

SITESTAR CORP
Form 10-Q
May 15, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

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

For the transition period from _____ to _____

000-27763

(Commission file number)

SITESTAR CORPORATION

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

NEVADA
(State or other jurisdiction of
incorporation or organization)

88-0397234
(I.R.S. Employer Identification No.)

7109 Timberlake Road, Lynchburg, VA 24502

(Address of principal executive offices)

(434) 239-4272

(Issuer's telephone number)

N/A

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

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

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

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

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

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

There were 74,085,705 shares of common stock with a par value of \$0.001 per share outstanding at May 15, 2014.

SITESTAR CORPORATION

Table of Contents

PART I. FINANCIAL INFORMATION

<u>Item 1. Financial Statements (Unaudited)</u>	1
<u>Condensed Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013</u>	1
<u>Condensed Consolidated Statements of Income for the three months ended March 31, 2014 and 2013</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013</u>	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
<u>Item 2. Management's Discussion and Analysis</u>	6
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	10
<u>Item 4. Controls and Procedures</u>	11
<u>Part II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	13
<u>Item 1A. Risk Factors</u>	13
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	13
<u>Item 3. Defaults Upon Senior Securities</u>	13
<u>Item 4. Mine Safety Disclosures</u>	13
<u>Item 5. Other Information</u>	13
<u>Item 6. Exhibits</u>	13
<u>SIGNATURES</u>	14

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Readers are cautioned that, although the Company believes that its expectations are based on reasonable assumptions, forward-looking statements involve risks and uncertainties which may affect our actual results to be materially different than those expressed in our forward-looking statements. These risks and uncertainties include: the Company's businesses and prospects, including changes in economic and market conditions, acceptance of the Company's products, maintenance of strategic alliances, real estate appreciation or depreciation in our target markets and the supply of single-family homes in our target markets, our ability to contain renovation, maintenance, marketing, and other operating costs for our properties,

our ability to lease or re-lease our rental homes to qualified residents on attractive terms or at all, and other factors discussed elsewhere in this Form 10-Q. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****SITESTAR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****MARCH 31, 2014 AND DECEMBER 31, 2013**

	2014 (Unaudited)	2013
ASSETS		
Real estate – held-for-resale	\$2,497,343	\$2,712,441
Real estate – held for investment, net	795,194	531,165
Cash and cash equivalents	155,724	118,469
Accounts receivable, net	23,777	35,129
Prepaid expenses	1,347	1,394
Property, plant and equipment, net	146,314	146,314
Goodwill, net	1,166,494	1,166,494
Deferred tax assets	74,276	74,276
Other assets	217,563	217,563
Total assets	\$5,078,032	\$5,003,245
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Accounts payable	\$28,528	\$12,121
Accrued expenses	19,356	19,129
Deferred revenue	317,705	312,898
Notes payable	900,615	900,615
Notes payable – stockholder	60,990	59,826
Total liabilities	1,327,194	1,304,589
STOCKHOLDERS' EQUITY		
Preferred Stock, \$.001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding	—	—
Common stock, \$.001 par value, 300,000,000 shares authorized, 91,326,463 shares issued in 2013 and 2012 and 74,085,705 shares outstanding in 2013 and 2012	91,326	91,326
Additional paid-in capital	13,880,947	13,880,947
Treasury stock, at cost, 17,240,758 common shares	(789,518)	(789,518)
Accumulated deficit	(9,431,917)	(9,484,099)

Edgar Filing: SITESTAR CORP - Form 10-Q

Total stockholders' equity	3,750,838	3,698,656
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$5,078,032	\$5,003,245

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

Table of Contents -1-

SITESTAR CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF INCOME****FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013****(UNAUDITED)**

	2014	2013
REVENUE		
Internet	\$519,235	\$719,899
Real estate	159,889	15,870
	679,124	735,769
COST OF REVENUE		
Internet	198,776	350,973
Real estate	138,680	3,076
	337,456	354,049
GROSS PROFIT	341,668	381,720
OPERATING EXPENSES:		
Selling general and administrative expenses	288,908	251,444
INCOME FROM OPERATIONS	52,760	130,276
OTHER INCOME (EXPENSES):		
Other income	586	503
Interest expense	(1,164)	(1,330)
TOTAL OTHER INCOME (EXPENSE)	(578)	(827)
INCOME BEFORE INCOME TAXES	52,182	129,449
INCOME TAXES (EXPENSE) BENEFIT	—	(47,626)
NET INCOME	\$52,182	\$81,823
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	\$0.00	\$0.00
WEIGHTED AVERAGE SHARES		
OUTSTANDING - BASIC AND DILUTED	74,085,705	74,085,705

