SITESTAR CORP
Form 10-Q
August 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2017

SITESTAR CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Commission file number 000-27763

Nevada	88-0397234
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
1518 Willow Lawn Drive, Richmond, VA	23230
(Address of Principal Executive Offices)	(Zip Code)

(434) 382-7366

(Issuer’s telephone number, including area code)

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. [X] Yes No

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). [X] Yes No

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Smaller reporting company [X]
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of Common Stock, $0.001 par value as of August 7, 2017 is 282,830,163.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including, without limitation, Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” herein, contains statements that constitute “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, and the Private Securities Litigation Reform Act of 1995. The words “believe,” “estimate,” “expect,” “intend,” “anticipate,” “plan” and similar expressions and variations thereof identify certain of such forward-looking statements which speak only as of the dates on which they were made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and 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-Q, and that actual results may differ materially from those indicated in the forward-looking statements as a result of various factors.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
SITESTAR CORPORATION

And Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$2,231,807	$ 2,607,370
Accounts receivable, net	440,403	212,751
Investments, at fair value	123,920	599,500
Other current assets	64,972	2,554,861
Total current assets	2,861,102	5,974,482
Real estate - held for resale	482,894	1,399,280
Real estate - held for investment, net	619,264	506,011
Property and equipment, net	399,182	143,464
Goodwill, net	2,006,498	1,553,745
Note receivable	226,000	—
Non-current investments, at fair value	8,854,764	—
Other assets	66,750	264,250
	12,655,352	3,866,750
Total assets	$15,516,454	$ 9,841,232
Liabilities and Stockholders' Equity		
Current Liabilities		
Deferred revenue	$247,873	$ 214,898
Notes payable, current	411,111	240,000
Accounts payable	220,631	77,918
Accrued bonus	34,987	51,855
Accrued expenses	160,427	71,532
Total current liabilities	1,075,029	656,203
Notes payable	86,843	25,000
Total long-term liabilities	86,843	25,000
Total liabilities	1,161,872	681,203
Stockholders' equity		
Preferred stock, $0.001 par value, 30,000,000 shares authorized; none issued	—	—
Common stock, $0.001 par value, 300,000,000 shares authorized; 294,526,821 and 204,152,616	294,527	204,152

shares issued; 282,830,163 and 190,230,163 shares outstanding		
Additional paid-in-capital	23,538,493	19,096,858
Treasury stock, at cost, 11,696,658 and 13,822,453 common shares	(544,571)	(637,561)
Accumulated other comprehensive (loss) income	(26,996)	39,343
Accumulated deficit	(8,906,871)	(9,542,763)
Total stockholders' equity attributable to Sitestar Corporation Stockholders	14,354,582	9,160,029
Noncontrolling interest in consolidated subsidiaries	—	—
Total stockholders' equity	14,354,582	9,160,029
Total liabilities and stockholders' equity	$ 15,516,454	$ 9,841,232

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

SITESTAR CORPORATION

and Subsidiaries

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Revenues - internet operations	$328,341	$356,815	$663,427	$712,899
Revenues - HVAC	1,299,282	33,022	2,194,674	33,022
Revenues - real estate	25,602	1,179,231	892,146	1,587,448
Revenues - asset management	454,316	—	605,210	—
Total revenues	2,107,541	1,569,068	4,355,457	2,333,369
Cost of revenues - internet operations	76,145	93,681	155,954	219,753
Cost of revenues - HVAC	837,340	13,161	1,431,911	13,161
Cost of revenues - real estate	27,345	1,080,213	958,065	1,516,317
Cost of revenues - asset management	—	—	—	—
Total cost of revenues	940,830	1,187,055	2,545,930	1,749,231
Gross profit - internet operations	252,196	263,134	507,473	493,146
Gross profit - HVAC	461,942	19,861	762,763	19,861
Gross (loss) profit - real estate	(1,743)	99,018	(65,919)	71,131
Gross profit - asset management	454,316	—	605,210	—
Total gross profit	1,166,711	382,013	1,809,527	584,138
Selling, general and administrative expenses	697,658	306,125	1,303,272	518,381
Total operating expenses	697,658	306,125	1,303,272	518,381
Income from operations	469,053	75,888	506,255	65,757
Other (expense) income, net	(1,789)	3,659	129,637	4,571
Income before income taxes	467,264	79,547	635,892	70,328
Income tax benefit (expense)	—	—	—	—
Net income	467,264	79,547	635,892	70,328
Less: net income attributable to the non controlling interest	—	2,853	—	2,853
Net income attributable to Sitestar Corporation stockholders	$467,264	$76,694	$635,892	$67,475
Earnings per share, basic and diluted	0.00	0.00	0.00	0.00
Weighted average number of shares, basic and diluted	282,830,163	77,404,010	266,970,494	77,404,010

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

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SITESTAR CORPORATION

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Net income	$467,264	$79,547	$635,892	$70,328
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustments	—	(3,735)	—	(91)
Change in unrealized gains related to available-for-sale securities:				
Change in fair value of available-for-sale securities	(19,811)	50,351	10,596	50,351
Adjustment for net (gains)/losses realized and included in net income	2,430	—	(76,935)	—
Total change in unrealized gains/losses on available-for-sale Securities	(17,381)	50,351	(66,339)	50,351
Other comprehensive (loss) income	(17,381)	46,616	(66,339)	50,260
Comprehensive income	449,883	126,163	569,553	120,588
Less: comprehensive income attributable to the non controlling interest	—	2,853	—	2,853
Comprehensive income attributable to Sitestar Corporation stockholders	$449,883	$123,310	$569,553	$117,735

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

SITESTAR CORPORATION

and Subsidiaries

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Amount	Additional Paid In Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Noncontrolling Interest	Total Stockholders' Equity
Balance December 31, 2015	77,404,010	$91,327	$13,728,989	$(637,561)	$3,415	$(9,435,125)	$—	$3,751,045
Opening balance adjustment	100,000	—	—	—	—	—	—	—
Balance December 31, 2015 (restated)	77,504,010	91,327	13,728,989	(637,561)	3,415	(9,435,125)	—	3,751,045
Net (loss) income	—	—	—	—	—	(107,638)	—	(107,638)
Contributed capital	112,826,153	112,825	5,367,869	—	—	—	—	5,480,694
Loss on foreign exchange translation	—	—	—	—	(361)	—	—	(361)
Unrealized gain on investments	—	—	—	—	36,289	—	—	36,289
Balance December 31, 2016	190,330,163	204,152	19,096,858	(637,561)	39,343	(9,542,763)	—	9,160,029
Net income (loss)	—	—	—	—	—	635,892	—	635,892
Contributed capital	92,500,000	92,500	4,532,500	—	—	—	—	4,625,000
Unrealized (loss) gain on investments	—	—	—	—	(66,339)	—	—	(66,339)
Adjustment for share cancellation	—	(2,125)	(90,865)	92,990	—	—	—	—
Balance June 30, 2017	282,830,163	$294,527	$23,538,493	$(544,571)	$(26,996)	$(8,906,871)	$—	$14,354,582

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

SITESTAR CORPORATION

and Subsidiaries

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net income	$635,892	$70,328
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	—	55
Depreciation	53,390	17,934
Loss on sale of real estate	52,383	(186,820)
Gain on sale of available-for-sale securities	(76,935)	—
Gain on non-current investments	(604,764)	—
Bad debt expense	7,617	1,224
Real estate valuation adjustment	48,741	—
(Increase) decrease in:		
Accounts receivable, net	(235,269)	(15,144)
Other current assets	(10,111)	(8,955)
Increase (decrease) in:		
Deferred revenue	32,975	6,350
Accounts payable	142,713	21,989
Accrued expenses	72,027	(13,173)
Net cash flows from operating activities	118,659	(106,212)
Cash flows from investing activities:		
Proceeds from sale of real estate held for sale	550,270	1,295,799
Proceeds from sale of real estate held for investment	—	239,850
Improvements to real estate held for sale	(86,008)	(103,005)
Improvements to real estate held for investment	—	(17,540)
Proceeds from sale of marketable securities	486,176	—
Purchases of marketable securities	—	(199,649)
Proceeds from sale of domain names	200,000	—
Purchase of domain names	—	(56,250)
Purchase of property and equipment	(30,352)	—
Capitalized loan fees	(2,500)	—
Subsidiary acquisitions	(6,211,772)	(201,059)
Net cash flows from investing activities	(5,094,186)	958,146
Cash flows from financing activities:		
Principal payments on note payable	(25,036)	(90,000)
Proceeds from the common stock issuance	4,625,000	—
Net cash flows from financing activities	4,599,964	(90,000)
Net increase (decrease) in cash	(375,563)	761,934
Cash and cash equivalents at beginning of the period	2,607,370	184,731
Cash and cash equivalents at end of the period	$2,231,807	$946,665

