SITESTAR CORP
Form 10QSB/A
September 18, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB/A

(Mark One)

[X]

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

For the quarterly period ended March 31, 2003

[ ]

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

For the transition period from ________________ to _______________

000-27763

(Commission file number)

SITESTAR CORPORATION

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

NEVADA	**88-0397234**
(State or other jurisdiction of	(I.R.S. Employer Identification No.)

incorporation or organization)

7109 Timberlake Road, Lynchburg, VA 24502

(Address of principal executive offices)

(434) 239-4272

(Issuer's telephone number)

N/A

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of March 31, 2003, the issuer had 101,593,147 shares of common stock issued and outstanding.

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

#

SITESTAR CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1.

Financial Statements

SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

MARCH 31, 2003

(UNAUDITED)

ASSETS

(Restated)

CURRENT ASSETS

Cash and cash equivalents

$

6,810

Accounts receivable, net of allowance of $460,065

56,604

Inventory

143,065

Total current assets	206,479
PROPERTY AND EQUIPMENT, net	390,934
CUSTOMER LIST, net	859,452
GOODWILL	1,122,719
OTHER ASSETS	15,005
TOTAL ASSETS	$ 2,594,589

See the accompanying notes to the consolidated financial statements

SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET, Continued

MARCH 31, 2003

(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

(Restated)

CURRENT LIABILITIES

Bank overdraft

$ 122,835

Accounts payable and accrued expenses

261,443

Deferred revenue

386,289

Convertible debenture

139,412

Note payable stockholders, current portion

412,255

Notes payable, current portion

358,765

Capital lease obligations

5,240

Total current liabilities

1,686,239

NOTES PAYABLE STOCKHOLDERS, less current portion

773,033

NOTES PAYABLE, less current portion

105,277

TOTAL LIABILITIES

2,564,549

COMMITMENTS AND CONTINGENCIES

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, 101,593,147 shares issued and outstanding

101,593

Additional paid-in capital

13,635,272

Treasury stock, $.001 par value, 32,483,346 common shares

(681,854)

Accumulated deficit

(13,024,971)

Total stockholders equity

30,040

TOTAL LIABILITIES AND

STOCKHOLDERS' EQUITY

$

2,594,589

See the accompanying notes to the consolidated financial statements

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SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002

(UNAUDITED)

2003

2002

(Restated)

REVENUE

$

893,911

$

1,135,232

COST OF REVENUE

421,226

528,165

GROSS PROFIT

472,685

607,067

SELLING, GENERAL AND

ADMINISTRATIVE EXPENSES

436,196

636,453

INCOME (LOSS) FROM OPERATIONS

36,489

(29,386)

OTHER INCOME (EXPENSES)

(86,529)

(54,473)

INCOME (LOSS) BEFORE INCOME TAXES

(50,040)

(83,859)

INCOME TAXES

-

-

NET INCOME (LOSS)

$

(50,040)

$

(83,859)

BASIC AND DILUTED LOSS PER SHARE

$ 0.00

$

(0.00)

WEIGHTED AVERAGE SHARES

OUTSTANDING - BASIC AND DILUTED

101,593,147

98,116,426

See the accompanying notes to the consolidated financial statements

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SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002

(UNAUDITED)

2003

2002

(Restated)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)

$

(50,040)

$ (83,859)

Adjustments to reconcile net income (loss) to net

cash provided by operating activities:

Depreciation and amortization expense

115,289

187,246

Bad debt expense

77,526

66,224

Stock issued in lieu of compensation

and professional fees

-

125,000

(Increase) decrease in:

Accounts receivable

5,100

(49,467)

Inventory

(15,175)

(22,277)

Other assets

-

(22,888)

Increase (decrease) in:

Accounts payable and accrued expenses

11,290

108,528

Deferred revenue

22,115

(4,022)

Net cash provided by operating activities

166,105

304,485

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment

(1,517)

-

Net cash used in investing activities

(1,517)

-

CASH FLOWS FROM FINANCING ACTIVITIES:

Net change in line of credit

-

(1,137)

Repayment of notes payable

(82,338)

(54,004)

Repayment of convertible debenture

-

(325,000)

Repayment of notes payable stockholders

(98,762)

(10,473)

Payment on capital lease obligation

(8,758)

(10,752)

Net cash used in financing activities

189,860)

(401,366)

NET DECREASE IN CASH

AND CASH EQUIVALENTS

(25,272)

(96,881)

CASH AND CASH EQUIVALENTS -

BEGINNING OF PERIOD

32,082

405,955

CASH AND CASH EQUIVALENTS -

END OF PERIOD

$

6,810

$

309,074

See the accompanying notes to the consolidated financial statements

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SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002 (continued)

(UNAUDITED)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

During the three months ended March 31, 2003 and 2002, the Company paid no income taxes and interest of approximately $87,000 and $54,000, respectively.

