SITESTAR CORP
Form 10-K
April 01, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2014

SITESTAR CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Commission file number 000-27763

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

(434) 239-4272

(Issuer’s telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, $0.001 par value

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

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

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

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

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

Large accelerated filer [ ] Accelerated filer [ ]

Non-accelerated filer [ ] Smaller reporting company [X]

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

The aggregate value of the voting common equity held by non-affiliates as of December 31, 2014, the last business day of the registrant's most recently completed fourth fiscal quarter, was approximately $2,090,571 based on the price at which the common stock last sold on such day. This price reflects inter-dealer prices without retail mark up, mark down, or commissions, and may not represent actual transactions.

The number of shares outstanding of Common Stock, $0.001 par value as of March 31, 2015 as approximately 74,085,705.

DOCUMENTS INCORPORATED BY REFERENCE

None.

PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities law. 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 to attractive terms or at all, and other factors discussed elsewhere in this Form 10-K. 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.

ITEM 1. BUSINESS

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 acquires distressed real estate primarily from foreclosure auctions at a substantial discount from the market value. The acquired properties are initially evaluated for their condition of repair, location and refurbish costs for resale and or rental.

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.

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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.

Pursuant to the continued approval of the board of directors, the Company's management believes that it is in the best interests of the Corporation to continue the program to purchase ("Purchase Program"), as investments, real estate with the Company's surplus cash flows.

Management believes that there is sustainable cash flow potential for the near future in real estate and is actively pursuing the program. As of the balance sheet date, December 31, 2014, the Company has investments of approximately $3,460,000 in real estate investments and is continuing the investing process. Management has determined that the Purchase Program will not impair the Company's capital, cash flows or operations.

Sitestar's Business Strategy

SiteStar's mission is to increase stockholder value by increasing revenues, minimizing operational costs and increasing profits, while maintaining superior products and customer service.

(1) The Company's Internet growth strategy is to expand by increasing its customer base, services and coverage area. The Company uses partnerships to accomplish this.

(2) The Company plans to increase the real estate holdings of distressed and foreclosed properties and refurbish as needed for marketability. These properties will then be presented to the market at or below conventional market value and sold for profit, providing a revenue stream for the future.

Key elements of Sitestar's ISP strategy includes:

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

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

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

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

Key elements of SiteStar’s real estate strategy includes:

Increasing real estate holdings. The Company plans to increase the real estate holdings of distressed and foreclosed properties and refurbish as needed for marketability. These properties will then be presented to the market at or below conventional market value and sold for a profit. When pursuing home acquisitions, Sitestar focuses on markets that it believes presents the greatest opportunities for home price appreciation,or that have strong rental demand where we can attain property operating efficiencies as a result of geographic concentration of assets in its portfolio. We identify and pursue individual home acquisition opportunities through a number of sources, including wholesale deals, tax and foreclosure auctions and short sales. We believe that favorable prevailing home prices provide us with a substantial market opportunity to acquire residential assets that generate attractive risk-adjusted returns as the housing market continues to recover.

Historically, the single-family home rental market has been extremely fragmented, comprised primarily of private and individual property investors in local markets. Until recently, there have been no large-scale, operators due primarily to the challenge of efficiently scaling the acquisition and management of many individual homes. With an opportunity to continue acquiring homes at attractive prices, we intend to continue to leverage our expertise and experience in rapidly building an institutional-quality, professionally managed business. We believe that being one of the first in our industry to do so on a large scale has provided us the “early-mover” advantage to continue aggregating a portfolio of high quality properties at prices that provide attractive potential yields and capital appreciation.

We are focused on acquiring homes with a number of key property characteristics, including: three or more bedrooms, two or more bathrooms, a range of $70,000 estimated minimum valuation to $400,000 maximum bid price and estimated renovation costs not in excess of 25% of estimated value. We target areas with above average median household incomes, well-regarded school districts and access to desirable lifestyle amenities. We believe that homes in these areas will attract tenants and buyers with strong credit profiles, produce high occupancy and rental rates and generate long-term property appreciation. Not all of the homes we acquire meet all of these criteria. To date, the Company has primarily acquired properties at tax and foreclosure auctions.

ISP Regulations:

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

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Real Estate Regulations:

State and municipal laws and regulations govern the real estate industry and do not vary significantly from on community to another. State laws in addition to local ordinances govern rental properties and also do not vary significantly throughout our real estate holding areas. Sitestar management has experience in operating under these authorities and does not see this as a hindrance to achieving its goals and objectives.

Employees:

As of March 31, 2015, the Company employed seven full-time individuals. Of these, the Company has four in management and three technicians. The Company employed no part-time individuals. The Company's employees are not unionized and it considers its relations with its employees to be favorable.

Available Information

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

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Corporate:

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

Here the Company handles the executive, marketing, corporate accounting functions, customer service, technical support, and billing and houses Internet equipment. In addition, the Company markets local Internet service under the Lynchburg.net and SurfWithUs.net brands. This facility has an annual rent of $48,000 . The facility is located at 7109 Timberlake Road, Lynchburg, VA 24502, is leased from Frank Erhartic, Jr., a Company Director and Officer. In addition, the Company rents a house used for storage of appliances and supplies which is located in Salem VA. This property is also leased from the same Company director and officer at an annual rent of $6,000.