Non-cash supplemental information:		
Unrealized loss (gain) on marketable securities reported as other comprehensive income	$66,339	$(50,351)
Issuance of note receivable on sale of real estate held for sale	$226,000	$—
Transfer of real estate held for resale to real estate held for investment	$125,000	$—
Transfer of other current assets to investments	$2,500,000	$—
Write-down of goodwill due to seller not meeting carryback obligations	$15,000	$—
HVAC equipment acquired through capital leases and debt obligations	$172,990	$—
HVAC acquisitions through notes payable	$100,000	$65,000

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

SITESTAR CORPORATION

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Lines of Business

Sitestar Corporation (formerly White Dove Systems, Inc., and then Interfoods Consolidated, Inc.) was incorporated in Nevada on December 17, 1992. On July 26, 1999, the Company restated its Articles of Incorporation to change the name of the Company to “Sitestar Corporation.” Unless the context otherwise requires, and when used in this Report, the “Company,” “Sitestar,” “we,” “our” or “us” refers to Sitestar Corporation and its subsidiaries.

The Company operates through five reportable segments: Corporate, Internet Operations, HVAC Operations, Real Estate Operations, and Asset Management Operations. The management of the Company is also currently reviewing investment opportunities in the private markets, including in other lines of business.

Corporate

The corporate segment includes any revenue or expenses derived from corporate office operations as well as expenses related to public company reporting, the oversight of subsidiaries, and other items that affect the overall Company.

Internet Operations

The Company operates its internet operations through Sitestar.net, a wholly-owned subsidiary that offers consumer and business-grade internet access, wholesale managed modem services, web hosting, and various ancillary services. Sitestar.net provides services to customers in the United States and Canada.

HVAC Operations

The Company operates its HVAC operations through HVAC Value Fund, LLC. HVAC Value Fund is focused on the acquisition and management of HVAC and plumbing companies in Arizona and throughout the Southwest United States. As previously reported in our Current Report on Form 8-K filed with the SEC on June 14, 2016, the Company, along with JNJ Investments, LLC, an unaffiliated third party and member of HVAC Value Fund, LLC, organized and launched this subsidiary on June 13, 2016. Sitestar has a 100% voting interest in HVAC Value Fund and JNJ Investments has the ability to earn profit interests. Per the signed operating agreement, the Company has first claim to a portion of net income, with the remainder being allocated between the Company and JNJ Investments. JNJ Investments shall also be subject to a Loss Carryforward limitation in the event of a net loss.

As of June 30, 2017, HVAC Value Fund had closed on six acquisitions for an aggregate purchase price of $2.02 million which includes estimated earn outs of approximately $350,000. As previously reported in our Current Report on Form 8-K filed with the SEC on June 14, 2016 and further described above, the purpose of HVAC Value Fund is to acquire HVAC and plumbing businesses. Accordingly, these six acquisitions were made in the ordinary course of business and consistent with the customs and practices (including with respect to nature, scope, magnitude, quantity, frequency and contemplated purpose) of HVAC Value Fund, and, in turn, the Company.

Real Estate Operations

Sitestar owns a real estate investment portfolio that includes 13 residential properties, vacant land, and one commercial property. Our real estate portfolio is primarily focused in the Roanoke and Lynchburg areas of Virginia. The portfolio includes single family homes that are currently rented and managed through a third-party property manager, as well as vacant properties being prepared or currently listed for sale.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Asset Management Operations

Sitestar created a wholly-owned asset management subsidiary on October 10, 2016 named Willow Oak Asset Management. As previously reported in our Current Reports on Form 8-K filed with the SEC on September 19, 2016 and December 30, 2016, respectively, the Company agreed to make a seed investment totaling $10 million through Willow Oak Asset Management in Alluvial Fund, LP, an unrelated private partnership that was launched on January 1, 2017. As per the operating agreement included in the Form 8-K, the Company may not make any withdrawal from its Capital Account until its Capital Account balance exceeds $50,000,000 and any partial withdrawal may not reduce the Capital Account balance below $50,000,000. Additionally, a full withdrawal shall not be permitted prior to a date five years after the effective date of the accompanying Side Letter. As previously reported in our Current Reports on Form 8-K filed with the SEC on January 26, 2017, the Company also committed to make a capital contribution to Huckleberry Real Estate Fund II, LLC in the aggregate amount of $750,000. As per the operating agreement included in the Form 8-K, the Managing Member shall have sole discretion regarding the amounts and timing of Distributions to Members. The asset management segment did not produce revenue in 2016. Any expenses incurred in 2016 were allocated to the corporate segment. Starting January 1, 2017, all revenue earned and expenses incurred by this segment will be allocated as such.

Sitestar, through its wholly-owned subsidiary, Willow Oak Asset Management, LLC, signed a fee share agreement on May 11, 2017 with Lizard Head, LLC, the general partner of Bridge Reid Fund I, LP. Under the agreement, Willow Oak became a special limited partner to Bridge Reid, providing fund advisory services to Bridge Reid in exchange for payments equal to 33% of the management fees accrued quarterly by the general partner and 33% of the incentive fees accrued annually, on investors who become limited partners after May 11, 2017. Fees received by Willow Oak will be paid as units in Bridge Reid, and deposited into a Willow Oak capital account at Bridge Reid.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries including: Sitestar.net, Inc., HVAC Value Fund, LLC, and Willow Oak Asset Management, LLC. All intercompany accounts and transactions have been eliminated.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared by Sitestar Corporation, 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 notes for the year ended December 31, 2016 included in the Company’s Annual Report on Form 10-K filed with the SEC on March 24, 2017 (the “2016 Form 10-K”). The results for the six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year ending December 31, 2017.

Use of Estimates

In accordance with Accounting Principles Generally Accepted in the United State of America (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 fair value of investments, revenue recognition, accrued expenses, financing operations, goodwill valuation, other assets, 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. These accounting policies are described at relevant sections in the notes to the consolidated financial statements.

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.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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 and CDIC insurance limit. As of June 30, 2017, some of the Company’s cash balances exceeded the FDIC and CDIC limit. The Company extends credit based on an evaluation of 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.

Investments

The Company currently holds and makes investments in marketable securities through its corporate operations. Marketable securities held are classified as available-for-sale based on management’s intent. Unrealized gains (losses) are categorized as other comprehensive income. Realized gains (losses) on marketable securities are determined by specific identification. Interest is recognized on an accrual basis; dividends are recorded as earned on the ex-dividend date. The Company holds additional non-current investments through its asset management operations. Non-current investments do not qualify as available-for-sale securities. The classification of these investments is assessed upon purchase and reassessed at each reporting period. Non-current investments are marked to market at the end of each reporting period and revenue is recognized in the condensed consolidated statement of income in the period of adjustment.

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 an account is individually determined to be uncollectible.

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. The Company attempts to reduce this risk by including a late payment fee and a manual processing payment fee to customer accounts. Receivables more than ninety days past due are no longer included in accounts receivable and are turned over to a collection agency. Accounts receivable more than 30 days are considered past due.

Sales of HVAC services are typically paid via credit card or check upon completion of service. Sales that are not collected upon completion are generally to existing and repeat customers who have established a track record of timely payments. Historically, HVAC has not encountered issues with collectability of customer accounts. Accounts receivable more than 30 days are considered past due.

Note Receivable

The Company currently holds a note receivable from the sale of a real estate property to a third-party. This note is long term in nature and no collection issues are expected.

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.

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.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method based on estimated useful lives from three to seven years for equipment and vehicles, fifteen years for building improvements, and thirty-nine years for buildings. Assets held through capital leases are amortized over the life of the related lease. 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.

Goodwill and Other Intangible Assets

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the acquisition method of accounting. The Company does not amortize goodwill. The Company tests its goodwill annually during the fourth quarter of its fiscal year or when events and circumstances indicate that those assets might not be recoverable.