NON-CASH INVESTING AND FINANCING TRANSACTIONS:

None.

See the accompanying notes to the consolidated financial statements

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SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

The unaudited Condensed Consolidated Financial Statements have been prepared by Sitestar Corporation (the Company or Sitestar), pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended December 31, 2002 included in the Company s Annual Report on Form 10-KSB. The results of the three months ended March 31, 2003 are not necessarily indicative of the results to be expected for the full year ending December 31, 2003.

NOTE 2 EARNINGS PER SHARE

In 1997, the Financial Accounting Standard Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share." SFAS No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. Basic earnings per share is computed using the weighted-average number of common shares outstanding during the period. Common equivalent shares are excluded from the computation if their effect is anti-dilutive.

NOTE 3 CONVERTIBLE DEBENTURE

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 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 preferential conversion costs were expensed immediately and the value of the warrant was recognized as financing costs over the term of the debentures.

SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 CONVERTIBLE DEBENTURE, continued

On August 14, 2000, the Company issued two additional convertible debentures 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 connection with these debentures, the Company recognized a financing charge in 2000 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 was recognized as financing costs over the term of the debentures.

During the three months ended March 31, 2003, the holders of the debentures converted no shares of the Company s common stock.

On a cumulative basis through March 31, 2003, the holders of the debentures converted $525,588 of principal and $99,820 of accrued interest into 14,319,156 and 5,176,352, respectively, shares of the Company s common stock. Also as of March 31, 2003, the Company has repaid $335,000 of these debentures in cash.

As of March 31, 2003, the convertible debentures are past their maturity and callable at any time by the debenture holders. The debenture holders have served notice to the Company that the convertible debentures are in default.

As of March 31, 2003, there is a discrepancy between the balance maintained by the Company and the balance calculated by the debenture holders. The balance the Company has disclosed in its consolidated financial statements is derived from all the conversion notices and cash payments. The company made payment on the convertible debentures by a conversion of stock. The debenture holders did not apply this conversion to the outstanding principal or interest. The Company is currently litigating this issue to compel the holders of the convertible debentures to acknowledge this payment via a reduction in the outstanding principal and interest. Their position is that the payment represented consideration in lieu of filing suit, and therefore, did not apply the payment to principal or interest.

The Company believes that it has proper documentation to support its position in this matter; however, in the event the Company is not successful in reconciling and resolving this matter, the outstanding balance of the convertible debenture could increase significantly. As of March 31, 2003, the Company has disclosed that the outstanding principal balance is $139,412. This outstanding balance could increase to over $300,000 if the debenture holders are able to demonstrate that their balance is the correct balance.

On December 31, 2002, the debenture holders filed a complaint against the Company alleging breach of contract and breach of fiduciary duties. Management intends to vigorously contest the allegations. It is too early to make an evaluation of the matter as to outcome and potential loss, if any, although damages are alleged at approximately $425,000.

SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

NOTE 4 COMMON STOCK

During the three months ended March 31, 2003, the Company issued no shares of common stock.

NOTE 5 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 and in Mt. Airy, North Carolina as well as providing toner cartridge remanufacturing services in Lynchburg, Virginia. (http://www.recharge.net)

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 three months ended March 31, 2003 and 2002:

March 31, 2003

(Restated)

Corporate

Internet

Development

Retail

Consolidated

Revenue

$

-

$

752,235

$

31,627

$

110,049

$

893,911

Operating income (loss)

$

(9,660)

$

29,043

$

5,092

$

12,015

$

36,489

Depreciation and

amortization

$

-

$

114,511

$

-

$

778

$

115,288

Interest expense

$

(22,127)

$

(64,403)

$

-

$

-

$

(86,529)

Intangible assets

$

-

$

1,997,176

$

-

$

-

$

1,997,176

Identifiable assets

$

-

$

2,461,860

$

-

$

132,730

$

2,594,590

March 31, 2002

Corporate

Internet

Development

Retail

Consolidated

Revenue

$

-

$

866,466

$

81,914

$

186,852

$

1,135,232

Operating Income (loss)