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The Company leases a 2,000 square foot office facility in Chatham, Ontario where it sells Internet services under the name of NetRover. The Company also houses Internet equipment there to serve its customers in Canada. This facility has an annual rent of $18,000 Canadian Dollars (CAD) or approximately $15,520 in United States Dollars (USD). The facility is located at 48 Fifth Street, Chatham, Ontario N7M 4V8 and is leased from Duff Enterprises and this lease expires in November 2015 .

Real Estate Investments:

SiteStar currently owns approximately forty-five residential properties in the Lynchburg-Roanoke, Virginia area which SiteStar holds for lease or resale at a cost of $3,459,554.

ITEM 3. LEGAL PROCEEDINGS

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

associated with Plaintiff's failure to turnover certain customer lists. 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.

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

Reserved and omitted.

PART II

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

MARKET FOR COMMON EQUITY

Set forth below are the high and low closing bid prices for the Company’s common stock on the Over-the-Counter Bulletin Board for each quarterly period commencing January 1, 2013.

	High	Low
2013		
For the quarter ended March 31, 2013	$0.02	$0.01
For the quarter ended June 30, 2013	$0.03	$0.02
For the quarter ended September 30, 2013	$0.04	$0.03
For the quarter ended December 31, 2013	$0.03	$0.03
2014		
For the quarter ended March 31, 2014	$0.02	$0.01
For the quarter ended June 30, 2014	$0.03	$0.02
For the quarter ended September 30, 2014	$0.04	$0.03
For the quarter ended December 31, 2014	$0.03	$0.03

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

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RECORD HOLDERS

The closing bid price for the Company’s common stock was $0.03 on March 31, 2015. As of March 31, 2015 the Company had approximately 109 shareholders of record. Additional holders of the Company’s Common Stock hold such stock in street name with various brokerage firms.

EQUITY COMPENSATION PLANS

The Company does not have any plans under which options, warrants or other rights to subscribe for or acquire shares of the Company’s common stock may be granted and there are no outstanding options, warrants or other rights to subscribe for or acquire shares of Company common stock. From time to time, the Board of Directors may grant shares of the Company’s common stock to its officers, employees and contractors in lieu of salary, fees or as a bonus. The Board of Directors made no grants during fiscal years 2013 and 2014.

DIVIDENDS

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

RECENT SALES OF UNREGISTERED SECURITIES

None.

ITEM 6. SELECT FINANCIAL DATA

GENERAL

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related footnotes for the years ended December 31, 2014 and December 31, 2013 included in this Annual Report on Form 10-K. The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

Overview

ISP:

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.

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

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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.

RESULTS OF OPERATIONS

The following tables show financial data for the years ended December 31, 2014 and 2013 . Operating results for any period are not necessarily indicative of results for any future period.

	For the year ended December 31, 2014			
	Corporate	Real Estate	Internet	Total
Revenue	$—	$461,251	$1,922,445	$2,383,696
Cost of revenue	—	426,722	679,361	1,106,083
Gross profit	—	34,529	1,243,084	1,277,613
Operating expenses	137,099	—	680,304	817,403
Income (loss) from operations	(137,099)	34,529	562,780	460,210
Other income (expense)		—	(1,752)	(1,752)

Income (loss) before income taxes	(137,099)	34,529	561,028	458,458
Income taxes expense	—	4,453	69,822	74,275
Net income (loss)	$(137,099)	$30,076	$491,206	$384,183

	For the year ended December 31, 2013			
	Corporate	Real Estate	Internet	Total
Revenue	$—	$156,192	$2,397,557	$2,553,749
Cost of revenue	—	193,795	1,146,535	1,340,330
Gross profit	—	(37,603)	1,251,022	1,213,419
Operating expenses	115,490	—	835,621	951,111
Income (loss) from operations	(115,490)	(37,603)	415,401	262,308
Other income (expense)		—	(2,793)	(2,793)
Income (loss) before income taxes	(115,490	(37,603)	412,608	259,515
Income taxes expense	—	—	163,272,	163,272
Net income (loss)	(115,490	(37,603)	$249,336	$96,243

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

The following tables show a reconciliation of EBITDA to the GAAP presentation of net income for the years ended December 31, 2014 and 2013.

	Corporate	Real Estate	Internet	Total
EBITDA	$(137,099)	$55,111	$562,256	$480,268
Interest expense	—		(2,405)	(2,405)
Taxes	—	(4,453)	(69,822)	(74,275)
Depreciation	—	(19,405)		(19,405)
Amortization	—			
Net income (loss)	$(137,099)	$31,253	$490,029	$384,183

	For the year ended December 31, 2013			
	Corporate	Real Estate	Internet	Total
EBITDA	$(115,490)	$(14,674)	$548,147	$417,983
Interest expense	—		(4,848)	(4,848)
Taxes	—		(163,272))	(163,272)
Depreciation	—	(22,929)	(2,643)	(2,643)
Amortization	—		(128,048)	(128,048)
Net income (loss)	$(115,490)	$(37,603)	$174,815	$96,243

