337,315
NOTES PAYABLE, less current portion	-	-
NOTES PAYABLE - STOCKHOLDERS, less current portion	49,460	547,245
TOTAL LIABILITIES	1,729,923	2,884,560
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding	-	-
Common Stock, $0.001 par value, 300,000,000 shares authorized and 91,326,463 shares issued in 2010 and 2009, and 74,735,705 and 76,199,705 shares outstanding in 2010 and 2009.	91,326	91,326
Additional paid-in capital	13,880,947	13,880,947
Treasury Stock, at cost, 16,590,758 and 15,126,758 common shares	(785,024)	(735,696)
Accumulated deficit	(10,572,712)	(9,815,303)
Total stockholders' equity	2,614,537	3,421,274
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,344,460	$ 6,305,834

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

SITESTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
REVENUE	$ 5,051,916	$ 7,692,908
COST OF REVENUE	2,330,477	2,945,566
GROSS PROFIT	2,721,439	4,747,342
OPERATING EXPENSES		
Selling, general and administrative expenses	3,084,703	4,292,032
Customer list impairment	3,209	17,596
TOTAL OPERATING EXPENSES	3,087,912	4,309,628
INCOME (LOSS) FROM OPERATIONS	(366,473)	437,714
OTHER INCOME (EXPENSES)		
Gain (loss) on disposal of assets	(8,132)	(7,518)
Interest expense	(28,009)	(79,609)
TOTAL OTHER INCOME (EXPENSES)	(36,141)	(87,127)
INCOME (LOSS) BEFORE INCOME TAXES	(402,614)	350,587
INCOME TAX (BENEFIT) EXPENSE	354,795	270,590
NET INCOME (LOSS)	$ (757,409)	$ 79,997
BASIC AND DILUTED INCOME PER SHARE	$ (0.01)	$ 0.00
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	75,200,826	76,199,705

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

SITESTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Common Stock		Additional			
	Shares	Amount	Paid-in Capital	Treasury Stock	Accumulated Deficit	Total
Balance at December 31, 2008	83,088,658	$ 91,326	$ 13,880,947	$ (64,220)	$ (9,895,300)	$ 4,012,753
Repurchase of shares	(6,888,953)			(671,476)		(671,476)
Net income					79,997	79,997
Balance at December 31, 2009	76,199,705	91,326	13,880,947	(735,696)	(9,815,303)	3,421,274
Repurchase of shares	(1,464,000)			(49,328)		(49,328)
Net income (loss)					(757,409)	(757,409)
Balance at December 31, 2010	74,735,705	$ 91,326	$ 13,880,947	$ (785,024)	$ (10,572,712)	$ 2,614,537

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

SITESTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (757,409)	$ 79,997
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	1,910,080	2,473,517
Allowance for doubtful accounts	(8,883)	(35,089)
(Increase) decrease in accounts receivable	389,987	(161,369)
(Increase) decrease in prepaid expenses	(70)	(202)
(Increase) decrease in deferred income taxes	(2,172)	(339,830)
Increase (decrease) in accounts payable	(116,033)	50,706
Increase (decrease) in accrued expenses	(6,524)	(65,829)
Increase (decrease) in deferred revenue	(267,197)	(296,362)
Increase (decrease) in accrued income taxes	(267,098)	152,518
Net cash provided by operating activities	874,681	1,858,057
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	-	(3,000)
Purchase of investments held for resale	(515, 202)	
Purchase of customer list	(21,520)	(67,398)
(Purchase) sale of assets held for resale	58,675	24,479
Purchase of non-competition agreements	(1,000)	(1,000)
Net cash used in investing activities	(479,047)	(46,919)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from notes payable - stockholders	-	62,949
Net proceeds from notes payable	17,020	-
Purchase of treasury stock	(49,328)	(671,476)
Repayment of notes payable	(17,020)	(584,372)
Repayment of notes payable – stockholders	(497,785)	(54,984)
Net cash used in financing activities	(547,113)	(1,247,885)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(151,479)	563,254
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,090,807	527,553
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 939,328	$ 1,090,807

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

SITESTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

During the years ended December 31, 2010 and 2009, the Company paid $437,764 and $488,018 of income taxes and paid interest expense of $28,000 and $80,000.

