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SITESTAR CORP  
Form 10KSB  
April 16, 2002

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

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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  
(IRS Employer  
Identification No.)

15303 Ventura Boulevard, Suite 1510, Sherman Oaks, CA 91403  
(Address of principal executive offices) (Zip Code)

(818) 380-8180  
(Issuer's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

TITLE OF EACH CLASS  
COMMON STOCK, \$.001 PAR VALUE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by referenced in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Revenue for the year ended December 31, 2001: \$3,997,350

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant at March 31, 2002 was \$1,852,320. The number of shares outstanding of the registrant's Common Stock as of March 31, 2002 was 95,624,892.

DOCUMENTS INCORPORATED BY REFERENCE

None

Transitional Small Business Disclosure Format (check one): Yes  No

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## PART I

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

### ITEM 1. DESCRIPTION OF BUSINESS

#### Overview

We are a technology holding company with a broad strategy of acquiring and investing in technology related enterprises. Our primary strategy is acquiring and operating small independent Internet Service Providers ("ISP") in the rural areas of the mid-Atlantic region. Our specific mission is to develop our operating ISP subsidiaries and future ISP acquisitions into a successful collaborative ISP network. We intend to achieve this success by harnessing the synergistic potentials that exists among these acquisitions by consolidating all the administrative functions and streamlining the corporate functions that may exist with each acquisition.

In July 1999, we began to implement our broader strategy of acquiring and investing in emerging technology-based enterprises to create a broad and diverse set of core electronic businesses that deliver a variety of online solutions. In addition to developing and integrating technology-based enterprises, our broader objective is to create a mix of Internet operating companies and technology-related portfolio investments that will enhance the value of our core holdings.

Our Internet operating subsidiaries provide Internet services to our customers by providing Internet access and enhanced products and services to small and medium sized enterprises in selected high growth markets. We target primarily small and medium sized enterprise customers and residential users located in selected high growth secondary markets. We currently provide our customers, which total approximately 15,000 as of December 31, 2001, with Internet access and enhanced products and services in the mid-Atlantic area of the United States. We have designed our comprehensive suite of enhanced products and services to meet the expanding needs of our customers and to increase our revenue per customer.

The products and services we provide include:

- o Internet access services;
- o Web design services;
- o Web hosting services;
- o End to end e-commerce solutions;
- o Online marketing consulting; and
- o Management of mission critical Internet applications.

Our ISP operating subsidiaries derive their income from the excess of the Internet service prices we charge our customers over the cost of service we pay our suppliers. Additionally, our retail customers pay for services by cash or credit card while we pay our suppliers on extended terms. As a result, we are able to increase our working capital between the time we receive payment for services and the time we are required to pay suppliers. We also generate income from the development of computer software for companies principally in the manufacturing industries and from sales from our retail computer store in Lynchburg, Virginia.

Our most recent acquisition was Advanced Internet Services, Inc. (ADVI). ADVI is an Internet service provider located in Mt. Airy, North Carolina. This acquisition provided us with an expanded geographic footprint, broader management depth and enhanced profitability.

In July 2001, we successfully spun off the content services division of our wholly owned subsidiary, Sitestar.net, Inc. into TriVantage Group, Inc., a separate public company exclusively focused in content development services. We owned 90% of TriVantage after the spinoff. On December 28, 2001, we contributed the assets of the content service division back to Sitestar.net and sold the TriVantage public shell. We recognized an actual cash gain on the sale of TriVantage of \$188,158. Since we owned the content service division for the entire year either directly or indirectly through TriVantage, the operations of this division have been consolidated with our operations for the entire year.

#### Corporate History

We were incorporated under the name of White Dove Systems, Inc. in December 1992 under the laws of the State of Nevada to engage in any lawful corporate activity.

In October 1998 we acquired all the issued and outstanding shares of Interfoods Consolidated, Inc. ("IFCO"), a California corporation, in exchange for 5,580,000 shares of our Common Stock. IFCO, operating under the trade name of Holland American International Specialties ("HAIS"), is a retailer and wholesaler of imported and domestic specialty gourmet foods. IFCO began its operations in June 1997 with the purchase of the inventory assets and trade name of HAIS from an unrelated third party. HAIS' product offering ranges from exotic European delicacies to mainstream specialty candies, chocolates and other confectionery products. In connection with this acquisition and in order to properly reflect the new corporate focus, we changed our name from White Dove Systems, Inc. to Interfoods Consolidated, Inc. in October 1998.

In July 1999 a partnership consisting of a majority of our shareholders, including our Executive Chairman Mr. Manlunas, acquired all the issued and outstanding shares of Sitestar, Inc., a Delaware corporation, in exchange for 3,491,428 shares of our common stock owned by those shareholders. Simultaneous with the closing of this transaction, those shareholders contributed all the issued and outstanding shares of Sitestar, Inc. to us as contributed capital. Sitestar, Inc. is an Internet access, Web development, design and hosting company formed in 1996 and is based in Annapolis, Maryland. This acquisition included Soccersite.com which is currently one of our operating divisions. Soccersite.com was an operating division of Sitestar, Inc. To better reflect our new primary corporate focus as an Internet holding company, we changed our corporate name from Interfoods Consolidated, Inc. to Sitestar Corporation in July 1999.

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In August 1999 we acquired substantially all of the assets of Greattools.com in exchange for 49,000 shares of our common stock. We acquired the assets of Greattools.com from Global Sourcing Group, Greattools.com's current fulfillment center. Gateway Holdings, Inc., a private investment company managed by our Executive Chairman Frederick Manlunas, has a 14.6% equity ownership in Global Sourcing Group. Greattools.com is an online low cost retailer of power tools.

Effective as of September 30, 1999 we sold the non-Internet assets of Holland American International Specialties to IFCO Group, LLC, whose members consist of certain of our shareholders, including Frederick T. Manlunas, our Chairman of the Board. We retained the assets consisting of the Internet web site Holland-American.com. Holland American International Specialties will continue to serve as Holland-American.com's exclusive fulfillment center. The purchase consideration of \$900,000 was based upon a business appraisal by an independent third party appraiser. The consideration included \$200,000 which was to be offset against a liability we had to Mr. Manlunas for services rendered in connection to the acquisition of Sitestar, Inc., the assumption of \$654,000 of liabilities and a promissory note in the amount of \$46,000. The note bears interest at a rate of 8% per annum, and is payable in annual installments of \$15,333, and is due and payable on September 30, 2002. The note is secured by the accounts receivable and inventory of Holland American International Specialties.

Effective December 15, 1999, we consummated the acquisition of Neocom Microspecialists, Inc. ("Neocom") in exchange for 6,782,353 shares of our common stock for 100% of the outstanding shares of Neocom. Effective upon the closing of the acquisition, we issued 4,782,353 shares of our common stock and have reserved 2,000,000 shares of common stock that we have agreed to issue on the second anniversary of the acquisition based on certain contingencies. The certain contingencies are related to potential unrecorded liabilities. As of January 2002, the remaining 2,000,000 have been issued to the former shareholders of Neocom. Of the 6,782,353 shares issued for Neocom, 900,000 shares were issued in exchange for certain liabilities that the majority of Neocom's selling shareholders have agreed to assume based on a debt assumption agreement executed and delivered at the closing of the acquisition. In 2000, the purchase agreement was amended so that we assumed the debt that was originally to be assumed by the selling shareholders in exchange for the 900,000 shares.

Neocom is an Internet service provider and Web development company based in Martinsville, Virginia. Neocom provides Internet access and other Internet services to approximately 7,500 customers in the Southern Virginia area.

Effective November 22, 2000, we consummated the acquisition of FRE Enterprises, Inc. and FRE Communications, Inc., both Virginia corporations (collectively doing business as "Lynchburg.net") in exchange for 16,583,980 shares of our common stock for 100% of the outstanding shares of Lynchburg.net. Effective upon the closing of the acquisition, we issued 12,437,985 shares of our common stock and have reserved 4,145,995 shares of our common stock that we have agreed to issue on the third anniversary of the acquisition based on certain contingencies. The certain contingencies are related to potential unrecorded and unknown liabilities. We used the market price of our common stock at the acquisition date to determine the acquisition price of \$2,487,597.

Lynchburg.net is an Internet service provider, web development and computer sales and service company based in Lynchburg, Virginia. As of December 31, 2001,

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Lynchburg.net provided Internet access, computer sales and service and other Internet services to approximately 4,500 customers in the Southern Virginia area.

We believe the acquisition of Lynchburg.net enhanced our primary strategy of consolidating small Internet service providers in the rural markets of the mid-Atlantic region by enlarging our service footprint. This acquisition increased our Internet access customer base to approximately 12,000 subscribers.

On July 1, 2001, we acquired 100% of the equity and voting interest of Advanced Internet Services, Inc., a North Carolina corporation which is a successor in interest to two sole proprietorships one having the same name as the corporation and the other with the name Professional Data Systems (collectively "ADVI"). ADVI is an Internet service provider located in Mt. Airy, North Carolina. The purchase price was \$965,980, which consisted of \$150,000 in cash, 6,021,818 of our common shares valued at \$301,091 a non-interest bearing promissory note for \$1,199,990 payable in 24 quarterly installments of \$49,995 and transaction costs of \$30,000. However, due to the non-interest bearing nature of the note, we imputed a discount rate of 36% to calculate the present value of the note. This discount rate is an estimate of our current cost of capital. Based on this calculation, the present value of the non-interest promissory note is \$484,889.

We believe the acquisition of ADVI, with about 3,000 subscribers, enhanced our primary strategy of consolidating small Internet service providers in the rural markets of the mid-Atlantic region by enlarging our service footprint. We also believe this transaction opened other acquisition opportunities for us to further increase our presence in the northern areas of North Carolina. This recent acquisition increased our Internet access customer base to over 15,000 subscribers. This acquisition included goodwill of \$702,642 that was the premium we paid to have the opportunity to generate revenues and earnings in this market. Furthermore, this acquisition generated us cost savings with the integration and consolidation of ADVI's corporate and administrative functions with our existing infrastructure. This estimated cost savings, along with the accretive nature of the transaction from an operating cash flow perspective, will further allow us to enhance our revenue streams and increase our operating cash flow.

### Internet Industry Background

#### Market Opportunity

Overview. We believe that the Internet has become an important global medium enabling growing numbers of people to obtain and share information and conduct business electronically. Its expanded use has made the Internet a critical tool for information and communications for many users. We believe that Internet access and enhanced Internet services, including Web hosting and electronic commerce services, represent two of the fastest growing segments of the telecommunications services market. We believe that the availability of Internet access, advancements in technologies required to navigate the Internet, and the proliferation of content and applications available over the Internet have attracted a rapidly growing number of Internet users.

Growth in Business Use of the Internet. We believe that the dramatic growth in Internet usage in recent years, combined with enhanced functionality, accessibility and security, has made the Internet increasingly attractive to businesses as a medium for communication and commerce. We feel that for many businesses, the Internet has created a new communication and sales channel which

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enables large numbers of geographically dispersed organizations and consumers to be reached quickly and cost-effectively. International Data Corporation estimates that the number of consumers buying goods and services on the Internet will grow 128.4 million in 2002, and that the total value of goods and services purchased over the Internet will increase to approximately \$426 billion by 2002.

We believe that businesses will increasingly add a variety of enhanced services and applications to their basic Internet access, Web sites and e-commerce applications in order to more fully capitalize on the power of the Internet. We feel that these services and applications will allow them to more efficiently and securely communicate company information, expand and enhance their distribution channels, increase productivity through back-office automation, ensure reliability and reduce costs. We see opportunities for growth in the following areas:

- o Demand for Internet Access Services

Internet access services represent the means by which ISPs interconnect their customers to the Internet or corporate Intranets and extranets. According to Forrester Research, Internet access revenues from businesses are expected to increase from less than \$1 billion in 1997 to more than \$16 billion in 2002. Due, in part, to their size, small and medium sized enterprises often seek to outsource these services.

- o Demand for Web Hosting Services

Many businesses are seeking to outsource to ISPs services such as Web hosting, collocation and file transfer protocol data storage and retrieval.

- o Demand for Secure Private Networks

We believe that concerns relating to the security of internal and proprietary information, data loss and reduced transmission speed has led businesses to demand Internet services that include the ability to provide electronic security monitoring and threat responses.

The Small and Medium Sized Enterprise Market. We define this market as business enterprises having sales of less than \$20.0 million per annum and enterprises having less than 100 employees. We have specifically targeted small and medium sized enterprises because:

- o We believe that these enterprises increasingly need high-speed data and Internet connections to access business information and to communicate more effectively with employees, customers and vendors.
- o We believe that a relatively small percentage of these enterprises currently utilize the Internet, but that this number is increasing rapidly. The small and medium sized enterprise segment is expected to be one of the fastest growing segments of the Internet industry.

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- o Many of these enterprises lack the resources and expertise to develop, maintain and expand, on a cost-effective basis, the facilities and network systems necessary for successful Internet operations.
- o We believe that these enterprises will prefer an Internet service provider with locally based personnel who are available to assist in developing and implementing their growing use of the Internet and to

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respond to technical problems in a timely manner.

- o We believe that these enterprises rely more heavily on their Internet service provider than larger enterprises and tend to change Internet service providers relatively infrequently.

Internet Services in Secondary Markets. Small and medium sized enterprises are often concentrated in so-called "secondary markets" to avoid the higher costs associated with locating in a metropolitan area. A secondary market is any market smaller than the 100 most populated U.S. metropolitan markets. However, national ISPs have historically placed their largest points of presence, or POPs, only in or around densely populated major cities. A POP is an access point at which customers in a traditional ISP network architecture can connect to data circuits in order to obtain Internet access and other services. While customers located within a few miles from these POPs often receive cost savings on their access pricing, customers located in secondary markets that are as close as 20 to 75 miles away from these POPs have typically been charged higher prices for Internet access services.