Impairment testing of goodwill is required at the reporting unit level (operating segment or one level below operating segment) and involves a two-step process. Prior to performing the two-step impairment test, the Company may make a qualitative assessment of the likelihood of goodwill impairment to determine whether a detailed quantitative analysis is required. The first step of the impairment test involves comparing the estimated fair values of the Company’s reporting units with the reporting units’ carrying amounts, including goodwill. The Company estimates the fair value of its reporting units using discounted expected future cash flows. If the carrying amount of the reporting unit exceeds its fair value, a second step is performed to compare the carrying amount of goodwill to the implied fair value of that goodwill. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

The Company performs an analysis of its goodwill as of December 31 annually, or whenever events or changes in circumstances indicate that the assigned values may no longer be appropriate. No impairment was recorded in 2016. During the quarter ended June 30, 2017, a downward adjustment of $15,000 was made to goodwill held through the HVAC segment. This adjustment was the result of a previous seller not meeting the operational terms of a carryback note that was previously included as consideration for the acquisition. See Note 3 for more information.

Other intangible assets consist of customer relationships, developed technology and software, trade names, and other assets acquired in conjunction with the purchases of businesses or purchases of assets from other companies. As of June 30, 2017, these intangible assets have been fully amortized. The remaining intangible assets consist of domain names attributed to the internet segment. When management determines material intangible assets are acquired in conjunction with the purchase of a business, the Company determines the fair values of the identifiable intangible assets by taking into account management’s own analysis and an independent third-party valuation specialist’s appraisal. Intangible assets determined to have definite lives are amortized over their estimated useful lives.

The Company owns 634 domain names, of which 107 are available for sale. These domains are valued at historical cost.

Real Estate

Real estate properties held for resale are carried at the lower of cost or fair market value. All costs directly related to the improvement and carrying of real estate are capitalized, including renovations and property taxes, to the extent the capitalized costs of the property do not exceed the estimated fair value of the property. If the cost of the real estate exceeds the estimated fair value, the excess is charged to expense. Fair value is estimated based on comparable sales in the geographic area the real estate is located and tax assessed values. Fair value is evaluated annually by management, or when events or changes in circumstances indicate the carrying value of the real estate may not be recoverable.

Real estate properties held for investment are carried at the cost basis plus additional expenses where the expense extended the life or added value to the property. Otherwise, the expense is not capitalized and is charged to expense. Properties categorized as real estate held for investment are not expected by management to be sold in the next 12 months. This determination is periodically reviewed by management.

Accrued Bonus

Accrued bonuses represent performance based incentives that have not yet been paid. These bonus amounts are paid annually after financial records are finalized.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Other Accrued Expenses

Other accrued expenses represent incurred but not yet paid expenses from Sales and Use taxes for ISP services, vacation accruals, professional fees, and other payroll accruals.

Deferred Revenue

Deferred revenue represents collections from customers in advance of internet services to be performed. Revenue is recognized in the period service is provided.

Revenue Recognition

Internet Operations

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.

The Company generates revenue in its internet segment from consumer and business-grade internet access, wholesale managed modem services for downstream ISPs, web hosting, and various ancillary services in the United States and Canada. Services include narrow-band (dial-up and ISDN) and broadband services (DSL, fiber-optic and wireless), web hosting, and additional related services to consumers and businesses. Customers may also subscribe to web hosting plans to include email access and storage. Internet revenue is affected by the changing composition of revenue sources. In some years, this shift can be significant.

HVAC Operations

The Company performs HVAC and plumbing service repairs and installs HVAC units for its customers. Revenue is recognized at the time of the installation or service call. Sales are adjusted for any returns or allowances. A return or allowance situation would arise based on the two-year workmanship warranty that typically conveys with the installation of a new unit. There is also a two-year warranty on newly installed parts and equipment that is honored by the manufacturer. If an installation is performed over multiple days, it is accounted for using work in process (WIP) accounting in accordance with GAAP. If payment is not provided in advance or at the time of service or installation, the amount due is designated as an account receivable.

Real Estate Operations

Revenue from real estate held for resale 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.

Rental revenue from real estate held for investment is recognized when it is due, generally on the first of each month or at another regular period agreed upon between the Company and the tenant. If payments are not provided in a timely manner, the amount due is designated as an account receivable. Accounts receivable from rental revenue are generally considered unrecoverable after 90 days unless the Company reasonably believes that recovery is probable.

Tenants generally provide a security deposit at the time of possession. This deposit is held separate from revenue and only applied to revenue when rental payment comparable to the security deposit amount is not provided in a timely manner and considered unlikely to be recovered. Otherwise, the security deposit is returned in a timely manner after the property is surrendered back to the Company.

Asset Management Operations

The Company earns revenue from investments held through the asset management segment through various fee share agreements as well as through realized and unrealized gains and losses. Management fees earned are recorded and paid out monthly and are included in revenue. Performance fees earned are accrued monthly, paid out yearly and are included in revenue on the condensed consolidated statement of income. As non-current investments do not quality as available-for-sale securities, non-current investments are marked to market at the end of each reporting period. Realized and unrealized gains and losses are recognized as revenue in the period of adjustment.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Income Taxes

Income taxes are accounted for under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. 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. The most recent three tax years, fiscal years ending December 31, 2016, December 31, 2015, and December 31, 2014, are open to potential IRS examination.

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.

Other Comprehensive Income

Other comprehensive income is the result of two items: the impact of foreign currency translations related to the Company’s operations in Canada, and the unrealized gains (losses) from marketable securities classified as available-for-sale.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842). The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 842, Leases. ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is required to adopt this standard in the first quarter of 2019. The Company is currently evaluating the effect this standard will have on its Consolidated Financial Statements.

In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” by one year. As a result, the ASU is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. ASU No. 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The ASU also provides guidance on accounting for certain contract costs, and requires new disclosures. Early adoption is not permitted. The Company is required to adopt this standard in the first quarter of 2018.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes” (Topic 740). The ASU provides guidance related to the classifications of deferred income tax assets and liabilities into current and noncurrent amounts in a classified statement of financial position. Deferred tax assets and liabilities are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax assets and liabilities that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted. The Company is required to adopt this standard in the first quarter of 2018. The initial application of the standard is not expected to significantly impact the Company.

In January 2016, the FASB issued ASU No. 2016-01 "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." Although the ASU retains many of the current requirements for financial instruments, it significantly revises an entity’s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2017; earlier adoption is permitted under certain criteria. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial condition, results of operations, and cash flows.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

NOTE 3. BUSINESS CONBINATIONS OR ACQUISITIONS

As of June 17, 2016 and June 30, 2016, HVAC Value Fund completed the 100% acquisition of two HVAC subsidiaries. As of July 8, 2016, HVAC Value Fund completed the 100% acquisition of a third subsidiary. As of July 15, 2016, HVAC Value Fund completed the 100% acquisition of a fourth subsidiary. As of October 1, 2016, HVAC Value Fund completed the 100% acquisition of a fifth subsidiary. As of January 20, 2017, HVAC Value Fund completed the 100% acquisition of a sixth subsidiary. These subsidiaries engage in providing heating, ventilation, plumbing, and air conditioning services, installation, and repairs to residential and commercial customers. As a result of the acquisitions, HVAC Value Fund offers heating, ventilation, plumbing, and air conditioning services to customers in Arizona and the surrounding southwestern states. As previously reported in our Current Report on Form 8-K filed with the SEC on June 14, 2016 and described further herein, the purpose of HVAC Value Fund is to acquire HVAC and plumbing businesses. Accordingly, these six acquisitions were made in the ordinary course of business and consistent with the customs and practices (including with respect to nature, scope, magnitude, quantity, frequency, and contemplated purpose) of HVAC Value Fund, and, in turn, the Company.

On a pro forma basis, the business acquired on January 20, 2017 contributed revenues of $538,495, net income of $92,540, and additional selling, general and administrative expenses to HVAC Value Fund during the quarter ended June 30, 2017. The following unaudited pro forma summaries present consolidated information of HVAC Value Fund as if the current and previous year business combinations had occurred on January 1 of each respective fiscal year. Some of the pro forma information for the year ended December 31, 2016 was calculated using annualized, unaudited 2015 financial information, and pro forma information for the period ended June 30, 2017 was calculated using annualized, unaudited 2016 information, as information for the period from January 1, 2016 through the applicable subsidiary closing date is unavailable.

