

SITESTAR CORP
Form 10-Q
November 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

For the transition period from _____ to _____

000-27763

(Commission file number)

SITESTAR CORPORATION

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

NEVADA

(State or other jurisdiction of
incorporation or organization)

88-0397234

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

7109 Timberlake Road, Lynchburg, VA 24502

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(Address of principal executive offices)

(434) 239-4272

(Issuer's telephone number)

N/A

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of November 21, 2012, the issuer had 91,326,463 shares of common stock issued and 74,085,705 outstanding

SITESTAR CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SITESTAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2012 AND DECEMBER 31, 2011

ASSETS

	2012 (Unaudited)	2011
CURRENT ASSETS		
Cash and cash equivalents	\$45,636	\$17,268
Accounts receivable, net of allowance of \$1,916 and \$2,586	37,281	53,090
Prepaid expenses	111,240	13,037
Real estate, at cost	2,900,149	2,464,694
Total current assets	3,094,306	2,548,089
PROPERTY AND EQUIPMENT, net	155,395	164,159
CUSTOMER LIST, net of accumulated amortization of \$12,308,091 and \$12,286,712	12,582	33,961
GOODWILL, net of impairment	1,288,559	1,288,559
DEFERRED TAX ASSETS	558,690	762,607
OTHER ASSETS	265,660	266,180
TOTAL ASSETS	\$ 5,375,192	\$5,063,555

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

SITESTAR CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS, continued****SEPTEMBER 30, 2012 AND DECEMBER 31, 2011****LIABILITIES AND STOCKHOLDERS' EQUITY**

	2012 (Unaudited)	2011
CURRENT LIABILITIES		
Accounts payable	\$45,569	\$71,136
Accrued income taxes	-	81,353
Accrued expenses	42,511	31,433
Deferred revenue	411,990	461,640
Notes payable, current portion	900,615	900,615
 Total current liabilities	 1,400,685	 1,546,177
 NOTES PAYABLE – STOCKHOLDERS, less current portion	 50,273	 95,958
 TOTAL LIABILITIES	 1,450,958	 1,642,135
 STOCKHOLDERS' EQUITY		
Preferred Stock, \$.001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding	-	-
Common stock, \$.001 par value, 300,000,000 shares authorized, 91,326,463 shares issued in 2012 and 2011 and 74,085,705 shares outstanding in 2012 and 2011	91,326	91,326
Additional paid-in capital	13,880,947	13,880,947
Treasury stock, at cost, 17,240,758 common shares	(789,518)	(789,518)
Accumulated deficit	(9,258,521)	(9,761,335)
 Total stockholders' equity	 3,924,234	 3,421,420
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$5,375,192	 \$5,063,555

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

SITESTAR CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF INCOME****FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011****(UNAUDITED)**

	2012	2011
REVENUE		
Internet	\$ 666,800	\$ 857,465
Real estate	34,161	789,411
	700,961	1,646,876
COST OF REVENUE		
Internet	370,516	398,778
Real estate	25,669	641,266
	396,185	1,040,044
GROSS PROFIT	304,776	606,832
OPERATING EXPENSES:		
Selling general and administrative expenses	142,781	238,970
INCOME FROM OPERATIONS	161,995	367,862
OTHER INCOME (EXPENSES):		
Other income (expenses)	(4,058)	1,207
Interest expense	(1,356)	(4,880)
TOTAL OTHER INCOME (EXPENSE)	(5,414)	(3,673)
INCOME BEFORE INCOME TAXES	156,581	364,189
INCOME TAXES (EXPENSE) BENEFIT	(21,415)	(250,496)
NET INCOME	\$ 135,166	\$ 113,693
BASIC AND DILUTED EARNINGS PER SHARE	\$ 0.00	\$ 0.00
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	74,085,705	74,085,705

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

SITESTAR CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF INCOME****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011****(UNAUDITED)**

	2012	2011
REVENUE		
Internet	\$2,191,961	\$2,859,825
Real estate	617,274	789,411
	2,809,235	3,649,236
COST OF REVENUE		
Internet	1,208,176	1,385,247
Real estate	468,207	641,266
	1,676,383	2,026,513
GROSS PROFIT	1,132,852	1,622,723
OPERATING EXPENSES:		
Selling general and administrative expenses	543,523	940,946
INCOME FROM OPERATIONS	589,329	681,777
OTHER INCOME (EXPENSES):		
Other income (expenses)	(3,748)	1,531
Interest expense	(5,404)	(7,962)
TOTAL OTHER INCOME (EXPENSE)	(9,152)	(6,431)
INCOME BEFORE INCOME TAXES	580,177	675,346
INCOME TAXES (EXPENSE) BENEFIT	(77,363)	31,876
NET INCOME	\$502,814	\$707,222
BASIC AND DILUTED EARNINGS PER SHARE	\$0.01	\$0.01
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	74,085,705	74,347,207

