SITESTAR CORP
Form 10-K
March 30, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2011

SITESTAR CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Commission file number 000-27763

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

(434) 239-4272

(Issuer's telephone number, including area code)

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section13 or Section 15(d) of the Act.

o Yes x No

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

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

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

Large accelerated filer o Accelerated filer o

Non-accelerated filer o Smaller reporting company x

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

The aggregate value of the voting common equity held by non-affiliates as of December 31, 2011, the last business day of the registrant's most recently completed fourth fiscal quarter, was approximately $1,392,811 based on the price at which the common stock last sold on such day. This price reflects inter-dealer prices without retail mark up, mark down, or commissions, and may not represent actual transactions.

The number of shares outstanding of Common Stock, $0.001 par value as of March 30, 2012 was approximately 74,735,705.

DOCUMENTS INCORPORATED BY REFERENCE

None.

PART I

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

ITEM 1. BUSINESS

Overview

Internet

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

The products and services that the Company provides include:

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

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

Real Estate

The real estate group invests in, refurbishes and markets real estate for resale. The increase in real estate sales marks the beginning of the Company's efforts to turn investments of excess cash from the Internet division into a new revenue stream. With the increased inventory of real estate investments, the sales should become a more prominent source of revenue.

Corporate History

The Company was incorporated under the name White Dove Systems, Inc. in December 1992 under the laws of the State of Nevada.

Effective December 15, 1999, the Company consummated the acquisition of Neocom Microspecialists, Inc. (Neocom) by exchanging 6,782,353 shares of the Company's common stock for 100% of the outstanding shares of Neocom.

Effective upon the closing of the acquisition, the Company issued 4,782,353 shares of its common stock and reserved 2,000,000 shares of common stock to issue on the second anniversary of the acquisition based on certain contingencies related to potential unrecorded liabilities. As of January 2002, the remaining 2,000,000 shares were issued to the former shareholders of Neocom.

Neocom has since changed its name to Sitestar.net, Inc. Sitestar.net is an ISP and web development company based in Lynchburg, Virginia. Sitestar.net provides Internet access and other Internet services to its customers in the Southern Virginia area.

Effective November 22, 2000, the Company consummated the acquisition of FRE Enterprises, Inc., a Virginia corporation (doing business as “Lynchburg.net” and “Computers by Design”) by exchanging 16,583,980 shares of its common stock for 100% of the outstanding shares of Lynchburg.net. Effective upon the closing of the acquisition, the Company issued 12,437,985 shares of its common stock and reserved 4,145,995 shares of its common stock that the Company had agreed to issue on the third anniversary of the acquisition based on certain contingencies related to potential unrecorded and unknown liabilities. On the third anniversary, November 22, 2003, there were no contingencies that had not been satisfied and the shares were issued on that date. The Company used the market price of its common stock at the acquisition date to determine the acquisition price of $2,487,597.

Lynchburg.net is an ISP and web services company. Computers by Design is a computer sales and service company. In addition, Computers by Design has a division that remanufactures ink and toner cartridges under the name of CBD Toner Recharge. This company is based in Lynchburg, Virginia and provides products and services to its customers in the central and southwestern part of Virginia, as well as, nationwide.

On July 1, 2001, the Company acquired 100% of the equity and voting interest of Advanced Internet Services, Inc., a North Carolina corporation (ADVI). ADVI is an Internet and computer service provider located in Mt. Airy, North Carolina. The purchase price was $965,980, which consisted of $150,000 in cash, transaction costs of $30,000, 6,021,818 of the Company’s common shares valued at $301,091 and a non-interest bearing promissory note for $1,199,990 (the present value was $484,889) payable in 24 quarterly installments of $51,078. Due to the non-interest bearing nature of the note, the Company imputed a discount rate of 36% to calculate the present value of the note. This discount rate was an estimate of the Company’s current cost of capital. This acquisition included goodwill of $702,642 that was the premium the Company paid to have the opportunity to generate revenues and earnings in this market.

Effective October 16, 2002, Sitestar reorganized and the Board named Frank R. Erhartic, Jr. as the new Chairman and CFO to replace Clinton Sallee and Eric Manlunas, who both resigned. Mr. Erhartic later entered into a contract with the former management of Sitestar to buy out their shares of the Company to reduce the number of shares outstanding by approximately 32.5%. Mr. Sallee was retained as a paid consultant for one year.