As previously reported in our Current Report on Form 8-K filed with the SEC on June 14, 2016, Sitestar has a 100% voting interest in HVAC Value Fund and JNJ Investments has the ability to earn profit interests. Pro forma earnings for the quarter ended June 30, 2017 and for the year ended December 31, 2016 are reported as gross without deducting the profits share that otherwise would be attributable to JNJ Investments in accordance with the operating agreement between Sitestar Corporation and JNJ Investments.

Pro forma six months ended June 30, 2017 (unaudited)	January 20, 2017 acquisition
Revenue	$ 2,270,501
Earnings	$ (15,505)

Pro forma year ended December 31, 2016 (unaudited)	2016 acquisitions (in aggregate)	2017 acquisition	Consolidated pro forma year ended December 31, 2016 (unaudited)
Revenue	$ 3,781,167	$1,456,685	$ 5,237,852
Earnings	$ 517,495	$295,886	$ 813,381

HVAC Value Fund did not have any material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings.

The following tables summarize the consideration transferred to acquire each subsidiary and the amounts of identified assets acquired and liabilities assumed at the acquisition dates. Management continues to evaluate the valuation components of each acquisition on an ongoing basis.

June 2016 acquisitions (in aggregate)

	Fair value of consideration transferred:		
Cash	$	160,000	
Notes payable	$	65,000	
	Fair value of assets acquired:		
Vehicles	$	35,000	
Equipment	$	13,700	
Total identifiable assets	$	48,700	
Goodwill	$	176,300	
Subsequent adjustments	$	(15,000	)
Adjusted goodwill	$	161,300	

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

July 8, 2016 acquisition

	Fair value of consideration transferred:
Cash	$ 375,000
Notes payable	$ 100,000
	Fair value of assets acquired:
Goodwill	$ 475,000

July 15, 2016 acquisition

	Fair value of consideration transferred:
Cash	$ 340,000
Notes payable	$ 100,000
	Fair value of assets acquired:
Vehicles	$ 40,000
Total identifiable assets	$ 40,000
Goodwill	$ 400,000

October 1, 2016 acquisition

	Fair value of consideration transferred:
Cash	$ 315,000
	Preliminary fair value of assets acquired:
Vehicles	$ 20,000
Equipment	$ 5,000
Total identifiable assets	$ 25,000
Goodwill	$ 290,000

January 20, 2017 acquisition

	Fair value of consideration transferred:
Cash	$ 460,000
Notes payable	$ 100,000
Assumed obligations	$ 169,255
	Preliminary fair value of assets acquired:
Equipment	$ 119,684
Leased Vehicles	$ 143,590
Total identifiable assets	$ 263,274
Goodwill	$ 465,981

The goodwill amounts noted above are attributable to the workforce of the acquired subsidiaries and the significant efficiencies expected to arise after acquisition by HVAC Value Fund. All of the goodwill was assigned to the HVAC segment.

As previously mentioned in Note 2 and as noted above in the June 2016 acquisitions, a downward adjustment of $15,000 was made to goodwill during the quarter ended June 30, 2017. Part of the consideration paid for the June 2016 acquisitions was a $15,000 seller carryback note. The note was payable in full on July 1, 2017 contingent on certain revenue targets and other operational conditions. As of the quarter ended June 30, 2017 it was determined by management that neither the revenue targets nor the operational conditions had been met, therefore, the payable was no longer due and total consideration paid for the acquisition decreased.

The purchase price allocations above are deemed preliminary for valuation purposes, and management may adjust the allocations for the one year period allotted. Allocations for the October 1, 2016 and January 20, 2017 acquisitions remain open for subsequent management adjustment.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

NOTE 4. INVESTMENTS

The Company holds various investments through Willow Oak, LLC through its asset management segment and may invest excess cash in marketable securities through its corporate segment. The fair values of the Company's marketable securities are determined in accordance with GAAP, with fair value being defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The following available-for-sale securities are re-measured to fair value on a recurring basis and are valued using Level 1 inputs, which are quoted prices (unadjusted) for identical assets in active markets.

	Cost Basis	Unrealized Gain	Unrealized Loss	Fair Value
June 30, 2017				
Common Stock available for sale	$153,970	$ —	$(30,050)	$123,920

	Cost Basis	Unrealized Gain	Unrealized Loss	Fair Value
December 31, 2016				
Common Stock available for sale	$563,211	$36,289	$ —	$599,500

In the three and six month period ended June 30, 2017, the Company recognized $2,430 of realized losses and $76,935 of realized gains, respectively. This compares to the three and six month period ended June 30, 2016 when the Company recognized no realized gains or losses.

Non-current assets held through Willow Oak Asset Management, LLC do not have a Readily Determinable Value as these investments are not publicly traded nor do they have published sales records. The Alluvial Fund is measured using net asset value (NAV) as the practical expedient and is exempt from the fair value hierarchy in accordance with FASB ASC 820-10. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities and allocated based on total fund contributions. Due to the nature of the Huckleberry Real Estate Fund II, LLC investment, the investment is measured at cost basis as cost approximates fair value until additional inputs and measurements become available. As the inputs for this investment are not readily observable, this investment is valued using Level 3 inputs. The following non-current investments are re-measured to fair value on a recurring basis and realized and unrealized gains and losses are recognized as revenue in the period of adjustment. Included in the fair value is the cost basis of the investment as well as any accrued management fees.

	Cost Basis	Accrued Fees	Unrealized Gain	Fair Value
June 30, 2017				

Alluvial Fund, LP	$7,500,000	$ 175	$ 604,589	$8,104,764
Huckleberry Real Estate Fund II, LLC	750,000	—	—	750,000
Total	$8,250,000	$ 175	$ 604,589	$8,854,764

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NOTE 5. FAIR VALUE OF ASSETS AND LIABILITIES

The Company has adopted FASB ASC 820, Fair Value Measurements. ASC 820 defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a hierarchy for disclosing assets and liabilities measured at fair value based on the inputs used to value them. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are based on market pricing data obtained from sources independent of the Company. Unobservable inputs reflect management's judgment about the assumptions market participants would use in pricing the asset or liability. The fair value hierarchy includes three levels based on the objectivity of the inputs as follows:

- Level 1 - Inputs are quoted prices in active markets as of the measurement date for identical assets and liabilities that the Company has the ability to access. This category includes exchange-traded mutual funds and equity securities.
- Level 2 - Inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates or yield curves, that are observable at commonly quoted intervals. This category includes mortgage-backed securities, asset-backed securities, corporate debt securities, certificates of deposit, commercial paper, U.S. agency and municipal debt securities, U.S. Treasury securities and derivative contracts.
- Level 3 - Inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The measurements are highly subjective.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company valued its marketable securities at fair value at the end of each reporting period. See description of these investments in Note 4 above.

	(Level 1)	(Level 2)	(Level 3)	(Excluded) [(a)]	Total at Fair Value
June 30, 2017					
Marketable securities	$123,920	$ —	$—	$—	$ 123,920
Huckleberry Real Estate Fund II, LLC	$—	$ —	$750,000	$—	$ 750,000
Alluvial Fund, LP	$—	$ —	$—	$8,104,764	$ 8,104,764
Total investments	$123,920	$ —	$750,000	$8,104,764	$ 8,978,684

	(Level 1)	(Level 2)	(Level 3)	(Excluded) [(a)]	Total at Fair Value
December 31, 2016					
Marketable securities	$599,500	$ —	$ —	$ —	$ 599,500

(a) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the condensed consolidated balance sheets.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The Company analyzes goodwill on an annual basis or whenever events or changes in circumstances indicate potential impairments. For the year ended December 31, 2016, goodwill held at year end was determined to be valued appropriately and no impairment existed. During the quarter ended June 30, 2017, a downward adjustment of $15,000 was made to goodwill held through the HVAC segment. This adjustment was the result of a previous seller not meeting the operational terms of a carryback note that was previously included as consideration for the acquisition. See Note 3 for more information.

