SITESTAR CORP
Form 10-Q/A
October 09, 2009

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

FORM 10-Q/A

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

For the quarterly period ended March 31, 2008

¨ 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 incorporation or organization)	(I.R.S. Employer Identification No.)

7109 Timberlake Road, Lynchburg, VA 24502
(Address of principal executive offices)

(434) 239-4272
(Issuer's telephone number)

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 20, 2008, the issuer had 91,326,463 shares of common stock issued and outstanding.

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

SITESTAR CORPORATION

EXPLANATORY NOTE

This Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 initially filed with the Securities and Exchange Commission on May 20, 2008 is being filed to reflect restatements of Sitestar Corporation's Consolidated Balance Sheets as of March 31, 2008, and the related Consolidated Statements of Income and, Cash Flows for the three months ended March 31, 2008 (the "Financial Statements"). These restatements reflect the effects of adjustments for the accounting related to various matters detailed in Note 1 to the Consolidated Financial Statements. These restatements reflect adjustments for transactions related to corporate income taxes as filed for the year ended December 31, 2008. In addition, results for 2008 have been restated with respect to the accounting for such matters where appropriate. Accordingly, amounts included in Selected Financial Data, are restated. Sitestar Corporation is also revising the discussion under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 9A, Controls and Procedures in order to reflect the effects of the restatement. Except with respect to these matters, the Financial Statements in this Form 10-Q/A do not reflect any events that have occurred after the 2008 Form 10-Q was filed.

SITESTAR CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SITESTAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2008 AND DECEMBER 31, 2007

ASSETS

	2008 (Unaudited) Restated	2007 (Audited)
CURRENT ASSETS		
Cash and cash equivalents	$ 235,931	$ 232,249
Accounts receivable, net of allowance of $54,548 and $22,641	622,044	299,863
Prepaid expenses	21,467	16,529
Total current assets	879,442	548,641
PROPERTY AND EQUIPMENT, net	227,489	236,782
CUSTOMER LIST, net of accumulated amortization of $5,901,699 and $5,237,054	4,868,323	5,480,635
GOODWILL, net of impairment	1,288,559	1,288,559
OTHER ASSETS	633,502	677,267
TOTAL ASSETS	$ 7,897,315	$ 8,231,884

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

SITESTAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS, continued
MARCH 31, 2008 AND DECEMBER 31, 2007

LIABILITIES AND STOCKHOLDERS' EQUITY

	2008 (Unaudited) Restated	2007 (Audited)
CURRENT LIABILITIES		
Accounts payable	$ 94,277	$ 78,713
Accrued income taxes	84,754	-
Accrued expenses	163,943	138,021
Deferred revenue	1,375,947	1,361,606
Notes payable	1,051,996	1,268,866
Total current liabilities	2,770,917	2,847,206
NOTES PAYABLE, less current portion	1,304,320	1,694,836
NOTES PAYABLE - STOCKHOLDERS, less current portion	599,677	686,687
TOTAL LIABILITIES	4,674,914	5,228,729
STOCKHOLDERS' EQUITY		
Preferred Stock, $.001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding	-	-
Common stock, $.001 par value, 300,000,000 shares authorized, 91,326,463 and 91,326,463 shares issued and outstanding on March 31, 2008 December 31, 2007 respectively	91,326	91,326
Additional paid-in capital	13,880,947	13,880,947
Treasury stock, at cost, 2,955,147 common shares on March 31, 2008 and December 31, 2007	(63,030)	(63,030)
Accumulated deficit	(10,686,842)	(10,906,088)
Total stockholders' equity	3,222,401	3,003,155
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 7,897,315	$ 8,231,884

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

SITESTAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(UNAUDITED)

	2008 Restated	2007
REVENUE	$ 2,544,545	$ 1,439,981
COST OF REVENUE	825,218	391,026
GROSS PROFIT	1,719,327	1,048,955
OPERATING EXPENSES:		
Selling general and administrative expenses	1,365,092	708,395
INCOME FROM OPERATIONS	354,235	340,560
OTHER INCOME (EXPENSES)	(50,235)	(31,992)
INCOME BEFORE INCOME TAXES	304,000	308,568
INCOME TAXES	(84,754)	-
NET INCOME	$ 219,246	$ 308,568
BASIC AND DILUTED EARNINGS PER SHARE	$ 0.00	$ 0.00
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	91,326,463	88,013,305

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

SITESTAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(UNAUDITED)

	2008 Restated	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 219,246	$ 308,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	722,410	305,855
Bad debt expense	31,907	2,534
(Increase) decrease in:		
Accounts receivable	(354,088)	(19,264)
Prepaid expenses	(4,938)	4,949
Increase (decrease) in:		
Accounts payable	15,564	(52,331)
Accrued expenses	25,922	(152,444)
Deferred revenue	14,341	90,340
Accrued income taxes	84,754	-
Net cash provided by operating activities	755,118	488,207
CASH FLOWS FROM INVESTING ACTIVITIES:		
Other assets held for resale	292	11,609
Purchase of property and equipment	-	(21,033)
Purchase of non-compete	(5,000)	(35,000)
Purchase of customer list	(52,333)	(966,143)
Net cash (used in) investing activities	(57,041)	(1,010,567)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from notes payable	27,683	976,196
Repayment of notes payable – stockholders	(87,010)	(46,861)
Repayment of notes payable	(635,068)	(304,440)
Net cash provided by (used in) financing activities	(694,395)	624,895
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,682	102,535
CASH AND CASH EQUIVALENTS –BEGINNING OF PERIOD	232,249	129,453
CASH AND CASH EQUIVALENTS -END OF PERIOD	$ 235,931	$ 231,988