$

(207,302)

$

129,469

$

1,062

$

47,385

$

(29,386)

Depreciation and

amortization

$

1,320

$

173,194

$

11,832

$

900

$

187,246

Interest expense

$

(7,012)

$

(47,322)

$

(180)

$

41

$

(54,473)

Intangible assets

$ -

$ 3,588,700

$ -

$ -

$ 3,588,700

Identifiable assets

$

301,366

$ 4,164,758

$ 28,880

$ 373,170

$ 4,868,174

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SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

NOTE 6 RECENTLY ISSUED ACCOUNTING PROUNCEMENTS

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 accounted for its acquisition of Advanced Internet Services, Inc. and the assets of Digital Data Connections, Inc. (see Note 2) using the purchase method.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changed the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, ceased upon adoption of this statement on January 1, 2002. Further, the Company did not amortize the goodwill established as a result of the acquisition of Advanced Internet Services, Inc. on July 1, 2001.

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 on 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 being held-for-sale. This statement also establishes standards for reporting the effects of a disposal of a segment of a business. This statement is effective for fiscal years beginning after December 15, 2001.

SITESTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

NOTE 6 RECENTLY ISSUED ACCOUNTING PROUNCEMENTS, continued

In April 2002, the FASB issued Statement No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This Statement rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt , and an amendment of that Statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements and FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers. This Statement amends FASB Statement No. 13, Accounting for Leases , to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This statement requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred instead of at the date an entity commits to an exit plan. The statement is effective for exit and disposal activities entered into after December 31, 2002. The Company does not expect the adoption of this statement to have a material impact on its financial position or the results of its operations.

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. This interpretation sets forth expanded disclosure requirements in the financial statements about a guarantor s obligations under certain guarantees that it has issued. It also clarifies that, under certain circumstances, a guarantor is required to recognize a liability for the fair value of the obligation at the inception of the guarantee. Certain types of guarantees, such as product warranties, guarantees accounted for as derivatives, and guarantees related to parent-subsidiary relationships are excluded from the liability recognition provisions of Interpretation No. 45, however, they are subject to the disclosure requirements. The initial liability recognition provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of Interpretation No. 45 are effective for financial statements for interim or annual periods ending after December 15, 2002. The Company has no guarantees of third party indebtedness and it does not believe the adoption of these new rules will have a material impact on its financial position or results of operations.

NOTE 6 RECENTLY ISSUED ACCOUNTING PROUNCEMENTS, continued

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. This statement amends SFAS 123, Accounting for Stock-Based Compensation to allow for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock issued to team members. This statement also amends FASB No. 123 to require disclosure of the accounting method used for valuation in both annual and interim financial statements. This statement permits an entity to recognize compensation expense under the prospective method, modified prospective method or the retroactive restatement method. If an entity elects to adopt this statement, fiscal years beginning after December 15, 2003 must include this change in accounting for stock-based team member compensation. The Company is currently evaluating the effect of voluntarily adopting the fair value provisions of SFAS No. 123 and will elect a transition method if the fair value method is adopted.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements. Interpretation No. 46 prescribes how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved.

Interpretation No. 46 is effective immediately for variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. The interpretation applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not have interests in variable Interest entities and it does not believe the adoption of Interpretation No. 46 will have a material impact on its financial position or results of operations.

In November 2002, the Emerging Issues Task Force reached a consensus on Issue No. 00-21 ("EITF 00-21"), "Revenue Arrangements with Multiple Deliverables." EITF 00-21 provides guidance on how to account for Arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company does not believe the adoption of EITF 00-21 will have a material impact on its financial position or results of operations.

NOTE 7 RESTATED FINANCIAL STATEMENTS

During the three months ended June 30, 2003, management discovered errors in the accounts receivable reports used to generate the March 31, 2003 financial statements. These errors were discovered subsequent to the filing of the 10QSB for the quarter ended March 31, 2003. These reports have been corrected and the financial statements are restated to reflect the corrected amounts. To correct this error, an adjustment was made to reduce both accounts receivable and revenue by $264,208. These adjustments reduced net income for the three months ended March 31, 2003 from $214,168 to net loss of $50,040. As of March 31, 2003 accounts receivable decreased $264,208 from $780,877 to $516,669 before allowances for doubtful accounts. Accumulated deficit increased by $264,208 from $12,760,763 to $13,024,971 as of March 31, 2003. There was no material effect on basic and diluted earnings or loss per share.