We believe that small and medium sized enterprises located in high-growth secondary markets are currently underserved by both national and local providers of Internet access and related services. National ISPs, on the one hand, typically lack the local presence to provide local support. Local ISPs, on the other hand, often lack the requisite scale and resources to provide a full range of services at acceptable quality and pricing levels.

### Our Growth Strategy

Our goal is to be a premier Internet company that offers products ranging from Internet access and a complete suite of Internet products and services to a variety of e-commerce platforms targeting small and medium sized enterprises in our target markets. We would like to offer a variety of business-to-consumer and business-to-business e-commerce solutions to our customers.

Key elements of our strategy include:

Focus Growth on Secondary Markets. We intend to expand into selected secondary markets by replicating our regional network and marketing model. Our network architecture and scalable sales and marketing plan are designed to allow us to penetrate additional regions rapidly and cost-effectively.

Market a Variety of Services to New and Existing Customers. We intend to offer a comprehensive suite of a variety of products and services to meet the expanding needs and complexity of our customers' Internet operations allowing us to increase revenue per customer and maintain a high customer retention rate by strengthening relationships with our customers.

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Use of Centralized Sales and Marketing Operations. We intend to use our centralized sales and marketing staff to help implement our regional strategy cost-effectively. We intend to hire and train additional local sales and marketing personnel within our target regions to complement the core of our sales and marketing staff, which will continue to be concentrated in one centralized location to maximize efficiency. These regionally located employees are intended to add local market knowledge, expertise and familiarity to our sales and marketing efforts and allow us to maintain a field presence in each of our regions, while maximizing our central operations.

Strategic Relationships and Acquisitions. We intend to enter into strategic

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relationships, such as partnerships and joint ventures, and to make acquisitions to expand our line of enhanced products and services.

As part of this strategy, we acquired Neocom, a provider of Web hosting and co-location services in the Mid-Atlantic region. We also acquired Lynchburg.net, an Internet service provider, web development and computer sales and service company based in Lynchburg, Virginia. In addition, we acquired Advanced Internet, an Internet service provider based in Mt. Airy, North Carolina. These acquisitions are consistent with our growth strategy of building our presence in secondary markets that have traditionally been under served by the larger Internet services companies. In addition, we are also actively seeking acquisition opportunities and/or candidates in the Mid-Atlantic region that would help us achieve critical mass in terms of our Internet access, development and hosting customers.

### Internet Industry Overview

We believe that Internet commerce is reshaping the way consumers and businesses conduct business. According to new projections from Forrester Research, worldwide e-commerce sales will reach as high as \$3.2 trillion in 2003, representing nearly 5% of all global sales. These sales figures include business-to-business and business-to-consumer sales and EDI (electronic data interchange) orders placed on the Internet, but exclude the value of financial transactions. E-commerce is defined as the trade of goods and services in which the final order is placed over the Internet.

### Growth in Electronic Commerce

We feel strongly that the growing popularity of the Internet represents an opportunity for companies like us to take advantage of the potential for commercial transactions conducted online, referred to as electronic commerce or e-commerce. International Data, Inc., a market research firm, estimates that business-to-consumer commerce over the Internet will increase from over \$12 billion worldwide at the end of 1997 to approximately \$425 billion worldwide by the end of 2002. In addition, Jupiter Communications, another market research firm, predicts that by 2002, 44% of Internet users will make purchases online, as compared to an estimated 22% that did so in 1997. Several factors are driving the growth in both business to consumer and business to business electronic commerce.

These factors include:

- o increasing familiarity with the Internet;
- o broadening consumer acceptance of online shopping;

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- o increasing acceptance on online distribution relationships by businesses; o improved online network security and infrastructure;
- o the growing base of personal computers and improved Internet access; and
- o expanding network bandwidth and access speeds.

We believe that the Internet is particularly well suited for promoting, marketing, selling and distributing merchandise both on a retail and a wholesale level, permitting customers throughout the world to have direct access to suppliers. Online stores can provide direct customer service and product information to a large number of customers at the same time with a substantially



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smaller sales staff than traditional stores. Online stores also have the ability to rapidly and continually update such information. Internet merchandisers, unlike traditional stores, do not have the same expenses associated with operation of physical stores and warehouse facilities, and can change stores design without substantial cost. In contrast to catalog merchandisers, Internet retailers can react quickly to change product descriptions, pricing or product mix and are not subject to the costs of catalog publication and distribution. Additionally, online merchandisers have the ability to track directly customer responses and preferences, which enables the merchandisers to customize their online stores to target specific customer groups and individuals.

### Changing Demographics

In the early days of the Internet, users consisted mainly of young, technology-savvy or upscale males. Today, while the online population has appeared to have changed drastically, it remains a fairly elite group. Demographics from Mediamark Research show that Internet users are approximately twice as likely to have high household incomes, college degrees and management positions than the overall U.S. population. They are also more likely to be young and single. Geographically, Internet users can be found in all corners of the U.S., although, according to researcher Inteco, the level of Internet use in several major metropolitan areas exceeds the overall U.S. average.

### Consumer Acceptance

We believe broadening consumer acceptance and retailer ambitions will combine to fuel a rapid growth in online retail sales and to drive more than 40 million U.S. households to shop online by 2003, producing \$108 billion revenues. According to Forrester Research, online retail sales will account for 6% of U.S. consumer retail spending in the U.S. by 2003. Analysts estimate that by the end of 1998, nearly 9 million U.S. households will have shopped online for travel services and retail goods other than automobiles, generating \$7.8 billion in online sales. We expect these numbers to grow rapidly over the next five years as high-speed Internet connections become more popular and consumers overcome security and privacy concerns and embrace the convenience of Web shopping.

### Corporate E-Commerce

Forrester Research estimates that by year 2003, consumers will spend \$108 billion to buy goods online, while businesses will spend \$1.3 trillion. As expected, computing and electronic equipment will remain one of the largest categories of goods traded between businesses, reaching \$395 billion in revenue by 2003, while other industries, such as cars and petrochemicals, will also top

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the \$150 billion mark. In addition to the \$1.3 trillion in business-to-business sales of products, Forrester also reports that online transactions in business services will equal \$220 billion by 2003. Michael Putnam of Forrester Research states that "Just as the Internet has revolutionized the goods industries, the services industry is going to be reinvented."

Internet-based businesses have already created more than 200 on-line marketplaces for conducting business-to-business (B2B) electronic commerce. These Internet locations bring buyers and sellers together in a central marketplace and, in addition, provide services such as procurement management, financial settlement and quality assurance. These services enhance the B2B sites' value to the end customers and allow it to become an integral part of those customers' business processes.

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By providing a central on-line hub that automates transactions, aggregates information, improves market reach and provides related services, we believe these B2B sites will help their participants reduce both product and process costs. By resolving information-based inefficiencies, they act as catalysts to compress time, slash costs and improve processes in ways that were previously unimaginable. Leading research firms estimate that product and process cost savings afforded by B2B sites will amount to \$57 billion by 2003.

### Our Internet Subsidiaries and Services

#### Product Offerings

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#### Internet Access

We provide dial-up and private Internet access, design customized web sites, host customer web sites on our computer networks, and offer related e-commerce services to individual and business subscribers outside of large metropolitan areas in the mid-Atlantic region, particularly southern Virginia. We offer subscribers comprehensive technical assistance, large modem banks providing rapid access to the Internet, and high-speed connectivity. In addition, our home page web sites serve as regional portals, offering local and national news and weather, community resources, advertising, and links to other local and national content providers.

Our Web services help organizations and individuals implement their Web site goals. We offer complete Web hosting services that enable customers to establish a Web site presence without maintaining their own Web servers and high-speed connectivity to the Internet.

#### Web Hosting

We offer a variety of Web hosting services which enable our customers to establish and maintain a Web site on the Internet using Web servers and related equipment owned and administered by us.

#### E-commerce

We also provide electronic commerce solutions for consumers and businesses. We develop and operate an on-line "storefront" and sell merchandise over the Internet.

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#### Co-location

We offer co-location services, providing telecommunications facilities for customer-owned Web servers, for customers who prefer to own and have physical access to their servers but require the reliability, security and performance of our on-site facilities.

#### Website Design

We have provided web site design services since 1996 and have developed web sites for approximately 350 customers.

#### Online Marketing

We offer web site marketing services that continually build upon our customer's current search engine listing to improve their placement in the different search engines.

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### Customers and Marketing

Our customer base consists primarily of small and medium sized enterprises and dial-up customers located in secondary markets.

We use targeted marketing and media advertising to develop brand awareness and supplement these efforts with our highly customized sales process and personalized customer service. Through our marketing managers, we seek to develop strong customer relationships within local communities.

### Competition

The Internet services market is extremely competitive and highly fragmented. We face competition from numerous types of ISPs, including national ISPs, and anticipate that competition will only intensify in the future as the ISP industry consolidates. We believe that the primary competitive factors in the Internet services market include:

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

We believe that we compete favorably based on these factors, particularly due to our:

- o Regionally focused operating strategy;
- o Highly responsive customer support and service;
- o High performance; and
- o Competitive pricing.

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Our current competitors include many large companies that have substantially greater market presence, brand-name recognition and financial resources than we do. Some of our local or regional competitors may also enjoy greater recognition within a particular community. We currently compete, or expect to compete, with the following types of companies:

- o national Internet service providers, such as Earthlink, MSN and AT&T Worldnet;
- o providers of Web hosting, collocation and other Internet-based business services, such as Verio, Inc. and Navisite;
- o numerous regional and local Internet service providers, some of which have significant market share in their particular market area;
- o established on-line service providers, such as America Online, Inc. and Prodigy;
- o computer hardware and other technology companies that provide Internet

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connectivity with their or other products, including the IBM and Microsoft;

- o national long distance carriers such as AT&T, MCI WorldCom, Qwest and Sprint;
- o regional Bell operating companies and local telephone companies;
- o providers of free Internet service, including United Online and MicroWorkz Computer Corporation; cable operators or their affiliates, including Time Warner;
- o terrestrial wireless and satellite Internet service providers; and o non-profit or educational ISPs.

Many of the major cable companies and some other Internet access providers have begun to offer or are exploring the possibility of offering Internet connectivity through the use of cable modems. Cable companies, however, are faced with large-scale upgrades of their existing plant, equipment and infrastructure in order to support connections to the Internet backbone via high-speed cable access devices. We believe that there is a trend toward horizontal integration through acquisitions or joint ventures between cable companies and telecommunications carriers. Other alternative service companies have also announced plans to enter the Internet connectivity market with various wireless terrestrial and satellite-based service technologies. In addition, several competitive local exchange carriers and other Internet access providers have launched national or regional digital subscriber line programs providing high speed Internet access using the existing copper wire telephone infrastructure. Several of these competitive local exchange carriers have announced strategic alliances with local, regional and national service providers to provide broadband Internet access. If we are unable to provide technologically competitive service, our revenues and profit margins may decline materially, and our ability to attract additional customers may suffer.

Recently, several national access providers have begun to offer dial-up Internet access for free or at substantial discounts to prevailing rates, which may result in significant pricing pressure for dial-up Internet access services.

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We also believe that manufacturers of computer hardware and software products, media and telecommunications companies and others will continue to enter the Internet services market, which will also intensify competition, especially for dial-up access providers. If we are unable to compete with lower-cost providers by providing superior service and support, our revenues and profit margins may decline materially, and our ability to attract additional customers may suffer.

We also believe that new competitors will continue to enter the Internet access market, such as large computer hardware and software companies, media and telecommunications entities, and companies that provide direct service to residential customers, including cable television operators, wireless communication companies, local and long distance telephone companies and electric utility companies.

Many of our competitors are larger and have greater financial, technical, and operating resources than we do. We cannot assure you of our survival in this intensely competitive environment. We will need to distinguish ourselves by our product and service knowledge, our responsiveness to our targeted market of small to medium sized businesses, our ability to market and sell customized combinations of products and services within our market, and our capacity to

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offer a diverse Internet product line. We also believe that our ability to be flexible and to respond quickly in providing solutions to our customer's Internet needs will be an advantage over some of our competitors.

### Acquisition Strategy

Our strategy is to rapidly build a base of Internet subscribers through acquisitions and internal growth. We believe there are acquisition opportunities among the Internet service providers in our geographic target. In furtherance of our acquisition strategy, we anticipate reviewing and conducting investigations of potential acquisitions. As of the date hereof, we do not have any agreements or pending acquisitions and have not entered into any letters of intent with respect to pending acquisitions. No assurance can be given that we will identify satisfactory acquisition candidates or, if identified, that we will be able to consummate an acquisition on terms acceptable to us.

### Government Regulations

There is currently only a small body of laws and regulations directly applicable to access to or commerce on the Internet. However, due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be 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. Moreover, a number of laws and regulations have been proposed and are currently being considered by federal, state and foreign legislatures with respect to these issues. The nature of any new laws and regulations and the manner in which existing and new laws and regulations may be interpreted and enforced cannot be fully determined.

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

We provide our services through data transmissions over public telephone lines and other facilities provided by telecommunications companies. These transmissions are subject to regulation by the Federal Communications Commission, state public utility commissions and foreign governmental authorities. However, we are not subject to direct regulation by the Federal Communications Commission or any other governmental agency, other than regulations applicable to businesses generally. Nevertheless, as Internet services and telecommunications services converge or the services we offer expand, there may be increased regulation of our business, including regulation by agencies having jurisdiction over telecommunications services. Additionally, existing telecommunications regulations affect our business through regulation of the prices we pay for transmission services, and through regulation of competition in the telecommunications industry.