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

SITESTAR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (continued)
(UNAUDITED)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

During the three months ended March 31, 2008, the Company accrued income taxes of $84,754 and paid interest expense of approximately $72,000 and $35,000, respectively.

NON-CASH INVESTING AND FINANCING TRANSACTIONS:

During the three months ended March 31, 2008, the Company issued no shares of common stock.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 1 – RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the 2008 financial statements, Sitestar Corporation determined that the income tax provision should have been included in the financial statements and adopted the recommendation of the Board of Directors and determined that previously reported results should be restated. The restatement resulted from a material weakness in internal control over financial reporting, namely, that we did not have adequately designed procedures to calculate or review the tax provision. The effects of the restatement adjustments on Sitestar Corporation's originally reported financial position for the periods ended March 31, 2008, results of operations and cash flows for the three months ended March 31, 2008 are summarized below.

SITESTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2008

ASSETS

CURRENT ASSETS	Previously Reported	Net Change	Restated
Total current assets	$ 879,442	$	$ 879,442
PROPERTY AND EQUIPMENT, net	227,489		227,489
CUSTOMER LIST, net of accumulated amortization of $6,603,388 and $5,237,054	4,868,323		4,868,323
GOODWILL, net of impairment	1,288,559		1,288,559
DEFERRED TAX ASSET	-		-
OTHER ASSETS	633,502		633,502
TOTAL ASSETS	$ 7,897,315	$	$ 7,897,315

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SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 1 – RESTATEMENT OF FINANCIAL STATEMENTS, continued

SITESTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2008

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	Previously Reported	Net Change	Restated
Accrued income taxes	$ -	$ 84,754	$ 84,754
Total current liabilities	2,686,163	84,754	2,770,917
TOTAL LIABILITIES	4,590,160	84,754	4,674,914
STOCKHOLDERS' EQUITY			
Accumulated deficit	(10,602,088)	(84,754)	(10,686,842)
Total stockholders' equity	3,307,155	(84,754)	3,222,401
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 7,897,315	$ -	$ 7,897,315

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 1 – RESTATEMENT OF FINANCIAL STATEMENTS, continued

SITESTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2008

	Previously Reported	Net Change	Restated
REVENUE	$ 2,544,545	$ -	$ 2,544,545
COST OF REVENUE	825,218	-	825,218
GROSS PROFIT	1,719,327	-	1,719,327
OPERATING EXPENSE	1,365,092	-	1,365,092
INCOME FROM OPERATIONS	354,235	-	354,235
OTHER INCOME (EXPENSE)	(50,235)	-	(50,235)
INCOME BEFORE INCOME TAXES	304,000	-	304,000
INCOME TAXES	-	(84,754)	(84,754)
NET INCOME	$ 304,000	$ (84,754)	$ 219,246
BASIC AND DILUTED INCOME PER SHARE	$ 0.00	$ -	$ 0.00
WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED	91,326,463	-	91,326,463

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 1 – RESTATEMENT OF FINANCIAL STATEMENTS, continued

SITESTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2008

	Previously Reported	Net Change	Restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 304,000	$ 84,754	$ 219,246
Increase (decrease) in accrued income taxes	-	84,754	84,754
Net cash provided by operating activities	755,118	-	755,118
Net cash used in investing activities	(57,041)	-	(57,041)
Net cash used in financing activities	(694,395)	-	(694,395)
NET INCREASE IN CAHS AND CASH EQUIVALENTS	3,682	-	3,682
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	232,249		232,249
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 235,931	$ -	$ 235,931

NOTE 2 – 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, 2007 included in the Company's Annual Report on Form 10-KSB. The results for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year ending December 31, 2008.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 3 – EARNINGS PER SHARE

The Financial Accounting Standards (FAS) No. 128, "Accounting for Earnings Per Share" requires dual presentation of basic and diluted earnings per share on the face of the statements of income and requires a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculation. Basic earnings per share are calculated based on the weighted average number of shares of common stock outstanding during each period. Diluted income per share is computed using weighted average shares outstanding adjusted to reflect the dilutive effect of all potential common shares that were outstanding during the period.

	2008	2007
Net income available to common shareholders	$ 219,246	$ 308,568
Weighted average number of common shares	91,326,463	88,013,305
Basic and diluted income per share	$ .00	$ .00

NOTE 4 – COMMON STOCK

During the three months ended March 31, 2008, the Company issued no shares of common stock.

NOTE 5 – SEGMENT INFORMATION
The Company has two business units that have been aggregated into two reportable segments: Corporate and Internet.