Effective December 31, 2002, the Company acquired the Internet assets and Internet customer list of Digital Data Connections, Inc., a local competitor in Martinsville, Virginia. This deal consisted of a cash payment of $50,000 and a promise to pay a certain percentage of revenues generated by their customers for ten months. The Company also accepted a non-compete agreement restricting competition in the Company's existing markets for a period of three years.

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On June 30, 2004 the Company acquired 100% of the Internet-related assets of Virginia Link Internet and Network Management, Inc., a Virginia corporation and ISP located in Galax, Virginia and Mt. Airy Networks, LLC, a North Carolina limited liability company, an ISP located in Mount Airy, North Carolina. The total purchase price was $226,314, representing the fair value of the assets acquired, less $50,000 for deferred revenues and less a 10% discount, for a purchase price of $176,314 which consisted of a non-interest bearing note payable over thirty months.

Effective August 31, 2004 the Company entered into a Definitive Agreement to sell the assets of Sitestar Applied Technologies (SAT), the software development division of the Company. Thomas Albanese, the former manager of the SAT division, purchased the assets. The new company is subsequently doing business as Servatus Development, LLC (Servatus). The agreement consisted of Albanese surrendering 1,460,796 shares of the Company's common stock and the Company receiving a 20% share in the gross revenues of Servatus over a period of four years and maintaining the rights to the crisis management software system that was shortly thereafter completed. The Company provided office space, occupancy costs and Internet services for one year.

Effective November 22, 2004, the Company entered into a Definitive Agreement acquiring the Internet related assets of Exchange Computers, Inc. and Exis.net, Inc. Both are Virginia corporations. The deal consisted of the acquisition of the dial-up customers, the related Internet assets and non-compete agreements from the principal officers of the companies. The total purchase price was $150,000, representing the fair value of the assets acquired, which consisted of $30,000 in cash at closing and a non-interest bearing promissory note of $120,000 that was paid over twelve months.

Effective September 16, 2005, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of IDACOMM, an Idaho corporation. The transaction consisted of the acquisition of the dial-up and certain DSL customers, the related Internet assets and non-compete agreements from the company. The total purchase price was $1,698,430, representing the fair value of the assets acquired, less $112,735 for deferred revenues and less a 10% discount, for a net purchase price of $1,545,304 which consisted of a down payment of $250,000 with the balance paid by a non-interest bearing note payable over 7 months. The transaction was accounted for by the purchase method of accounting. Accordingly, the purchase price was allocated to the assets acquired based on the estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair value of tangible assets acquired was attributed to the customer list and non-compete agreement, which were amortized over the estimated three-year life and contractual three-year life, respectively. The value of the customer list was determined by multiplying the current market value per customer times the number of customers purchased at the time of the acquisition.

Effective January 1, 2006, with a closing date of January 6, 2006, the Company entered into a Definitive Agreement acquiring the Common Stock of NetRover Inc., a Canadian ISP and web services corporation. The Definitive Agreement consisted of the acquisition of all of the issued and outstanding shares of NetRover Inc.'s stock and a non-compete agreement of the company. The total purchase price was $604,535 which represented the fair value of the stock acquired. The transaction also consisted of a non-interest bearing promissory note of $403,551 paid over twelve months, amortized over twenty four months with a balloon payment in the twelfth month and a down payment consisting of 2,000,000 shares of the Registrant's common stock at Closing.

Effective March 16, 2006, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of Prolynx, Inc., a Colorado ISP. The total purchase price was $90,000 representing the fair value of the net assets acquired paid in the form of the Company's assumption of $90,000 in operating expenses accrued by Prolynx.

Effective July 1, 2006, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of First USA, Inc., an Ohio ISP. The total purchase price was $725,000 representing the fair value of the assets acquired which consisted of a $250,000 cash payment at closing with the balance paid in six equal monthly payments beginning August 2006.

Effective February 1, 2007, the Company entered into a Definitive Agreement pursuant to which it acquired the Internet related assets of Magnolia Internet Services, an Arkansas 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 paid in twelve equal monthly payments beginning March 2007. The purchase price has subsequently been adjusted down to $108,470.

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 and with headquarters in Wyoming. 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 was paid in ninety days. The purchase price has been adjusted down to $802,452.

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 adjusted purchase price was $45,629 representing the fair value of the assets acquired which consisted of a $4,275 cash payment at closing with the balance paid in eleven monthly installments beginning July 2007.

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 due in 30 days with the remaining balance due in 36 monthly installments beginning January 2008.