The Company values real estate held on the balance sheet on an annual basis or whenever events or changes in circumstances indicate a change in their fair market value. For the quarter ended June 30, 2017, the Company adjusted the carrying value of properties held downward by $20,057. For the year ended December 31, 2016, the Company adjusted the carrying value of properties held downward by $152,411. These adjustments were the result of repair and improvement expenses exceeding the current market value of the property.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

NOTE 6. PROPERTY AND EQUIPMENT

The cost of property and equipment at June 30, 2017 and December 31, 2016 consisted of the following:

	2017	2016
Automobile	$274,778	$115,688
Computers and equipment	174,301	36,030
Furniture and fixtures	25,206	25,206
	474,285	176,924
Less accumulated depreciation	(75,103)	(33,460)
Property and equipment, net	$399,182	$143,464

Depreciation expense was $41,643 for the six months ended June 30, 2017 and $10,172 for the year ended December 31, 2016. Increased automobile, computers, and equipment are the result of acquisitions in the HVAC operations and new servers purchased related to the internet segment.

NOTE 7. REAL ESTATE

As of June 30, 2017, the Company owned 13 residential properties, one commercial property, and interests in several lots. The Company did not purchase or sell any properties in the quarter ended June 30, 2017.

Real Estate Held for Investment

As of June 30, 2017, the Company accounted for nine residential properties as held for investment. The leases in effect as of the quarter ended June 30, 2017 are based on either annual or multi-year time periods and typically include month-to-month provisions after the completion of the initial term. An outside property management company manages these rental properties on behalf of the Company. The property management company has introduced updated and renewed leases for existing rental properties.

Depreciation expense totaled $11,747 for the six months ended June 30, 2017. Total accumulated depreciation as of June 30, 2017 totaled $89,702. These properties held for investment were carried on the balance sheet at $619,264.

Real Estate Held for Resale

As of June 30, 2017, the Company accounted for four residential properties, one commercial property, and several lots as held for resale. These properties held for resale were carried on the balance sheet at $482,894.

NOTE 8. NOTES PAYABLE

Notes payable at June 30, 2017 and December 31, 2016 consist of the following:

	2017	2016
Interest bearing amount due on acquisition through HVAC	350,000	250,000

Value Fund, LLC		
Non-interest bearing amount due on acquisition through HVAC Value Fund, LLC	—	15,000
Equipment and vehicle capital leases acquired by HVAC Value Fund, LLC	147,954	
Less current portion	(411,111)	(240,000)
Long-term portion	$86,843	$25,000

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HVAC Value Fund typically structures acquisitions where a portion of the purchase price is held back and is subject to certain conditions. These notes payable may or may not bear interest. HVAC Value Fund made five acquisitions in the year ended December 31, 2016 and one additional acquisition in the quarter ended March 31, 2017. Four of the five acquisitions made in the year ended December 31, 2016 resulted in a note payable to the seller. The non-interest bearing note payable was due July 1, 2017 in the amount of $15,000, and was contingent on meeting a revenue target and other operational conditions. As mentioned in Note 3, the revenue targets and operational conditions were not met, resulting in the note being written off. There are three separate interest bearing notes payable as of the quarter ended June 30, 2017. The first interest bearing note payable accrues interest at 7% annually. $25,000 was payable on June 16, 2017 and $25,000 is payable on June 16, 2018. These payments are contingent on meeting revenue targets and other operational conditions. The second interest bearing note payable is for $100,000 and bears interest at 6% annually. This note is due July 11, 2017 and is contingent on meeting revenue targets and other operational conditions. The third interest bearing note payable is for $100,000 and bears interest at 7% annually. This note is due July 30, 2017 and is contingent on meeting revenue targets and other operational conditions. The acquisition made in the quarter ended March 31, 2017 also resulted in a $100,000 note payable to the seller. The payment amounts are contingent on meeting quarterly revenue targets.

NOTE 9. ACCOUNTS RECEIVABLE AND BAD DEBT EXPENSE

For the six months ended June 30, 2017 and December 31, 2016, bad debt expense was $7,617 and $34, respectively. For the six months ended June 30, 2017 and December 31, 2016, accounts receivable were $440,403 and $212,751, respectively. The increase in accounts receivable is the result of the formation of the HVAC subsidiary and a seller financing arrangement for a residential property sold during the six months ended June 30, 2017. As of June 30, 2017 and December 31, 2016, accounts receivable consisted of the following:

	2017	2016
Gross accounts receivable	$445,117	$213,624
Less allowance for doubtful accounts	(4,714)	(873)
Accounts receivable, net	$440,403	$212,751

NOTE 10. SEGMENT INFORMATION

As of June 30, 2017, the Company has five business units with separate management and reporting infrastructures that offer different products and services. The business units have been aggregated into five reportable segments: Corporate, Internet, HVAC, Real Estate, and Asset Management.

The corporate segment includes any revenue or expenses derived from corporate office operations as well as expenses related to public company reporting, the oversight of subsidiaries, and other items that affect the overall Company. Sitestar also invests in marketable securities through the corporate segment. The internet segment includes revenue and expenses related to the sale of internet access, hosting, storage, and other ancillary services. The HVAC segment includes revenue and expenses derived from the acquisition and management of HVAC and plumbing companies in Arizona and throughout the Southwest. The real estate segment includes revenue and expenses related to the management of properties held for investment and revenue and expenses involving the preparation and sale of properties held for resale. The asset management segment includes revenues and expenses derived from various investment opportunities and partnerships.

The internet segment includes revenue generated by operations in both the United States and Canada. In the quarter ended June 30, 2017, the internet segment generated revenue of $307,269 in the United States and revenue of $21,072 in Canada. This compares to the quarter ended June 30, 2016 where the internet segment generated revenue of $330,890 in the United States and revenue of $25,925 in Canada.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Summarized financial information concerning the Company's reportable segments is shown in the following tables for the three months ended June 30, 2017 and 2016 and for the six months ended June 30, 2017 and 2016. No comparable financial information exists for the asset management segment because it did not commence operations until January 1, 2017. Also note that the HVAC segment did not commence operations until June 14, 2016.

	Corporate	Internet	HVAC	Real Estate	Asset Management	Consolidated
Three months ended June 30, 2017						
Revenues	$—	$328,341	$1,299,282	$25,602	$454,316	$2,107,541
Cost of revenue	$—	$76,145	$837,340	$27,345	$—	$940,830
Net income (loss) before income taxes	$(169,850)	$186,753	$43,231	$(9,138)	$416,268	$467,264
Goodwill	$—	$212,445	$1,794,053	$—	$—	$2,006,498
Identifiable assets	$1,985,059	$517,398	$2,737,470	$1,384,487	$8,892,040	$15,516,454

	Corporate	Internet	HVAC	Real Estate	Asset Management	Consolidated
Three months ended June 30, 2016						
Revenues	$—	$356,815	$33,022	$1,179,231	$ —	$1,569,068
Cost of revenue	$—	$93,681	$13,161	$1,080,213	$ —	$1,187,055
Net income (loss) before income taxes	$(219,967)	$196,406	$8,561	$94,547	$ —	$79,547
Goodwill	$—	$212,445	$177,359	$—	$ —	$389,804
Identifiable assets	$443,548	$450,473	$1,075,689	$2,336,257	$ —	$4,305,967

	Corporate	Internet	HVAC	Real Estate	Asset Management	Consolidated
Six months ended June 30, 2017						
Revenues	$—	$663,427	$2,194,674	$892,146	$605,210	$4,355,457
Cost of revenue	$—	$155,954	$1,431,911	$958,065	$—	$2,545,930
Net income (loss) before income taxes	$(236,749)	$413,515	$(30,907)	$(76,936)	$566,969	$635,892
Goodwill	$—	$212,445	$1,794,053	$—	$—	$2,006,498
Identifiable assets	$1,985,059	$517,398	$2,737,470	$1,384,487	$8,892,040	$15,516,454

	Corporate	Internet	HVAC	Real Estate	Asset Management	Consolidated
Six months ended June 30, 2016						
Revenues	$—	$712,899	$33,022	$1,587,448	$ —	$2,333,369
Cost of revenue	$—	$219,753	$13,161	$1,516,317	$ —	$1,749,231
Net income (loss) before income taxes	$(330,863)	$328,820	$8,561	$63,810	$ —	$70,328

Goodwill	$—	$212,445	$177,359	$—	$ —	$389,804
Identifiable assets	$443,548	$450,473	$1,075,689	$2,336,257	$ —	$4,305,967

NOTE 11. ADJUSTMENT TO OPENING BALANCE NUMBER OF SHARES AND CANCELLATION OF TREASURY SHARES

During the quarter ended March 31, 2017, management was made aware of a clerical error that affected the reported number of treasury shares held as of December 31, 2016. It was discovered that the number of treasury shares held was overstated by 100,000 shares, which in turn understated the total number of shares outstanding by the same amount. The Company has concluded that a full restatement is not necessary as the total misstatement accounts for 0.035% of the total number of shares outstanding and no per share metrics were effected. This error dates back to records kept by prior management, but has since been reconciled and corrected. Further, management is actively working to cancel existing treasury shares. As noted on the condensed consolidated balance sheets and the condensed consolidated statements of stockholders' equity, as of the quarter ended June 30, 2017, 2,125,795 treasury shares have been cancelled.