The Corporate group is the holding company and oversees the operation of the other business units. The Corporate group also arranges financing for the entire organization. The Company's Internet group consists of multiple sites of operation and services customers throughout the U.S. and Canada.

The Company evaluates the performance of its operating segments based on income from operations before income taxes, accounting changes, non-recurring items and interest income and expense.

Summarized financial information concerning the Company's reportable segments is shown in the following table for the three months ended March 31, 2008 and 2007:

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 5 – SEGMENT INFORMATION, continued

March 31, 2008

	Corporate	Internet	Consolidated
Revenue	$ -	$ 2,544,545	$ 2,544,545
Operating Income (loss)	$ (43,416)	$ 397,651	$ 354,235
Depreciation and amortization	$ -	$ 722,410	$ 722,410
Interest expense	$ -	$ 71,686	$ 71,686
Intangible assets	$ -	$ 6,519,938	$ 6,519,938
Total assets	$ -	$ 7,897,316	$ 7,897,316

March 31, 2007

	Corporate	Internet	Consolidated
Revenue	$ -	$ 1,439,981	$ 1,439,981
Operating Income (loss)	$ (3,479)	$ 344,039	$ 340,560
Depreciation and amortization	$ -	$ 305,855	$ 305,855
Interest expense	$ -	$ 35,469	$ 35,469
Intangible assets	$ -	$ 3,837,442	$ 3,837,442
Total assets	$ -	$ 4,864,042	$ 4,864,042

NOTE 6 – RECENTLY ISSUED ACCOUNTING PROUNCEMENTS

In February 2006, the FASB issued FAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140." FAS No. 155 resolves issues addressed in FAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets," and permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of FAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends FAS

No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. FAS No. 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. The Company believes it will not have a material impact on its financial position or results of operations.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 6 – RECENTLY ISSUED ACCOUNTING PROUNCEMENTS, Continued

In March 2006, the FASB issued FAS No. 156, “Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140.” FAS No. 156 requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract under a transfer of the servicer’s financial assets that meets the requirements for sale accounting, a transfer of the servicer’s financial assets to a qualified special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale or trading securities in accordance with FAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities” and an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates.

Additionally, FAS No. 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, permits an entity to choose either the use of an amortization or fair value method for subsequent measurements, permits at initial adoption a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights and requires separate presentation of servicing assets and liabilities subsequently measured at fair value and additional disclosures for all separately recognized servicing assets and liabilities. FAS No. 156 is effective for transactions entered into after the beginning of the first fiscal year that begins after September 15, 2006. The Company believes it will not have a material impact on its financial position or on the results of operations.

In September 2006, the FASB issued SFAS No. 157 “Fair Value Measurements” which provides a definition of fair value, establishes a framework for measuring fair value and requires expanded disclosures about fair value measurements. SFAS No. 157 is effective for the financial statements issued for the fiscal years beginning after November 15, 2007 and the interim periods within those fiscal years. The provisions of SFAS No. 157 should be applied prospectively. Management is assessing the potential impact on the Company’s financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans”, which amends SFAS No. 87 “Employer’s Accounting for Pensions” (SFAS No. 87), SFAS No. 88 “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits” (SFAS No. 88), SFAS No. 106 “Employers’ Accounting for Postretirement Benefits Other Than Pensions” (SFAS No. 106), and SFAS No. 132R “Employers’ Disclosures about Pensions and Other Postretirement Benefits (revised 2003)” (SFAS No. 132R).

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 6 – RECENTLY ISSUED ACCOUNTING PROUNCEMENTS, Continued

This Statement requires companies to recognize an asset or liability for the over-funded or under-funded status of their benefit plans in their financial statements. SFAS No. 158 also requires the measurement date for plan assets and liabilities to coincide with the sponsor's year end. The standard provides two transition alternatives related to the change in measurement date provisions. The recognition of an asset and liability related to the funded status provision is effective for fiscal year ending after December 15, 2006 and the change in measurement date provisions is effective for the fiscal years ending after December 15, 2008. The Company is currently evaluating the effect of the adoption of FAS No. 158, but believes it will not have a material impact on its financial position or on the results of operations.

In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("FAS 159"). FAS 159 permits companies to choose to measure, on an instrument-by-instrument basis, financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company currently is evaluating whether to elect the option provided for in this standard.

In December 2007, the FASB issued FASB Statement No. 141, Business Combinations ("FAS 141"). This Statement establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, determines what information to disclose. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company may not apply it before that date. The Company is currently evaluating the effect the adoption of FAS No. 141, but believes it will not have a material impact on its financial position or on the results of operations.

In December 2007, the FASB issued FASB Statement No. 160, Non-controlling Interests in Consolidated Financial Statements ("FAS 160"). This Statement establishes accounting and reporting standards that require the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently evaluating the effect the adoption of FAS No. 141, but believes it will not have a material impact on its financial position or on the results of operations.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 7 – ACQUISITIONS

Magnolia Internet Services
Effective February 1, 2007, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of Magnolia Internet Services, Inc., an Arkansas Internet Service Provider (ISP). The total purchase price was $113,812 representing the fair value of the assets acquired which consisted of a $12,000 cash payment at closing with the balance to be paid in eleven equal monthly payments beginning March 2007.