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:

None.

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

SITESTAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Line of Business
Sitestar Corporation (formerly White Dove Systems, Inc., Interfoods Consolidated, Inc., was known as Holland American International Specialties (HAIS)), (the Company), began operations on June 1, 1997, under a partnership agreement and was incorporated in Nevada on November 4, 1997. On July 26, 1999 the Company restated its Articles of Incorporation to change the name of the Company to "Sitestar Corporation." The Company was in the International specialty foods distribution business. In 1999, through the acquisition of two Internet Service Providers, the Company changed from a food distribution company to an Internet holding company. The Company services customers throughout the U.S. and Canada with multiple sites of operation. Sitestar is headquartered in Lynchburg, Virginia.

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries including: Sitestar.net, Inc. (formerly know as Neocom Microspecialists, Inc.), FRE Enterprises, Inc., Advanced Internet Services, Inc. and NetRover Inc. All intercompany accounts and transactions have been eliminated.

Use of Estimates
In accordance with Generally Accepted Accounting Principals (GAAP) 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 the notes to the consolidated financial statements.

Fair Value of Financial Instruments
For certain of the Company's assets and liabilities, including cash, accounts receivable, accounts payable, accrued expenses and deferred revenue, the carrying amounts approximate fair value due to their short maturities. The amounts shown for notes payable also approximate fair value because current interest rates and terms offered to the Company for similar debt are substantially the same.

SITESTAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Cash and Cash Equivalents
For purposes of the statements of cash flows, the Company defines cash equivalents as all highly liquid instruments purchased with a maturity of three months or less.

Concentration of Credit Risk
Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash and accounts receivable. The Company places its cash with high quality financial institutions and, at times, may exceed the FDIC $250,000 insurance limit. The Company extends credit based on an evaluation of the customers' financial condition, generally without collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses.

Accounts Receivable
The Company grants credit in the form of unsecured accounts receivable to its customers. The estimate of the allowance for doubtful accounts, which is charged off to bad debt expense, is based on management's assessment of current economic conditions and historical collection experience with each customer. Specific customer receivables are considered past due when they are outstanding beyond their contractual terms and are charged off to the allowance for doubtful accounts when determined uncollectible.

For the years ended December 31, 2010 and 2009, bad debt expense was $219,671 and $546,319. As of December 31, 2010 and 2009, accounts receivable consists of the following:

	2010	2009
Gross accounts receivable	$ 80,102	$ 470,089
Less allowance for doubtful accounts	(5,433)	(14,316)
	$ 74,669	$ 455,773

Sales of Internet services, which are not automatically processed via credit card or bank account drafts, have been the company's highest exposure to collection risk. To help offset this exposure, the company has added a late payment fee to encourage timely payments by customers. Another effort to improve customer collections was the implementation of a uniform manual invoice processing fee, which has also helped to accelerate the collections process. Accounts over ninety days past due are no longer included in accounts receivable and are turned over to a collection agency.

Property and Equipment
Property and equipment are stated at cost. Depreciation is computed using the declining balance method based on estimated useful lives from three to seven years for equipment and thirty nine years for buildings. Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains and losses on disposals are included in the results of operations.

Impairment of Long-Lived Assets
In accordance with GAAP, long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

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The Company evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible impairment. If there are indications of impairment, the Company uses future undiscounted cash flows of the related asset or asset grouping over the remaining life in measuring whether the assets are recoverable. In the event such cash flows are not expected to be sufficient to recover the recorded asset values, the assets are written down to their estimated fair value. Long-lived assets to be disposed are reported at the lower of carrying amount or fair value of the asset less cost to sell.

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. Amortization expense for the customer lists was $1,760,820 and $2,273,437 for the years ended December 31, 2010 and 2009. Amortization of customer lists for the years ended December 31, 2011, 2012 and 2013 is expected to be $270,926, $7,173 and $976, respectively. Amortization expense for non-competition agreements was $133,389 and $165,583 for the years ended December 31, 2010 and 2009. Amortization of non-competition agreements for the years ended December 31, 2011, 2012 and 2013 is expected to be $15,694, $333 and $194, respectively. In accordance with GAAP, amortization of goodwill ceased effective January 1, 2002. For the years ended December 31, 2010 and 2009, there was no impairment of goodwill.