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

SITESTAR CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011****(UNAUDITED)**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$502,814	\$707,222
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	30,671	295,385
Allowance for doubtful accounts	(670)	(1,711)
Decrease in accounts receivable	16,479	28,223
(Increase) in prepaid expenses	(98,203)	(3,662)
Increase in real estate	(435,455)	(1,468,944)
Increase (decrease) in deferred income taxes	203,917	(103,009)
Decrease in accounts payable	(25,567)	(15,565)
Increase in accrued expenses	11,078	546
Decrease in deferred revenue	(49,650)	(92,922)
Decrease in accrued income taxes	(81,353)	(120,439)
Net cash provided by (used in) operating activities	74,061	(774,876)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in other assets held for resale	(8)	2
Purchase of property and equipment	-	(2,000)
Purchase of non-compete	-	(1,000)
Purchase of deferred revenue	-	-
Purchase of customer list	-	(97,000)
Net cash used in investing activities	(8)	(99,998)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable – stockholders	(45,685)	(17,500)
Proceeds from notes payable - stockholders	-	224,714
Proceeds from notes payable	-	33,000
Purchase of treasury stock	-	(4,494)
Net cash provided by (used in) financing activities	(45,685)	235,720
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,368	(639,154)
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	17,268	939,328
CASH AND CASH EQUIVALENTS – END OF PERIOD	\$45,636	\$300,174
See the accompanying notes to the unaudited condensed consolidated financial statements.		

SITESTAR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

During the nine months ended September 30, 2012 and 2011, the Company used cash to pay income taxes of \$64,380 and \$191,572 and paid interest expense of approximately \$5,000 and \$8,000, respectively.

SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 1 – BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements have been prepared by Sitestar Corporation (the “Company” or “Sitestar”), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended December 31, 2011 included in the Company’s Annual Report on Form 10-K. The results for the nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year ending December 31, 2012.

NOTE 2 – EARNINGS PER SHARE

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

For the three months ended September 30, 2012 and 2011:

	2012	2011
Net income available to common shareholders	\$ 135,166	\$ 113,693
Weighted average number of common shares	74,085,705	74,085,705
Basic and diluted income per share	\$0.00	\$0.00

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For the nine months ended September 30, 2012 and 2011:

	2012	2011
Net income available to common shareholders	\$502,814	\$707,222
Weighted average number of common shares	74,085,705	74,347,207
Basic and diluted income per share	\$0.01	\$0.01

SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 3 – COMMON STOCK

During the nine months ended September 30, 2012, the Company issued no shares of common stock and repurchased no treasury shares.

NOTE 4 – SEGMENT INFORMATION

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

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

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

Summarized financial information concerning the Company's reportable segments is shown in the following tables as of and for the three months ended September 30, 2012 and 2011:

September 30, 2012

	Corporate	Real estate	Internet	Consolidated
Revenue	\$ -	\$34,161	\$666,800	\$ 700,961
Operating income (loss)	\$ (9,684)	\$8,492	\$ 163,187	\$ 161,995

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Depreciation and amortization	\$ -	\$-	\$10,215	\$ 10,215
Interest expense	\$ -	\$-	\$1,356	\$ 1,356
Real estate	\$ -	\$2,900,149	\$-	\$ 2,900,149
Intangible assets	\$ -	\$-	\$1,301,891	\$ 1,301,891
Total assets	\$ -	\$2,900,149	\$2,475,043	\$ 5,375,192

SITESTAR CORPORATION**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****UNAUDITED****NOTE 4 – SEGMENT INFORMATION, continued**

September 30, 2011

	Corporate	Real estate	Internet	Consolidated
Revenue	\$ -	\$ 789,411	\$ 857,465	\$ 1,646,876
Operating income (loss)	\$ (8,443)	\$ 148,145	\$ 228,160	\$ 367,862
Depreciation and amortization	\$ -	\$ -	\$ 67,559	\$ 67,559
Interest expense	\$ -	\$ -	\$ 4,880	\$ 4,880
Real estate	\$ -	\$ 1,984,146	\$ -	\$ 1,984,146
Intangible assets	\$ -	\$ -	\$ 1,393,020	\$ 1,393,020
Total assets	\$ -	\$ 1,984,146	\$ 3,074,876	\$ 5,059,022