The definitive agreement states that in the event that actual annualized revenue differs more than three percent from estimates used at closing, the purchase price will be adjusted accordingly. The purchase price has been adjusted down to $108,470 as of September 30, 2007. Because the acquisition of Magnolia Internet Services was consummated on February 1, 2007, there are limited results of operations of this company for the three months ended March 31, 2007 included in the accompanying March 31, 2008 and 2007 consolidated financial statements.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition. Sitestar has assessed the valuations of certain intangible assets as represented below.

Customer list		93,992
Non-compete agreement		10,000
Equipment		10,000
Deferred revenue		(5,522)
Purchase price	$	108,470

The following table presents the unaudited pro forma condensed statement of operations for the three months ended March 31, 2007 and reflects the results of operations of the Company as if the acquisition of Magnolia Internet Services had been effective January 1, 2007. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions 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 acquisitions.

		2007
Net sales	$	1,469,629
Gross profit	$	1,069,014
Selling, general and administrative expenses	$	724,298
Net income	$	312,724
Basic income per share	$	0.00

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 7 – ACQUISITIONS, continued

OW Holdings, Inc.
Effective February 28, 2007, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of OW Holdings, Inc., an ISP having customers throughout the Rocky Mountain region. The total purchase price was $900,000 representing the fair value of the assets acquired which consisted of a $600,000 cash payment at closing and the balance which was paid in ninety days. The purchase price has been adjusted down to $802,452. The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition. Sitestar has assessed the valuations of certain intangible assets as represented below.

Accounts receivable	(2,098)
Customer list	870,680
Non-compete agreement	25,000
Equipment	10,000
Deferred revenue	(101,130)
Purchase price	$ 802,452

Because the acquisition of OW Holdings, Inc. was consummated on February 28, 2007, there are limited results of operations of this company for the three months ended March 31, 2007 included in the accompanying March 31, 2008 and 2007 consolidated financial statements.

The following table presents the unaudited pro forma condensed statement of operations for the three months ended March 31, 2007 and reflects the results of operations of the Company as if the acquisition of OW Holdings had been effective January 1, 2007. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions 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 acquisitions.

		2007
Net sales	$	1,710,942
Gross profit	$	1,235,309
Selling, general and administrative expenses	$	824,830
Net income	$	378,487
Basic income per share	$	0.00

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SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 7 – ACQUISITIONS, continued

AlaNet Internet Services
Effective June 21, 2007, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of AlaNet Internet Services, Inc., an Alabama ISP. The total purchase price was $51,306 representing the fair value of the assets acquired which consisted of a $4,275 cash payment at closing with the balance to be paid in eleven monthly installments beginning July 2007.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition. Sitestar has assessed the valuations of certain intangible assets as represented below.

Accounts receivable		3,880
Customer list		58,549
Non-compete agreement		5,000
Deferred revenue		(21,800)
Purchase price	$	45,629

Because the acquisition of AlaNet Internet Services was consummated on June 21, 2007, there are no results of operations of this company for the three months ended March 31, 2007 included in the accompanying March 31, 2008 and 2007 consolidated financial statements.

The following table presents the unaudited pro forma condensed statement of operations for the three months ended March 31, 2007 and reflects the results of operations of the Company as if the acquisition of AlaNet had been effective January 1, 2007. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions 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 acquisitions.

		2007
Net sales	$	1,463,483
Gross profit	$	1,065,112
Selling, general and administrative expenses	$	719,129
Net income	$	313,535
Basic income per share	$	0.00

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 7 – ACQUISITIONS, continued

UNITED SYSTEMS ACCESS, Inc.
Effective November 1, 2007, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of United Systems Access, Inc. (d/b/a USA Telephone), a corporation with headquarters in Maine. The total purchase price was $3,750,000 representing the fair value of the assets acquired which consisted of a $1,000,000 cash payment at closing with a second $1,000,000 in 30 days with the remaining balance due in 36 monthly installments beginning January 2008. Net post closing collections on account and vendor payments of $684,385 by USA Telephone was offset against the balance due USA Telephone on the purchase note.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition. Sitestar has assessed the valuations of certain intangible assets as represented below.

Customer list	4,292,656
Non-compete agreement	350,000
Deferred revenue	(892,656)
Purchase price	$ 3,750,000

Because the acquisition of USA Telephone was consummated effective November 1, 2007, there are no results of operations of this company for period ended March 31, 2007 and included in the accompanying March 31, 2008 and 2007 consolidated financial statements.

The following table presents the unaudited pro forma condensed statement of operations for the three months ended March 31, 2007 and reflects the results of operations of the Company as if the acquisition of USA Telephone had been effective January 1, 2007. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions 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 acquisitions.