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

Table of Contents -2-

SITESTAR CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013****(UNAUDITED)**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$52,182	\$81,823
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	5,278	6,943
Allowance for doubtful accounts	(2,223)	5,040
Deferred income taxes	—	47,626
(Increase) decrease in accounts receivable	13,575	(57,479)
(Increase) decrease in prepaid expenses	47	6,861
(Increase) decrease in real estate	(54,209)	(73,731)
Decrease in accounts payable	16,407	8,999
(Increase) decrease in accrued expenses	1,391	(7,024)
Decrease in deferred revenue	4,807	(31,670)
Net cash provided by (used in) operating activities	37,255	(12,612)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in other assets held for resale	—	1
Net cash provided by (used in) investing activities	—	1
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable – stockholders	—	—
Net cash provided by (used in) financing activities	—	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,255	(12,611)
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	118,469	148,590
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$155,724	\$135,979

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

For the three months ended March 31, 2014 and 2013, the Company paid \$0 and \$0 of income taxes and paid interest expense of \$1,164 and \$1,330.

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

Table of Contents -3-

SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared by SiteStar Corporation (the “Company” or “SiteStar”), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2013 included in the Company’s Annual Report on Form 10-K. The results for the three months ended March 31, 2014 are not necessarily indicative of the results to be expected for the full year ending December 31, 2014.

Significant Accounting Policies

See the Notes to Consolidated Financial Statements in the Company’s 2013 Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

No new accounting pronouncement issued or effective during this fiscal quarter has had or is expected to have a material impact on the consolidated financial statements.

Income Per Share

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

Edgar Filing: SITESTAR CORP - Form 10-Q

For the three months ended March 31, 2014 and 2013:

	2014	2013
Net income available to common shareholders	\$52,182	\$81,823
Weighted average number of common shares	74,085,705	74,085,705
Basic and diluted income per share	\$0.00	\$0.00

NOTE 2 – COMMON STOCK

During the three months ended March 31, 2014, the Company issued no shares of common stock and repurchased no treasury shares.

NOTE 3 – SEGMENT INFORMATION

The Company has three business units with separate management and reporting infrastructures that offer different products and services. The business units have been aggregated into three reportable segments: Corporate, Real estate and Internet. The Corporate group is the holding company which oversees the operating of the Internet group and arranges financing. The real estate group invests in, refurbishes and markets real estate for resale. The Internet group provides Internet access to customers throughout the U.S. and Canada. The Company evaluates the performance of its operating segments based on income from operations, before income taxes, accounting changes, non-recurring items, and interest income and expense.

Table of Contents -4-

SITESTAR CORPORATION**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****UNAUDITED****NOTE 3 - SEGMENT INFORMATION (continued)**

Summarized financial information concerning the Company's reportable segments is shown in the following tables for the three months ended March 31, 2014 and 2013:

March 31, 2014

	Corporate	Real estate	Internet	Consolidated
Revenue	\$—	\$159,889	\$519,235	\$679,124
Operating income (loss)	\$(59,999)	\$12,794	\$98,664	\$52,760
Depreciation and amortization	\$—	\$—	\$5,278	\$5,278
Interest expense	\$—	\$—	\$1,164	\$1,164
Real estate	\$—	\$3,292,537	\$—	\$3,292,537
Intangible assets	\$—	\$—	\$1,166,494	\$1,166,494
Total assets	\$—	\$3,292,537	\$1,785,495	\$5,078,032

March 31, 2013

	Corporate	Real estate	Internet	Consolidated
Revenue	\$—	\$487,875	\$819,192	\$1,307,067
Operating income (loss)	\$(42,926)	\$105,335	\$203,510	\$165,919
Depreciation and amortization	\$—	\$—	\$10,242	\$10,242
Interest expense	\$—	\$—	\$2,089	\$2,089
Real estate	\$—	\$2,504,107	\$—	\$2,504,107
Intangible assets	\$—	\$—	\$1,316,477	\$1,316,477
Total assets	\$—	\$2,504,107	\$2,397,965	\$4,902,072