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 $54,800 representing the fair value of the assets acquired which consisted of a $9,135 cash payment at closing with the remaining balance paid in five monthly installments beginning April 2008. The purchase price has been subsequently adjusted down to $36,818.

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 Internet Service Provider. The total purchase price was $43,790 representing the fair value of the assets acquired which consisted of a $3,650 cash payment at closing with the remaining balance paid in eleven monthly installments beginning May 2008. The purchase price has been subsequently adjusted to $45,821.

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 paid in six monthly installments beginning June 2008.

Effective May 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired certain broadband digital subscriber line (DSL) accounts and related assets of United Systems Access, Inc., (d/b/a USA Telephone), a corporation with its headquarters in Maine. The net purchase price was $297,965 representing the fair value of the assets acquired which consisted of a $130,000 cash payment at closing with the remaining balance paid in sixty days from closing. The purchase price has been subsequently adjusted down to $263,757.

Effective June 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of AdaNet, an Oklahoma-based ISP. The total purchase price was $23,017 representing the fair value of the assets acquired which consisted of a $3,836 cash payment at closing with the remaining balance paid in five monthly installments beginning July 2008. The purchase price has been subsequently adjusted down to $18,542.

Effective August 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of Velocity West, Inc., an ISP and wholesale managed modem solution provider with headquarters in Texas. The total purchase price was $360,000 representing the fair value of the assets acquired which consisted of a $100,000 cash payment at closing and the remaining balance has been paid.

Effective November 1, 2008, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of ISP Holding Company, LLC (d/b/a DONOBi Internet Services), an ISP with headquarters in Washington. The total purchase price was $475,000 representing the fair value of the assets acquired which consisted of a $150,000 cash payment at closing with the remaining balance paid in twelve monthly installments beginning December 2008. The purchase price has been subsequently adjusted down to $447,354.

Effective February 10, 2009, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of Pulaski Networks, LLC, a Virginia Internet Service Provider. The total purchase price was $24,907 representing the fair value of the assets acquired which consisted of applying the amount owed to the Company, by Pulaski Networks for wholesale dial-up service, to the purchase price.

Effective August 1, 2010, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of Jellico.com, Inc., an ISP with headquarters in Indiana. The total purchase price was $17,020 representing the fair value of the assets acquired which consisted of a $10,000 cash payment at closing with the remaining balance paid in four monthly installments beginning September 2010.

Effective March 1, 2011, the Company entered into a Definitive Agreement acquiring the Internet based assets of Brampton Capital LLC., a North Carolina limited liability company. The Definitive Agreement consisted of the acquisition of the Internet related assets and a non-compete agreement of the company. The estimated net purchase price is $88,000 consisting of dial-up and email and web hosting customers less deferred revenue. The purchase price has been subsequently adjusted down to $55,000.

Effective October 15, 2008 pursuant to the approval of the board of directors, the Company's management believes that it is in the best interests of the Corporation to implement a program to purchase ("Purchase Program"), as investments, real estate with the Company's surplus cash flows. Any real estate purchased pursuant to the Purchase Program will be held as investment until such time or times as the Board of Directors, in its discretion, may deem advisable to sell or otherwise dispose of the property.

The current real estate market presents the unique opportunity to acquire properties at deep discounts from assessments with the potential for substantial profits. Management evaluates property as it becomes available with respect to the market value versus what it can be acquired for, in addition to other conditions that could affect the resale value. Renovations are made as needed to maximize the market appeal and value prior to listing for sale.

Management believes that there is sustainable cash flow potential for the near future in real estate and is actively pursuing the program. As of the balance sheet date, December 31, 2011, the Company has invested approximately $2,465,000 in surplus funds and is continuing the investing process. Management has determined that the Purchase Program will not impair the Company’s capital, cash flows or operations.

Sitestar’s Business Strategy

The Company’s growth strategy is to expand its business by increasing its customer base, services and coverage area. The Company uses marketing, acquisitions and partnerships to accomplish this. The Company plans to increase the real estate holdings of distressed and foreclosed properties and refurbish as needed for marketability. These properties will then be presented to the market at or below conventional market value and sold for profit, providing a revenue stream for the future. Sitestar’s mission is to increase stockholder value by increasing revenues, minimizing operational costs and increasing profits, while maintaining superior products and customer service.