		2007
Net sales	$	2,746,814
Gross profit	$	1,937,351
Selling, general and administrative expenses	$	1,180,851
Net income	$	670,499
Basic income per share	$	0.01

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 7 – ACQUISITIONS, continued

Comcation, Inc.
Effective March 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of Comcation, Inc., a Pennsylvania ISP. The total purchase price was $38,500 representing the fair value of the assets acquired which consisted of a $9,135 cash payment at closing with the remaining balance due in 5 monthly installments beginning April 2008. The purchase price has been subsequently adjusted down to $36,818.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition. Sitestar has assessed the valuations of certain intangible assets as represented below.

Customer list	52,333
Non-compete agreement	5,000
Accounts receivable	2,343
Deferred revenue	(22,858)
Purchase price	$ 36,818

Because the acquisition of Comcation was consummated effective March 1, 2008, there are no results of operations of Comcation for periods ended March 31, 2007 and included in the accompanying March 31, 2008 and 2007 consolidated financial statements.

The following table presents the unaudited pro forma condensed statement of operations for the three months ended March 31, 2007 and reflects the results of operations of the Company as if the acquisition of Comcation had been effective January 1, 2007. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisitions 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 acquisitions.

		2007
Net sales	$	1,451,570
Gross profit	$	1,056,932
Selling, general and administrative expenses	$	745,287
Net income	$	279,653
Basic income per share	$	0.00

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 7 – ACQUISITIONS, continued

N2 the Net, LLC
Effective April 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of N2 the Net, LLC, a Tennessee ISP. The total purchase price was $48,156 representing the fair value of the assets acquired which consisted of a $3,650 cash payment at closing with the remaining balance due in 11 monthly installments beginning May 2008. The purchase price has been subsequently adjusted down to $45,821.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition. Sitestar has assessed the valuations of certain intangible assets as represented below.

Customer list	40,512
Non-compete agreement	5,000
Accounts receivable	2,328
Equipment	10,000
Deferred revenue	(12,019)
Purchase price	$ 45,821

Because the acquisition of N2 the Net was consummated effective April 1, 2008, there are no results of operations of this company for periods ended March 31, 2007 and March 31, 2008.

Dial Assurance, Inc.
Effective May 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of Dial Assurance, Inc., a Georgia-based wholesale managed modem solution provider. The total purchase price was $229,900 representing the fair value of the assets acquired which consisted of a $100,000 cash payment at closing with the remaining balance due in 6 monthly installments beginning June 2008.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS RESTATED

NOTE 8 — PROVISION FOR 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.

The provision for federal and state income taxes for the three months ended March 31, 2008 and 2007 included the following:

		2008		2007
Current provision:				
Federal	$	72,041	$	-
State		12,713		-
Deferred provision:				
Federal		-		105,523
State		-		18,622
Valuation allowance		-		(124,145)
Total income tax provision	$	11,277	$	-

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 March 31, 2008 December 31, 2007 are as follows:

		2008		2007
Accounts receivable	$	21,819		9,056
Amortization of Intangible assets		2,450,795	$	2,177,997
Loss carry-forward		79,806		365,367
Less valuation allowance		2,552,420		2,552,420
Deferred tax asset	$	-	$	-

At March 31, 2008 and December 31, 2007, 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. Net operating loss carry forwards of $285,561 was applied for the year ended December 31, 2007. Loss carry forwards are set to begin expiring in 2021 for both federal and state purposes.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
RESTATED

NOTE 9 – INTANGIBLE ASSETS

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. Should impairment be identified, a loss would be reported to the extent that the carrying value of the related intangible asset exceeds its fair value using the discounted cash flow method. The Company's customer lists are being amortized over three years. Amortization expense was $713,118 and $291,105 for the three months ended March 31, 2008 and 2007.

NOTE 10 – DEFERRED REVENUE

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

Revenue Recognition
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 collecting the revenue is probable. The Company usually has agreements with its customers to deliver the requested product for a fixed price. Any insignificant post-contract support (PCS) obligations are accrued for at the time of the sale. 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 collecting the resulting receivable 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, non-refundable, due each month and any service hours incurred above the contractual amount are 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 Internet services under annual and monthly contracts. Under the annual contracts, the subscriber pays a one-time annual fee, which is recognized as revenue ratably over the life of the contract. Under the monthly contracts, the subscriber is billed monthly and revenue is recognized for the period the service relates. Sales of computer hardware are recognized as revenue upon delivery and acceptance of the product by the customer. Sales are adjusted for any returns or allowances.

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
RESTATED

NOTE 11 - NOTES PAYABLE

Notes payable at March 31, 2008 and December 31, 2007 consist of the following:

	2007	2007
Bank note payable in monthly interest and principal payments of $1,784. Interest is payable prime plus 4.5%, (9.75% and 9.75% as of March 31, 2008 and December 31, 2007 respectively). The note is guaranteed by a stockholder of the Company and secured by a deed of trust against personal residences of three stockholders. Also, the bank has a blanket lien against all other current and future assets of Sitestar.net.	54,342	58,242
Bank line of credit issued on April 12, 2007 with a principal limit of $300,000. Interest is payable at an annual rate of prime plus .25% (5.50% as of March 31, 2008 and 7.50% as of December 31, 2007). The note is secured by a deed of trust on the Company's building and is personally guaranteed by officers and directors of the Company. In April 2008 the principal balance was zero.	100,000	300,000
Non-interest bearing amount due on acquisition of AlaNet Internet Services payable in eleven monthly installments of $4,276 through April 2008.	8,436	20,807
Bank note payable in twelve monthly interest and principal payments of $30,650. Interest is payable at an annual rate of 9.25%. The note is guaranteed by stockholders of the Company and secured by shares of Company stock owned by the stockholders.	236,894	322,048
Bank note payable in twenty four monthly interest and principal payments of $21,167. Interest is payable at an annual rate of 8.5%. The note is guaranteed by stockholders of the Company and secured by shares of Company stock owned by the stockholders.	383,691	438,264

SITESTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
RESTATED

NOTE 11 - NOTES PAYABLE, continued

Bank bridge note payable on February 1, 2008. Interest is payable at an annual rate of 8.5%. The note was refinanced on February 21, 2008 at an annual interest rate of 8.5% and is payable in twelve payments of $21,760 and is personally guaranteed by stockholders of the Company and secured by real estate owned by stockholders of the Company.	229,656	250,000
Non-interest bearing amount due on acquisition of USA Telephone payable in thirty six monthly installments starting January 2008.	1,315,615	1,574.341
Less current portion	(1,051,996)	(1,268,866)
Long-term portion	$ 1,304,321	$ 1,694,836

The future principal maturities of these notes are as follows:

Twelve months ending March 31, 2009	$ 1,051,996
Twelve months ending March 31, 2010	172,955
Twelve months ending March 31, 2011	15,751
Twelve months ending March 31, 2012	73,907
Twelve months ending March 31, 2013	1,041,708
Thereafter	-
Total	$ 2,356,317

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

General

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related footnotes for the year ended December 31, 2007 included in the 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

The Company is a national Internet Service Provider and computer services company offering a broad range of services to business and residential customers. In November 2003, the Company announced the launch of the national dial-up Internet service that made service available to thousands of cities throughout the United States. This expanded service features web acceleration, e-mail acceleration and pop-up ad blocking. Spam and virus filtering are also included. The Company utilizes its own infrastructure, as well as, affiliations that allow it to expand its network and services to most of the United States.

The products and services that the Company provides include:

- Internet access services;
- Web acceleration services;
- Web hosting services;
- End-to-end e-commerce solutions; and
- Toner and ink cartridge remanufacturing services.

The Company's Internet division consists of multiple sites of operation and services customers throughout the U.S. and Canada. Sitestar products include narrow-band (dial-up) services, broadband services (ISDN, DSL, satellite, cable and wireless) and the Company supports these products utilizing its own infrastructure and affiliations. Value-added services include web acceleration, spam and virus filtering, as well as, spyware protection.

The Company's web design, web hosting and related services provide a way to help businesses market their products and services over the Internet.

Through its Internet division, the Company sells and manufactures computer systems, computer hardware, computer software, networking services, repair services and toner and ink cartridge remanufacturing services from the Lynchburg, Virginia location.

The Company's toner and ink cartridge remanufacturing service utilizes empty toner cartridges and remanufactures them to provide savings to customers over buying brand new cartridges. This service is available locally and nationwide.
The Company's computer programming and consulting services help companies automate their businesses. The Company sold the assets of the programming division on August 31, 2004 while retaining the rights to the new product that automates certain functions of crisis centers throughout the nation.

Results of operations

The following tables show financial data for the three months ended March 31, 2008 and 2007. Operating results for any period are not necessarily indicative of results for any future period.

	For the three months ended March 31, 2008 (unaudited)		
	Corporate	Internet	Total
Revenue	$ -	$ 2,544,545	$ 2,544,545
Cost of revenue	-	825,218	825,218
Gross profit	-	1,719,327	1,719,327
Operating expenses	43,416	1,321,676	1,365,092
Income (loss) from operations	(43,416)	397,651	354,235
Other income (expense)	-	(50,235)	(50,235)
Income before income taxes	(43,416)	347,416	304,000
Income tax	(84,754)	-	(84,754)
Net income (loss)	$ (128,170)	$ 347,416	$ 219,246

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	For the three months ended March 31, 2007 (unaudited)		
	Corporate	Internet	Total
Revenue	$ -	$ 1,439,981	$ 1,439,981
Cost of revenue	-	391,026	391,026
Gross profit	-	1,048,955	1,048,955
Operating expenses	3,479	704,916	708,395
Income (loss) from operations	(3,479)	344,039	340,560
Other income (expense)	-	(31,992)	(31,992)
Income before income taxes	(3,479)	312,047	308,047
Income tax	-	-	-
Net income (loss)	$ (3,479)	$ 312,047	$ 308,568

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 the Company's 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 the Liquidity and Capital Resource section for further discussion of cash generated from operations.

The following tables show a reconciliation of EBITDA to the GAAP presentation of net income for the three months ended March 31, 2008 and 2007.