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

### FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. Forward-looking statements in this document and those made from time to time by us are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements concerning the expected future revenues or earnings or concerning projected plans, performance, product development, product release or product shipment, as well as other estimates related to future operations are necessarily only estimates of future results and there can be no assurance that actual results will not materially differ from expectations. We undertake no obligation to publicly release the results of any revisions to forward-looking statements which may be made to reflect events or circumstances occurring after the date such statements were made or to reflect the occurrence of unanticipated events.

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Factors that could cause actual results to differ materially from results anticipated in forward-looking statements include, but are not limited to the following:

#### RISKS PARTICULAR TO SITESTAR CORPORATION

##### We Have a Limited Operating History Upon Which You May Evaluate Us

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Our new corporate philosophy was formulated in July 1999. Although we have grown significantly since then, we have a limited operating history upon which you may evaluate our business and prospects. We and our wholly owned operating companies are among the many companies that have entered into the emerging e-commerce market. All of our operating companies are in the early stages of their development. Our business and prospects must be considered in light of the risk, expense and difficulties frequently encountered by companies in an early stage of development, particularly companies in new and rapidly evolving markets such as e-commerce. If we are unable to effectively allocate our resources and help grow existing operating companies, our stock price may be adversely affected and we may be unable to execute our strategy of developing a collaborative network of operating companies.

##### A High Percentage of Our Assets Are Intangible Assets

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The change in our corporate focus from a food holding company to an Internet holding company has resulted in a dramatic change in the composition of

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our assets and expenses. With the recent acquisitions of Internet companies, the intangible assets purchased as a result of these acquisitions represent approximately 62% of our total assets and approximately 104% of our stockholders' equity at December 31, 2000. Further, amortization of these intangible assets will be the largest single expense item in our statement of operations. This material concentration of intangible assets increases the risk of a large charge to earnings in the event that the recoverability of these intangible assets is impaired.

Our Business Depends Upon the Performance of Our Operating Companies,

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Which is Uncertain  
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Economic, governmental, industry and internal company factors outside our control affect each of our operating companies. If our operating companies do not succeed, the value of our assets will decline. The material risks relating to our operating companies include:

- o lack of the widespread commercial use of the Internet, which may prevent our operating companies from succeeding; and
- o Intensifying competition for the products and services our operating companies offer, which could lead to the failure of some of our operating companies.

The other material risks relating to our operating companies are more fully described below under "Risks Particular to Our Operating Divisions."

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Fluctuations in Our Quarterly Results May Adversely Affect Our Stock

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Price  
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We expect that our quarterly results will fluctuate significantly due to many factors, including:

- o the operating results of our operating companies;
- o changes in equity losses or income and amortization of goodwill related to the acquisition or divestiture of interests in operating companies;
- o changes in our methods of accounting for our operating company interests, which may result from changes in our ownership percentages of our operating companies;
- o sales of equity securities by our operating companies, which could cause us to recognize gains or losses under applicable accounting rules;
- o the pace of development or a decline in growth of the e-commerce market;
- o intense competition from other potential acquirors of B2B e-commerce companies, which could increase our cost of acquiring interests in additional companies, and competition for the goods and services offered by our operating companies; and

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- o our ability to effectively manage our growth and the growth of our operating companies during the anticipated rapid growth of the e-commerce market.

We believe that period-to-period comparisons of our operating results are not meaningful. Additionally, if our operating results in one or more quarters do not meet securities analysts' or your expectations, the price of our common stock could decrease.

### Our Success is Dependent on Our Key Personnel

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We believe that our success will depend on continued employment by us and our operating divisions of senior management and key technical personnel. If one or more members of our senior management or our operating companies' senior management were unable or unwilling to continue in their present positions, our business and operations could be disrupted. Although, our management team has had their own successes in other industries, our senior management team has limited experience in the Internet industry.

As of December 31, 2001, all of our executive management personnel have worked for us for over one year. However, management of our Neocom, Lynchburg.net and Advanced Internet subsidiaries has operated those companies for several years. Our efficiency may be limited while these employees and future employees are being integrated into our operations. In addition, we may be unable to find and hire additional qualified management and professional personnel to help lead our operating divisions and us.

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The success of some of our operating companies also depends on their having highly trained technical and marketing personnel. Our operating companies will need to continue to hire additional personnel as their businesses grow. A shortage in the number of trained technical and marketing personnel could limit the ability of our operating companies to increase sales of their existing products and services and launch new product offerings.

### Our Expenses Will Increase As We Grow Our Business

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Our expenses will increase as we build an infrastructure to implement our business model. For example, we expect to hire additional employees, expand information technology systems and lease more space for our corporate offices. In addition, we plan to significantly increase our operating expenses to:

- o broaden our operating company support capabilities;
- o explore acquisition opportunities and alliances with other companies;
- o and o facilitate business arrangements among our operating companies.

### We May Be Unable to Obtain Maximum Value For Our Operating Company

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#### Interests

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We have significant positions in our operating companies. While we generally do not anticipate selling our interests in our operating companies, if we were to divest all or part of them, we may not receive maximum value for these positions. For future operating companies with publicly traded stock, we may be unable to sell our interest at then-quoted market prices. Furthermore, for those operating companies that do not have publicly traded stock, the



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realizable value of our interests may ultimately prove to be lower than the carrying value currently reflected in our consolidated financial statements.

### RISKS INHERENT TO OUR ACQUISITION STRATEGY

We have in the past, and intend to in the future, to expand through the acquisition of businesses, technologies, products and services, such as the recent acquisitions of Neocom and Lynchburg.net. Acquisitions may result in the potentially dilutive issuance of equity securities, the incurrence of additional debt, development costs and the amortization of goodwill and other intangible assets. Further, acquisitions involve a number of special problems, including difficulty integrating technologies, operations and personnel and diversion of management attention in connection with both negotiating the acquisitions and integrating the assets. There can be no assurance that we will be successful in addressing such problems. In addition, growth associated with numerous acquisitions places significant strain on our managerial and operational resources. Our future operating results will depend to a significant degree on its ability to successfully manage growth and integrate acquisitions. Furthermore, many of our operating companies are early-stage companies, with limited operating histories and limited or no revenues; there can be no assurance that we will be successful in developing such companies.

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#### Uncertainties Associated With Selling Assets

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A significant element of our business plan involves selling, in public or private offerings, portions of the companies it has acquired and developed. Our ability to engage in any such transactions, the timing of such transactions and the amount of proceeds from such transactions are dependent on market and other conditions largely beyond our control. Accordingly, there can be no assurance that we will be able to engage in such transactions in the future or that when we are able to engage in such transactions they will be at favorable prices. If we were unable to liquidate portions of its portfolio companies at favorable prices, our business, financial condition and results of operations would be adversely affected.

#### Uncertainties of the Recoverability of Intangible Assets

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As a result of our change in corporate focus from a food holding company to an Internet holding company, the composition of our assets and expenses have dramatically changed. With the recent acquisitions of Internet companies, the intangible assets purchased as a result of these acquisitions represent approximately 62% of our total assets and approximately 104% of our stockholders' equity. Further amortization of these intangible assets will be the largest single expense item in our statement of operations. If we are unable to recover the costs of these intangible assets, our financial performance may be negatively impacted in the coming periods through a write down or write off of these intangible assets.

#### We May Not Have Opportunities to Acquire Interests in Additional

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Companies

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We may be unable to identify companies that complement our strategy, and even if we identify a company that complements our strategy, we may be unable to acquire an interest in the company for many reasons, including:

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- o failure to agree on the terms of the acquisition, such as the amount or price of our acquired interest;
- o incompatibility between us and management of the company;
- o competition from other acquirers of e-commerce companies;
- o a lack of capital to acquire an interest in the company; and
- o the unwillingness of the company to operating with us.

If we cannot acquire interests in attractive companies, our strategy to build a collaborative network of operating companies may not succeed.

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### Our Resources and Our Ability to Manage Newly Acquired Operating ----- Companies May Be Strained As We Acquire More and Larger Interests in E-Commerce ----- Companies -----

We have acquired, and plan to continue to acquire, significant interests in both Business to Consumer and Business to Business e-commerce companies that complement our business strategy. In the future, we may acquire larger percentages or larger interests in companies than we have in the past, or we may seek to acquire 100% ownership of companies as we have done in our initial stages of development. These larger acquisitions may place significantly greater strain on our resources, ability to manage such companies and ability to integrate them into our collaborative network. Future acquisitions are subject to the following risks:

- o Our acquisitions may cause a disruption in our ongoing support of our operating companies, distract our management and other resources and make it difficult to maintain our standards, controls and procedures.
- o We may acquire interests in companies in e-commerce markets in which we have little experience.
- o We may not be able to facilitate collaboration between our operating companies and new companies that we acquire.
- o To fund future acquisitions we may be required to incur debt or issue equity securities, which may be dilutive to existing shareholders.

### RISKS PARTICULAR TO OUR OPERATING DIVISIONS

We and our operating divisions' result of operations, and accordingly the price of its common stock, may be adversely affected by the following factors:

- o lack of acceptance of the Internet as an advertising or electronic commerce medium;
- o inability to develop a large base of users of its Web sites who possess demographic characteristics attractive to advertisers;
- o lower advertising rates;

- o slow development of the e-commerce market;
- o lack of acceptance of its Internet content;
- o loss of key content providers;
- o intense competition;
- o loss of key personnel; and
- o inability to manage growth.

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Dependence on Vendor Relationships  
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Our operating divisions are currently, and expect to be in the future, dependent on a number of vendor relationships. These relationships include arrangements relating to the creation of traffic on our affiliated Web sites and resulting generation of advertising and commerce-related revenue. The termination of, or the failure of such our affiliated Web sites to renew on reasonable terms, such relationships could have an adverse effect on our business, results of operations and financial condition. Our operating divisions also are generally dependent on other vendor relationships with advertisers, sponsors and partners. Most of these arrangements do not require future minimum commitments to use our services, are often not exclusive and are often short-term or may be terminated at the convenience of the other party. There can be no assurance that these vendors will not reassess their commitment to our operating divisions at any time in the future, or that they will not develop their own competitive services or products. Further, there can be no assurance that the services of these divisions will achieve market acceptance or commercial success and therefore there can be no assurance that our existing relationships will result in sustained or successful business partnerships or significant revenues for us.

Some of Our Operating Divisions May Be Unable to Protect Their  
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Proprietary Rights and May Infringe on the Proprietary Rights of Others  
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Proprietary rights, particularly in the form of copyrights, are important to the success and competitive position of many of our operating divisions. Although our operating divisions seek to protect their proprietary rights, their actions may be inadequate to protect any trademarks, copyrights and other proprietary rights. In addition, effective copyright and trademark protection may be unenforceable or limited in certain countries, and the global nature of the Internet makes it impossible for some of our operating divisions to control the dissemination of their work and use of their services. Some of our operating divisions also license content from third parties and it is possible that they could become subject to infringement actions based upon the content licensed from those third parties. Our operating divisions generally obtain representations as to the origin and ownership of such licensed content; however, this may not adequately protect them. Any of these claims, with or without merit, could subject our operating divisions to costly litigation and the diversion of their technical and management personnel. If our operating divisions incur costly litigation and their personnel are not effectively deployed the expenses and losses incurred by our operating divisions will increase and their profits, if any, will decrease.

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### Our Business May Be Disrupted If They Are Unable To Upgrade Their ----- Systems To Meet Increased Demand -----

Capacity limits on some of our operating divisions' technology, transaction processing systems and network hardware and software may be difficult to project and they may not be able to expand and upgrade their systems to meet increased use.

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As traffic on our operating divisions' Web sites continues to increase, they must expand and upgrade their technology, transaction processing systems and network hardware and software. Our operating divisions may be unable to accurately project the rate of increase in use of their Web sites. In addition, our operating divisions may not be able to expand and upgrade their systems and network hardware and software capabilities to accommodate increased use of their Web sites. If our operating divisions are unable to appropriately upgrade their systems and network hardware and software, the operations and processes of our operating divisions may be disrupted.

### RISKS RELATING TO THE INTERNET INDUSTRY

#### Concerns Regarding Security of Transactions and Transmitting ----- Confidential Information Over the Internet May Have An Adverse Impact on ----- Our Business -----

We believe that concern regarding the security of confidential information transmitted over the Internet prevents many potential customers from engaging in online transactions. If our operating divisions that depend on such transactions do not add sufficient security features to their future product releases, our operating divisions' products may not gain market acceptance or there may be additional legal exposure to them.

Despite the measures some of our operating divisions have taken, the infrastructure of each of them is potentially vulnerable to physical or electronic break-ins, viruses or similar problems. If a person circumvents the security measures imposed by any one of our operating divisions, he or she could misappropriate proprietary information or cause interruption in operations of the operating divisions. Security breaches that result in access to confidential information could damage the reputation of any one of our operating divisions and expose the operating division affected to a risk of loss or liability. Some of our operating divisions may be required to make significant investments and efforts to protect against or remedy security breaches. Additionally, as e-commerce becomes more widespread, our operating divisions' customers will become more concerned about security. If our operating divisions are unable to adequately address these concerns, they may be unable to sell their goods and services.