NOTE 5 - NOTES PAYABLE

This USA Telephone note payable is due and is currently in litigation. At March 31, 2014, and December 31, 2013, the balance consist of the following:

	2014	2013
Non-interest bearing amount due on acquisition of USA Telephone customers per contract payable in thirty six monthly installments starting January 2008.	\$900,615	\$900,615

Litigation

United Systems Access, Inc., et al. v. SiteStar Corporation, Civil Action, Docket No. CV-13-161, (York County Superior Court). This is a breach of contract claim, whereby Plaintiff has alleged that SiteStar has failed to pay the amounts owed on a Promissory Note. SiteStar has filed a counterclaim for damages for overpayments and breach of contract associated with Plaintiff's misrepresentation of the customer lists and was shorted revenues associated the number of customers contracted for. Plaintiff seeks monetary damages in the amount of \$900,615. Litigation is currently in the discovery phase of litigation. The parties have exchanged documents but have not yet taken depositions. SiteStar is currently contesting the Litigation. A mediation hearing in the matter took place on April 25, 2014, as required by the Maine Rules of Civil Procedure, however, no ruling has yet been issued. The estimate of the upper limit of a potential loss is \$900,615 which has been accrued. Management is vigorously defending this claim.

Table of Contents -5-

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

General

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related notes for the year ended December 31, 2013 included in the Annual Report on Form 10-K. The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

Overview

Internet

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

The products and services that the Company provides include:

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

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

Real Estate

SiteStar is also a real estate investment entity that acquires distressed real estate primarily from foreclosure auctions at a substantial discount from market value. The acquired properties are initially evaluated to determine if they will be

held for lease or resale and for their condition of repair, location and refurbish costs.

When the intended use has been determined and the nature and quality of the refurbishing is determined, the work is scheduled as soon as possible. For example, if a property is intended for rental use the quality of the refurbishing would be less than if it were to be showcased for resale because a tenant would more than likely diminish the value of the higher quality work as opposed to a resale that would need to show well. Other work for a rental unit might involve adding rooms in a basement or dividing the property into multi-family units that would bring in more rental income but not be as desirable from a single home owner's perspective.

After the property has been refurbished for its intended use, it is placed in the applicable market. Rental units are listed in local media as available for rent and are shown to those responding who are financially qualified. If a mutual decision is made to proceed, a lease is drafted and signed and the tenants will put the required deposit down and move in. The deposit is recorded as a liability on the books and rental income is recognized as collected. If the property is to be sold, it is placed in local media for sale and is shown to prospective home owners. After a purchase contract has been accepted, the closing is scheduled and the ownership of the property changes hands. The sale of the property is then recorded in accordance with the closing statement and the related costs are expensed.

Table of Contents -6-

Results of operations

The following tables show financial data for the three months ended March 31, 2014.

	Corporate	Internet	Real estate	Total
Revenue	\$—	\$519,235	\$159,889	\$679,124
Cost of revenue	—	198,776	138,680	337,456
Gross profit	—	320,459	21,209	341,668
Operating expenses	59,999	221,795	7,114	288,908
Income (loss) from operations	(59,999)	98,664	14,095	52,760
Other income (expense)	—	(578)	—	(578)
Income (loss) before income taxes	(59,999)	98,086	14,095	52,182
Income taxes (expense) benefit	—	—	—	—
Net income (loss)	\$(59,999)	\$98,086	\$14,095	\$52,182

The following tables show financial data for the three months ended March 31, 2013.

	Corporate	Internet	Real estate	Total
Revenue	\$—	\$719,899	\$15,870	\$735,769
Cost of revenue	—	350,973	3,076	354,049
Gross profit	—	368,926	12,794	381,720
Operating expenses	37,125	214,319	—	251,444
Income (loss) from operations	(37,125)	154,607	12,794	130,276
Other income (expense)	—	(827)	—	(827)
Income (loss) before income taxes	(37,125)	153,780	12,794	129,449
Income taxes (expense) benefit	—	(47,626)	—	(47,626)
Net income (loss)	\$(37,125)	\$106,154		