ITEM 7. MANAGEMENT'S DISCUSSIONS AND ANALYSIS OR PLAN OF OPERATIONS

GENERAL

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related footnotes for the years ended December 31, 2014 and December 31, 2013 included in this Annual Report on Form 10-K. The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

YEAR ENDED DECEMBER 31, 2014 COMPARED TO DECEMBER 31, 2013

REVENUE. Revenue for the year ended December 31, 2014 decreased by $170,053 or 6.7% from $2,553,749 for the year ended December 31, 2013 to $2,383,696 for the same period in 2014. Internet sales decreased $475,112 or 19.8.6% from $2,397,557 for the year ended December 31, 2013 to $1,922,445 for the same period in 2014. The decrease in Internet sales is attributed to the lack of acquisitions of Internet access and web hosting customers of ISPs. Although the Company continues to sign up new customers, competition from ubiquitous nationwide telecommunications and cable providers threatens significant and sustainable organic growth.

Real estate sales in 2014 were $341,563, an increase of $248,563 over the 2013 amount of $93,000, due to more houses sold at higher prices. Rental income in 2014 was $119,688, an increase of $56,496 over the 2013 amount of $63,192, due to more united being rented. During 2013 and 2014, Sitestar has concentrated its real estate resources in the rental use of properties as opposed to resale. Rental use of properties generates a larger return on investment and revenue stream over time than a sale but does not generate large current revenue compared to a sale of the properties. There is a strong demand for rental property in the geographic locations where the Company’s properties are located and given the current inventory of single family houses, rental income with the higher return on investment will provide a superior revenue stream for the future years.

COST OF REVENUE. Total costs of revenue for the year ended December 31, 2014 decreased by $234,247 or 17.5% from $1,340,330 for the year ended December 31, 2013 to $1,106,083 for the same period in 2014. Total cost of revenue as a percentage of sales decreased 6.1% from 52.5% for the year ended December 31, 2013 to 46.4% for the same period in 2014. Internet cost of revenue decreased 12.5% as a percentage of revenue resulting primarily from restructuring the internet backbone providers to scale expenses with revenue. The Company is continuing to attempt to negotiate more favorable contracts with telecommunication vendors and making the network capacity more efficient. The Company expects to continue creating these efficiencies through wholesale business partners. Real estate costs increased $232,927 or 120.2% from $193,795 to $426,722 for the same period in 2014. Theses costs contain a fair value adjustment of $43,452 which continues to reflect the economic conditions of the Lynchburg-Roanoke housing martket. These costs also include the cost of properties sold as well as rental expenses and is a reflection of the concentration of resources being applied to refurbishing properties for rental use and not for resale. Costs of revenue for rental properties are minimal compared to recognition of costs of revenue of properties sold.

OPERATING EXPENSES. Selling, general and administrative expenses decreased $133,708 or 14.1% from $951,111 for the year ended December 31, 2013 to $817,403 for the same period in 2014. This is due primarily to recognition of impairment to goodwill only in 2013, decrease in wages and bad debt expenses. The impairment of goodwill is the result of declining revenue in the Internet Service Provider division. Discounted cash flows of this division have eroded the basis of the goodwill resulting in impairment to the valuation. Professional fees increased while bad debts and wages decreased all contributing to a relatively flat change in operating expenses for the year.

INTEREST EXPENSE. Interest expense for the year ended December 31, 2013 decreased by $2,443 or 50.4% from $4,848 for the year ended December 31, 2013 to $2,405 for the same period in 2014.

INCOME TAXES. For the years ended December 31, 2014 and 2013 corporate income tax expense of $74,275 and $163,272 were incurred . While the Company does not anticipate a tax liability resulting from the consolidated corporate tax return, the deferred tax asset associated with the timing differences of book and tax income provides a recognition of income tax expense that will evolve over the life of the timing differences.

BALANCE SHEET. Net accounts receivable decreased $13,318 or 37.9% from $35,129 on December 31, 2013 to $21,811 on the same date in 2014. Real estate holdings increased $156,857 or 4.8% from $3,243,606 on December 31, 2013 to $3,400,463 on December 31, 2014. This increase is the result of investing in real estate to employ idle cash.

Real estate held for resale decreased $419,380 for the year ended December 31, 2014 while real estate held for investment increased $576,237 in the same time period reflecting the Company's focus on increasing rental properties over sales. Deferred tax assets decreased $74,276 from $74,276 on December 31, 2013 to $0 on December 31, 2014. This is due to the recognition of tax benefits of timing differences of certain tax deductions. Accounts payable increased by $2,842 or 23.4% from 12,121 on December 31, 2013 to $14,963 on December 31, 2014. Accrued expenses increased by $15,186 or 79.4% from $19,129 on December 31, 2013 to $34,315 on December 31, 2014. Deferred revenue decreased by $39,458 or 12.6% from $312,898 on December 31, 2013 to $273,440 on December 31, 2014 representing corresponding reduced revenue from which customers have prepaid services on December 31, 2014.

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LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled $369,694 and $118,469 at December 31, 2014 and 2013. EBITDA was $480,268 for the year ended December 31, 2014 as compared to $492,167 for the year ended December 31, 2013 .