#### Rapid Technological Changes May Prevent Our Operating Divisions ----- From Remaining Current With Their Technical Resources and Maintaining ----- Competitive Product and Service Offerings -----

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The markets in which our operating divisions operate are characterized by rapid technological change, frequent new product and service introductions and evolving industry standards. Significant technological changes could render their existing Web site technology or other products and services obsolete. The e-commerce market's growth and intense competition exacerbate these conditions. If our operating divisions are unable to successfully respond to these developments or do not respond in a cost-effective way, our business, financial

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condition and operating results will be adversely affected. To be successful, our operating divisions must adapt to their rapidly changing markets by continually improving the responsiveness, services and features of their products and services and by developing new features to meet the needs of their customers. Our success will depend, in part, on our operating divisions' ability to license leading technologies useful in their businesses, enhance their existing products and services and develop new offerings and technology that address the needs of their customers. Our operating divisions will also need to respond to technological advances and emerging industry standards in a cost-effective and timely manner.

### Government Regulations and Legal Uncertainties May Place Financial

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Burdens On Our Business and the Businesses and the Businesses Of Our Operating  
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Divisions  
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As of December 31, 2001, there were few laws or regulations directed specifically at e-commerce. However, because of the Internet's popularity and increasing use, new laws and regulations may be adopted. These laws and regulations may cover issues such as the collection and use of data from Web site visitors and related privacy issues, pricing, content, copyrights, online gambling, distribution and quality of goods and services. The enactment of any additional laws or regulations may impede the growth of the Internet and e-commerce, which could decrease the revenue of our operating divisions and place additional financial burdens on our business and the businesses of our operating divisions.

Laws and regulations directly applicable to e-commerce or Internet communications are becoming more prevalent. For example, Congress recently enacted laws regarding online copyright infringement and the protection of information collected online from children. Although these laws may not have a direct adverse effect on our business or those of our operating divisions, they add to the legal and regulatory burden faced by e-commerce divisions.

## RISKS RELATING TO FUTURE OFFERINGS

### Shares Eligible For Future Sale By Our Current Shareholders May

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Decrease the Price of Our Common Stock  
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If our shareholders sell substantial amounts of our common stock, including shares issued upon the exercise of outstanding options, in the public market following future offerings, then the market price of our common stock could fall. Restrictions under the securities laws and certain lock-up agreements limit the number of shares of common stock available for sale in the public market.

Our Common Stock Price Is Likely to Be Highly Volatile  
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The market price for our common stock is likely to be highly volatile as the stock market in general and the market for Internet-related stocks and the stock. The trading prices of many technology and Internet-related company stocks have seen significant declines from their historical highs within past several months. The stocks of these companies have been highly volatile. We cannot assure you that our common stock will sustain its current market prices.

The following factors will add to our common stock price's volatility:

- o actual or anticipated variations in our quarterly operating results and those of our operating divisions; o new sales formats or new products or services offered by us, our operating divisions and their competitors; o changes in our financial estimates and those of our operating divisions by securities analysts;
- o conditions or trends in the Internet industry in general and the e-commerce industry in particular;
- o announcements by our operating divisions and their competitors of technological innovations;
- o announcements by us or our operating divisions or our competitors of significant acquisitions, strategic partnerships or joint ventures;
- o changes in the market valuations of our operating divisions and other Internet companies;
- o our capital commitments;
- o additions or departures of our key personnel and key personnel of our operating divisions; and
- o sales of our common stock.

Many of these factors are beyond our control. These factors may decrease the market price of our common stock, regardless of our operating performance.

EMPLOYEES

As of March 31, 2002, we employed 35 full time individuals. We have 7 in management, 3 in sales and marketing and 25 in administration. Our employees are not unionized, and we consider our relations with our employees to be favorable.

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We lease our principal executive offices, as well as our administrative offices, which are located in a 2,064 square foot office facility in Sherman Oaks, California at an annual rent of approximately \$62,500. This lease will expire in June 2006.

We own a 12,000 square foot office building in Martinsville, Virginia, which serves as Sitestar.net's principal executive offices. We acquired this property along with the acquisition of Neocom. This facility houses Neocom's customer service, administrative and corporate functions. Neocom's principal noteholders have a senior lien on the property. The lien on the property was a result of the working capital credit facility taken by Neocom against the property. The bank note is payable in monthly principal and interest installments of \$6,400 or \$76,800 per annum with the balance due September 2003.

We also lease a 7,200 square foot office facility in Lynchburg, Virginia which serves as FRE Enterprises and Computers By Design's executive offices. This facility houses Lynchburg.net's customer service, administrative and corporate functions at an annual rent of \$46,200.

We also lease a 2,500 square foot office facility in Mt. Airy, North Carolina which serves as Advanced Internet's executive offices. This facility houses Advance Internet's customer service, administrative and corporate functions at an annual rent of \$6,000.

Our annual rents are subject to adjustments. We anticipate that we will require additional space for our ISP operations as we expand, and we believe that we will be able to obtain suitable space as needed on commercially reasonable terms.

### ITEM 3. LEGAL PROCEEDINGS

The Company is involved in certain legal proceedings and claims that arise in the normal course of business. Management does not believe that the outcome of these matters will have a material adverse effect on the Company's financial position or results of operations.

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

Not Applicable

## PART II

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common Stock was traded over-the-counter and was quoted on the OTC Bulletin Board (symbol "SYTE") until December 15, 1999. On December 16, 1999, our common stock was temporarily de-listed from the NASD OTC Bulletin Board pending the effective date of our Form 10-SB registration statement. From December 16, 1999 to April 16, 2000, our common Stock was traded over-the-counter and was quoted on the National Quotations Board's Electronic Quotation Service "Pink Sheets." On April 16, 2000, we resumed trading on the NASD OTC Bulletin Board. On July 14, 1999 we effected a 3-for-1 stock split. All prices listed below reflect this split.

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Set forth below are the high and low closing bid prices for our common stock for each quarterly period commencing January 1, 2000:

	High	Low
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2000		
For the quarter ended March 31, 2000	\$1.25	\$0.85
For the quarter ended June 30, 2000	\$2.00	\$0.56
For the quarter ended September 30, 2000	\$0.91	\$0.16
For the quarter ended December 31, 2000	\$0.34	\$0.08
2001		
For the quarter ended March 31, 2001	\$0.19	\$0.06
For the quarter ended June 30, 2001	\$0.07	\$0.04
For the quarter ended September 30, 2001	\$0.05	\$0.02
For the quarter ended December 31, 2001	\$0.05	\$0.02

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

### RECORD HOLDERS

The closing bid price for our common stock was \$0.04 on March 31, 2002. As of March 31, 2002 we had 120 shareholders of record. Additional holders of our Common Stock hold such stock in street name with various brokerage firms.

### DIVIDENDS

We have never declared or paid any cash dividends on our common stock. We currently intend to retain all available funds for use in our 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 our 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.

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## ITEM 6. MANAGEMENT'S DISCUSSIONS AND ANALYSIS OR PLAN OF OPERATIONS

### GENERAL

The following discussion and analysis should be read in conjunction with the our consolidated financial statements and related footnotes for the year ended December 31, 2001 included in this Annual Report on Form 10-KSB. 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

We are a technology holding company with a broad strategy of acquiring and investing in technology related enterprises. Our primary strategy is acquiring and operating small independent Internet Service Providers in the rural areas of the mid-Atlantic region. Our specific mission is to develop our operating ISP subsidiaries and future ISP acquisitions into a successful collaborative ISP network. We intend to achieve this success by harnessing the synergistic



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potentials that exists among these acquisitions by consolidating all the administrative functions and streamlining the corporate functions that may exist with each acquisition.

In July 1999, we began to implement our broader strategy of acquiring and investing in emerging technology-based enterprises to create a broad and diverse set of core electronic businesses that deliver a variety of online solutions. In addition to developing and integrating technology-based technologies, our broader objective is to create a mix of Internet operating companies and technology-related portfolio investments that will enhance the value of our core holdings.

Our Internet operating subsidiaries provide Internet services to our customers by providing Internet access and enhanced products and services to small and medium sized enterprises in selected high growth markets. We target primarily small and medium sized enterprise customers located in selected high growth secondary markets. We currently provide our customers with Internet access and enhanced products and services in the mid-Atlantic area of the United States. We have designed our comprehensive suite of enhanced products and services to meet the expanding needs of our customers and to increase our revenue per customer.

The products and services we provide include:

- o Internet access services;
- o Web design services;
- o Web hosting services;
- o End to end e-commerce solutions;
- o Online marketing consulting; and
- o Management of mission critical Internet applications.

Our Internet service provider operating subsidiaries derive their income from the excess of the Internet service prices we charge our customers over the cost

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of service we pay our suppliers. Additionally, our retail customers pay for services by cash or credit card while we pay our suppliers on extended terms. As a result, we are able to increase our working capital between the time we receive payment for services and the time we are required to pay suppliers. We also generate income from the development of computer software for companies principally in the manufacturing industries and from sales from our retail computer store in Lynchburg, Virginia and Mt. Airy, North Carolina.

On July 1, 2001, we acquired 100% of the equity and voting interest of Advanced Internet Services, Inc., a North Carolina corporation which is a successor in interest to two sole proprietorships one having the same name as the corporation and the other with the name Professional Data Systems (collectively "ADVI"). ADVI is an Internet service provider located in Mt. Airy, North Carolina. The purchase price was \$965,980, which consisted of \$150,000 in cash, 6,021,818 of our common shares valued at \$301,091 a non-interest bearing promissory note for \$1,199,990 payable in 24 quarterly installments of \$49,995 and transaction costs of \$30,000. However, due to the non-interest bearing nature of the note, we imputed a discount rate of 36% to calculate the present value of the note. This discount rate is an estimate of our current cost of capital. Based on this calculation, the present value of the non-interest promissory note is \$484,889.

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We believe the acquisition of ADVI, with about 3,000 subscribers, enhanced our primary strategy of consolidating small Internet service providers in the rural markets of the mid-Atlantic region by enlarging our service footprint. We also believe this transaction opened other acquisition opportunities for us to further increase our presence in the northern areas of North Carolina. This recent acquisition increases our Internet access customer base to over 15,000 subscribers. This acquisition included goodwill of \$702,642 that is the premium we paid to have the opportunity to generate revenues and earnings in this market. Furthermore, this acquisition generated us cost savings with the integration and consolidation of ADVI's corporate and administrative functions with our existing infrastructure. This estimated cost savings, along with the accretive nature of the transaction from an operating cash flow perspective, will further allow us to enhance our revenue streams and increase our operating cash flow.

In July 2001, we successfully spun off the content services division of our wholly owned subsidiary, Sitestar.net, Inc. into TriVantage Group, Inc., a separate public company exclusively focused in content development services. We owned 90% of TriVantage. On December 28, 2001, we contributed the assets of the content service division back to Sitestar.net and sold the TriVantage public shell. We recognized an actual cash gain on the sale of TriVantage of \$188,158. Since we owned the content service division for the entire year either directly or indirectly through TriVantage, the operations of this division have been consolidated with our operations for the entire year.

### RESULTS OF OPERATIONS

The following tables show financial data for the years ended December 31, 2001 and 2000. Operating results for any period are not necessarily indicative of results for any future period.

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	For the year ended December 31, 2001				
	Corporate	Internet	Development	Retail	Total
Revenue	\$ -	\$ 3,040,752	\$ 276,210	\$ 680,388	\$ 3,997,350
Cost of revenue	-	1,136,548	185,125	343,715	1,665,388
Gross profit	-	1,904,204	91,085	336,673	2,331,962
Operating expenses	1,348,709	1,825,906	82,636	226,189	3,483,440
Income (loss) from operations	(1,348,709)	78,298	8,449	110,484	(1,151,478)
Other income (expense)	22,649	(136,083)	(8,170)	1,290	(120,314)
Net income (loss)	\$ (1,326,060)	\$ (57,785)	\$ 279	\$ 111,774	\$ (1,271,792)
EBITDA(1)	\$ (1,142,892)	\$ 968,416	\$ 20,427	\$ 115,224	\$ (38,825)
Corporate expenses paid with common stock	863,506	-	-	-	863,506
Writedown of investment	160,000	-	-	-	160,000
Actual cash generated	\$ (119,386)	\$ 968,416	\$ 20,427	\$ 115,224	\$ 984,681

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	For the year ended December 31, 2000				
	Corporate	Internet	Development	Retail	Total
Revenue	\$ -	\$ 1,603,204	\$ 225,836	\$ 105,597	\$ 1,934,637
Cost of revenue	-	671,421	238,176	45,995	955,592
Gross profit	-	931,783	(12,340)	59,602	979,045
Operating expenses	1,635,933	4,008,963	67,103	60,256	5,772,255
Income (loss) from operations	(1,635,933)	(3,077,180)	(79,443)	(654)	(4,793,210)
Other income (expense)	(356,698)	(88,018)	(3,600)	39	(448,277)
Net income (loss)	\$(1,992,631)	\$(3,165,198)	\$ (83,043)	\$ (615)	\$(5,241,487)
EBITDA(1)	\$ (1,180,755)	\$ 393,909	\$ (76,049)	\$ (64)	\$ (862,959)
Corporate expenses paid with common stock	1,214,423	-	-	-	1,214,423
Actual cash generated	\$ 33,668	\$ 393,909	\$ (76,049)	\$ (64)	\$ 351,464

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(1) EBITDA (earnings before interest, taxes, depreciation and amortization) consists of revenue less cost of revenue and operating expense. EBITDA is provided because it is a measure commonly used by investors to analyze and compare companies on the basis of operating performance. EBITDA is presented to enhance an understanding of our operating results and is not intended to represent cash flows or results of operations in accordance with GAAP for the periods indicated. EBITDA is not a measurement under GAAP and is not necessarily comparable with similarly titled measures for other companies. See Liquidity and Capital Resource section for further discussion of cash generated from operations.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO DECEMBER 31, 2000

REVENUE. Revenue for the year ended December 31, 2001 increased by \$2,062,713 or 106.6% from \$1,934,637 for the year ended December 31, 2000 to \$3,997,350 for the same period in 2001. The increase is attributed to the acquisitions of Lynchburg.net in November 2000 and Advance Internet in July 2001. The Internet revenue generated by these two acquisitions in 2001 was \$1,276,061 and the retail revenue generated by the Lynchburg.net acquisition in 2001 was \$680,338. Internet revenue for Sitestar.net increased by \$288,412 or 19.5% in 2001 compared to 2000. We expect our Internet revenue to continue to grow through an increase in our subscriber base and by future acquisitions.