As of August 7, 2017, the correct number of shares outstanding is 282,830,163 and the correct number of treasury shares held is 11,696,658.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

NOTE 12. SUBSEQUENT EVENTS

On July 1, 2017, the Company, through its Willow Oak Asset Management, LLC subsidiary, launched a new investment fund, Bonhoeffer Fund, LP. Willow Oak is the sole member of the general partner of the Bonhoeffer Fund. Keith D. Smith, also a member of the Company's board, will manage the Bonhoeffer Fund. Willow Oak and Mr. Smith will equally share all management and performance fees earned by the Bonhoeffer Fund.

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

This section is intended to provide readers of our financial statements information regarding our financial condition, results of operations, and items that management views as important. The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related footnotes for the quarter ended June 30, 2017. 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 Corporation ("Sitestar," the "Company," or "we") operates under five segments:

- Corporate: The corporate segment includes any revenue or expenses derived from corporate office operations as well as expenses related to public company reporting, the oversight of subsidiaries, and other items that affect the overall Company. Sitestar may also invest in marketable securities through the corporate segment.
- Internet Operations: The Company operates its internet operations through Sitestar.net, a wholly owned subsidiary that offers consumer and business-grade internet access, wholesale managed modem services, web hosting, and various ancillary services. Sitestar.net provides services and support to customers in the United States and Canada.
- HVAC Operations: The Company operates its HVAC Operations through HVAC Value Fund, LLC, a wholly-owned subsidiary focused on the acquisition and management of HVAC and plumbing companies in Arizona and throughout the Southwest. As previously reported in our Current Report on Form 8-K filed with the SEC on June 14, 2016, we, along with JNJ Investments, LLC, an unaffiliated third party and member of HVAC Value Fund, LLC, organized and launched this subsidiary on June 13, 2016. As of June 30, 2017, HVAC Value Fund had closed on six acquisitions totaling $2,015,000, plus estimated earn outs of approximately $350,000.
- Real Estate Operations: Sitestar owns a real estate investment portfolio that includes residential properties, vacant land, and one commercial property. Our real estate portfolio is primarily focused in the Roanoke and Lynchburg areas of Virginia. The portfolio includes single family homes that are currently rented and managed through a third-party property manager, as well as vacant properties being prepared or currently listed for sale.
- Asset Management Operations: Sitestar created a wholly-owned asset management subsidiary on October 10, 2016 named Willow Oak Asset Management. As previously reported in our Current Reports on Form 8-K filed with the SEC on September 19, 2016 and December 30, 2016, respectively, the Company agreed to make a seed investment totaling $10 million through Willow Oak Asset Management in Alluvial Fund, LP, an unrelated private partnership that was launched on January 1, 2017. As previously reported in our Current Report on Form 8-K filed with the SEC on January 30, 2017, on January 24, 2017 Willow Oak Asset Management entered into a certain Limited Liability Company Operating Agreement of Huckleberry Real Estate Fund II, LLC ("Huckleberry Fund") dated as of January 24, 2017. Future investments of this nature will operate under Willow Oak Asset Management and all related revenues and expenses will be allocated to the asset management segment accordingly. Sitestar, through its

wholly-owned subsidiary, Willow Oak Asset Management, LLC, signed a fee share agreement on May 11, 2017 with Lizard Head, LLC, the general partner of Bridge Reid Fund I, LP. Under the agreement, Willow Oak became a special limited partner to Bridge Reid, providing fund advisory services to Bridge Reid in exchange for payments equal to 33% of the management fees accrued quarterly by the general partner and 33% of the incentive fees accrued annually, on investors who become limited partners after May 11, 2017. Fees received by Willow Oak will be paid as units in Bridge Reid, and deposited into a Willow Oak capital account at Bridge Reid.

Summary of Financial Performance

Common stockholders' equity increased from $9,160,029 at December 31, 2016 to $14,354,582 at June 30, 2017. The change was mostly attributable to $4,625,000 of additional common stock issued. This change was also driven by $413,515 of comprehensive income in the internet segment, $30,907 of comprehensive loss in the HVAC segment, $76,936 of comprehensive loss from the real estate segment, $566,969 of comprehensive income in the asset management segment, and $303,088 of comprehensive loss in the corporate segment. The comprehensive loss attributable to the corporate segment was offset by realized capital gains from investments in marketable securities of $76,940. Corporate expenses for the six months ended June 30, 2017 totaled $313,689.

Balance Sheet Analysis

This section provides an overview of changes in our assets, liabilities, and equity and should be read together with our unaudited condensed consolidated financial statements, including the accompanying notes to the financial statements. The table below provides a balance sheet summary for the periods presented and is designed to provide an overview of the balance sheet changes from quarter to quarter.

	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
ASSETS				
Cash and equivalents	$2,231,807	$ 4,573,708	$ 2,607,370	$ 1,668,948
Investments, at fair value	8,978,684	6,075,884	599,500	2,515,060
Real estate, total	1,102,158	1,098,758	1,905,291	2,057,392
Accounts receivables, net	440,403	260,051	212,751	257,770
Goodwill and other assets	2,763,402	2,976,470	4,516,320	1,995,100
Total assets	$15,516,454	$ 14,984,871	$ 9,841,232	$ 8,494,270
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deferred revenue	$247,873	$ 238,941	$ 214,898	$ 241,174
Accounts payable	220,631	92,953	77,918	105,131
Accrued expenses	195,414	219,602	123,387	144,125
Notes payable and other liabilities	497,954	528,676	265,000	265,000
Total liabilities	1,161,872	1,080,172	681,203	755,430
Total stockholders' equity	14,354,582	13,904,699	9,160,029	7,738,840
Total liabilities and stockholders' equity	$15,516,454	$ 14,984,871	$ 9,841,232	$ 8,494,270

Results of operations

Corporate

In the quarter ended June 30, 2017 the corporate segment produced a total of $187,239 of comprehensive loss. This includes $17,381 of other comprehensive loss which was generated as a result of unrealized capital losses from the ownership of marketable securities. Expenses totaled $167,422. This compares to corporate expenses of $219,721 incurred during the quarter ended June 30, 2016. Expenses were higher during the quarter ended June 30, 2016 compared to the quarter ended June 30, 2017 primarily due to increased accounting and legal expenses related to outsourced accounting roles and the lawsuit against the former CEO. Accounting and legal roles have since been brought in-house.

Internet Operations

As of June 30, 2017, the focus of our internet segment is to generate cash flow, work to make our costs variable, and reinvest in our operations when an acceptable return is available. We did not make significant reinvestments into the internet segment during the three months ended June 30, 2017. Additionally, competitive pressures have negatively affected our ongoing revenue. Accordingly, revenue has continued to decline, though at a slower pace than previous years, as noted below.

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

Revenue attributed to the internet segment during the quarter ended June 30, 2017 totaled $328,341. While this was a decrease of $28,474 when compared to revenue generated in this segment during the quarter ended June 30, 2016 totaling $356,815, comprehensive income reported for the segment decreased by only $5,920 during the same time period. The year over year decline from the quarters ended June 30, 2017 and 2016 was 8.0%. This was an improvement from the year over decline of 11.7% reported at the year ended December 31, 2016 compared to the year ended December 31, 2015. The year over year revenue decline is the result of fewer customer renewals and the absence of new customers. Other income attributable to the internet segment during the quarter ended June 30, 2017 includes $200,000 from the sale of a domain name that occurred during the quarter.

The cost of revenue during the quarter ended June 30, 2017 totaled $76,145. This was an increase of $17,536 when compared to the cost of revenue in this segment during the quarter ended June 30, 2016 totaling $93,681. This decrease was the result of decreased revenue and our work to restructure vender contracts and reduce fixed costs.