Summarized financial information concerning the Company's reportable segments is shown in the following tables as of and for the nine months ended September 30, 2012 and 2011:

September 30, 2012

	Corporate	Real estate	Internet	Consolidated
Revenue	\$ -	\$ 617,274	\$ 2,191,961	\$ 2,809,235
Operating income (loss)	\$ (72,981)	\$ 149,067	\$ 513,243	\$ 589,329
Depreciation and amortization	\$ -	\$ -	\$ 30,671	\$ 30,671
Interest expense	\$ -	\$ -	\$ 5,404	\$ 5,404
Real estate	\$ -	\$ 2,900,149	\$ -	\$ 2,900,149
Intangible assets	\$ -	\$ -	\$ 1,301,891	\$ 1,301,891
Total assets	\$ -	\$ 2,900,149	\$ 2,475,043	\$ 5,375,192

September 30, 2011

	Corporate	Real estate	Internet	Consolidated
Revenue	\$ -	\$ 789,411	\$ 2,859,825	\$ 3,649,236
Operating income (loss)	\$ (35,905)	\$ 148,145	\$ 569,537	\$ 681,777
Depreciation and amortization	\$ -	\$ -	\$ 295,385	\$ 295,385
Interest expense	\$ -	\$ -	\$ 7,962	\$ 7,962

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Real estate	\$ -	\$ 1,984,146	\$ -	\$ 1,984,146
Intangible assets	\$ -	\$ -	\$ 1,393,020	\$ 1,393,020
Total assets	\$ -	\$ 1,984,146	\$ 3,074,876	\$ 5,059,022

SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 5 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

No new accounting pronouncement issued or effective during the nine months ended September 30, 2012 has had or is expected to have a material impact on the condensed consolidated financial statements.

NOTE 6 – ACQUISITIONS

NCISP.net

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

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

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

SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 7 — PROVISION FOR INCOME TAXES

The provision for federal and state income taxes for the nine months ended September 30, 2012 and 2011 included the following:

	2012	2011
Current provision:		
Federal	\$(107,571)	\$60,463
State	(18,983)	10,670
Deferred provision:		
Federal	173,329	(87,558)
State	30,588	(15,451)
Total income tax provision	\$77,363	\$(31,876)

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 September 30, 2012 and December 31, 2011 are as follows:

	2012	2011
Accounts receivable	\$1,916	\$2,586
Amortization of Intangible assets	3,109,195	3,312,441
Less valuation allowance	(2,552,420)	(2,552,420)
Deferred tax asset	\$558,691	\$762,607

At September 30, 2012 and December 31, 2011, the Company has provided a valuation allowance for a portion of the deferred tax asset that management has not been able to determine that realization is more likely than not. The Company is subject to Federal income taxes as well as income taxes of state jurisdictions. For Federal and state tax purposes, tax years 2008 through 2011 remain open to examination.

SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 8 – INTANGIBLE ASSETS

The Company continually monitors its intangible assets to determine whether any impairment has occurred. In making such determination with respect to these assets, the Company evaluates the performance, on a discounted cash flow basis, of the intangible assets or group of assets. Should impairment be identified, a loss would be reported to the extent that the carrying value of the related intangible asset exceeds its fair value using the discounted cash flow method. The Company's customer lists are being amortized over three years. Total amortization expense was \$21,907 and \$288,836 for the nine months ended September, 30, 2012 and 2011.

NOTE 9 – DEFERRED REVENUE

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

Revenue Recognition

Internet

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

Real Estate

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

SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 10 - NOTES PAYABLE

Notes payable at September 30, 2012 and December 31, 2011 consist of the following:

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

The future principal maturities of these notes are as follows:

Twelve months ending September 30, 2013	\$900,615
Twelve months ending September 30, 2014	-
Twelve months ending September 30, 2015	-
Twelve months ending September 30, 2016	-
Twelve months ending September 30, 2017	-
Thereafter	-
Total	\$900,615

NOTE 11 - NOTES PAYABLE – STOCKHOLDERS

Notes payable - stockholders at September 30, 2012 and December 31, 2011 consist of the following:

2012 2011

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Note payable to officer and stockholder on a line of credit of \$750,000 at an annual interest rate of 10%. The accrued interest and principal are due on January 1, 2014.	\$273	\$45,958
Note payable to stockholder for \$50,000 at an annual interest rate of 8% interest. The accrued interest and principal are due on January 1, 2014.	50,000	50,000
Totals	50,273	95,958
Less current portion	-	-
Long-term portion	\$50,273	\$95,958

SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 11 - NOTES PAYABLE – STOCKHOLDERS, continued

The future principal maturities of these notes are as follows:

	2011
Twelve months ending September 30, 2013	\$-
Twelve months ending September 30, 2014	50,273
Twelve months ending September 30, 2015	-
Twelve months ending September 30, 2016	-
Twelve months ending September 30, 2017	-
Total	\$50,273

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

Forward-looking statements

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

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

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

General

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

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

SITESTAR CORPORATION

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

Overview

Internet

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

The products and services that the Company provides include:

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

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

Real Estate

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

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

The following tables show financial data for the nine months ended September 30, 2012.

	Corporate	Internet	Real estate	Total
Revenue	\$ -	\$2,191,961	\$ 617,274	\$2,809,235
Cost of revenue	-	1,208,176	468,207	1,676,383
Gross profit	-	983,785	149,067	1,132,852
Operating expenses	72,981	470,542	-	543,523
Income (loss) from operations	(72,981)	513,243	149,067	589,329
Other income (expense)	-	(9,152)	-	(9,152)
Income (loss) before income taxes	(72,981)	504,091	149,067	580,177
Income taxes (expense) benefit	-	(67,217)	(10,146)	(77,363)
Net income (loss)	\$(72,981)	\$436,874	\$ 138,921	\$502,814

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

The following tables show financial data for the nine months ended September 30, 2011.

	Corporate	Internet	Real estate	Total
Revenue	\$ -	\$2,859,825	\$ 789,411	\$3,649,236
Cost of revenue	-	1,385,247	641,266	2,026,513
Gross profit	-	1,474,578	148,145	1,622,723
Operating expenses	8,443	932,503	-	940,946
Income (loss) from operations	(8,443)	542,075	148,145	681,777
Other income (expense)	-	(6,431)	-	(6,431)
Income (loss) before income taxes	(8,443)	535,644	148,145	675,346
Income taxes (expense) benefit	-	24,884	6,992	31,876
Net income (loss)	\$ (8,443)	\$560,528	\$ 155,137	\$707,222

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

The following tables show a reconciliation of EBITDA to the GAAP presentation of net income for the nine months ended September 30, 2012 and 2011.

SITESTAR CORPORATION**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued**For the nine months ended September 30, 2012

	Corporate	Internet	Real estate	Total
EBITDA	\$ (72,981)	\$ 540,166	\$ 149,067	\$ 616,252
Interest expense	-	(5,404)	-	(5,404)
Taxes	-	(67,217)	(10,146)	(77,363)
Depreciation	-	(8,764)	-	(8,764)
Amortization	-	(21,907)	-	(21,907)
Net income (loss)	\$ (72,981)	\$ 436,874	\$ 138,921	\$ 502,814

For the nine months ended September 30, 2011

	Corporate	Internet	Real estate	Total
EBITDA	\$ (8,443)	\$ 838,991	\$ 148,145	\$ 978,693
Interest expense	-	(7,962)	-	(7,962)
Taxes	-	24,884	6,992	31,876
Depreciation	-	(11,050)	-	(11,050)
Amortization	-	(284,335)	-	(284,335)
Net income (loss)	\$ (8,443)	\$ 560,528	\$ 155,137	\$ 707,222

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

The current real estate market presents the unique opportunity to acquire properties at deep discounts from fair market value with the potential for substantial profits. Management evaluates property as it becomes available with respect to the market value versus the acquisition cost, in addition to other conditions that could affect the resale value. Renovations are made as needed to maximize the market appeal and value prior to listing for sale.

SITESTAR CORPORATION

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

Management believes that there is sustainable cash flow potential for the near future in real estate and is actively pursuing the program. As of the balance sheet date, September 30, 2012, the Company has invested approximately \$2,900,149 in surplus funds and is continuing the investing process.

NINE MONTHS ENDED SEPTEMBER 30, 2012 COMPARED TO SEPTEMBER 30, 2011

REVENUE

Total revenue for the nine months ended September 30, 2012 decreased by \$840,001 or 23.0% from \$3,649,236 for the nine months ended September 30, 2011 to \$2,809,235 for the same period in 2012. Internet sales decreased \$667,864 or 23.3% from \$2,859,825 for the nine months ended September 30, 2011 to \$2,191,961 for the same period in 2012. Real estate sales decreased \$172,137 or 21.8% from \$789,411 for the nine months ended September 30, 2011 to \$617,274 for the same period in 2012.