COST OF REVENUE. Costs of revenue for the year ended December 31, 2001 increased by \$709,796 or 74.3% from \$955,592 for the year ended December 31, 2000 to \$1,665,388 for the same period in 2001. As a percentage of revenue cost of revenue has decreased from 49.4% to 41.7%. The decrease as a percentage of revenue is principally due to us being able to decrease our cost of providing Internet access to our customers by negotiating better agreements with our

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suppliers made possible by the economies of scale gained from consolidating our ISP acquisitions.

**OPERATING EXPENSES.** Operating expenses for the year ended December 31, 2001 decreased by \$2,288,815 or 39.7% from \$5,772,255 for the year ended December 31, 2000 to \$3,483,440 for the same period in 2001. The largest component of operating expense is depreciation and amortization that amounted to \$1,618,376 for the year ended December 31, 2000 and \$909,540 for the same period in 2001. The decrease in depreciation and amortization is due to the write down of intangible assets at December 31, 2000 of \$1,860,000 related to assets of Sitestar.net resulting in a decrease in amortization going forward. Excluding depreciation and amortization and the writedown of intangible assets in 2000, operating expenses increased by \$280,021 for the year ended December 31, 2001 as compared to the same period in 2000. This increase is due to the operating expenses associated with Lynchburg.net and Advanced Internet, officers' salaries and professional fees.

**GAIN ON DISPOSITION OF ASSETS.** Gain on the disposition of assets for the year ended December 31, 2001 decreased by \$175,673 or 48.2% from \$363,831 for the year ended December 31, 2000 to \$188,158 for the same period in 2000. During the year ended December 31, 2000, we sold certain assets of our Holland American International Specialties and Sitestar, Inc. divisions and recognized a gain on

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such sales of \$314,515 and \$49,316, respectively. During 2001, we sold the public shell, TriVantage Group, Inc. for a gain of \$188,158. We originally purchase TriVantage Group and contributed Sitestar.net's content development division to this public company, but later in the year decided to contribute the content development division back to Sitestar.net and sell the public shell for a gain.

**OTHER INCOME.** During the year ended December 31, 2001, certain stockholders surrendered a total of 1,741,418 shares of our common stock valued at \$96,517. We determined the value of the shares surrendered based on the market value of the common stock on the date of surrender. The surrendered shares were originally issued in connections with our acquisition of Sitestar, Inc. in July 1999. Also in 2001, we wrote off our investment in Qliq-on Corporation that was previously valued at \$160,000.

**GAIN FROM MARKETABLE SECURITIES.** During the year ended December 31, 2001, we recognized \$78,436 in gains on the sale of marketable securities. During the year ended December 31, 2000 such gains were \$45,811. We have classified the marketable securities in our portfolio as trading securities.

**INTEREST EXPENSE.** Interest expense for the year ended December 31, 2001 decreased by \$534,494 from \$857,919 for the year ended December 31, 2000 to \$323,425 for the same period in 2001. This decrease was a result of significantly lower loan amortization charges related to the convertible debenture we issued last year.

### LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 2001, we generated EBITDA at our operating subsidiary level of \$1,104,067. This amount was offset by EBITDA at the corporate level of \$(1,142,892). However, at the corporate level we paid for certain professional fees and salaries of \$152,767 and \$710,739, respectively, by issuing shares of our common stock rather than paying these expenses with cash and had a write off of our investment in Qliq-on Corporation for \$160,000. After taking into account these non-cash expenses at the corporate level the actual net cash spent at the corporate level was only \$119,386. The following

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table illustrates the actual cash flow generated in 2001:

EBITDA generated at the operating subsidiary level	\$	1,104,067
EBITDA generated at the corporate level		(1,142,892)
Corporate expenses paid with common stock		863,506
Write off of investment in Qliq-on		160,000
		-----
Actual cash generated in 2001	\$	984,681
		=====

Also for the year ended December 31, 2001, we paid \$180,000 (purchase price - \$150,000 and transactions fees -\$30,000) in connection with the acquisition of Advanced Internet and we paid \$400,000 to repurchase 10,600,000 share of our common stock from certain investors.

Our business plan has required, and is expected to continue to require, substantial capital to fund the growth of our operations, capital expenditures, and expansion of sales and marketing capabilities and acquisitions.

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On May 11, 2000 we issued two convertible debentures aggregating \$500,000. The debentures bear interest at 12% per annum and are due on May 1, 2001. These convertible debentures are currently callable at anytime since it is past its maturity date. The debenture holders can call these debentures upon sufficient written advance notice as agreed upon in the convertible debenture agreement. The debentures are convertible into shares of our common stock at a rate equal to the lowest of \$.70 or 60% of the average of the three lowest closing bid prices for our common stock during the 20 trading days immediately preceding the conversion date. In addition, we also issued three-year warrants to purchase an aggregate of 250,000 shares of our common stock at an initial exercise price of \$0.77 per share. Due to the preferential conversion feature of these debentures we have recognized a financing charge of \$242,857 (which represents the value of additional shares issuable upon conversion at the \$.70 conversion price versus the number of shares issuable upon conversion at the market value at the date of issuance). In addition, the warrants issued in connection with these debentures have been valued at \$121,543 using the Black-Scholes model and such expense will be recognized as financing costs over the term of the debentures.

On August 14, 2000, we issued another two convertible debenture for an aggregate of \$500,000 to the holders of the above-mentioned debentures for the same terms described above. The debenture bears interest at 12% per annum and is due on August 14, 2001. These convertible debentures are currently callable at anytime since it is past its maturity date. The debenture holders can call these debentures upon sufficient written advance notice as agreed upon in the convertible debenture agreement. In connections with this debenture we have recognized a financing cost in connection with the preferential conversion feature of \$333,333 and valued the 250,000 warrants issued in connection with this debenture at \$13,332 using the Black-Scholes model. The expense related to the warrants will be recognized as financing costs over the term of the debenture.

As of December 31, 2001, the holder of the debentures converted \$513,388 in principal and \$90,822 of accrued interest into 13,100,906 and 5,176,365, respectively, shares of the Company's common stock.

We believe that our existing cash and cash equivalents, and short-term investments and cash flow from operations, will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. Additional financing may not be available when needed or, if available,

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such financing may not be on terms favorable to our shareholders or us. If such sources of financing are insufficient or unavailable, or if we experience shortfalls in anticipated revenue or increases in anticipated expenses, we may need to slow down or stop the expansion of our Internet Service Providers and reduce our marketing and development efforts. Any of these events could harm our business, financial condition or results of operations.

### Forward looking statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Stockholders are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, our ability to expand our customer base, make strategic acquisitions, general market conditions, and competition and pricing. Although we believe the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements contained in the report will prove to be accurate.

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### Item 7. Financial Statements

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF  
SITESTAR CORPORATION

We have audited the accompanying consolidated balance sheet of Sitestar Corporation and subsidiaries as of December 31, 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sitestar Corporation and subsidiaries as of December 31, 2001, and the results of their consolidated operations and their consolidated cash flows for each of the two years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ Stonefield Josephson, Inc.

-----  
STONEFIELD JOSEPHSON, INC.  
Certified Public Accountants

Santa Monica, California  
March 27, 2002

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SITESTAR CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
DECEMBER 31, 2001

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 378,707
Marketable securities	27,248
Accounts receivable, less allowance for doubtful accounts of \$465,545	423,695
Inventory	90,000
Other current assets	91,364
	-----
Total current assets	1,011,014
PROPERTY AND EQUIPMENT, net	434,102
CUSTOMER LIST, net of accumulated amortization of \$1,246,767	1,111,233
GOODWILL, net of accumulated amortization of \$1,115,981	2,412,719
OTHER ASSETS	95,000
	-----
TOTAL ASSETS	\$ 5,064,068
	=====

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

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SITESTAR CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET, Continued  
DECEMBER 31, 2001

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 365,903
Deferred revenue	162,594
Line of credit	79,809
Convertible debentures	476,612
Note payable - stockholders, current portion	123,078



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Notes payable, current portion	187,489
Capital lease obligations, current portion	23,492
	-----
Total current liabilities	1,418,977
NOTES PAYABLE - STOCKHOLDERS, less current portion	454,430
NOTES PAYABLE, less current portion	222,943
CAPITAL LEASE OBLIGATIONS, less current portion	9,083
	-----
TOTAL LIABILITIES	2,105,433
	-----
COMMITMENTS AND CONTINGENCIES (Note 10)	-
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, 92,904,654 shares issued and outstanding	92,905
Additional paid-in capital	13,429,261
Accumulated deficit	(10,563,531)
	-----
Total stockholders' equity	2,958,635
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,064,068
	=====

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

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SITESTAR CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
	-----	-----
REVENUE	\$ 3,997,350	\$ 1,934,637
COST OF REVENUE	1,665,388	955,592
	-----	-----
GROSS PROFIT	2,331,962	979,045
	-----	-----

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OPERATING EXPENSES:		
Selling general and administrative expenses	3,483,440	3,870,022
Write down of intangible assets	-	1,860,000
Loss from operations of business transferred under contractual obligations	-	42,233
	-----	-----
TOTAL OPERATING EXPENSES	3,483,440	5,772,255
	-----	-----
LOSS FROM OPERATIONS	(1,151,478)	(4,793,210)
	-----	-----
OTHER INCOME (EXPENSES)		
Gain on disposition of assets	188,158	363,831
Other income (expenses)	(63,483)	-
Gain from marketable securities	78,436	45,811
Interest expense	(323,425)	(857,919)
	-----	-----
TOTAL OTHER INCOME (EXPENSES)	(120,314)	(448,277)
	-----	-----
LOSS BEFORE INCOME TAXES	(1,271,792)	(5,241,487)
	-----	-----
INCOME TAXES	-	-
	-----	-----
NET LOSS	\$ (1,271,792)	\$ (5,241,487)
	=====	=====
BASIC AND DILUTED LOSS PER SHARE	\$ (0.02)	\$ (0.20)
	=====	=====
WEIGHTED AVERAGE SHARES		
OUTSTANDING - BASIC AND DILUTED	75,688,286	26,526,529
	=====	=====

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

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SITESTAR CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Additional	Note
	Shares	Amount	Paid-in Capital	Receivable Stockholder
	-----	-----	-----	-----
Balance at December 31, 1999	24,159,826	24,160	8,347,174	(69,017)
Common stock issued for professional services	10,049,400	10,049	758,538	
Common stock issued for debt and interest	7,477,685	7,479	638,011	
Common stock issued for executive salaries	8,950,742	8,951	436,885	

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Common stock issued in connection with acquisition of FRE Enterprises, Inc.	12,437,985	12,437	2,475,160	
Cancellation of common stock outstanding - in lieu of assumption of debt	(900,000)	(900)	(899,100)	69,017
Repayment of note receivable				
Financing costs associated with debentures			711,065	
Net loss				
	-----	-----	-----	-----
Balance at December 31, 2000	62,175,638	62,176	12,467,733	-
Common stock issued for professional services	4,098,682	4,099	148,668	
Common stock issued for debt and interest	15,281,984	15,282	308,895	
Common stock issued for executive salaries	17,667,950	17,668	693,071	
Common stock issued in connection with acquisition of Advanced Internet Services, Inc.	6,021,818	6,022	295,069	
Cancellation of common stock outstanding - regarding legal settlement	(1,741,418)	(1,742)	(94,775)	
Repurchase of shares	(10,600,000)	(10,600)	(389,400)	
Net loss				
	-----	-----	-----	-----
Balance at December 31, 2001	92,904,654	92,905	13,429,261	-
	=====	=====	=====	=====

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, 2001 AND 2000

	2001	2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,271,792)	\$ (5,241,487)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	909,540	1,618,376
Write down of intangible assets	-	1,860,000
Loss from operations of business transferred under contractual arrangements	-	42,233
Common stock issued for services rendered	152,767	768,587
Common stock issued for executive salaries	710,739	445,836
Common stock issued for interest expense	54,289	39,931
Gain on disposition of assets	(188,158)	(363,831)

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Write off of investment	160,000	-
Common shares canceled	(96,517)	-
Gain recognized on marketable securities	(78,436)	(45,811)
Purchase of marketable securities	(279,200)	(820,000)
Proceeds from sale of marketable securities	894,199	302,000
Charge taken for loan financing costs	107,315	713,750
(Increase) decrease in:		
Accounts receivable	(207,340)	(15,254)
Inventory	24,863	11,793
Other current assets	(47,347)	(4,613)
Increase (decrease) in:		
Accounts payable and accrued expenses	(144,519)	(38,635)
Deferred revenue	(71,780)	8,305
Advances from stockholder	-	24,450
	-----	-----
Net cash provided by (used in) operating activities	628,623	(694,370)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(15,623)	(61,666)
Purchase of investment	(45,000)	(50,000)
Purchase of subsidiaries, net of cash acquired	(131,607)	253,385
Proceeds from sale of assets	245,000	34,703
	-----	-----
Net cash provided by (used in) investing activities	\$ 52,770	\$ 176,422
	-----	-----

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, Continued  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from convertible debentures	\$ -	\$ 1,000,000
Payment of debenture acquisition costs	-	(110,000)
Net proceeds from line of credit	11,300	-
Repayment of convertible debenture	(10,000)	-
Repayment of notes payable	(66,388)	(63,772)
Repayment of notes payable - stockholders	(95,563)	(19,206)
Payment on capital lease obligation	(31,329)	(45,108)
Repurchase of common stock	(400,000)	-
	-----	-----
Net cash provided by (used in) financing activities	(591,980)	761,914
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	89,413	243,966
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	289,294	45,328

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CASH AND CASH EQUIVALENTS -	-----	-----
END OF PERIOD	\$ 378,707	\$ 289,294
	=====	=====

### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

During the years ended December 31, 2001 and 2000, the Company paid no income taxes and interest of approximately \$151,000 and \$82,000, respectively.

### SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING TRANSACTIONS

During the year ended December 31, 2001 the Company (1) issued 4,098,682 shares of common stock for professional services valued at \$152,767; (2) issued 15,281,984 shares of common stock in exchange for \$269,888 of convertible debentures and \$54,289 for interest expense; (3) issued 17,667,950 shares of common stock for executive salaries of \$710,739; (4) issued 6,021,818 shares of common stock for the acquisition of Advanced Internet Services, Inc. valued at \$301,091; (5) canceled 1,741,418 shares of common stock valued at \$96,517 and (6) entered into capital lease obligations of \$12,253.

During the year ended December 31, 2000 the Company (1) issued 10,049,400 shares of common stock for professional services valued at \$768,588; (2) issued 7,477,685 shares of common stock in exchange for \$605,559 in debt and liabilities and \$39,931 for interest expense; (3) issued 8,950,742 shares of common stock for executive salaries of \$445,836; (4) issued 12,437,985 shares of common stock for the acquisition of FRE Enterprises, Inc. valued at \$2,487,597; and (5) canceled 900,000 shares of common stock which were previously issued in connection with the acquisition of Sitestar.net valued at \$900,000.

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

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## SITESTAR CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Line of Business

-----  
 Sitestar Corporation (formerly Interfoods Consolidated, Inc. and prior to that was formerly known as Holland American International Specialties ("HAIS")), (the "Company"), began operations on June 1, 1997, under a partnership agreement, and was incorporated in California 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 its focus from a food distribution company to an Internet holding company. The operations of the Company's Internet subsidiaries are located in the Mid-Atlantic region of the United States. The Company's corporate office is located in Sherman Oaks, California.

#### Mergers

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The Company is the successor by merger, which was effective on October 25, 1998, to White Dove Systems, Inc., a Nevada corporation ("WDVE"). The exchange rate in the reincorporating merger was one and one fifth shares of WDVE's common stock for one share of the Company's common stock. Due to WDVE's lack of business activity prior to the merger, no goodwill was recorded.

On March 20, 1998, HAIS completed a stock purchase agreement with DHS Industries, Inc. ("DHS") whereby DHS issued 31,942,950 shares of its common stock in exchange for all of the issued and outstanding common stock of HAIS. The acquisition was accounted for as a pooling of interest. However, on September 30, 1998 the agreement was rescinded and the stockholders of HAIS returned the shares of DHS for their shares of HAIS.

### Principles of Consolidation

-----  
The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Sitestar, Inc. to the date of disposition, and Neocom Microspecialists, Inc. (subsequently renamed Sitestar.net, Inc.), FRE Enterprises, Inc. and Advanced Internet Services, Inc from their respective dates of acquisition. All intercompany accounts and transactions have been eliminated.

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## SITESTAR CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

#### Use of Estimates

-----  
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. At December 31, 2001, the Company used estimates in determining the realization of its customer list and excess cost over fair value of assets acquired. The Company estimates the recoverability of these assets by using undiscounted cash flows based on future operating activities. Actual results could differ from these estimates.

#### Fair Value of Financial Instruments

-----  
For certain of the Company's financial instruments, none of which are held for trading, including cash, accounts receivable, accounts payable and accrued expenses and deferred revenue, the carrying amounts approximate fair value due to their short maturities. The amounts shown for convertible debentures, capital lease obligations and notes payable also approximate fair value because current interest rates and terms offered to the Company for similar debt are substantially the same.

#### Cash and Cash Equivalents

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

### Concentration of Credit Risk

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Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash and accounts receivables. The Company places its cash with high quality financial institutions and at times may exceed the FDIC \$100,000 insurance limit. The operations of the Company's Internet subsidiaries are located in the Mid-Atlantic region of the United States. The Company extends credit based on an evaluation of the customer's 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, if required.

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### SITESTAR CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

#### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

##### Marketable Securities

-----

The Company currently classifies all its marketable securities as trading, which are presented as current assets in the accompanying consolidated balance sheet. Securities accounted for as trading include investments in common stock of publicly traded companies and are reported at fair value, adjusted for changes in market value. Realized gains and losses and unrealized holding gains and losses, net of tax, on trading securities are included in the accompanying consolidated statements of operations. Realized gains or losses on the sale of securities are determined using the specific-identification method. During the years ended December 31, 2001 and 2000, the Company recognized \$78,436 and \$57,520 in realized gains on the sale of marketable securities, respectively. At December 31, 2000, the Company had recognized an unrealized loss of \$11,709 related to marketable securities held.

##### Inventory

-----

Inventory consists principally of products purchased for resale and are stated at the lower of cost (determined by the first-in, first-out method) or market.

##### Property and Equipment

-----

Property and equipment are stated at cost. Depreciation is computed using the straight-line method based on estimated useful lives from 3 to 7 years and 39 years for the building. 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.

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### Impairment of Long-Lived Assets

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In accordance with Statement of Financial Accounting Standard ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", 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 of are reported at the lower of carrying amount or fair value of asset less cost to sell.

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SITESTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

### Intangible Assets

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The Company continually monitors its intangible assets to determine whether any impairment has occurred. In making such determination with respect to these assets, the Company evaluates the performance on an undiscounted cash flow basis, of the intangible assets or group of assets, which gave rise to an assets carrying amount. Should impairment be identified, a loss would be reported to the extent that the carrying value of the related intangible asset exceeds the fair value of that intangible asset using the discounted cash flow method. The Company's intangible assets which consists of customer lists and goodwill are being amortized over three and five years, respectively. Amortization expense for the customer list and goodwill was \$303,297 and \$475,380, respectively, for the year ended December 31, 2001 and \$907,053 and \$617,239, respectively, for the year ended December 31, 2000. During the year ended December 31, 2000, the Company also wrote down \$1,080,00 and \$780,000 of the value of its customer list and goodwill, respectively, related to its Internet operations. The write down resulted from the decrease in value of the subscriber base due to competition and other sources available to customers to access the Internet. Amortization of customer list for the years ended December 31, 2002, 2003 and 2004 is expected to be \$587,795, \$426,547 and \$96,891, respectively. In accordance with SFAS No. 142, amortization of goodwill will cease effective January 1, 2002.

### Deferred Revenue

-----

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



SITESTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Revenue Recognition

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The Company recognizes revenue related to software licenses and software maintenance in compliance with the American Institute of Certified Public Accountants ("AICPA") Statement of Position No. 97-2, "Software Revenue Recognition." Product revenue is recognized when the Company delivers the product to the customer and the Company believes that collectibility is probable. The Company usually has agreements with its customers to deliver the requested product for a fixed price. Any insignificant post-contract support obligations are accrued for at the time of the sale. Post-contract customer support ("PCS") that is bundled with an initial licensing fee and is for one year or less is recognized at the time of the initial licensing, if collectability of the resulting receivables is probable. The estimated cost to the Company to provide such services is minimal and historically, the enhancements offered during the PCS period have been minimal. The Company sells PCS under a separate agreement. The agreements are for one to two years with a fixed number of hours of service for each month of the contract. The contract stipulates a fixed monthly payment, nonrefundable, due each month and any service hours incurred above the contractual amount is billed as incurred. Revenue is recognized under these agreements ratably over the term of the agreement. Revenue for services rendered in excess of the fixed monthly hours contained in the contracts are recognized as revenue as incurred.

The Company sells ISP services under annual and monthly contracts. Under the annual contracts, the subscriber pays a one-time 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 ratably over the month.

Sales of computer hardware are recognized as revenue upon delivery and acceptance of the product by the customer. Sales are adjusted for any future returns or allowances.

Advertising and Marketing Costs

-----  
The Company expenses costs of advertising and marketing as they are incurred. Advertising and marketing expense for the years ended December 31, 2001 and 2000 was approximately \$92,000 and \$19,800, respectively.

SITESTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Income Taxes

-----  
The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for 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 be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Loss Per Share

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In accordance with SFAS No. 128, "Earnings Per Share", the basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed similar to basic loss 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.

Investment

-----  
In December 1999, the Company purchased a 9% equity interest in Qliq-on Corporation for 160,000 shares of the Company's common stock valued at \$160,000. This investment was written off during the year ended December 31, 2001 in other income (expense). In September 2000, the Company purchased a 4.74% interest in a limited liability company for \$50,000. This investment is being accounted for using the equity method. In addition, in June 2001, the Company purchased a 4.54% interest in a partnership for \$45,000. This investment is being accounted for using the equity method.

Comprehensive Income

-----  
SFAS No. 130, "Reporting Comprehensive Income", establishes standards for the reporting and display of comprehensive income and its components in the financial statements. As of December 31, 2000 and 1999, the Company has no items that represent other comprehensive income and, therefore, has not included a schedule of comprehensive income in the consolidated financial statements.

SITESTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Recently Issued Accounting Pronouncements  
-----

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill and certain intangible assets will remain on the balance sheet and not be amortized. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and writedowns may be necessary. The Company adopted SFAS No. 141 on July 1, 2001 and has accounting for its acquisition of Advanced Internet Services, Inc. using the purchase method.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this statement. The Company is required to implement SFAS No. 142 on January 1, 2002 and as a result will not amortize its goodwill. The Company did not amortize the goodwill established as a result of the acquisition of Advanced Internet Services, Inc. on July 1, 2001. In 2001, the Company amortized \$475,380 of goodwill related to acquisition in prior years that will not be amortized after January 1, 2002.

In October 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires companies to record the fair value of a liability for asset retirement obligations in the period in which they are incurred. The statement applies to a company's legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, and development or through the normal operation of a long-lived asset. When a liability is initially recorded, the company would capitalize the cost, thereby increasing the carrying amount of the related asset. The capitalized asset retirement cost is depreciated over the life of the respective asset while the liability is accreted to its present value. Upon settlement of the liability, the obligation is settled at its recorded amount or the company incurs a gain or loss. The statement is effective for fiscal years beginning after June 30, 2002. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Statement 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets. The statement provides a single accounting model for long-lived assets to be disposed of. New criteria must be met to classify the asset as an asset held-for-sale. This statement also focuses on reporting the effects of a disposal of a segment of a business. This statement is effective for fiscal years beginning after December 15, 2001. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

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SITESTAR CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 2 - ACQUISITIONS

Lynchburg.net

-----  
 On November 22, 2000, the Company acquired FRE Enterprises, Inc. and FRE Communications, Inc., both Virginia corporations (collectively doing business as "Lynchburg.net") in exchange for 16,583,980 shares of our common stock for 100% of the outstanding shares of Lynchburg.net. Effective upon the closing of the acquisition, the Company issued 12,437,985 shares of common stock and has reserved 4,145,995 shares of common stock that the Company has agreed to issue on the third anniversary of the acquisition based on certain contingencies. The certain contingencies are related to potential unrecorded and unknown liabilities. The Company used the market price of its common stock at the acquisition date to determine the acquisition price of \$2,487,597.

The transaction was accounted for by the purchase method of accounting; accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair value of tangible net assets acquired was first attributed to the customer list, which is being amortized over its three-year life, and then to goodwill which is amortized over five years. The customer list has been determined by multiplying the current market value per customer times the number of customers purchased at the time of the acquisition.

The fair value of assets acquired and liabilities assumed is summarized as follows:

Cash	\$	253,385
Other current assets		147,561
Equipment		98,710
Customer list		595,000
Goodwill		1,703,741
Current liabilities		(310,800)
		-----
Purchase price	\$	2,487,597
		=====

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NOTES TO CONSOLIDATED STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

### NOTE 2 - ACQUISITIONS, continued

Advanced Internet Services, Inc.  
-----

On July 1, 2001, the Company acquired 100% of the equity and voting interest of Advanced Internet Services, Inc., a North Carolina corporation which is a successor in interest to two sole proprietorships one having the same name as the corporation and the other with the name Professional Data Systems (collectively "ADVI"). ADVI is an Internet service provider located in Mt. Airy, North Carolina. The purchase price was \$965,980, which consisted of \$150,000 in cash, 6,021,818 of the Company's common shares valued at \$301,091 a non-interest bearing promissory note for \$1,199,990 payable in 24 quarterly installments of \$49,995 and transaction costs of \$30,000. However, due to the non-interest bearing nature of the note, we imputed a discount rate of 36% to calculate the present value of the note. This discount rate is an estimate of the company's current cost of capital. Based on this calculation, the present value of the non-interest promissory note is \$484,889.

The Company believes the acquisition of ADVI, with about 3,000 subscribers, will enhance its primary strategy of consolidating small Internet service providers in the rural markets of the mid-Atlantic region by enlarging our service footprint. The Company also believes this transaction will open other acquisition opportunities for it to further increase its presence in the northern areas of North Carolina. This recent acquisition increases its Internet access customer base to over 15,000 subscribers. This acquisition includes goodwill of \$702,642 that is the premium the Company paid to have the opportunity to generate revenues and earnings in this market. Furthermore, this acquisition will generate the Company cost savings with the integration and consolidation of ADVI's corporate and administrative functions with our existing infrastructure. This estimated cost savings, along with the accretive nature of the transaction from an operating cash flow perspective, will further allow the Company to enhance its revenue streams and increase its operating cash flow.