	For the three months ended March 31, 2008		
	Corporate	Internet	Total
EBITDA	$ (43,416)	$ 1,141,512	$ 1,098,096
Interest expense	-	(71,686)	(71,686)
Taxes	(84,754)	-	(84,754)
Depreciation	-	(9,292)	(9,292)
Amortization	-	(713,118)	(713,118)
Net income (loss)	$ (128,170)	$ 347,416	$ 219,246

	For the three months ended March 31, 2007		
	Corporate	Internet	Total
EBITDA	$ (3,479)	$ 653,361	$ 649,882
Interest expense	-	(35,469)	(35,469)
Taxes	-	-	-
Depreciation	-	(14,740)	(14,740)
Amortization	-	(291,105)	(291,105)
Net income (loss)	$ (3,479)	$ 312,047	$ 308,568

THREE MONTHS ENDED MARCH 31, 2008 COMPARED TO MARCH 31, 2007 (Unaudited)

REVENUE.

Revenue for the three months ended March 31, 2008 increased by $1,104,564 or 76.7% from $1,439,981 for the three months ended March 31, 2007 to $2,544,545 for the same period in 2008. Internet sales increased primarily due to the addition of Internet customers from the asset acquisition of USA Telephone These acquisitions, for the three months ended March 31, 2008, yielded approximately $1,307,000 in additional net revenues. This increase from acquisitions was offset by additional attrition to broadband service. Sitestar focuses on marketing and selling Internet access to second-tier markets where broadband is not prevalent. The Company's strategy is to leverage operational economies of scale to provide dial-up service in these markets where it will continue to be the core method for connecting to the Internet.

While Sitestar is currently adding customers through promotional marketing campaigns, this method for strong and sustainable growth is threatened by competition from nationally-known ISPs and discount dial-up providers, as well as, from the future introduction of broadband services. To increase its dial-up base, the Company plans to continue to acquire ISPs in these target markets.

COST OF REVENUE.

Costs of revenue for the three months ended March 31, 2008 increased by $434,192 or 111.0% from $391,026 for the three months ended March 31, 2007 to $825,218 for the same period in 2008. This increase is due to telecommunications expenses associated with the acquisitions of customers which had not realized anticipated economies and accounted for approximately $433,624 in additional direct expenses.

OPERATING EXPENSES.

Operating expenses for the three months ended March 31, 2008 increased $656,697 or 92.7% from $708,395 for the three months ended March 31, 2007 to $1,365,092 for the same period in 2008. Amortization expense increased $422,013 or 145.0% from $291,105 for the three months ended March 31, 2007 to $713,118 for the same period in 2008. This increase is due to the acquisition of customer bases. Corporate expenses of $43,416 for the three months ended March 31, 2008 consisted primarily of professional fees. Corporate expenses of $3,479 for the three months ended March 31, 2007 consisted primarily of professional fees.

INCOME TAXES

For the three months ended March 31, 2009 corporate income tax expense $84,754 were accrued.

GAIN ON SALE OF ASSETS.

A gain was recognized on the sale of the assets of Sitestar Applied Technologies, Inc. to Servatus Development, LLC of $19,551 and $4,189 for the three months ended March 31, 2008 and 2007. This represents, per the Definitive Purchase Agreement between the parties, 20% of the gross revenue of Servatus Development, LLC for the three months ended March 31, 2008 and 2007.

INTEREST EXPENSE.

Interest expense for the three months ended March 31, 2008 increased by $36,217 or 102.1% from $35,469 for the three months ended March 31, 2007 to $71,686 for the same period in 2008. This decrease is a result of retiring debt that carried a high rate of imputed interest.

MARCH 31, 2008 (Unaudited) COMPARED TO DECEMBER 31, 2007 (Audited)

FINANCIAL CONDITION.

Net accounts receivable increased $322,181 or 107.4% from $299,863 on December 31, 2007 to $622,044 on March 31, 2008. This increase is substantially due to the addition of customers from acquisitions. Due to the slow moving nature of inventory, management has reclassified it on the balance sheets from current assets to other assets held for resale which decreased by $292 or .4% from $70,739 on December 31, 2007 to $70,447 on March 31, 2008. Accounts payable increased by $15,564 or 19.8% from $78,713 on December 31, 2007 to $94,277 on March 31, 2008. Accrued expenses increased by $25,922 or 18.8% from $138,021 on December 31, 2007 to $163,943 on March 31, 2008. This increase is a reflection of accruing professional fees. Deferred revenue increased by $14,341 or 1.1% from $1,361,606 on December 31, 2007 to $1,375,947 on March 31, 2008 representing increased volume of customer accounts that have been prepaid. The current portion of notes payable decreased $216,870 or 17.1% from $1,268,866 on December 31, 2007 to $1,051,996 on March 31, 2008. This is substantially due to the curtailment of a line of credit of $200,000 in addition to servicing term notes. Long-term notes payable decreased $390,516 or 23.0% from $1,694,836 on December 31, 2007 to $1,304,320 on March 31, 2008. This decrease is the result of offsetting principal balance of the purchase note of USA telephone against collections of accounts receivable by USAT. Long-term notes payable to stockholders decreased $87,010 or 12.7% from $686,687 on December 31, 2007 to $599,677 on March 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled $235,931 and $232,249 at March 31, 2008 and at December 31, 2007. EBITDA was $1,098,096 for the three months ended March 31, 2008 as compared to $649,882 for the same period in 2007.