Inventory

Inventory consists principally of products purchased for resale and are maintained at the lower of cost (first in - first out basis) or market. 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. The retail operations of Sitestar Corporation, Computers by Design, has changed the focus of generating revenue from building new equipment to providing professional services, repairing and maintaining customer systems. This shift in direction, precipitated by eroding profit margins resulting from intense competition, has slowed inventory turns of hardware used in building equipment for resale. While inventory maintains a marketable value, it is integrated into sales at a reduced rate as repairs to equipment as opposed to becoming a component in a constructed system. Consumers will reasonably continue to use the technology level of equipment represented by Sitestar inventory, and therefore, it will continue for the near future to be required components in the repair and maintenance of their systems. It is for these reasons that inventory was reclassified from current assets to other assets held for resale to more properly reflect its use. Inventory was valued on December 31, 2010 and 2009 at $30,800 and $44,144.

SITESTAR CORPORATION AND SUBSIDIARIES
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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 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.

Advertising and Marketing Costs
The Company expenses costs of advertising and marketing as they are incurred. These expenses for the years ended December 31, 2010 and 2009 were approximately $24,000 and $36,000, respectively.

Income Taxes
Deferred taxes are provided on the liability method, whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Income Per Share
The basic income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted income per common share is computed similar to basic income per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The Company has no potentially dilutive securities. The following table represents the calculations of basic and diluted income per share:

	2010	2009
Net income (loss) available to common shareholders	$ (757,409)	$ 79,997
Weighted average number of common shares	75,200,826	76,199,705
Basic and diluted income (loss) per share	$ (.01)	$ .00

Comprehensive Income
As of and for the years ended December 31, 2010 and 2009, the Company had no items that represent other comprehensive income and therefore, has not included a schedule of comprehensive income in the consolidated financial statements.

SITESTAR CORPORATION AND SUBSIDIARIES
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Recently Issued Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (ASC) 320-10, Recognition and Presentation of Other-Than-Temporary Impairments. FASB ASC 320-10 amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments in the financial statements. The most significant change FASB ASC 320-10 brings is a revision to the amount of other-than-temporary loss of a debt security recorded in earnings. FASB ASC 320-10 is effective for interim and annual reporting periods ending after June 15, 2009 The Company's adoption of FASB ASC 320-10 did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FASB ASC 820-10, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FASB ASC 820-10 provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. FASB ASC 820-10 also includes guidance on identifying circumstances that indicate a transaction is not orderly. This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FASB ASC 820-10 is effective for interim and annual reporting periods ending after June 15, 2009, and is applied prospectively. The Company's adoption of FASB ASC 820-10 did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FASB ASC 825-10, Interim Disclosures about Fair Value of Financial Instruments. FASB ASC 825-10 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FASB ASC 825-10 also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FASB ASC 825-10 is effective for interim and annual reporting periods ending after June 15, 2009. The Company's adoption of issued FASB ASC 825-10 did not have a material impact on the Company's consolidated financial statements.

In June 2009, FASB issued FASB ASC 105-10, The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162. FASB ASC 105-10 establishes the FASB ASC as the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities. The only other source of authoritative GAAP is the rules and interpretive releases of the SEC which only apply to SEC registrants. The ASC will supersede all the existing non-SEC accounting and reporting standards upon its effective date. Since the issuance of the ASC was not intended to change or alter existing GAAP, adoption of this statement did not have an impact on the Company's financial position or results of operations, but did change the way in which GAAP is referenced in the Company's financial statements. FASB ASC 105-10 was effective for interim and annual reporting periods ending after September 15, 2009.

SITESTAR CORPORATION AND SUBSIDIARIES
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In May 2009, the FASB issued FASB ASC 855-10, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Company adopted FASB ASC 855-10 effective April 1, 2009 and has evaluated subsequent events after the balance sheet date of December 31, 2010 through the date the financial statements were issued.