The transaction was accounted for by the purchase method of accounting; accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair value of tangible net assets acquired was first attributed to the customer list, which is being amortized over its three-year life, and then to goodwill which is deductible for income tax purposes. The customer list has been determined by multiplying the current market value per customer times the number of customers purchased at the time of the acquisition.

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SITESTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

### NOTE 2 - ACQUISITIONS, continued

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Advanced Internet Services, Inc., continued

The fair value of assets acquired and liabilities assumed is summarized as follows:

Cash	\$	48,393
Other current assets		54,500
Equipment		29,080
Customer list		221,000
Goodwill		702,642
Other current liabilities		(21,126)
Line of credit		(68,509)
		-----
 Purchase price	 \$	 965,980
		=====

The following table presents the unaudited pro forma condensed statement of operations for the years ended December 31, 2001 and 2000 and reflects the results of operations of the Company as if the acquisitions of Lynchburg.net and ADVI had been effective January 1, 2000. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisition been effective as of that date, or of the anticipated results of operations, due to cost reductions and operating efficiencies that are expected as a result of the acquisition.

	2001	2000
	-----	-----
Net sales	\$ 4,386,606	\$ 4,485,993
Gross profit	\$ 2,575,819	\$ 2,752,770
Selling, general, and administrative expenses	\$ 3,963,322	\$ 8,023,212
Net loss	\$ (1,427,219)	\$ (5,728,006)
Basic loss per share	\$ (0.02)	\$ (0.14)

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SITESTAR CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 3 - SALE OF ASSETS

In January 2000, the Company sold certain assets and liabilities of Sitestar, Inc. for \$34,703 in cash, a note receivable in the amount of \$10,000 plus an intercompany relief of \$25,000 for a total purchase price of \$69,703. The Company recognized a gain on sale of these certain assets of \$49,316. The Company retained the "Sitestar" trademark and "Sitestar.com" URL. Also in 2000, the Company completed

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the sale of its international food distribution business, also known as Holland American International Specialties. The Company recognized a gain on sale of these certain assets of \$314,515.

On July 16, 2001 the Company successfully spun off the content services division of its wholly owned subsidiary, Sitestar.net, Inc. into a separate publicly-traded company, PageActive Holdings Inc. The purpose of the spin-off was to have a separate public company exclusively focused in content development. Page Active changed its name to TriVantage Group, Inc. ("TVGE") after the spin-off. On December 28, 2001, the Company contributed the assets of the content service division back to Sitestar.net and sold the TVGE public shell. The Company recognized an actual cash gain on the sale of TVGE of \$188,158. Since the Company owned the content service division for the entire year either directly or indirectly through TVGE, the operations of this division have been consolidated with the Company's operations for the entire year.

### NOTE 4 - PROPERTY AND EQUIPMENT

The cost of property and equipment at December 31, 2001 consisted of the following:

Land	\$	10,000
Building		213,366
Automobile		3,000
Computer equipment		305,272
Furniture and fixtures		145,153
		-----
		676,791
Less accumulated depreciation		(242,689)
		-----
	\$	434,102
		=====

Depreciation expense was \$130,863 and \$94,084 for the years ended December 31, 2001 and 2000, respectively.

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### SITESTAR CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

### NOTE 5 - NOTE RECEIVABLE - STOCKHOLDER

In 1997, the Company purchased for \$2,800 the trade name "Wrap-It Up" and operated the business through April 1998. In April 1998, the Company sold the business to a stockholder of the Company for \$71,657, which was equal to the amount of the Company's investment (which was the cost of inventories used in the operations) at the time of sale. The sales price was consummated by the stockholder's issuance, to the Company, of a promissory note for the full sales price. The note receivable is due on demand, and secured by common stock of the Company, owned by the stockholder. During 1999, this note was reduced

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to \$69,017 and in 2000, the note was repaid in connection with the sale of HAIS. The note receivable is presented as a reduction to stockholders' equity in the accompanying consolidated financial statements.

### NOTE 6 - CONVERTIBLE DEBENTURES

On May 11, 2000, the Company issued two convertible debentures aggregating \$500,000. The debentures bear interest at 12% per annum and were due on May 1, 2001. The debenture holders voluntarily decided to hold on to the debentures. The debentures are convertible into shares of the Company's common stock at a rate equal to the lowest of \$.70 or 60% of the average of the three lowest closing bid prices for the Company's common stock during the 20 trading days immediately preceding the conversion date. In addition, the Company also issued three-year warrants to purchase an aggregate of 250,000 shares of common stock at an initial exercise price of \$0.77 per share. Due to the preferential conversion feature of these debentures the Company has recognized a financing charge of \$242,857 (which represents the value of additional shares issuable upon conversion at the \$.70 conversion price versus the number of shares issuable upon conversion at the market value at the date of issuance). In addition, the warrants issued in connection with these debentures have been valued at \$121,543 using the Black-Scholes model. Since these debentures were convertible on issuance the preferential conversion costs were expensed immediately and the value of the warrant is being recognized as financing costs over the term of the debentures.

On August 14, 2000, the Company issued another two convertible debenture aggregating \$500,000 to the holders of the above-mentioned debentures for the same terms described above, except for the due date of August 14, 2001. In connections with these debentures the Company has recognized a financing charge in connection with the preferential conversion feature of \$333,333 and valued the 250,000 warrants issued in connection with these debentures at \$13,332 using the Black-Scholes model. Since these debentures were convertible on issuance the preferential conversion costs were expensed immediately and the value of the options is being recognized as financing costs over the term of the debentures.

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SITESTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

### NOTE 6 - CONVERTIBLE DEBENTURES, Continued

During the year ended December 31, 2001, the holder of the debentures converted \$269,888 in principal and \$54,289 of accrued interest into 10,757,982 and 4,524,002, respectively, shares of the Company's common stock. In addition, during the year ended December 31, 2001, the Company repaid \$10,000 of these debentures in cash. During the year ended December 31, 2000, the holder of the debentures converted \$243,500 in principal and \$36,533 of accrued interest into 2,342,924 and 652,363, respectively, shares of the Company's common stock.

### NOTE 7 - NOTES PAYABLE



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The Company assumed a line of credit in connection with its acquisition of ADVI. The line of credit is for \$100,000 and bears interest at prime plus 0.5%. The line of credit is due on May 29, 2002 and is collateralized by the inventory, equipment and accounts receivable of ADVI.

### NOTE 8 - NOTES PAYABLE

Notes payable at December 31, 2001 consist of the following:

Prime plus 4.5% - Bank note payable in monthly interest and principal payments of \$1,784 and balance due December 2002. The note is guaranteed by a stockholders of the Company and secured by a deed of trust against personal residences of three stockholders and the Company's building. Also, the bank has a blanket lien against all other current and future assets of Sitestar.net.	\$ 138,102
Prime plus 1.5% - Bank note payable in monthly interest and principal payments of \$6,400 and balance due September 2003. The note is secured by a deed of trust against personal residences of three stockholders and the Company's building. Also, the bank has a blanket lien against all other current and future assets of Sitestar.net.	272,330 -----
Total	410,432
Less current portion	187,489 -----
Long-term portion	\$ 222,943 =====

The future principal maturities of these notes are as follows:

Year ending December 31,	
2002	\$ 187,489
2003	222,943 -----
Total	\$ 410,432 =====

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SITESTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

### NOTE 9 - NOTES PAYABLE - STOCKHOLDERS

Notes payable - stockholders at December 31, 2001 consist of the following:

Note payable to stockholder assumed in connection with the acquisition of Sitestar.net. The note is payable upon demand and bears interest at 9.0% per annum.	\$ 65,961
Note payable to stockholder assumed in connection with the acquisition of Sitestar.net. The note is payable in monthly installments of \$2,431 and bears interest at 8.13% per annum. Any unpaid principal and interest is due on May 28, 2004	47,357

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Note payable to stockholder issued as part of the purchase price for Advanced Internet Services, Inc. The note is to be repaid in 24 quarterly installments of \$49,995 and is non-interest bearing. The imputed interest rate for this note is 36%

	464,190 -----
Total	577,508
Less current portion	123,078
Long-term portion	\$ 454,430 =====

The future principal maturities of these notes are as follows:

Year ending December 31,	
2002	\$ 123,078
2003	72,513
2004	82,318
2005	105,190
2006	148,545
2007	45,864 -----
Total	\$ 577,508 =====

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SITESTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities for its corporate offices and retail store under non-cancelable operating leases. Total rent expense for the years ended December 31, 2001 and 2000 was \$75,875 and \$35,253, respectively. The Company also leases certain equipment under capital lease obligations. Future minimum lease payments under non-cancelable capital and operating leases with initial or remaining terms of one year or more are as follows:

	Capital Leases	Operating Leases
	-----	-----
Year ending December 31,		
2002	\$ 27,218	\$ 62,502
2003	8,027	66,252
2004	2,013	70,227
2005	-	74,441
2006	-	38,305 -----

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Net Minimum Lease Payments	37,258	\$ 311,727
		=====
Less: Amounts Representing Interest	4,683	
	-----	
Present Value of Net Minimum Lease Payments	32,575	
Less: Current Portion	23,492	
	-----	
Long-Term Portion	\$ 9,083	
	=====	

Included in property and equipment is capitalized lease equipment of \$164,375 with accumulated amortization of \$83,762 at December 31, 2001.

Litigation

-----

The Company is involved in certain legal proceedings and claims that arise in the normal course of business. Management does not believe that the outcome of these matters will have a material adverse effect on the Company's financial position or results of operations.

Sitestar.net Acquisition

-----

In connection with the Sitestar.net acquisition, the Company is required to issue an additional 2,000,000 shares of its common stock on the second anniversary of the acquisition date, if no unforeseen contingencies arise. These 2,000,000 shares were issued in January 2002.

SITESTAR CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 10 - COMMITMENTS AND CONTINGENCIES, continued

Lynchburg.net Acquisition

-----

In connection with the Lynchburg.net acquisition, the Company is required to issue an additional 4,145,995 shares of its common stock on the third anniversary of the acquisition date, if no unforeseen contingencies arise.

NOTE 11 - STOCKHOLDERS' EQUITY

Classes of Shares

-----

On July 6, 1999, the Company's Articles of Incorporation authorize the issues of up to 85,000,000 shares, consisting of 10,000,000 shares of Preferred Stock, which have a par value of \$0.001 per share and 75,000,000 shares of common stock, which have a par value of \$0.001. In 2001, the Company's Articles of Incorporation were amended to authorize 300,000,000 shares of common stock.

Preferred Stock

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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, 2001, the Company's Board of Directors has not issued any Preferred Stock.

### Common Stock

-----

On January 18, 2000 the Company canceled 900,000 shares of common stock issued in connection with the acquisition of Sitestar.net valued at \$900,000. These shares were canceled because the Company and the Sitestar.net stockholders amended the original purchase agreement whereby the Company agreed to assume the approximately \$900,000 of notes payable that was originally to be assumed by the Sitestar.net stockholders in exchange for the 900,000 shares of the Company's common stock originally issued to the Sitestar.net shareholders who were to assume this debt. The stockholders conveyed their shares to the Company in exchange for the assumption of their indebtedness.

During the year ended December 31, 2000 the Company issued 10,049,400 shares of common stock for professional services valued at \$768,588, which was the fair market value (discounted for tradability restrictions) of the share issue based on the closing price of the Company's common stock on the date of issuance, and issued 7,477,685 shares of common stock in exchange for \$605,559 in debt and liabilities and \$39,931 for interest expense.

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### SITESTAR CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

#### NOTE 11 - STOCKHOLDERS' EQUITY, continued

##### Common Stock, continued

-----

On November 22, 2000, the Company issued 12,437,985 shares of common stock for the acquisition of FRE Enterprises, Inc. valued at \$2,487,597.

On December 27, 2000 the Company issued 8,950,742 shares of common stock for executive salaries of \$445,836, which was the fair market value (discounted for tradability restrictions) of the share issue based on the closing price of the Company's common stock on the date of issuance.

During the year ended December 31, 2001, certain stockholders surrendered a total of 1,741,418 shares of common stock that were cancelled by the Company, valued at \$96,517. The Company determined the value of the shares surrendered based on the market value of the common stock on the date of surrender. The surrendered shares were originally issued in connections with our acquisition of Sitestar, Inc. in July 1999.

During the year ended December 31, 2001 the Company issued 4,098,682 shares of common stock for professional services valued at \$152,767, which was the fair market value (discounted for tradability restrictions) of the share issue based on the closing price of the

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Company's common stock on the date of issuance, and issued 15,281,984 shares of common stock in exchange for \$269,888 of convertible debentures and \$54,289 for interest expense.

On July 1, 2001, the Company issued 6,021,818 shares of common stock for the acquisition of Advanced Internet Services, Inc. valued at \$301,091.

During the year ended December 31, 2001 the Company issued 17,667,950 shares of common stock for executive salaries of \$710,739.

Also, during the year ended December 31, 2001, the Company repurchased 10,600,000 shares of common stock from certain shareholders for \$400,000.

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### SITESTAR CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

#### NOTE 12 - INCOME TAXES

The reconciliation of the effective income tax rate to the federal statutory rate as of December 31, 2001 and 2000 is as follows:

	2001	2000
	-----	-----
Federal income tax rate	34.0%	34.0%
Effect of net operating loss	(34.0)%	(34.0)%
	-----	-----
Effective income tax rate	0.0%	0.0%
	=====	=====

Deferred tax assets and liabilities reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2001 are as follows:

Loss carry forwards	\$	3,757,200
Less valuation allowance		(3,757,200)
		-----
	\$	-
		=====

At December 31, 2001, the Company has provided a valuation allowance for the deferred tax asset since management has not been able to determine that the realization of that asset is more likely than not. The net change in the valuation allowance for the years ended December 31, 2001 and 2000, was an increase of \$409,200 and \$2,040,000, respectively. Net operating loss carry forwards of approximately

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\$10,100,000 expire starting in 2012.