	2014	2013
EBITDA for the year ended December 31,	$480,268	$395,054
Interest expense	(2,405)	(4,848)
Tax expense	(74,275)	(163,272)
Depreciation	(19,405)	(2,643)
Amortization	—	(128,048)
Net income for the year ended December 31,	$384,183	$96,243

Sales of Internet services which are not automatically processed via credit card or bank account drafts have been the Company's highest exposure to collection risk. To help offset this exposure, the Company has added a late payment fee to encourage timely payment by customers. Another effort to improve customer collections was the implementation of a uniform manual invoice processing fee, which has also helped to accelerate collections procedures. These steps and more aggressive collection efforts have shifted accounts receivable to a more current status which is easier to collect. The accounts receivable balance in the Current category decreased from 11.0% of total accounts receivable from December 31, 2013 to 65.0% on December 31, 2014. The balance in the 30+ day category decreased from 21.0% to 26.0% of total accounts receivable from December 31, 2013 to December 31, 2014. The balance in the 60+ day category increased from 68% to 9% of total accounts receivable from December 31, 2013 to December 31, 2014.

Investments in real estate are funded primarily from the cash flows generated from the Internet Service Provider division and have not and do not anticipate this to change in the near future. This course of action does not impair the cash flows of the Company. SiteStar does not commit to purchase real estate beyond the ability of the cash flows and has not borrowed money for this purpose. Management evaluates property as it becomes available with respect to the market value versus the acquisition cost, in addition to other conditions that could affect the resale value. Renovations are made as needed to maximize the market appeal and value prior to listing for sale.

The aging of accounts receivable as of December 31, 2014 and 2013 is as shown:

	2014		2013	
Current	$14,185	65 %	$4,021	11%
30+	5,577	26 %	7,273	21%
60+	2,049	9 %	23,835	68%
90+	—	— %	—	—%
Total	$21,811	100%	$35,129	0 %

The Company is currently involved in litigation with USAT, a company that sold us their dial-up customer base in November 2007. SiteStar has counter filed and believes strongly that it will prevail in the arbitration. The liability has been carried on the balance sheet only because the plaintiff has refused to acknowledge the financial assistance given to prevent the loss of customers during the time period they refused to hand over the data base of the customer list that was purchased. In addition, they continued to bill and collect revenue from the customers they no longer owned. Management does not anticipate any significant financial detriment to result from this litigation. Should the litigation result in a liability, the Company has ample resources to draw from to satisfy the liability.

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

None

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ITEM 8. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of SiteStar Corporation

Lynchburg, VA 24502-2334

We have audited the accompanying balance sheets of SiteStar Corporation as of December 31, 2014 and 2013, and the related statements of income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2014. SiteStar Corporation's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SiteStar Corporation as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/Ciro E. Adams, CPA, LLC

Wilmington, DE 19806-1004

April 1, 2015

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SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2014 and 2013

	2014	2013
ASSETS		
Real estate – held-for-resale	$2,293,061	$2,712,441
Real estate – held-for-investment, net	1,107,402	531,165
Cash and cash equivalents	369,694	118,469
Accounts receivable, net	21,811	35,129
Prepaid expenses	1,340	1,394
Property and equipment, net	146,314	146,314
Goodwill, net	1,166,494	1,166,494
Deferred tax assets, net	—	74,276
Other assets	200,056	217,563
TOTAL ASSETS	$5,306,172	$5,003,245
LIABILITIES		
Accounts payable	$14,963	$12,121
Accrued expenses	34,315	19,129
Deferred revenue	273,440	312,898
Notes payable	900,615	900,615
Notes payable - stockholder	—	59,826
TOTAL LIABILITIES	1,223,333	1,304,589
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding	—	—
Common Stock, $0.001 par value, 300,000,000 shares authorized and 91,326,463 shares issued in 2014 and 2013, and 74,085,705 shares outstanding in 2014 and 2013.	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	(9,099,916)	(9,484,099)
Total stockholders' equity	4,082,839	3,698,656
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5,306,172	$5,003,245

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

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SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
REVENUE		
Internet	$1,922,445	$2,397,557
Real estate	461,251	156,192
	2,383,696	2, 553,749
COST OF REVENUE		
Internet	679,361	1,146,535
Real estate	426,722	193,795
	1,106,083	1,340,330
GROSS PROFIT	1,277,613	1,213,419
OPERATING EXPENSES		
Selling, general and administrative expenses	817,403	829,046
Goodwill impairment	—	122,065
TOTAL OPERATING EXPENSES	817,403	951,111
INCOME (LOSS) FROM OPERATIONS	460,210	262,308
OTHER INCOME (EXPENSES)		
Other income	653	2,055
Interest expense	(2,405)	(4,848)
TOTAL OTHER INCOME (EXPENSES)	(1,752)	(2,793)
INCOME (LOSS) BEFORE INCOME TAXES	458,458	259,515
INCOME TAX EXPENSE	74,275	163,272
NET INCOME (LOSS)	$384,183	$96,243
BASIC AND DILUTED INCOME PER SHARE	$0.01	$0.00
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	74,085,705	74,085,705