As noted above, during the quarter ended June 30, 2017, the internet segment closed on the sale of First.com, a domain name that has been actively marketed since the first quarter of 2016. The domain name had a cost basis of $200,000 and was sold for net proceeds of $200,000, which includes broker and commission fees paid. This transaction was reported in other income during the quarter ended June 30, 2017.

The table below provides a summary of income statement figures over time. These figures are specific to the internet segment and are presented for the quarterly periods designated below.

	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Revenues	$328,341	$ 335,086	$ 347,005	$ 355,384
Cost of revenue	76,145	79,809	79,471	70,290
Operating expenses	68,214	94,024	66,375	92,002
Other income	2,771	54,309	6,382	92,767
Other comprehensive income (loss)	—	—	(258)	(12)
Comprehensive income (loss)	$186,753	$ 215,562	$ 207,283	$ 285,847

Management has the resources to identify the current market value for domain names in order to assess potential income opportunities. Management also evaluates domain names available for purchase in order to generate new revenue from customers who utilize the domains.

Effective January 1, 2016, we have improved and restructured our internal reporting in the internet segment. Our current sales mix of customers consists of approximately 68% internet access and 32% web hosting and storage. Approximately 92% of our customer accounts are managed by our U.S. operations and 8% of our customer accounts are managed by our Canada operations. Revenue generated by our U.S. operations totaled $307,269 and revenue generated by our Canada operations totaled $21,072 during the quarter ended June 30, 2017. This compares to revenue generated by our U.S. operations of $330,890 and revenue generated by our Canada operations of $25,925 during the quarter ended June 30, 2016.

HVAC Operations

The Company operates its HVAC operations through HVAC Value Fund, LLC, a wholly-owned subsidiary focused on the acquisition and management of HVAC and plumbing companies in Arizona and throughout the Southwest. After gaining experience with HVAC acquisitions, management noted the complementary nature of plumbing providers and completed two acquisitions where a significant amount of their revenue originated from plumbing services. As previously reported in our Current Report on Form 8-K filed with the SEC on June 14, 2016, we, along with JNJ Investments, LLC, an unaffiliated third party and member of HVAC Value Fund, LLC, organized and launched this subsidiary on June 13, 2016. HVAC Value Fund closed on five acquisitions totaling $1,455,000 during the year ended December 31, 2016. During the six months ended June 30, 2017, HVAC Value Fund closed on one additional acquisition totaling $560,000. As previously reported in our Current Report on Form 8-K filed with the SEC on June 14, 2016 and discussed further herein, the purpose of HVAC Value Fund is to acquire HVAC and plumbing businesses. Accordingly, all of our acquisitions were made in the ordinary course of business and consistent with the customs and practices (including with respect to nature, scope, magnitude, quantity, frequency and contemplated purpose) of HVAC Value Fund, and, in turn, the Company.

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

Our HVAC operations generated revenue of $1,299,282 during the quarter ended June 30, 2017. Cost of revenue totaled $837,340 and operating expenses totaled $414,579. Other expenses totaled $4,132. The other expenses are related to the interest portion of the notes payable incurred by HVAC Value Fund. Comprehensive income for the quarter ended June 30, 2017 totaled $43,231. For the quarter ended June 30, 2016, HVAC Value Fund had only 16 days of operations, therefore, quarter over quarter figures are not comparable.

Real Estate Operations

As of June 30, 2017, we owned 13 residential properties, one commercial property, and interests in several lots. In 2008, the Company had implemented a program to redirect cash generated from the internet operations into the purchase and renovation of real estate. This program was abolished with the change in management on December 14, 2015. From December 14, 2015 through the end of 2015, several real estate agents and investors were engaged to determine the marketability of our properties. Repair work ceased until a more thorough review for each property could be completed to determine the most profitable course forward. Prior to year-end 2015, a list of properties was assigned to a real estate agent. Additionally, during 2015, we entered into negotiations with several investors to sell various properties. Many of these properties were held for resale by prior management, but prior marketing activity was poor.

In the quarter ended June 30, 2017, we did not sell any real estate properties. Subsequent to the quarter, we sold one property for gross proceeds of $20,000. No properties were acquired during this time period or subsequent to the quarter ending. We continue to market for sale or prepare to market for sale each property in the held for resale category. Properties have either sold as-is or have been repaired and upgraded before being listed for sale. Several real estate agents have been engaged to market the remaining properties listed for resale.

We own several rental properties managed by a third-party property management company. As of June 30, 2017, we had nine properties available for rent. All rental properties were occupied. The leases in effect as of the quarter ended June 30, 2017 are based on either annual or multi-year time periods and include month-to-month provisions after the completion of the initial term. The property management company has introduced updated and renewed leases for existing rental properties. All nine properties were current with regard to tenant payments as of June 30, 2017. This compares to the quarter ended June 30, 2016 when we had 12 properties available for rent with nine of the properties occupied and nine properties current with regard to tenant payments.

During the quarter ended June 30, 2017, the Company generated rental revenue of $25,602, net of bad debt expense. The cost of revenue totaled $7,288. This compared to rental revenue of $28,406, net of bad debt during the quarter ended June 30, 2016. The cost of revenue during the comparison period totaled $21,391. The increase in rental revenue was the result of improved rent collections due to the management by our third-party property manager.

Depreciation expense totaled $6,445 for the quarter ended June 30, 2017. Total accumulated depreciation as of June 30, 2017 totaled $89,702.

Asset Management Operations

The Company operates its asset management business through a wholly-owned subsidiary, Willow Oak Asset Management, LLC. This subsidiary was formed on October 10, 2016. As of June 30, 2017, three of four $2.5 million payments of the $10 million seed investment in Alluvial Fund, as previously described. Willow Oak Asset Management earns revenues through a fee share arrangement with Alluvial Fund, LP. In accordance with GAAP, for financial reporting purposes, all Alluvial Fund investment gains and losses are reported as revenue on the condensed consolidated statement of income. For tax purposes, the realized portion of these gains will be taxable. Fees earned from the fee share agreement specific to management fees are paid monthly and reported as revenue. Fees earned from the fee share agreement specific to performance are accrued monthly and reported as revenue. These fees are paid out annually and may fluctuate throughout the year.

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

Willow Oak Asset Management entered into a certain Limited Liability Company Operating Agreement of Huckleberry Real Estate Fund II, LLC ("Huckleberry Fund") dated as of January 24, 2017 (the "Operating Agreement"). In connection with entering into the Operating Agreement, Willow Oak Asset Management also entered into a certain Side Letter Agreement dated January 23, 2017 (the "Side Letter") with Huckleberry Fund and Huckleberry Capital Management, LLC ("Huckleberry Management"), an unaffiliated and unrelated New Jersey limited liability company and registered investment adviser. Under the terms of the Operating Agreement and the Side Letter, Willow Oak Asset Management subscribed for a membership interest in Huckleberry Fund, a Delaware limited liability company and private investment fund managed by Huckleberry Management and organized to invest in the Oak Street properties real estate project in Lakewood, New Jersey. In connection with our subscription for a membership interest in Huckleberry Fund, Willow Oak Asset Management committed to make a capital contribution to Huckleberry Fund in an aggregate amount of at least $750,000, which was made during the quarter ended March 31, 2017.

Sitestar, through its wholly-owned subsidiary, Willow Oak Asset Management, LLC, signed a fee share agreement on May 11, 2017 with Lizard Head, LLC, the general partner of Bridge Reid Fund I, LP. Under the agreement, Willow Oak became a special limited partner to Bridge Reid, providing fund advisory services to Bridge Reid in exchange for payments equal to 33% of the management fees accrued quarterly by the general partner and 33% of the incentive fees accrued annually, on investors who become limited partners after May 11, 2017. Fees received by Willow Oak will be paid as units in Bridge Reid, and deposited into a Willow Oak capital account at Bridge Reid.

In the quarter ended June 30, 2017 the asset management segment produced a total of $416,268 of comprehensive income which was generated as a result of unrealized capital gains recognized as revenue from its partnership with Alluvial Fund, LP. As previously noted, these non-current securities are marked to market at the end of each reporting period and unrealized gains and losses are recognized as revenue in the period of adjustment. Expenses totaled $38,048. No comparable figures exist for the quarter ended June 30, 2016 as the asset management subsidiary did not commence activities until January 1, 2017.