In October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605). This Update provides amendments to the criteria in ASC Subtopic 605-24 for separating consideration in multiple-deliverable revenue arrangements. It establishes a hierarchy of selling prices to determine the selling price of each specific deliverable which includes vendor-specific objective evidence (if available), third-party evidence (if vendor-specific evidence is not available), or estimated selling price if neither of the first two are available. This Update also eliminates the residual method for allocating revenue between the elements of an arrangement and requires that arrangement consideration be allocated at the inception of the arrangement. Finally, this Update expands the disclosure requirements regarding a vendor's multiple-deliverable revenue arrangements. This Update is effective for fiscal years beginning on or after June 15, 2010. We do not anticipate any material impact from this Update.

NOTE 2 – ACQUISITIONS

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 twelve months ended December 31, 2009.

The following table presents the unaudited pro forma condensed consolidated statement of operations for the twelve months ended December 31, 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.

SITESTAR CORPORATION AND SUBSIDIARIES
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Net sales	$ 7,692,908
Gross profit	$ 4,832,066
Selling, general and administrative expenses	$ 4,371,419
Net income	$ (102,930)
Basic income per share	$ (0.00)

Jellico

Effective August 1, 2010, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of Jellico.com, Inc., a Tennessee-based Internet Service Provider. The total purchase price was $17,020 representing the fair value of the assets acquired which consisted of a $10,000 cash payment at closing with the remaining balance due in 4 monthly installments beginning September 2010.

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

Equipment	$ -
Customer list	21,520
Non-compete agreement	1,000
Deferred revenue	(5,500)
Purchase price	$ 17,020

The following table presents the unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2010 and reflects the results of operations of the Company as if the acquisition of Jellico.com had been effective January 1, 2010. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisition 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 acquisition.

	2010
Net sales	$ 5,063,295
Gross profit	$ 2,744,568
Selling, general and administrative expenses	$ 3,090,483
Net income	$ (819,820)
Basic income per share	$ (0.01)

SITESTAR CORPORATION AND SUBSIDIARIES
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NOTE 4 - SALE OF ASSETS

None.

NOTE 5 - PROPERTY AND EQUIPMENT

The cost of property and equipment at December 31, 2010 and December 31, 2009 consisted of the following:

	2010	2009
Land	$ 10,000	$ 10,000
Building	213,366	213,366
Automobile	9,500	9,500
Computer equipment	1,164,061	1,164,061
Furniture and fixtures	59,862	59,862
	1,456,789	1,456,789
Less accumulated depreciation	(1,278,945)	(1,263,074)
	$ 177,844	$ 193,715

Depreciation expense was $15,871 and $34,497 for the years ended December 31, 2010 and 2009, respectively.

NOTE 6 NOTES PAYABLE

Notes payable at December 31, 2010 and 2009 consist of the following:

	2010	2009
Non-interest bearing amount due on acquisition of USA Telephone payable in thirty six monthly installments starting January 2008.	900,615	900,615
Less current portion	-	-
Long-term portion	$ 900,615	$ 900,615

The future principal maturities of these notes are as follows:

Year ending December 31, 2011	$ 900,615
Year ending December 31, 2012	-
Year ending December 31, 2013	-
Year ending December 31, 2014	-
Year ending December 31, 2015	-
Thereafter	-
Total	$ 900,615

SITESTAR CORPORATION AND SUBSIDIARIES
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NOTE 7 NOTES PAYABLE - STOCKHOLDERS

Notes payable - stockholders at December 31, 2010 and 2009 consist of the following:

	2010	2009
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, 2014.	$ 49,460	$ 424,930
Note payable to stockholder. The note is payable on January 1, 2014 and bears interest at an annual rate of 8.0%.	-	122,315
Less current portion	-	-
Long-term portion	$ 49,460	$ 547,245

The future principal maturities of these notes are as follows:

Year ending December 31, 2011	$ -
Year ending December 31, 2012	-
Year ending December 31, 2013	-
Year ending December 31, 2014	49,460
Year ending December 31, 2015	-
Total	$ 49,460

NOTE 8 COMMITMENTS AND CONTINGENCIES

Leases

The Company leases certain facilities for its corporate offices and retail stores under non-cancelable operating leases. Total rent expense for the years ended December 31, 2010 and 2009 was $66,626 and $65,979, respectively. Related party rent expense for each year is $48,000. Future minimum lease payments under operating leases with initial or remaining terms of one year or more are as follows:

Year ended December 31,	
2011	$ 66,000
2012	66,000
2013	16,500
Total	$ 148,500

Litigation

On or about January 16, 2008, the Company filed a Complaint in the Circuit Court in the Orange County Superior Court of the State of California against Frederick T. Manlunas, a former executive and director of the Company, for breach of contract, specific performance and declaratory relief.