Key elements of Sitestar’s strategy include:

Increasing the Dial-up Customer Base. The Company intends to retain its large regional customer base plus continue to expand its services to a broader geographic market. The Company attempts to maintain its existing customers by offering them a high quality service at a reasonable price and value-added services such as free anti-virus and spam filtering. To address the broader market potential, the Company has expanded its local coverage areas and has leased infrastructure from its partners which enables the Company to provide service to nearly 100% of the people in the United States and Canada.

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

Increasing the Product Offerings. The Company anticipates that it is will continue to offer new products and services, as they become available, through its retail stores and to its existing Internet customer base.

Strategic Acquisitions. The Company has historically acquired companies, assets and customer bases and intends to continue to consider and execute similar opportunities to help grow its business.

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

Increasing real estate holdings. The Company plans to increase the real estate holdings of distressed and foreclosed properties and refurbish as needed for marketability. These properties will then be presented to the market at or below conventional market value and sold for a profit.

Marketing Channels

The Company deploys a variety of marketing strategies and tactics to promote its products and services, including Web advertisement, affiliate and referral programs. The Company's portfolio of websites generates new business on a consistent and daily basis. In addition, the Company sells its products to customers who visit its retail store locations. The Company's indirect sales channel strategy consists of affiliates such as sales agents, as well as, companies that market and sell the Company's services under their own brand. To date, the Company's most effective sales lead generation has been through its customer referral program.

The Internet services market is extremely competitive and highly fragmented. The Company faces competition from numerous types of ISPs, including other national ISPs, telecommunications providers and cable companies, and anticipates that competition will only intensify in the future as the ISP industry becomes more mature through provider consolidation and pricing commoditization. The Company believes that the primary competitive factors in the Internet services market include:

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

The Company believes that it competes favorably based on these factors, particularly due to:

- National brand name;
- Highly responsive customer support and service;
- High reliability; and
- Competitive pricing.

The Company currently competes, or expects to compete, with the following types of companies:

- Local and regional ISPs and Computer Companies;
- National Internet Service Providers, such as, AOL, MSN (Microsoft Network) and EarthLink;
- Local, regional and national broadband cable providers, such as Comcast and Cox Communications;
- Providers of Web hosting, co-location and other Internet-based business services;

- Computer hardware and other technology companies that provide Internet connectivity with their own or other products, including IBM and Microsoft;

- National telecommunication providers, such as Verizon, AT&T and Qwest;
- Regional Bell Operating Companies (RBOCs), Competitive Local Exchange Carriers (CLECs) and other local telephone companies;
- Providers of free or discount Internet service, including United Online's and NetZero;

- Terrestrial wireless and satellite providers, such as Clearwire, and HughesNet; and
- Non-profit or educational ISPs.

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

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

Additionally, a new dial-up Internet access market segment has been created similar to the discount or “no frills” airlines. These ISPs deliver dial-up Internet access at substantially discounted rates with complimentary spam and virus protection, but charge their customers for technical support. Many ISPs have responded in turn by creating similar service and pricing plans and or reducing the cost of their traditional service plans to remain competitively viable. Similarly, a second dial-up market segment has emerged where value-added services including web acceleration, spyware and pop-up ad protection are delivered at a premium price. Thus, the Company believes that if it is unable to compete with lower-cost and premium service providers, its revenues and profit margins may decline.

To address these competitive challenges, the Company will continue to distinguish itself by offering competitively priced and packaged products, value-added services and proven customer support. The Company also believes that its ability to respond quickly and adroitly in providing solutions to its customers’ Internet needs will be a key advantage.

Government Regulations

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

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

The Company provides its services through data transmissions over public telephone lines and other facilities provided by telecommunications companies. These transmissions are subject to regulation by the Federal Communications Commission (FCC), state public utility commissions and foreign governmental authorities. However, the Company is not subject to direct regulation by the FCC or any other governmental agency, other than regulations applicable to businesses generally. Nevertheless, as Internet services and telecommunications services converge or the services the Company offers expand, there may be increased regulation of its business, including regulation by agencies having jurisdiction over telecommunications services. Additionally, existing telecommunications regulations affect the Company's business through regulation of the prices it pays for transmission services and through regulation of competition in the telecommunications industry.

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

Employees

As of March 30, 2012, the Company employed twelve full-time individuals. Of these, the Company has three in management, one in administration, and eight technicians. The Company also employed three part-time individuals. Of these, the Company has two technicians and one in administration. The Company's employees are not unionized and it considers its relations with its employees to be favorable.