	2008	2007
EBITDA for the three months ended March 31,	$ 1,098,096	$ 649,882
Interest expense	(71,686)	(35,469)
Taxes	(84,754)	-
Depreciation	(9,292)	(14,740)
Amortization	(713,118)	(291,105)
Net income for the three months ended March 31,	$ 219,246	$ 308,568

The aging of accounts receivable as of March 31, 2008 and December 31, 2007 is as shown:

	2008		2007	
Current	$ 244,272	39%	$ 171,446	57%
30 < 60	214,895	35%	72,337	24%
60 +	162,877	26%	56,080	19%
Total	$ 622,044	100%	$ 299,863	100%

OFF BALANCE SHEET TRANSACTIONS

The Company is not a party to any off balance sheet transactions.

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.

CRITICAL ACCOUNTING POLICY AND ESTIMATES

The Company's Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses its condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Public Company Accounting Oversight Board. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. These accounting policies are described at relevant sections in this discussion and analysis and in the condensed consolidated financial statements included in this quarterly report.

Item 3. Controls and Procedures

We identified a material weakness in our internal control over financial reporting with respect to accounting for the income tax provision, namely, that we did not have adequately designed procedures to calculate or review the tax provision. Solely as a result of this material weakness, we concluded that our disclosure controls and procedures were not effective as of December 31, 2008.

As of May 14, 2009, we began evaluating the tax provision and remediated the related internal control weakness. We have evaluated the effectiveness of our disclosure controls and procedures and internal controls over financial reporting as of December 31, 2008, including the remedial actions discussed above. 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 our disclosure controls and procedures are effective. Except for the aforementioned income tax controls and procedures, there were no significant changes to our internal controls during the last fiscal quarter ended March 31, 2008.

Disclosure controls and procedures and internal controls over financial reporting 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.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. As required by Rule 13a-15 under the Exchange Act, as of the end of the period covered by this report, we carried out an evaluation under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures.

In designing and evaluating our disclosure controls and procedures, we and our management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures or internal control over financial reporting will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

Based on our assessment, management has concluded that our internal control over financial reporting was ineffective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles as a result of the material weaknesses in internal control as described and defined below. We reviewed the results of management's assessment with the Audit Committee of our Board of Directors. In addition, on a quarterly basis we will evaluate any changes to our internal control over financial reporting to determine if a material changed occurred.

Material Weaknesses in Internal Controls

Bagell, Josephs, Levine & Company, L.L.C. ("Bagell") our independent registered public accounting firm, has provided us with an unqualified report on our consolidated financial statements for the fiscal year ended December 31, 2008. However, during the conduct of our audit for the year ended December 31, 2008 Bagell identified a material weakness in the calculation of the tax provision and have advised our board of directors that the following material weakness existed at December 31, 2008. As defined by the Public Company Accounting Oversight Board Auditing Standard No. 5, a material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness exists in the internal control over financial reporting with respect to accounting for the income tax provision, namely, that we did not have adequately designed procedures to calculate or review the tax provision. Solely as a result of this material weakness, we concluded that our disclosure controls and procedures were not effective as of December 31, 2008.

While this material weakness did not have an effect on our reported results, it nevertheless constituted a deficiency in our controls. In light of this material weakness and the requirements enacted by the Sarbanes-Oxley act of 2002, and the related rules and regulations adopted by the SEC, our Chief Executive Officer and Chief Accounting Officer concluded that, as of December 31, 2008, our controls and procedures needed improvement and were not effective at a reasonable assurance level. Despite this deficiency in our internal controls, management believes that there were no material inaccuracies or omissions of material fact in this annual report.

Since the discovery of the material weaknesses in the tax provision we began evaluating the tax provision and remediated the related internal control weakness. We have evaluated our disclosure controls and procedures as currently in effect, including the remedial actions discussed above, and we have concluded that, as of this date, our disclosure controls and procedures are effective.

We have discussed our corrective actions and future plans with our board of directors and Bagell as of the date of this annual report, and believe the planned actions should serve to correct the above listed material weaknesses in our internal controls. However, we cannot provide assurance that either we or our independent auditors will not in the future identify further material weaknesses or significant deficiencies in our internal control over financial reporting that we have not discovered to date.

Inherent Limitations of the Effectiveness of Internal Control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the ordinary course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with GAAP, such that there is a more than remote likelihood that a misstatement of the Company's annual or interim financial statements that is more than inconsequential will not be prevented or detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None

Item 6. Exhibits

(a) The following are filed as exhibits to this form 10-QSB:

31.1 Certification of President Pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

SIGNATURES

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

SITESTAR CORPORATION

Date: October 8, 2009

By: /s/ Frank Erhartic, Jr.
Frank Erhartic, Jr.
President, Chief Executive Officer
(Principal Executive Officer and
Principal Accounting Officer)

Date: October 8, 2009

By: /s/ Daniel A. Judd.
Daniel A. Judd
Chief Financial Officer
(Principal Financial Officer)