SITESTAR CORPORATION AND SUBSIDIARIES
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NOTE 8 COMMITMENTS AND CONTINGENCIES, continued

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 complaint demands judgment of approximately $150,000. The Company has vigorously defended this claim. This matter was dismissed by the plaintiff on December 11, 2009. This case was re-filed on December 9, 2010 and the Company is in the process of preparing the first set of interrogatories and requests for production of documents for service on the plaintiff.

NOTE 9 STOCKHOLDERS' EQUITY

Classes of Shares
The Company's Articles of Incorporation authorize 310,000,000 shares, consisting of 10,000,000 shares of preferred stock, which have a par value of $0.001 per share and 300,000,000 shares of common stock, which have a par value of $0.001.

Preferred Stock
Preferred stock, any series, shall have the powers, preferences, rights, qualifications, limitations and restrictions as fixed by the Company's Board of Directors in its sole discretion. As of December 31, 2010, the Company's Board of Directors has not issued any Preferred Stock.

Common Stock
During the year ended December 31, 2007 the Company issued 5,263,158 shares of common stock in connection with an Asset Purchase Agreement and subsequently repurchased the shares on February 3, 2009 and placed them in treasury. 1,464,000 additional shares were repurchased by the Company and placed in treasury during the year ended December 31, 2010.

NOTE 10 INCOME TAXES

The provision for federal and state income taxes for the years ended December 31, 2010 and 2009 included the following:

	2010	2009
Current provision:		
Federal	$ 303,422	$ 518,832
State	53,545	91,558
Deferred provision:		
Federal	(1,846)	(288,856)
State	(326)	(50,944)
Valuation allowance	-	-
Total income tax provision	$ 354,795	$ (270,590)

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 December 31, 2010 and 2009 are as follows:

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SITESTAR CORPORATION AND SUBSIDIARIES
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NOTE 10 INCOME TAXES, continued

		2010		2009
Accounts receivable	$	5,433		14,695
Amortization of Intangible assets		3,310,020	$	3,298,586
Less valuation allowance		(2,552,420)		(2,552,420)
Deferred tax asset	$	763,033	$	760,861

At December 31, 2010 and 2009, 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 as of the year ended December 31, 2008.

NOTE 11 RELATED PARTY TRANSACTIONS

The Company leases its office building in Lynchburg, Virginia from a stockholder of the Company on a three year term basis. The date for renewal of the lease is November 1, 2013. For the years ended December 31, 2010 and 2009, the Company paid this stockholder $48,000 and $48,000, respectively, for rent on this office building.

NOTE 12 - SEGMENT INFORMATION

The Company has two business units with separate management and reporting infrastructures that offer different products and services. The business units have been aggregated into two reportable segments: Corporate and Internet. The Corporate group is the holding company which oversees the operating of the Internet group and arranges financing. The Internet group provides Internet access to 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 years ended December 31, 2010 and 2009:

	December 31, 2010					
	Corporate		Internet		Consolidated	
Revenue	$	-	$	5,051,916	$	5,051,916
Operating income (loss)	$	(97,364)	$	(269,109)	$	(366,473)
Depreciation and amortization	$	-	$	1,910,080	$	1,910,080
Interest expense	$	-	$	(28,009)	$	(28,009)
Goodwill	$	-	$	1,288,559	$	1,288,559
Identifiable assets	$	-	$	4,344,460	$	4,344,460