Available Information

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

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

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

Here the Company handles the executive, marketing, corporate accounting functions, customer service, technical support, and billing and houses Internet equipment. In addition, the Company markets local Internet service under the Lynchburg.net and SurfWithUs.net brands, sells computer hardware and services under the name Computers by Design and remanufactures toner and ink cartridges under the name CBD Toner Recharge at this location. This facility has an annual rent of $48,000. The facility is located at 7109 Timberlake Road, Lynchburg, VA 24502, is leased from Frank R. Erhartic, Jr. a Company Director and Officer and this lease expires on November 1, 2012.

The Company leases a 2,000 square foot office facility in Chatham, Ontario where it sells Internet services under the name of NetRover. The Company also houses Internet equipment there to serve its customers in Canada. This facility has an annual rent of $18,000 Canadian Dollars (CAD) or approximately $17,847 in United States Dollars (USD). The facility is located at 48 Fifth Street, Chatham, Ontario N7M 4V8 and is leased from Duff Enterprises and this lease expires in November 2013.

The Company anticipates that it may require additional space for its ISP operations as it expands, and it believes that it will be able to obtain suitable space as needed on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

On or about January 16, 2008, the Company filed a Complaint in the Circuit Court in the Orange County Superior Court of the State of California against Frederick T. Manlunas, a former executive and director of the Company, for breach of contract, specific performance and declaratory relief. The Company is now in the process of cancelling 4,000,000 shares formerly owned by Mr. Manlunas.

A complaint has been filed in Belmont County, Ohio by First USA, Inc. alleging a breach of agreement for the purchase and sale of Internet Service Provider accounts dated July 1, 2006. The complaint demands judgment of approximately $150,000. The Company has vigorously defended this claim. This matter was dismissed by the plaintiff on December 11, 2009. This case was re-filed on December 9, 2010 and the Company is in the process of preparing the first set of interrogatories and requests for production of documents for service on the plaintiff. As of the balance sheet date the Company is still waiting for the production of the documents.

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

Reserved and omitted.

PART II

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

MARKET FOR COMMON EQUITY

Set forth below are the high and low closing bid prices for the Company's common stock on the Over-the-Counter Bulletin Board for each quarterly period commencing January 1, 2009.

	High	Low
2010		
For the quarter ended March 31, 2010	$0.05	$0.03
For the quarter ended June 30, 2010	$0.04	$0.03
For the quarter ended September 30, 2010	$0.04	$0.02
For the quarter ended December 31, 2010	$0.03	$0.01
2011		
For the quarter ended March 31, 2011	$0.02	$0.01
For the quarter ended June 30, 2011	$0.03	$0.01
For the quarter ended September 30, 2011	$0.03	$0.01
For the quarter ended December 31, 2011	$0.02	$0.01

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

RECORD HOLDERS

The closing bid price for the Company's common stock was $0.02 on March 30, 2012 . As of March 30, 2012 the Company had approximately 120 shareholders of record. Additional holders of the Company's Common Stock hold such stock in street name with various brokerage firms.

EQUITY COMPENSATION PLANS

The Company does not have any plans under which options, warrants or other rights to subscribe for or acquire shares of the Company's common stock may be granted and there are no outstanding options, warrants or other rights to subscribe for or acquire shares of Company common stock. From time to time, the Board of Directors may grant shares of the Company's common stock to its officers, employees and contractors in lieu of salary, fees or as a bonus. The Board of Directors made no grants during fiscal years 2010 and 2011.

DIVIDENDS

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

RECENT SALES OF UNREGISTERED SECURITIES

None.

PURCHASES OF EQUITY SECURITIES BY THE COMPANY AND AFFILIATED PURCHASERS

On October 22, 2008 the Board of Directors of the Company authorized a stock repurchase program which calls for the repurchase of up to 10,000,000 shares of its common stock.

The repurchases are to be made from time to time in the open market as conditions allow and will be structured to comply with Commission Rule 10b-18. Management reports monthly to the Board of Directors on the status of the repurchase program. The Board of Directors has reserved the right to suspend, terminate, modify or cancel this repurchase program at any time for any reason.