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

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SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Common Stock		Additional	Treasury	Accumulated	
	Shares	Amount	Paid-in Capital	Stock	Deficit	Total
Balance at December 31, 2012	74,085,705	$91,326	$13,880,947	$(789,518)	$(9,580,342)	$3,602,413
Net income	—	—	—	—	96,243	96,243
Balance at December 31, 2013	74,085,705	91,326	13,880,947	(789,518)	(9,484,099)	3,698,656
Net income					384,183	384,183
Balance at December 31, 2014	74,085,705	$91,326	$13,880,947	$(789,518)	$(9,099,916)	$4,082,839

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

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SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$384,183	$96,243
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, amortization and impairment	19,405	153,620
Allowance for doubtful accounts	(2,624)	2,133
Inventory obsolescence	17,509	—
(Increase) decrease in accounts receivable	15,942	(6,774)
(Increase) decrease in prepaid expenses	54	49,017
(Increase) decrease in real estate held-for-resale	(271,787)	(136,075)
(Increase) decrease in real estate held-for-investment	—	(151,973)
Fair value adjustment to real estate held-for-resale	43,452	—
(Increase) decrease in deferred income taxes	74,275	135,423
(Increase) decrease in deferred taxes valuation allowance	61,619	—
Increase (decrease) in accounts payable	2,842	(20,758)
Increase (decrease) in accrued expenses	5,639	(25,945)
Increase (decrease) in deferred revenue	(39,458)	(74,359)
Net cash provided by (used in) operating activities	311,051	(40,204)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of assets held for resale	—	5
Purchase of customer list	—	534
Net cash provided by investing activities	—	539
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from notes payable – stockholders	—	—
Purchase of treasury stock	—	—
Repayment of notes payable – stockholders	(59,826)	9,544
Net cash (used in) financing activities	(59,826)	9,544
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	251,225	(30,121)
Cash and cash equivalents - beginning of year	118,469	148,590
CASH AND CASH EQUIVALENTS - END OF YEAR	$369,694	$118,469

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

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

For 2014 and 2013, the Company paid $0 and $0 of income taxes and paid interest expense of $2,405 and $4,849.

SUPPLEMENTAL SCHEDULE OF NON-CASH OPERATING ACTIVITIES:

For 2014, Sitestar reclassified $592,642 from real estate held-for-resale to real estate held-for-investment.

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SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Lines of Business

Sitestar Corporation (formerly White Dove Systems, Inc., Interfoods Consolidated, Inc., was known as Holland American International Specialties (HAIS)), (the Company), began operations on June 1, 1997, under a partnership agreement and was incorporated in Nevada on November 4, 1997. On July 26, 1999 the Company restated its Articles of Incorporation to change the name of the Company to “Sitestar Corporation.” The Company was in the International specialty foods distribution business. In 1999, through the acquisition of two Internet Service Providers, the Company changed from a food distribution company to an Internet holding company. The Company services customers throughout the U.S. and Canada with multiple sites of operation. Effective October 15, 2008 pursuant to the approval of the board of directors, the Company’s management implemented a program to purchase real estate with the Company’s surplus cash flows. Sitestar is headquartered in Lynchburg, Virginia.

Principles of Consolidation

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

Reclassifications

Certain reclassifications have been made to amounts in prior period financial statements to conform to current period presentation. These reclassifications have not changed the results of operations or stockholders’ equity.

Use of Estimates

In accordance with Generally Accepted Accounting Principles (GAAP), the preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. These accounting policies are described at relevant sections in the notes to the consolidated financial statements.

Fair Value of Financial Instruments

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

Real Estate

The acquired properties are initially evaluated for their condition of repair, location and refurbish costs for resale and or rental. If, at acquisition, a property needs to be renovated before it is ready for its intended use, we commence the necessary development activities. During this development period, we capitalize all direct and indirect costs incurred in renovating the property. Real estate under development in the accompanying consolidated balance sheets represents aggregate carrying amount of properties that are being prepared for their intended use. When the intended use has been determined:

SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Real Estate – Held-for-Resale

Real estate is carried at cost. 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 is evaluated annually, or when events or changes in circumstances indicate the carrying value of the real estate may not be recoverable.

Real Estate – Held-for-Investment

Real estate is carried at cost, net of accumulated depreciation of $42,334. Once a property is ready for rental use, expenditures for ordinary maintenance and repairs thereafter are expensed to operations as incurred, and we capitalize expenditures that improve or extend the life of a home. Building depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The Company generally uses a 27.5-year estimated life with no salvage value.

Building depreciation was $19,405 and $22,929 in 2014 and 2013.

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Accounts Receivable

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

For 2014 and 2013, bad debt expense was $20,213 and $58,596. As of December 31, 2014 and 2013, accounts receivable consists of the following:

	2014	2013
Gross accounts receivable	$22,934	$38,876
Less allowance for doubtful accounts	(1,123)	(3,747)
	$21,811	$35,129

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

SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Property and Equipment

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

Impairment of Long-Lived Assets

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

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.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in a business combination. Goodwill is not amortized, but is tested for impairment on an annual basis and more frequently if impairment indicators are present. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. An impairment charge is recognized for the excess of the carrying value of goodwill over its implied fair value. The Company conducted its annual goodwill impairment test as of December 31, 2014 and 2013 and determined no impairment charge was necessary in 2014, however, at December 31, 2013, the Company determined that the carrying value of Goodwill exceeded its fair value and recorded a goodwill impairment charge of $122,065 in 2013.