### NOTE 13 - RELATED PARTY TRANSACTIONS

The Company leases its office building in Lynchburg, Virginia from a stockholder of the Company on a month-to-month basis. For the years ended December 31, 2001 and 2000, the Company paid this stockholder \$36,000 and \$7,700 for rent on this office building.

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SITESTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

### NOTE 14 - SEGMENT INFORMATION

The Company has four business units that have separate management and reporting infrastructures that offer different products and services. The business units have been aggregated into four reportable segments: Corporate, Internet, Development and Retail. The Corporate group is the holding company and oversees the operating of the other business units. The Corporate group also arranges financing for the entire organization. The Internet group provides Internet access to customers in the Martinsville and Lynchburg, Virginia and Mt. Airy, North Carolina areas. The Development group provides customer software programming to companies, principally in the manufacturing industries. The Retail group operates a retail computer store in Lynchburg, Virginia as well as providing computer training to customers.

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, 2001 and 2000:

	December 31, 2001				
	Corporate	Internet	Development	Retail	Consolidated
Revenue	\$ -	\$ 3,040,752	\$ 276,210	\$ 680,388	\$ 3,997,350
Operating income (loss)	\$(1,348,709)	\$ 78,298	\$ 8,449	\$ 110,484	\$ (1,151,478)
Depreciation and amortization	\$ 2,706	\$ 890,117	\$ 11,977	\$ 4,740	\$ 909,540
Interest expense	\$ 180,462	\$ 136,083	\$ 8,170	\$ (1,290)	\$ 323,425
Goodwill	\$ -	\$ 2,412,719	\$ -	\$ -	\$ 2,412,719
Identifiable assets	\$ 519,161	\$ 4,407,047	\$ 30,880	\$ 106,980	\$ 5,064,068

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December 31, 2000

	Corporate	Internet	Development	Retail	Consolidated
Revenue	\$ -	\$ 1,603,204	\$ 225,836	\$ 105,597	\$ 1,934,637
Operating loss	\$ (1,635,933)	\$ (3,077,180)	\$ (79,443)	\$ (654)	\$ (4,793,210)
Depreciation and amortization	\$ 3,303	\$ 1,607,489	\$ 6,994	\$ 590	\$ 1,618,376
Interest expense	\$ 766,340	\$ 91,618	\$ -	\$ (39)	\$ 857,919

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## ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

For the fiscal years ended December 31, 1999 and 1998 and the interim period subsequent to December 31, 1999, the firm of Merdinger, Fruchter, Rosen & Corso, P.C. ("MFRC") served as our auditors. Effective February 13, 2001, our Board of Directors approved the change of accountants. On February 13, 2001, our management dismissed MFRC and engaged Stonefield Josephson, Inc. of Santa Monica, California, as our independent public accountants to audit our financial statements for the fiscal year ended December 31, 2000.

During the period of engagement of MFRC there were no disagreements between us and MFRC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements (if not resolved to the satisfaction of MFRC) would have caused MFRC to make reference in connection with their report to the subject matter of the disagreements. The accountants' report on our financial statements for the fiscal years ended December 31, 1999 and 1998 did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty or audit scope or accounting principles, except to express doubt as to our ability to continue as a going concern.

## PART III

### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTER AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

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

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

Name ----	Age ---	Position -----
Frederick T. Manlunas	33	Executive Chairman and Director
Clinton J. Sallee	29	President, Chief Executive Officer and Director

FREDERICK T. MANLUNAS, has been a Director of the Company since October of 1998 and has served as the Company's Chairman of the Board since July 1999. Mr. Manlunas manages Gateway Holdings, Inc., a private equity fund based in Los Angeles since 1995. Prior to founding Gateway, Mr. Manlunas was an Associate with Arthur Andersen LLP's Retail Management Consulting division from 1991 to

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1995. Mr. Manlunas also serves as Director for MenuDirect, Inc., a Delaware corporation, and Xcel Medical Pharmacy, a California corporation. Mr. Manlunas received a Bachelor of Science degree in Journalism from Florida International University and he earned a Masters of Business Administration degree from Pepperdine University.

CLINTON J. SALLEE has been a Director of the Company since May of 1999 and has served as the Company's President and Chief Executive Officer since July 1999. In 1996, Mr. Sallee founded Sallee Zoryan, a concept development firm, where he served as President since inception. Prior to founding Sallee Zoryan, Mr. Sallee

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was an Associate with W.E. Myers & Company, a boutique investment bank, specializing in industry consolidations. Mr. Sallee earned a Bachelor of Science degree in Business Administration from the Marshall School of Business at the University of Southern California in 1994.

None of our directors, executive officers or key employees is related to any other of our directors, executive officers or key employees.

Pursuant to Section 16 (a) of the Securities Exchange Act of 1934, and the rules issued thereunder, our directors and executive officers are required to file with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. reports of 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, 2001, all of our executive officers and directors complied with the requirements of Section 16 (a).

### ITEM 10. EXECUTIVE COMPENSATION

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

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Long-term Compensation Awards
Frederick T. Manlunas (1) Chairman of the Board	2001	-	-	239,370	-
	2000	-	-	268,068	-
	1999	-	-	-	-
Clinton J. Sallee (2) President & Chief Executive Officer	2001	-	-	239,370	-
	2000	-	-	311,268	-
	1999	-	-	-	-

(1) Mr. Manlunas received 7,124,094 shares of our common stock with a value of \$239,370 in lieu of salary for 2001.

In 2000, Mr. Manlunas was given 5,584,746 shares of our common stock valued at \$268,068 as payment for his 2000 salary and bonus and for unpaid 1999



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and 1998 salaries.

- (2) Mr. Sallee received 7,124,094 shares of our common stock with a value of \$239,370 in lieu of salary for 2001.

In 2000, Mr. Sallee was given 6,584,746 shares of our common stock valued at \$311,268 as payment for his 2000 salary and bonus.

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### ITEM 11. SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of January 31, 2002 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)
Frederick T. Manlunas 15303 Ventura Blvd., Suite 1510 Sherman Oaks, CA 91403	19,203,898	20.67%
Clinton J. Sallee 15303 Ventura Blvd., Suite 1510 Sherman Oaks, CA 91403	17,675,010	19.02%
Frank and Julie Erhartic 7109 Timberlake Road Lynchburg, VA 24502	12,437,985	13.39%
All directors and officers as a group (3 persons)	49,316,893	53.08%

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\* Less than 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 92,904,654 shares of common stock outstanding as of January 31, 2002.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Effective as of September 30, 1999 we sold the non-Internet assets of Holland American International Specialists to IFCO Group, LLC, whose members consist of certain shareholders of the Company, including Frederick T. Manlunas, our Chairman of the Board. We retained the assets consisting of the Internet web site Holland-American.com. Holland American International Specialties will continue to serve as Holland-American.com's exclusive fulfillment center. The purchase consideration for the non-Internet assets of Holland American International Specialties was \$900,000 and was based upon a business appraisal

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by an independent third party appraiser. The consideration included \$200,000 which was to be offset against the Company's liability to Mr. Manlunas for services rendered in connection to the acquisition of Sitestar, Inc., the assumption of \$654,000 of liabilities and a promissory note in the amount of \$46,000. The note bears interest at a rate of 8% per annum, and is payable in annual installments of \$15,333, and is due and payable on September 30, 2002. The note is secured by HAIS' accounts receivable and inventory.

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On September 30, 1999, we sold our minority equity interest in Sierra Madre Foods to IFCO Group, LLC for \$200,000. The consideration was paid in the form of assumption of \$160,000 of debt related to the investment and the balance of \$40,000 was paid by a promissory note payable in three annual installments of \$13,334 each. The note bears interest at a rate of 8% per annum. The purchase consideration was equal to our original investment in January 1999.

On July 1999, a majority of our shareholders, including our Chairman, Mr. Manlunas, acquired all the issued and outstanding shares of Sitestar, Inc., a Delaware corporation, in exchange for 3,491,428 shares of our common stock owned by those shareholders. Simultaneous with the closing of this transaction, those shareholders contributed the issued and outstanding shares of Sitestar, Inc. to us as contributed capital. Sitestar, Inc. is a Web development, design and hosting company formed in 1996 and is based in Annapolis, Maryland.

In August 1999, we acquired substantially all of the assets of Greattools.com in exchange for 49,000 shares of our common stock. We acquired the assets of Greattools.com from Global Sourcing Group, Greattools.com's current fulfillment center. Gateway Holdings, Inc., a private investment company managed by our Chairman Frederick Manlunas, has a 14.6% equity ownership in Global Sourcing Group.

In January 1999, Mr. Manlunas, a major stockholder of the Company, loaned \$80,300 to the Company for use as working capital based on an oral agreement. The amounts owed to Mr. Manlunas are not accruing interest, and are due and payable upon demand. To date, the Company has made no payments to Mr. Manlunas in satisfaction of this obligation.

In October 2000, we issued 100,000 shares of our common stock to Clinton J. Sallee, our president and chief executive officer, valued at \$21,000 in lieu of back and accrued compensation. The issuance of these shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof.

In December 2000, we issued 5,584,746 shares of our common stock to Frederick Manlunas, our Executive Chairman, valued at \$268,068 in lieu of back and accrued compensation. The issuance of these shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof.

In December 2000, we issued 6,484,746 shares of our common stock to Clinton J. Sallee, our president and chief executive officer, valued at \$311,268 in lieu of back and accrued compensation. The issuance of these shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof.

In January 2002, we issued 7,124,094 shares of our common stock to Frederick Manlunas, our Executive Chairman, valued at \$239,370 in lieu of back and accrued compensation. The issuance of these shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof.

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In January 2002, we issued 7,124,094 shares of our common stock to Clinton J. Sallee, our president and chief executive officer, valued at \$239,370 in lieu of back and accrued compensation. The issuance of these shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof.

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### ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

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

Exhibit -----	Description -----
2.1.1	Agreement and Plan of Reorganization, dated October 25, 1998
2.2.1	Agreement and Plan of Reorganization, dated July 27, 1999
2.3	Asset Sale and Agreement re divestiture of Holland American Specialties, dated September 30, 1999
2.4	Asset Sale and Agreement re divestiture of Sierra Madre Foods, Inc., dated September 30, 1999
2.5	Letter of Intent to Acquire Eastern Shore Net, dated August 17, 1999
2.6	Letter of Intent to Acquire Neocom Microspecialists, Inc., dated September 2, 1999
2.7	Plan and Agreement of Share Exchange, re acquisition of Neocom Micro-specialists, Inc., dated December 15, 1999
2.8	Neocom Debt Assumption Agreement dated December 15, 1999
3.1(i)	Articles of Incorporation of the Registrant (December 17, 1992)
3.1(ii)	Amended Articles of Incorporation (July 29, 1998)
3.1(iii)	Amended Articles of Incorporation (October 26, 1998)
3.1(iv)	Amended Articles of Incorporation (July 14, 1999)
3.1(v)	Amended Articles of Incorporation (July 28, 1999)
3.2(I)	By-laws of the Registrant (December 17, 1992)
4.1	Lease for Corporate Office
4.2	Convertible Debenture Purchase Agreement dated as of May 11, 2000 between the investors named therein and the Registrant
4.3	12% Convertible Debenture due May 11, 2001 made by the Registrant in favor of New Millenium Capital Partners II, L.L.C.
4.4	12% Convertible Debenture due May 11, 2001 made by the Registrant in favor of AJW Partners, L.L.C.
4.5	Stock Purchase Warrant dated as of May 11, 2000 issued by Registrant to New Millenium Capital Partners, L.L.C.
4.6	Stock Purchase Warrant dated as of May 11, 2000 issued by Registrant to AJW Partners, L.L.C.
4.7	Registration Rights Agreement dated as of May 11, 2000 by and between the Registrant and the investors named therein.
4.8	Security Agreement dated as of May 11, 2000 by and between the Registrant and the investors named therein.
4.9	Stock Tender and Exchange Agreement, dated November 22, 2000, by and among Sitestar Corporation and Frank and Julie Erhartic, the owners of FRE Enterprises, Inc.
21.1	Subsidiaries of the Registrant
23.1	Consent of Stonefield Josephson, Inc.
99	Lease for Corporate Office

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\* 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.

\*\* Filed as an exhibit to the Registrant's Form-10SB filed with the Securities and Exchange Commission on January 7, 2000 and incorporated herein by reference.

\*\*\* 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.

\*\*\*\* Filed as an exhibit to the Registrant's Form 8-K, filed on December 7, 2000 and incorporated herein by reference.

F Filed herewith

(2) Reports filed on Form 8-K

On a Current Report on Form 8-K filed on November 28, 2001, the Company reported that it has repurchased approximately 10.6 million shares of its common stock from various shareholders through privately negotiated transactions. The stock repurchase was finalized at the end of business on November 19, 2001.

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SITESTAR CORPORATION

By: /s/ FREDERICK T. MANLUNAS

-----  
Frederick T. Manlunas  
CHAIRMAN OF THE BOARD

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/ FREDERICK T. MANLUNAS	Chairman of the Board	April 15, 2002

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-----  
Frederick T. Manlunas

/s/ CLINTON J. SALLEE  
-----

President and Chief Executive    April 15, 2002  
Officer

Clinton J. Sallee

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