The following chart provides information regarding purchases of Company equities by the Company and affiliated purchasers since the program was put in place in October 2008:

Period	Total Number of Shares Purchased	Average Price Paid Per Share ($)	Total Number of Shares Purchased as Part of Publicly	Maximum Number of Shares That May Yet Be Purchased

			Announced Plans or Programs	Under the Plans or Programs
Month # 1 October 31, 2008	-	-	-	10,000,000
Month # 2 November 30, 2008	-	-	-	10,000,000
Month # 3 December 31, 2008	19,500	0.06	19,500	9,980,500
Total 2008	19,500	0.06	19,500	9,980,500
Month # 4 January 31, 2009	25,000	0.06	25,000	9,955,500
Month # 5 February 28, 2009	5,263,158	0.1121	5,263,158	4,692,342
Month # 6 March 31, 2009	34,000	0.051	34,000	4,658,342
Month # 7 April 30, 2009	-	-	-	4,658,342

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Month # 8 May 31, 2009	7,000	0.051	7,000	4,651,342
Month # 9 June 30, 2009	-	-	-	4,651,342
Month # 10 July 31, 2009	10,000	0.05	10,000	4,641,342
Month # 11 August 31, 2009	-	-	-	4,641,342
Month # 12 September 30, 2009	1,460,795	0.05	1,460,795	3,180,547
Month # 13 October 31, 2009	39,000	0.05	39,000	3,141,547
Month # 14 November 30, 2009	30,000	0.043	30,000	3,111,547
Month # 15 December 31, 2009	20,000	0.048	20,000	3,091,547
Total 2009	6,888,953	0.097	6,888,953	3,091,547
Month # 16 January 31, 2010	840,000	0.04	840,000	2,251,547
Month # 17 February 28, 2010	40,000	0.04	40,000	2,211,547
Month # 18 March 31, 2010	-	-	-	2,211,547
Month # 19 April 30, 2010	80,000	0.035	80,000	2,131,547
Month # 20 May 31, 2010	40,000	0.03	40,000	2,091,547
Month # 21 June 30, 2010	-	-	-	2,091,547
Month # 22 July 31, 2010	40,000	0.03	40,000	2,051,547
Month # 23 August 31, 2010	120,000	0.024	120,000	1,931,547
Month # 24 September 30, 2010	-	-	-	1,931,547
Month # 25 October 31, 2010	62,000	0.023	62,000	1,869,547
Month # 26 November 30, 2010	142,000	0.022	142,000	1,727,547
Month # 27 December 31, 2010	100,000	0.013	100,000	1,627,547
Total 2010	1,464,000	0.028	1,464,000	1,627,547

Month # 28 January 31, 2011	-	-	-	1,627,547
Month # 29 February 28, 2011	-	-	-	1,627,547
Month # 30 March 31, 2011	150,000	0.012	150,000	1,477,547
Month # 31 April 30, 2011	210,000	0.005	210,000	1,267,547
Month # 32 May 31, 2011	190,000	0.005	190,000	1,077,547
Month # 33 June 30, 2011	60,000	0.010	60,000	1,017,547
Month # 34 July 31, 2011	-	-	-	1,017,547
Month # 35 August 31, 2011	-	-	-	1,017,547
Month # 36 September 30, 2011	-	-	-	1,017,547
Month # 36 October 31, 2011	-	-	-	1,017,547
Month # 37 November 30, 2011	-	-	-	1,017,547
Month # 38 December 31, 2011	-	-	-	1,017,547
Total 2011	610,000	0.007	610,000	1,017,547
Totals	8,982,453	0.079	8,982,453	1,017,547

ITEM 6. SELECT FINANCIAL DATA

GENERAL

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related footnotes for the years ended December 31, 2011 and December 31, 2010 included in this Annual Report on Form 10-K. The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

Overview

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

The products and services that the Company provides include:

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

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

Additionally, the Company markets and sells web hosting and related services to consumers and businesses.

The Company acquires real estate holdings of distressed and foreclosed properties and refurbishes as needed for marketability. These properties are then presented to the market at or below conventional market value and sold for a profit.

RESULTS OF OPERATIONS

The following tables show financial data for the years ended December 31, 2011 and 2010. Operating results for any period are not necessarily indicative of results for any future period.