	December 31, 2009		
	Corporate	Internet	Consolidated
Revenue	$ -	$ 7,692,908	$ 7,692,908
Operating income (loss)	$ (147,700)	$ 585,414	$ 437,714
Depreciation and amortization	$ -	$ 2,473,517	$ 2,473,517
Interest expense	$ -	$ (79,609)	$ (79,609)
Goodwill	$ -	$ 1,288,559	$ 1,288,559
Identifiable assets	$ -	$ 6,505,929	$ 6,505,929

NOTE 13 - SUBSEQUENT EVENTS

Effective March 1, 2011, the Company entered into a Definitive Agreement acquiring the Internet based assets of Brampton Capital LLC., a North Carolina limited liability company. The Definitive Agreement consisted of the acquisition of the Internet related assets and a non-compete agreement of the company. The estimated net purchase price is $88,000 consisting of dial-up and email and web hosting customers less deferred revenue. Adjustments will be made in the event that the verified numbers differ from what is stated in the Definitive Agreement.

Under the “Purchase Program” for investment in real estate, as of March 31, 2011, the Company invested another $770,000 in real estate purchases since December 31, 2010 for a total investment of $1,285,000. Renovations will be made as needed to maximize the investments’ resale value.

Management has evaluated all events through March 31, 2011, the date the financial statements were available to be issued.

I ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were designed to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In addition, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective to achieve the foregoing objectives. A control system cannot provide absolute assurance, however, that the objectives of the control system are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Management's Annual Report on Internal Control Over Financial Reporting

The Management of Sitestar Corporation is responsible for establishing and maintaining adequate internal control over its financial reporting. Sitestar Corporation's internal control over financial reporting is a process designed under the supervision of the Corporation's chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Sitestar Corporation's Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control Integrated Framework." Based on this assessment, Management determined that at December 31, 2010, the Corporation's internal control over financial reporting was effective.

(c) Change in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting, occurred during the fiscal quarter ended December 31, 2010, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTER AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The following table sets forth the name, age and position with the Company of each officer and director as of the date of this Report.

Our current directors, executive officers and key employees are as follows:

Name	Age	Position	Director since
Frank R. Erhartic, Jr.	42	President, CEO, Director	October 2001
Julia E. Erhartic	43	Secretary, Director	October 2001
Daniel Judd	54	CFO, Director	June 2004

Frank Erhartic, Jr., 42, Mr. Erhartic guides Sitestar's long-term market strategies and investments, oversees all product research and development and leads the company's day-to-day operations. An entrepreneur, Mr. Erhartic founded Computers by Design, a Sitestar subsidiary, in 1985 as a software development and computer services company while pursuing his high school diploma and later created a toner remanufacturing division called CBD Toner Recharge. In 1996, Mr. Erhartic started Lynchburg.net an Internet Service Provider which was acquired by Sitestar in 2000. He was named President and CEO in 2002, and has led the growth of the Company's customer base through a series of acquisitions. Mr. Erhartic has MCSE, Novell Netware and A+ certifications and is a graduate of Virginia Tech with degrees in both Management and Finance.

Julia Erhartic, 43, Ms. Erhartic graduated from Virginia Tech in 1990 with a major in Psychology and a minor in Communications Studies with an emphasis in Public Relations. Ms. Erhartic was the store manager of Computers by Design from 1991 through 1996. While also the Vice President of Computers by Design, she helped co-found the Internet division of Lynchburg.net in 1996 and then shifted her focus to public relations, accounting and customer service issues.

Mr. and Mrs. Erhartic are related by marriage. None of the other executive officers or key employees is related to any other of our directors, executive officers or key employees.

Dan Judd, 54, Mr. Judd has over thirty years of experience in accounting and management, he oversees financial reporting, planning, mergers and acquisitions, and finance support for all business operations. Before joining Sitestar in 2003, Mr. Judd ran his own accounting firm, Judd Enterprises, Inc., specializing in both taxes and accounting. He also held management positions in manufacturing and wholesale companies. Mr. Judd is a Certified Public Accountant and holds a Bachelor of Science degree in Commerce from the University of Virginia.