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis should be read in conjunction with the our consolidated financial statements and related footnotes for the year ended December 31, 2002 included in our 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 mid-Atlantic Internet Service Provider and Computer Services company offering a broad range of services to business and residential customers. We serve primarily the Virginia and North Carolina markets. We utilize our own infrastructure and have affiliations that allow us to expand our network and services to most of the United States and Canada.

The products and services we provide include:

- Internet access services;
- Web design services;
- Web hosting services;
- End to end e-commerce solutions;
- Online marketing consulting;
- Computer and related products sales and services;
- Toner and ink cartridge remanufacturing services; and
- Computer programming and consulting services.

Our Internet Service Provider (ISP) division has three sites of operation (http://www.sitestar.net, http://www.lynchburg.net, http://www.advi.net). These are located in Lynchburg Virginia, Martinsville Virginia and Mt. Airy North Carolina. We provide both narrow-band (dial-up) services and broadband services (ISDN, DSL, satellite, cable and wireless) utilizing our own infrastructure and affiliations to provide services to thousands of service locations throughout the United States. Our web design, web hosting and related services provide a way to help businesses market their products and services over the Internet.

Our Computer Sales and Service division (http://www.computersbydesign.com) also provides sales and services out of our three office locations. We sell and manufacture computer systems, computer hardware, computer software, networking services, repair services and toner and ink cartridge remanufacturing services. We are a factory authorized service center for many national-brand computer equipment companies. Our toner and ink cartridge remanufacturing service (http://www.recharge.net) takes empty toner cartridges and remanufactures them to provide savings to our customers over buying brand new cartridges. This service is available locally and nationwide.

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Our computer programming and consulting services helps companies automate their businesses. Our primary focus is providing software and programming services for the manufacturing industry. Our flagship product is a software package called Sales Force Automation (SFA).

RESULTS OF OPERATIONS

The following tables show financial data for the three months ended March 31, 2003 and 2002. Operating results for any period are not necessarily indicative of results for any future period.

	For the three months ended March 31, 2003 (unaudited)				
			(Restated)		
	Corporate	Internet	Development	Retail	Total
Revenue	-	$752,235	$31,627	$110,049	$893,911
Cost of Revenue	-	345,173	26,535	49,518	421,226
	---------	---------	---------	---------	---------
Gross profit	-	407,062	5,092	60,531	472,685
Operating expenses	9,660	378,019	-	48,517	436,196

Income (loss) from operations	(9,660)	29,043	5,092	12,015	36,489
Other income (expense)	(22,127)	(64,403)	-		(86,529)
Net income (loss)	$(31,787)	$(35,360)	5,092	12,015	$(50,040)
EBITDA(1)	$(9,660)	$143,554	$5,092	$12,792	$151,778
Corporate expenses paid					
With common stock	-	-	-	-	-
Actual cash generated	$(9,660)	$143,554	$5,092	$12,792	$151,778

	For the three months ended March 31, 2002 (unaudited)				
	Corporate	Internet	Development	Retail	Total
Revenue	-	$866,466	$81,914	$186,852	$1,135,232
Cost of Revenue	-	383,236	37,313	107,616	528,165
Gross profit	-	483,230	44,601	79,236	607,067
Operating expenses	207,302	353,761	43,539	31,851	636,453
Income (loss) from operations	(207,302)	129,469	1,062	47,385	(29,386)
Other income (expense)	(7,012)	(47,322)	(180)	41	(54,473)
Net income (loss)	$(214,314)	$ 82,147	$ 882	$47,426	$(83,859)
EBITDA(1)	$(205,982)	$302,663	$12,894	$48,285	$157,860
Corporate expenses paid					
With common stock	125,000	-	-	-	125,000
Actual cash generated	$(80,982)	$302,663	$12,894	$48,285	$282,860

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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 Resources section for further discussion of cash generated from operations.

THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO MARCH 31, 2002 (Unaudited)

REVENUE. Revenue for the three months ended March 31, 2003 decreased by $241,321 or 21.2% from $1,135,232 for the three months ended March 31, 2002 to $893,911 for the same period in 2003. The decrease is principally a result of decrease in new dial-up customers and a decrease in retail sales of $76,803 offset in part from the acquisition of Digital Data Connections customer base.