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 new real estate division while sales are down is preparing properties for the market and is still providing a profitable revenue stream.

COST OF REVENUE

Total costs of revenue for the nine months ended September 30, 2012 decreased by \$350,130 or 17.3% from \$2,026,513 for the nine months ended September 30, 2011 to \$1,676,383 for the same period in 2012. Cost of Internet revenue decreased \$177,071 or 12.8% from \$1,385,247 for the nine months ended September 30, 2011 to \$1,208,176 for the same period in 2012 as a result of declining revenue. Cost of real estate revenue decreased \$173,059 or 27.0% from \$641,266 for the nine months ended September 30, 2011 to \$468,207 for the same period in

2012. Cost of real estate revenue is a direct result of lower sales while the cost of revenue as a percentage of sales decreased 5.3% from 81.2% for the nine months ended September 30, 2011 to 75.9% for the same period in 2012.

SITESTAR CORPORATION

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

OPERATING EXPENSES

Operating expenses for the nine months ended September 30, 2012 decreased \$397,423 or 42.2% from \$940,946 for the nine months ended September 30, 2011 to \$543,523 for the same period in 2012. This decrease is primarily due to lower amortization expense as a result of intangibles being fully amortized. Amortization expense decreased \$262,428 or 92.3% from \$284,335 for the nine months ended September 30, 2011 to \$21,907 for the same period in 2012.

INCOME TAXES

For the nine months ended September 30, 2012 and September 30, 2011 corporate income tax expenses (benefit) of \$77,363 and \$(31,876) were accrued.

INTEREST EXPENSE

Interest expense for the nine months ended September 30, 2012 decreased by \$2,558 or 32.1% from \$7,962 for the nine months ended September 30, 2011 to \$5,404 for the same period in 2012.

SEPTEMBER 30, 2012 COMPARED TO DECEMBER 31, 2011

FINANCIAL CONDITION

Net accounts receivable decreased \$15,809 or 29.8% from \$53,090 on December 31, 2011 to \$37,281 on September 30, 2012. Investment in real estate increased net \$435,455 or 17.7% from \$2,464,694 on December 31, 2011 to

\$2,900,149 on September 30, 2012. Accounts payable decreased by \$25,567 or 35.9% from \$71,136 on December 31, 2011 to \$45,569 on September 30, 2012. Deferred revenue decreased by \$49,650 or 10.8% from \$461,640 on December 31, 2011 to \$411,990 on September 30, 2012 representing decreased volume of customer accounts that have been prepaid. Long-term notes payable to shareholders decreased \$45,685 or 47.6% from \$95,958 on December 31, 2011 to \$50,273 on September 30, 2012.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled \$45,636 and \$17,268 at September 30, 2012 and at December 31, 2011. EBITDA was \$616,252 for the nine months ended September 30, 2012 as compared to \$978,693 for the same period in 2011.

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

	2012	2011
EBITDA for the nine months ended September 30,	\$616,252	\$978,693
Interest expense	(5,404)	(7,962)
Taxes	(77,363)	31,876
Depreciation	(8,764)	(11,050)
Amortization	(21,907)	(284,335)
Net income for the nine months ended September 30,	\$502,814	\$707,222

The aging of accounts receivable as of September 30, 2012 and December 31, 2011 is as shown:

	2012		2011	
Current	\$21,074	57 %	\$33,362	63 %
30 < 60	8,522	23 %	13,123	25 %
60 +	7,685	20 %	6,605	12 %
Total	\$37,281	100 %	\$53,090	100 %

OFF-BALANCE SHEET TRANSACTIONS

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

CRITICAL ACCOUNTING POLICY AND ESTIMATES

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

expenses, financing operations, and contingencies and litigation.

SITESTAR CORPORATION

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

None.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures:

Management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of September 30, 2012. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported accurately and on a timely basis.

Changes in Internal Control over Financial Reporting:

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. .

SITESTAR CORPORATION

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Not required for small business.

Item 2. Unregistered Sales of Equity Securities and use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None

Item 6. Exhibits

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

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

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

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

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SITESTAR CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SITESTAR CORPORATION

Date: November 14, 2012

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

Date: November 14, 2012

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