TERM OF DIRECTORS:

Director	Expiration of term
Frank R. Erhartic, Jr.	December 31, 2011
Julia Erhartic	December 31, 2011
Dan Judd	December 31, 2011

Section 16(a) Beneficial Ownership Reporting Compliance Pursuant to Section 16 (a) of the Securities Exchange Act of 1934, and the rules issued there under, our directors and executive officers are required to file with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. ownership and changes in ownership of common stock and other equity securities of the Company. Copies of such reports are required to be furnished to us. Based solely on a review of the copies of such reports furnished to us, or written representations that no other reports were required, we believe that, during our fiscal year ended December 31, 2010 all of our executive officers and directors complied with the requirements of Section 16 (a).

The Company has adopted a code of ethics and it is available on the Company's website www.sitestar.com under Investor Relations.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the annual compensation paid to our executive officers for the two fiscal years ended December 31st.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Frank R, Erhartic, Jr., Principal Executive Officer (PEO)	2010	93,308							93,308
	2009	97,885							97,885
Daniel Judd, Principal Financial Officer (PFO)	2010	45,200							45,200
	2009	45,200							45,200
Julie E. Erhartic, (Officer)	2010	13,000							13,000
	2009	13,000							13,000

Frank R. Erhartic, Jr., President, CEO and Director, earned a salary of $93,308 and $97,885 for the years ended December 31, 2010 and 2009, respectively. He received no other compensation. Daniel Judd, CFO and Director earned a salary of $45,200 and $45,200 for the years ended December 31, 2010 and 2009, respectively. He received no other compensation. Julia E. Erhartic, Secretary and Director, earned a salary of $13,000 and $13,000 for the years ended December 31, 2010 and 2009, respectively. She received no other compensation.

GRANTS OF PLAN-BASED AWARDS

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards					
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold ($)	Target ($)	Maximum (#)	All Other Stock Awards: Number of Shares Of Stock or Units (#)	All other Option Awards: Number of Securities Under-Lying Options (#)	Exercise of Base Price of Option Awards ($/Sh)
PEO	N/A									
PFO	N/A									
Officer	N/A									

There were no Equity Incentive Plans, Non-Equity Incentive Plans or Stock Awards for the years ended December 31, 2010 and 2009.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards					Stock Awards			
Name	Number of securities Underlying Unexercised Options (#) Exercisable	Number of securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Units of Stock that have not vested (#)	Market Value of Shares or Units of Stock that have not vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or other rights that have not vested (#)	Equity Incentive Plan Awards Market or Payout Value of Unearned Shares, Units of other rights that have not vested ($)
PEO	N/A								
PFO	N/A								
Officer	N/A								

There were no Equity Incentive Plans, Non-Equity Incentive Plans or Stock Awards for the years ended December 31, 2010 and 2009.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Frank R, Erhartic, Jr., Director							$ 0.00
Daniel Judd, Director							$ 0.00
Julie E. Erhartic, Director							$ 0.00

There were no Director compensation other than salary for the years ended December 31, 2010 and 2009.

ITEM 12. SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

The following table sets forth certain information as of March 30, 2011 regarding the record and beneficial ownership of our common stock by: (i) any individual or group (as that term is defined in the federal securities laws) of affiliated individuals or entities who is known by us to be the beneficial owner of more than five percent of the outstanding shares of our common stock; (ii) each of our executive officers and directors; and (iii) our executive officers and directors as a group.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percent Of Class (2)
Frank and Julie Erhartic 7109 Timberlake Road Lynchburg, VA 24502	24,583,980	32.89%
Daniel A. Judd 7109 Timberlake Road Lynchburg, VA 24502	133,865	00.18%
All directors and officers As a group (3 persons)	24,717,845	33.07%

(1) Except as otherwise indicated, we believe that the beneficial owners of our common stock listed above, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.