Financial Condition, Liquidity and Capital Resources

Cash and equivalents totaled $2,231,807 at quarter end June 30, 2017 compared to $2,607,370 at year end December 31, 2016. This decrease is due to less cash on hand held through the HVAC segment as acquisitions continued to be made. During this time period, net accounts receivable increased to $440,403 from $212,751 due to increased sales related to the HVAC segment during the quarter ended June 30, 2017.

Accounts payable increased to $220,631 at quarter end June 30, 2017 compared to $77,918 at year end December 31, 2016. Accrued expenses increased to $160,427 from $71,532 during this time period. The increases in accounts payable and accrued expenses are also due to increased activity in the HVAC segment in the quarter ended June 30, 2017. Accrued bonus decreased to $34,987 from $51,855 during this time period. Deferred revenue increased to $247,873 from $214,898 during this time period. Fluctuation in accrued bonus and deferred revenue are cyclical differences based on the timing of bonuses paid and the renewal of customer subscriptions in the internet segment.

We currently believe that our existing balances of cash, cash equivalents, and cash generated from operations and from the sale of our real estate portfolio will be sufficient to satisfy our currently anticipated cash requirements through at least the next 12 months and the foreseeable future. The Company does not have significant long-term debt. Our liquidity could be negatively affected if we were to make an acquisition, which may necessitate the need to raise capital through future debt or equity financing. Additional financing may not be available at all or on terms favorable to us.

The aging of accounts receivable as of June 30, 2017 and December 31, 2016 is as shown:

	June 30, 2017	December 31, 2016
Current	$122,980	$ 155,224
30 – 60 days	$201,584	$ 14,016
60 + days	$120,553	$ 43,511
Total	$445,117	$ 212,751

Contractual Obligations

As previously reported in our Current Reports on Form 8-K filed with the SEC on September 19, 2016 and December 30, 2016, respectively, on September 19, 2016, the Company announced that it had entered into a letter of intent agreement with Alluvial Capital Management, LLC (“Alluvial Capital”) to make a seed investment through Willow Oak Asset Management in the Alluvial Fund, LP, a private investment partnership that was launched by Alluvial Capital on January 1, 2017 (“Alluvial Fund”). Alluvial Capital will act as the general partner and the Company, through Willow Oak Asset Management, will invest in Alluvial Fund as a limited partner.

The Company has agreed to make capital contributions to Alluvial Fund in the aggregate amount of $10 million to be provided over four equal tranches on January 1, 2017, April 1, 2017, July 1, 2017 and October 1, 2017. As of June 1, 2017, the Company satisfied its obligation to provide $7.5 million in accordance with the contribution schedule. The remaining commitment will be funded through cash on hand.

Through the HVAC segment, multiple capital lease obligations were acquired as part of the most recent acquisition that occurred during the quarter ended March 31, 2017. These obligations include leases on various vehicles and equipment that extend through 2020.

We have no other meaningful long-term debt obligations, purchase obligations or other long-term liabilities as of June 30, 2017 other than those previously mentioned related to the HVAC segment. The only operating lease obligations are agreements for leased office and warehouse space for HVAC Value Fund, LLC, which extend through July 31, 2019.

Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements as of June 30, 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk
This item is not required by smaller reporting companies.

Item 4. Controls and Procedures
Evaluation of Disclosure Controls and Procedures

As of June 30, 2017, management, with the participation of our Chief Executive Officer and Chief Financial Officer, performed 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) of the Exchange Act. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. Because of inherent limitations, any controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance of achieving the desired control objective. Based upon their evaluation, and based upon material weaknesses in our internal control over financial reporting identified as of the date of our most recent evaluation of internal controls over financial reporting, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2017. Management is aware of these deficiencies and is working diligently to improve the relevant controls and procedures; provided, however, there can be no assurance that such relevant controls and procedures will be improved or, even if improved, that such improved controls and procedures will be effective.

Changes in Our Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the fiscal quarter ended June 30, 2017, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting subsequent to the date of our most recent evaluation of the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings
Sitestar v. Frank Erhartic, Jr.

On April 12, 2016, Sitestar filed a civil action complaint against Frank Erhartic, Jr. (the “Former CEO”), the Company’s former CEO and director and currently an owner of record or beneficially of more than five percent of the Company’s Common Stock, alleging, among other things, that the Former CEO engaged in, and caused the Company to engage in to its detriment, a series of unauthorized and wrongful related party transactions, including causing the Company to borrow certain amounts from the Former CEO’s mother unnecessarily and at a commercially unreasonable rate of interest, converting certain funds of the Company for personal rent payments to the Former CEO, commingling in land trusts certain real properties owned by the Company and real properties owned by the Former CEO, causing the Company to pay certain amounts to the Former CEO for lease payments under an unauthorized lease as to a storage facility owned by the Former CEO, causing the Company to pay rent on its corporate headquarters owned by the Former CEO’s ex-wife in amounts commercially unreasonable and excessive and to make real estate tax payments thereon for the personal benefit of the Former CEO, converting to the Former CEO and/or absconding with five motor vehicles owned by the Company, causing the Company to pay real property and personal property taxes on numerous properties owned personally by the Former CEO, causing the Company to pay personal credit card debt of the Former CEO, causing the Company to significantly overpay the Former CEO’s health and dental insurance for the benefit of the Former CEO, and causing the Company to pay the Former CEO’s personal automobile insurance. The Company is seeking, among other relief available, monetary damages in excess of $350,000. This litigation matter is currently pending in the Circuit Court for the City of Lynchburg (Lynchburg, Virginia).

Other Litigation

From time to time, we are subject to legal proceedings related to the conduct of our business. Based on the information available as of the date of this filing, we believe that the ultimate outcome of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors
This item is not required by smaller reporting companies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
As previously reported in our Current Report on Form 8-K filed with the SEC on February 6, 2017, the Company accepted and closed upon subscriptions from a private placement of shares of common stock of the Company (the “Private Placement”) in the amount of $4,625,000, and issued 92,500,000 shares of its common stock in connection therewith. Immediately following the Private Placement as of February 6, 2017, the Company had a total of 296,652,616 issued shares of common stock and 282,830,163 outstanding shares of common stock.

The issuance of shares of common stock of the Company pursuant to the Private Placement was a private placement to “accredited investors” (as that term is defined under Rule 501 of Regulation D), and was exempt from registration under the Securities Act of 1933 (“Securities Act”), in reliance upon Section 4(2) of the Securities Act and Regulation D Rule 506, as a transaction by an issuer not involving a public offering.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

The Company is not primarily engaged, and does not propose to primarily engage, in the business of investing, reinvesting or trading in securities, and does not propose to operate in a manner that would cause it to acquire 'investment securities' (as defined in the Investment Company Act), having a value exceeding 40 percent of the value of its total assets (exclusive of Government securities and cash items), calculated on an unconsolidated basis. The board of the Company has elected to eliminate any uncertainty in regard to the Company's current status under the Act, and has confirmed pursuant to Rule 3a-2 adopted under the Act that the Company has a bona fide intent to be engaged primarily, as soon as is reasonably possible and in any event by the end of the one-year period beginning June 30, 2017, in various lines of business not constituting investment securities, including, but not necessarily limited to, internet services, HVAC and plumbing services and real estate. This bona fide intent is demonstrated by the Company's internal operational plan (the 'Plan'), prepared and submitted by the Company, which sets forth detailed and specific potential steps to use the Company's capital and assets to grow certain operational lines of business. Pursuant to the Plan, the Company's holdings of investment securities will constitute less than 40 percent of its total assets on an unconsolidated basis no later than one year from June 30, 2017.

Item 6. Exhibits

Exhibit	Description
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a)
32	Certification Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Pursuant to Rule 405 of Regulation S-T, the following materials from Sitestar Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets (unaudited) as of June 30, 2017 and December 31, 2016; (ii) Consolidated Statements of Income (unaudited) for the three and six months ended June 30, 2017 and 2016; (iii) Consolidated Statements of Comprehensive Income (unaudited) for the three and six months ended June 30, 2017 and 2016; (iv) Consolidated Statements of Stockholders' Equity (unaudited) as of June 30, 2017 and December 31, 2016; (v) Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2017 and 2016; (vi) Notes to Unaudited Consolidated Financial Statements

SIGNATURES

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

	SITESTAR CORPORATION
Date: August 7, 2017	/s/ Steven L. Kiel Steven L. Kiel President, Chief Executive Officer, and Chief Financial Officer (Principal Executive Officer and Principal Accounting Officer)