Deferred Revenue

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

Revenue Recognition

In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectability of the related fee is reasonably assured. The Company's arrangements generally do not include a provision for cancellation, termination, or refunds that would significantly impact revenue recognition.

Internet

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

Real estate – held-for-resale

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.

Revenue from real estate sales was $341,563 and $93,000 in 2014 and 2013.

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SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Real estate – held-for-investment

Rental revenue from real estate – held-for-investment attributable to residential leases is recorded when due from residents, which approximates the amount that would result from straight-lining rents over the lease term. The initial term of our residential leases is generally one year, with renewals upon consent of both parties on an annual or monthly basis.

Rental revenue was $119,588 and $63,192 in 2014 and 2013.

Advertising and Marketing Costs

The Company expenses costs of advertising and marketing as they are incurred. These expenses for the years ended December 31, 2014 and 2013 were approximately $9,000 and $15,000, respectively.

Income Taxes

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

Income Per Share

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

	2014	2013
Net income available to common shareholders	$384,183	$96,243
Weighted average number of common shares	74,085,705	74,085,705
Basic and diluted income per share	$.01	$.00

Comprehensive Income

As of and for the years ended December 31, 2014 and 2013, the Company had no items that represent other comprehensive income and therefore, has not included a schedule of comprehensive income in the consolidated financial statements.

Recently Issued Accounting Pronouncements

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

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SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 2 - PROPERTY AND EQUIPMENT

The cost of property and equipment at December 31, 2014 and December 31, 2013 consisted of the following:

	2014	2013
Land	$10,000	$10,000
Building	213,366	213,366
Automobile	11,500	11,500
Computer equipment	1,164,061	1,164,061
Furniture and fixtures	59,862	59,862
	1,458,789	1,458,789
Less accumulated depreciation	(1,312,475)	(1,312,475)
	$146,314	$146,314

Depreciation expense was $0 and $2,643 for 2014 and 2013.

NOTE 3 NOTES PAYABLE

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

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

<u>Litigation</u>

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 associated with Plaintiff’s failure to turnover certain customer lists. 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.

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SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 4 NOTES PAYABLE - STOCKHOLDERS

Notes payable - stockholders at December 31, 2014 and 2013 consist of the following:

	2014	2013
Note payable to stockholder. The note is payable on January 1, 2020 and bears interest at an annual rate of 10.0%.	$ —	$59,826
	—	59,826
Less current portion	—	—
Long-term portion	$ —	$59,826

This note was paid during 2014.

NOTE 5 COMMITMENTS AND CONTINGENCIES

Leases

The Company leases certain facilities for its corporate offices and retail stores under non-cancelable operating leases. Total rent expense for the years ended December 31, 2014 and 2013 was $109,653 and $71,690, respectively. Related party rent expense for each year is $54,000. Future minimum lease payments under operating leases with initial or remaining terms of one year or more are as follows:

Year ended December 31,	
2015	$55,200

2016	48,000
2017	16,000
Total	$119,200

NOTE 6 STOCKHOLDERS' EQUITY

Classes of Shares

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

Preferred Stock

Preferred stock, any series, shall have the powers, preferences, rights, qualifications, limitations and restrictions as fixed by the Company's Board of Directors in its sole discretion. As of December 31, 2014, the Company's Board of Directors has not issued any Preferred Stock.

Common Stock

None.

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SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 7 INCOME TAXES

The provision for federal and state income taxes for the years ended December 31, 2014 and 2013 included the following:

	2014	2013
Current provision:		
Federal	$—	$—
State	—	—
Deferred provision:		
Federal	114,529	137,465
State	21,815	25,807
Valuation allowance	(61,619)	—
Total income tax provision	$74,276	$163,272

Deferred tax assets and liabilities reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. 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. Significant components of the Company's deferred tax assets and liabilities at December 31, 2014 and 2013 are as follows:

	2014	2013
Accounts receivable	$1,123	$2,256
Amortization of Intangible assets	2,359,505	2,494,267
Less valuation allowance	(2,360,628)	(2,422,247)
Deferred tax asset	$—	$74,276

NOTE 8 RELATED PARTY TRANSACTIONS

The Company leases its office building in Lynchburg, Virginia from its Director and CEO on a five-year lease expiring April 30, 2017. For the years ended December 31, 2014 and 2013, the Company paid $48,000 and $48,000 for rent on this office building. In addition, the Company rents a house used for storage of appliances and supplies which is located in Salem VA. This property is also leased from the same Company director and CEO at an annual rent of $6,000.

NOTE 9 - 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.