COST OF REVENUE. Costs of revenue for the three months ended March 31, 2003 decreased by $106,939 or 20% from $528,165 for the three months ended March 31, 2002 to $421,226 for the same period in 2003. As a percentage of revenue, cost of revenue has decreased from 46.5% to 36.4%. The decrease as a percentage of revenue is principally due to incremental revenue coupled with recent cost control measures.

OPERATING EXPENSES. Operating expenses for the three months ended March 31, 2003 decreased by $200,257 or 31% from $636,453 for the three months ended March 31, 2002 to $436,196 for the same period in 2003. In the fourth quarter of 2002, the operations of the corporate office in California were closed and transferred to the Virginia facilities. Corporate operations under new management resulted in a decrease of $182,527 consisting of occupancy, payroll and executive costs.

Corporate expenses of $9,660 for the three month period ended March 31, 2003 consisted of other expenses of $9,660. Corporate expenses of $207,302 for the three month period ended March 31, 2002 consisted of payroll of $142,200, professional fess of $62,442, and other expenses of $2,660.

INTEREST EXPENSE. Interest expense for the three months ended March 31, 2003 increased by $32,056 or 59% from $54,473 for the three months ended March 31, 2002 to $86,529 for the same period in 2003. This increase is a result of increased levels of borrowing.

BALANCE SHEET. Accounts receivable decreased by $82,625 or 59% on March 31, 2003 from $139,229 on December 31, 2002 and decreased by $350,334 or 86% on March 31, 2003 from $406,938 on March 31, 2002 to $56,604 on March 31, 2003. The primary reason for the latter variance was due to the correction of the error at December 31, 2002. It was noted during 2002 that revenue was not being properly recognized in the prior years due to use of incorrect accounts receivable and deferred revenue reports. The Company was incorrectly recognizing January revenues in the prior December, which inflated accounts receivable in March 2002 by a full month. Goodwill on March 31, 2003 decreased by $1,350,000 due to the write down, for the year ended December 31, 2002, in accordance with SFAS No. 142. Notes payable decreased by $181,100 on March 31, 2003 from $1,830,430 on December 31, 2002 and increased by $647,195 on March 31, 2002 to $1,649,330 on March 31, 2003.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended March 31, 2003, we generated EBITDA at our operating subsidiary level of $425,646. This amount was offset by EBITDA at the corporate level of $(9,660). EBITDA for the three months ended March 31, 2003 increased by $258,126 from $157,860 for the three months ended March 31, 2002 to $415,986 for the same period in 2003. The primary reason for the increase is the Corporate division s increase of $174,195 due to the closing the California office and the related occupancy, payroll and executive expenses. Another reason for the EBITDA increase is the Internet division s increase of $105,099 due to a higher level of sales while controlling the division costs.

On May 11, 2000 we issued two convertible debentures aggregating $500,000. The debentures bear interest at 12% per annum and were 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 debentures for an aggregate of $500,000 to the holders of the above-mentioned debentures for the same terms described above. The debentures bear interest at 12% per annum and were due on August 14, 2001. These convertible debentures are currently callable at any time they are past their maturity date. The debenture holders can call these debentures upon sufficient written advance notice as agreed upon in the convertible debenture agreement. In connection with these debentures, 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 March 31, 2003, the holder of the debentures converted $525,588 in principal and $99,820 of accrued interest into 14,319,156 and 5,176,352 respectively, shares of the Company's common stock.

Sales of Internet services, which are not automatically processed via credit card or bank account drafts, have been the company s highest exposure to collection risk. Management has made the decision not to remove specific customers accounts from accounts receivable in order to continue aggressive collection efforts on these accounts, which is not abandoned until all possible means of collection has been exhausted. The company has engaged a collection agency to specifically address these past due accounts.

In addition, the company has added a late payment fee to encourage timely payment by customers. Another effort to improve customer billing and collections was the implementation of a uniform manual invoice processing fee, which speeds up the billings and collections procedures.

The aging of accounts receivable as of March 31, 2003 is as shown:

Current	$ (33,598)	-7%
30 +	78,701	15%
60 +	11,502	2%
90 +	460,065	89%
Total	$ 516,669	100%

We believe that our existing cash, cash equivalents, and cash flow from operations and our ability to obtain favorable financing will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. 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.

Item 3.

Controls and Procedures

As required by SEC rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing of this quarterly report. This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that the design and operation of our disclosure controls and procedures are effective. There were no significant changes to our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II.

OTHER INFORMATION

Item 1.