(2) Percent of class is based on 74,735,705 shares of common stock outstanding as of March 31, 2011.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company leases its corporate headquarters located at 7109 Timberlake Road, Suite 201, Lynchburg, VA 24502 from Frank R. Erhartic, Jr., a stockholder of the Company pursuant to a lease agreement entered into on November 23, 2003. Pursuant to the lease agreement, the Company pays Mr. Erhartic rent in the amount of $48,000 per year. The lease agreement expires on November 1, 2013.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees to Independent Registered Public Accountants for Fiscal 2010 and 2009

	2010	2009
Audit fees	$ 58,875	$ 37,500
Audit related fees	13,500	-
Tax	1,875	-
Other	-	-
	$ 74,250	$ 37,500

AUDIT COMMITTEE

The Company does not have an audit committee.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(1) The following exhibits are filed as part of this Annual Report on Form 10-K or are incorporated herein by reference:

Exhibit	Description	Filed
3.1(i)	Articles of Incorporation of the Registrant (December 17, 1992)	a
3.1(ii)	Amended Articles of Incorporation (July 29, 1998)	a
3.1(iii)	Amended Articles of Incorporation (October 26, 1998)	a
3.1(iv)	Amended Articles of Incorporation (July 14, 1999)	a
3.1(v)	Amended Articles of Incorporation (July 28, 1999)	a
3.2(i)	By-laws of the Registrant (December 17, 1992)	a
4.2	Convertible Debenture Purchase Agreement dated as of May 11, 2000 between the investors named therein and the Registrant	c
4.3	12% Convertible Debenture due May 11, 2001 made by the Registrant in favor of New Millenium Capital Partners II, L.L.C.	c
4.4	12% Convertible Debenture due May 11, 2001 made by the Registrant in favor of AJW Partners, L.L.C.	c
4.5	Stock Purchase Warrant dated as of May 11, 2000 issued by Registrant to New Millenium Capital Partners, L.L.C.	c
4.6	Stock Purchase Warrant dated as of May 11, 2000 issued by Registrant to AJW Partners, L.L.C	c
4.7	Registration Rights Agreement dated as of May 11, 2000 by and between the Registrant and the investors named therein.	c
10.1	Lease for Corporate Office	b
10.13	Statement of changes in beneficial ownership of securities.	k
10.14	Definitive Purchase Agreement to acquire certain assets of Idacomm, Inc, effective September 16, 2005.	l
10.15	Definitive Purchase Agreement to acquire Inc, effective January 1, 2006	m
10.16	Amendment to report audited financial statements for Definitive Purchase Agreement to acquire Inc.	n
10.17	Definitive Purchase Agreement to acquire certain assets of First USA, Inc, effective July 1, 2006.	o
10.18	Definitive Purchase Agreement to acquire certain assets of OW Holdings, Inc, effective February 28, 2007.	p
	SCHEDULE 21. LIST OF SUBSIDIARIES	
	Sitestar.net, Inc. FRE Enterprises, Inc. Advanced Internet Services, Inc. NetRover Inc.	
31.1	Certification of Chief Executive 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.	
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.	q
32.1	Certification Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	q

a Filed as an exhibit to the Registrant's Form-10SB, as amended, initially filed with the Securities and Exchange Commission on October 22, 1999 and incorporated herein by reference.

b Filed as an exhibit to the Registrant's Form-10SB filed with the Securities and Exchange Commission on October 28, 2006 and incorporated herein by reference.

c Filed as an exhibit to the Registrant's SB-2 Registration Statement, File No. 333-39660, filed on June 20, 2000 and incorporated herein by reference.

k Filed as an exhibit to Registrant's Form SC 13G/A filed with the Securities and Exchange Commission on February 9, 2005

l Filed as an exhibit to Registrant's Form 8-K filed with the Securities and Exchange Commission on September 16, 2005

m Filed as an exhibit to Registrant's Form 8-K filed with the Securities and Exchange Commission on January 1, 2006

n Filed as an exhibit to Registrant's Form 8-K/A filed with the Securities and Exchange Commission on March 22, 2006

o Filed as an exhibit to Registrant's Form 8-K filed with the Securities and Exchange Commission on July 6, 2006

p Filed as an exhibit to Registrant's Form 8-K filed with the Securities and Exchange Commission on March 2, 2007

q Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Frank Erhartic, Jr. Frank Erhartic, Jr.	President, Chief Executive Officer, Director (Principal Executive Officer)	March 31, 2011
/s/ Daniel A. Judd Daniel A. Judd	Chief Financial Officer (Principal Financial Officer, Principal Accounting Officer)	March 31, 2011
/s/ Julie Erhartic Julie Erhartic	Secretary, Director	March 31, 2011