Summarized financial information concerning the Company's reportable segments is shown in the following table for the years ended December 31, 2014 and 2013:

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SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	December 31, 2014			
	Corporate	Real Estate	Internet	Consolidated
Revenue	$—	$461,251	$1,922,445	$2,383,696
Operating income (loss)	$(135,922)	$34,529	$561,603	$460,210
Depreciation and amortization	$—	$19,405	$—	$19,405
Interest expense	$—		$(2,405)	$(2,405)
Goodwill	$—		$1,166,494	$1,166,494
Identifiable assets	$—	$3,400,463	$1,905,709	$5,306,172

	December 31, 2013			
	Corporate	Real Estate	Internet	Consolidated
Revenue	$—	$156,192	$2,397,557	$2,553,749
Operating income (loss)	$(115,490)	$(37,603)	$415,401	$262,308
Depreciation and amortization	$—	$22,929	$130,691	$153,620
Interest expense	$—		$(4,848)	$(4,848)
Goodwill	$—		$1,166,494	$1,166,494
Identifiable assets	$—	$3,243,606	$1,759,639	$5,003,245

NOTE 13 - SUBSEQUENT EVENTS

None.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of December 31, 2014, 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 on material weaknesses in our internal control, as described below, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2014.

Management’s Report on Internal Control over Financial Reporting

The management of Sitestar is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our consolidated financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. Based on this evaluation, our management concluded that, as of December 31, 2014, our internal control over financial reporting was not effective based on such criteria. We have reviewed the results of management's assessment with our Board of Directors. In addition, we will evaluate any changes to our internal control on a quarterly basis to determine if a material change occurred.

Material Weaknesses in Internal Controls

As defined by the Public Company Accounting Oversight Board's Auditing Standard No. 5, a material weakness is a significant control deficiency, or a combination of significant control deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

As a result of our evaluation, we identified the following material weaknesses in our internal control over financial reporting as of December 31, 2014:

We did not maintain proper segregation of duties for the preparation of our financial statements. Due to the size of our administrative staff, all accounting and reporting functions are handled by a single individual, our Chief Financial Officer, with little or no oversight and review.

We did not maintain appropriate controls over changes to the list of key individuals, and changes to the list tracking the number of shares held by key individuals, in the shareholder database. The Company, during this next quarter, will have an appropriate individual periodically review the list of key individuals and the complete and accurate reporting of their records in the proper periods.

Changes in Our Internal Control

Except as noted above, no change in the Company's internal control over financial reporting occurred during the fiscal quarter ended December 31, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Sitestar have been detected. These inherent limitations include the realities that judgments and decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or my management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

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

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

Name	Age	Position	Director since
Frank R. Erhartic, Jr.	46	President, CEO, Director	2001
Daniel Judd	58	CFO, Director	2004
Jeff Moore		Director	2013

Frank Erhartic, Jr., 46, Mr. Erhartic guides Sitestar's long-term market strategies and investments, oversees all product research and development and leads the company's day-to-day operations. An entrepreneur, Mr. Erhartic founded Computers by Design, a Sitestar subsidiary, in 1985 as a software development and computer services company while pursuing his high school diploma and later created a toner remanufacturing division called CBD Toner Recharge. In 1996, Mr. Erhartic started Lynchburg.net an Internet Service Provider which was acquired by Sitestar in 2000. He was named President and CEO in 2002, and has led the growth of the Company's customer base through a series of acquisitions. Mr. Erhartic has MCSE, Novell Netware and A+ certifications and is a graduate of Virginia Tech with degrees in both Management and Finance.

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Dan Judd, 57, Mr. Judd has over thirty five years of experience in accounting and management, he oversees financial reporting, planning, mergers and acquisitions, and finance support for all business operations. Before joining Sitestar in 2003, Mr. Judd ran his own accounting firm, Judd Enterprises, Inc., specializing in both taxes and accounting. He also held management positions in manufacturing and wholesale companies. Mr. Judd is a Certified Public Accountant and holds a Bachelor of Science degree in Commerce from the University of Virginia.

Jeffrey Moore, a landlord and value investor focused on real estate and common stocks. He is a founder and Presiding Partner M & M Investments, a family investment partnership that invests in value micro-cap securities. Previously, Mr. Moore served multiple terms on the board of a 209 unit homeowner's association. He presently serves on the board and as the secretary of a neighborhood association in Lexington, KY. Mr. Moore has earned a B.A. of General Studies at Eastern Kentucky University.

TERM OF DIRECTORS:

Director	Expiration of term
Frank R. Erhartic, Jr.	December 31, 2014
Dan Judd	December 31, 2014
Jeff Moore	Next shareholder meeting

Section 16(a) Beneficial Ownership Reporting Compliance Pursuant to Section 16 (a) of the Securities Exchange Act of 1934, and the rules issued there under, our directors and executive officers are required to file with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. ownership and changes in ownership of common stock and other equity securities of the Company. Copies of such reports are required to be furnished to us. Based solely on a review of the copies of such reports furnished to us, or written representations that no other reports were required, we believe that, during our fiscal year ended December 31, 2013 all of our executive officers and directors complied with the requirements of Section 16 (a).

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

ITEM 11. EXECUTIVE COMPENSATION

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

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compen-sation ($)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Frank R, Erhartic, Jr.	2014	48,577							48,577
Principal Executive Officer (PEO)	2013	48,577							48,577
Daniel Judd,	2014	48,200							48,200
Principal Financial Officer (PFO)	2013	48,200							48,200

Frank R. Erhartic, Jr., President, CEO and Director, earned a salary of $48,577 and $48,577 for the years ended December 31, 2014 and 2013, respectively. He received no other compensation. Daniel Judd, CFO and Director earned a salary of $48,200 and $48,200 for the years ended December 31, 2014 and 2013, respectively. He received no other compensation.