Legal Proceedings

On December 31, 2002, New Millennium Capital Partners II, LLC and AJW Partners, LLC filed a complaint against the Company, its former officers and its current officers at the Supreme Court of the State of New York in the county of Nassau. The complaint alleges the Company breached their contract and fiduciary duties. This proceeding is a dispute over the amount we owe on a convertible debenture. This dispute has arisen over a significant payment we issued by a conversion of stock that was neither applied to the principal or interest balance. The Plaintiff is seeking approximately $425,000 in principle, interest and damages. Although we feel we have adequate documentation to support our claim, if we cannot, the balance of the debenture could increase significantly.

Item 2.

Change in Securities and Use of Proceeds

None.

Item 3.

Defaults Upon Senior Securities

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 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.

On August 14, 2000, the Company issued two additional convertible debentures 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.

On a cumulative basis through March 31, 2003, the holders of the debentures converted $525,588 of principal and $99,820 of accrued interest into 14,319,156 and 5,176,352, respectively, shares of the Company s common stock. Also as of March 31, 2003, the Company has repaid $335,000 of these debentures in cash.

As of March 31, 2003, the convertible debentures are past their maturity and callable at any time by the debenture holders. The debenture holders have served notice to the Company that the convertible debentures are in default. See also Part II, Item 1, Legal Proceedings.

Item 4.

Submission of Matters to a Vote of Security Holders

None.

Item 5.

Other Information

None.

Item 6.

Exhibits and Reports on Form 8-K

(a)

Exhibits

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

(b)

Reports on Form 8-K

None.

SIGNATURES

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

SITESTAR CORPORATION

By: /s/ Frank Erhartic, Jr.

Frank Erhartic, Jr.

President, Chief Financial Officer

(Principal Executive Officer, Principal Financial Officer, and Principal Accounting Officer)

Date: September 18, 2003

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934,

RULES 13a-14 AND 15d-14

AS ADOPTED PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sitestar Corporation (the Company) on Form 10-QSB/A for the period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Frank Erhartic, Jr., President of the Company, certify, pursuant to Rules 13a-14 and 15-d14 of the Securities Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002, that:

1.

I have reviewed the Report;

2.

Based upon my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading;

3.

Based upon my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition and results of operations of the Company, as of, and for, the periods presented in the Report;

4.

I and the other certifying officers of the Company:

.

are responsible for establishing and maintaining disclosure controls and procedures for the Company;

.

have designed such disclosure controls and procedures to ensure that material information is made known to us, particularly during the period in which the Report is being prepared;

.

have evaluated the effectiveness of the Company's disclosure controls and procedures within 90 days of the date of the Report; and

.

have presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures based on the required evaluation.

5.

I and the other certifying officers have disclosed to the Company s auditors and to the audit committee of the board of directors (or persons fulfilling the equivalent function):

.

all significant deficiencies in the design or operation of internal controls (a pre-existing term relating to internal controls regarding financial reporting) which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

.

any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.

6.

I and the other certifying officers have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Frank Erhartic, Jr.

Frank Erhartic, Jr.,

President

Dated: September 18, 2003

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CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934,

RULES 13a-14 AND 15d-14

AS ADOPTED PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sitestar Corporation (the   Company) on Form 10-QSB/A for the period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the   Report), I, Frank Erhartic, Jr., Chief Financial Officer of the Company, certify, pursuant to Rules 13a-14 and 15-d14 of the

Securities Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002, that:

1.

I have reviewed the Report;

2.

Based upon my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading;

3.

Based upon my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition and results of operations of the Company, as of, and for, the periods presented in the Report;

4.

I and the other certifying officers of the Company:

.

are responsible for establishing and maintaining disclosure controls and procedures for the Company;

.

have designed such disclosure controls and procedures to ensure that material information is made known to us, particularly during the period in which the Report is being prepared;

.

have evaluated the effectiveness of the Company's disclosure controls and procedures within 90 days of the date of the Report; and

.

have presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures based on the required evaluation.

5.

I and the other certifying officers have disclosed to the Company s auditors and to the audit committee of the board of directors (or persons fulfilling the equivalent function):

.

all significant deficiencies in the design or operation of internal controls (a pre-existing term relating to internal controls regarding financial reporting) which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

.

any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.

6.

I and the other certifying officers have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

<u>/s/ Frank Erhartic, Jr.</u>

Frank Erhartic, Jr.

Chief Financial Officer

Dated: September 18, 2003