GRANTS OF PLAN-BASED AWARDS

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

There were no Equity Incentive Plans, Non-Equity Incentive Plans or Stock Awards for the years ended December 31, 2014 and 2013.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

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

There were no Equity Incentive Plans, Non-Equity Incentive Plans or Stock Awards for the years ended December 31, 2014 and 2013.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation	Change in Pension Value and	All Other Compensation ($)	Total ($)

	in Cash ($)	($)	Nonqualified Deferred Compensation Earnings ($)	
Frank R, Erhartic, Jr., Director				$0.00
Daniel Judd, Director				$0.00
Jeff Moore, Director				$0.00

There were no Director compensation other than salary for the years ended December 31, 2014 and 2013.

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

The following table sets forth certain information as of March 30, 2015 regarding the record and beneficial ownership of our common stock by: (i) any individual or group (as that term is defined in the federal securities laws) of affiliated individuals or entities who is known by us to be the beneficial owner of more than five percent of the outstanding shares of our common stock; (ii) each of our executive officers and directors; and (iii) our executive officers and directors as a group.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percent Of Class (2)	
Frank and Julie Erhartic 7109 Timberlake Road Lynchburg, VA 24502	24,883,980	33.6	%
Daniel A. Judd 7109 Timberlake Road Lynchburg, VA 24502	133,865	00.18	%
Jeff Moore 7109 Timberlake Road Lynchburg, VA 24502	5,423,373	7.3	%
All directors and officers as a group (3 person)	30,441,218	41.1	%

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

(2) Percent of class is based on 74,085,705 shares of common stock outstanding as of March 30, 2015.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The Company leases its office building in Lynchburg, Virginia from its Director and CEO on a five-year lease expiring April 30, 2017. For the years ended December 31, 2014 and 2013, the Company paid $48,000 and $48,000 for rent on this office building. In addition, the Company rents a house used for storage of appliances and supplies which is located in Salem VA. This property is also leased from the same Company director and CEO at an annual rent of $6,000.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees to Independent Registered Public Accountants for Fiscal 2014 and 2013:

Fees paid to Ciro E. Adams, CPA, LLC:

	2014	2013
Audit fees	$57,500	$42,500
Audit related fees	5,000	—
Tax	2,500	—
Other	—	—
	$65,000	$42,500

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AUDIT COMMITTEE

The Company does not have an audit committee.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

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

Exhibit		Description	Filed
3.1	(i)	Articles of Incorporation of the Registrant (December 17, 1992)	a
3.1	(ii)	Amended Articles of Incorporation (July 29, 1998)	a
3.1	(iii)	Amended Articles of Incorporation (October 26, 1998)	a
3.1	(iv)	Amended Articles of Incorporation (July 14, 1999)	a
3.1	(v)	Amended Articles of Incorporation (July 28, 1999)	a
3.2	(i)	By-laws of the Registrant (December 17, 1992)	a
4.2		Convertible Debenture Purchase Agreement dated as of May 11, 2000 between the investors named therein and the Registrant	c
4.3		12% Convertible Debenture due May 11, 2001 made by the Registrant in favor of New Millenium Capital Partners II, L.L.C.	c
4.4		12% Convertible Debenture due May 11, 2001 made by the Registrant in favor of AJW Partners, L.L.C.	c
4.5		Stock Purchase Warrant dated as of May 11, 2000 issued by Registrant to New Millenium Capital Partners, L.L.C.	c
4.6		Stock Purchase Warrant dated as of May 11, 2000 issued by Registrant to AJW Partners, L.L.C	c
4.7		Registration Rights Agreement dated as of May 11, 2000 by and between the Registrant and the investors named therein.	c
10.1		Lease for Corporate Office	b
10.13		Statement of changes in beneficial ownership of securities.	k
10.14		Definitive Purchase Agreement to acquire certain assets of Idacomm, Inc, effective September 16, 2005.	l
10.15		Definitive Purchase Agreement to acquire Inc, effective January 1, 2006	m
10.16		Amendment to report audited financial statements for Definitive Purchase Agreement to acquire Inc.	n
10.17		Definitive Purchase Agreement to acquire certain assets of First USA, Inc, effective July 1, 2006.	o
10.18		Definitive Purchase Agreement to acquire certain assets of OW Holdings, Inc, effective February 28, 2007.	p
		SCHEDULE 21, LIST OF SUBSIDIARIES	
		Sitestar.net	
		FRE Enterpises, Inc.	
		Advanced Internet Services, Inc.	
		NetRover Inc.	
31.1		Certification of Chief Executive Officer Pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31.2		Certification of Chief Financial Officer Pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	q
32		Certification Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	q

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

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

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

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

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

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

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

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

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

[q] Filed herewith

SIGNATURES

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

Signature	Title	Date
/s/ Frank Erhartic, Jr. Frank Erhartic, Jr.	President, Chief Executive Officer, Director (Principal Executive Officer)	04/1/15
/s/ Daniel A. Judd Daniel A. Judd	Chief Financial Officer (Principal Financial Officer, Principal Accounting Officer)	04/1/15

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