	For the year ended December 31, 2011			
	Corporate	Real Estate	Internet	Total
Revenue	$-	$888,660	$3,673,902	$4,562,562
Cost of revenue	-	675,478	1,806,378	2,481,856
Gross profit	-	213,182	1,867,524	2,080,706
Operating expenses	77,662	-	1,055,266	1,132,928
Income (loss) from operations	(77,662)	213,182	812,258	947,778
Other income (expense)		-	(10,767)	(10,767)
Income (loss) before income taxes	(77,662)	213,182	801,491	937,011
Income taxes expense (benefit)	-	24,470	101,164	125,634
Net income (loss)	$(77,662)	$188,712	$700,327	$811,377

	For the year ended December 31, 2010			
	Corporate	Real Estate	Internet	Total
Revenue	$-	$-	$5,051,916	$5,051,916
Cost of revenue	-	-	2,330,477	2,330,477

Gross profit	-	-	2,721,439	2,721,439
Operating expenses	97,364	-	2,990,548	3,087,912
Income (loss) from operations	(97,364)	-	(269,109)	(366,473)
Other income (expense)	-	-	(36,141)	(36,141)
Income (loss) before income taxes	(97,364)	-	(305,250)	(402,614)
Income taxes expense (benefit)	-	-	354,795	354,795
Net income (loss)	$(97,364	-	$(660,045)	$(757,409)

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

The following tables show a reconciliation of EBITDA to the GAAP presentation of net income for the years ended December 31, 2011 and 2010.

	For the year ended December 31, 2011			
	Corporate	Real Estate	Internet	Total
EBITDA	$(77,662)	$213,182	$1,154,315	$1,289,835
Interest expense	-		(12,080)	(12,080)
Income tax expense	-	(24,470)	(101,164)	(125,634)
Depreciation	-		(15,685)	(15,685)
Amortization	-		(325,059)	(325,059)
Net income (loss)	$(77,662)	$188,712	$700,327	$811,377

	For the year ended December 31, 2010			
	Corporate	Real Estate	Internet	Total
EBITDA	$(97,364)	$-	$1,632,839	$1,535,475
Interest expense	-	-	(28,009)	(28,009)
Taxes		-	(354,795)	(354,795)
Depreciation	-	-	(15,871)	(15,871)
Amortization	-	-	(1,894,209)	(1,894,209)
Net income (loss)	$(97,364)	$-	$(660,045)	$(757,409)

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

GENERAL

The following discussion and analysis should be read in conjunction with the Company’s consolidated financial statements and related footnotes for the years ended December 31, 2011 and December 31, 2010 included in this Annual Report on Form 10-K. The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

YEAR ENDED DECEMBER 31, 2011 COMPARED TO DECEMBER 31, 2010

REVENUE. Revenue for the year ended December 31, 2011 decreased by $489,354 or 9.7% from $5,051,916 for the year ended December 31, 2010 to $4,562,562 for the same period in 2011. Internet sales decreased $1,378,014 or 27.3% from $5,051,916 for the year ended December 31, 2010 to $3,673,902 for the same period in 2011. The decrease in Internet sales is attributed to the lack of acquisitions of Internet access and web hosting customers of ISPs. Although the Company continues to sign up new customers, competition from ubiquitous nationwide telecommunications and cable providers threatens significant and sustainable organic growth.

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To insure continued strength in revenues, the Company has acquired and plans to continue to acquire the assets of additional ISPs, folding them into its operations to provide future revenues. This decrease in Internet sales has been offset by first time real estate sales. Real estate sales increased $888,660 or 100.0% from none for the year ended December 31, 2010 to $888,660 for the same period in 2011. The increase in real estate sales marks the beginning of the Company's efforts to turn investments of excess cash from the Internet division into a new revenue stream. With the increased inventory of real estate investments, the sales should become a more prominent source of revenue.

COST OF REVENUE. Total costs of revenue for the year ended December 31, 2011 increased by $151,379 or 6.5% from $2,330,477 for the year ended December 31, 2010 to $2,481,856 for the same period in 2011. The increase is due primarily to lower volume of Internet revenue and the inclusion of the higher cost real estate. Total cost of revenue as a percentage of sales increased 8.3% from 46.1% for the year ended December 31, 2010 to 54.4% for the same period in 2011. Internet cost of revenue increased 3.1% as a percentage of revenue resulting primarily from more costly forms of broadband service. Real estate cost of revenue as a percentage of revenue was 76.0% and a contributing factor in the overall increase in cost of revenue as a percentage of revenue. The Company is continuing to attempt to negotiate more favorable contracts with telecommunication vendors and making the network capacity more efficient. The Company expects to continue creating these efficiencies through wholesale businesses recently acquired.

OPERATING EXPENSES. Selling, general and administrative expenses decreased $1,972,183 or 63.9% from $3,084,703 for the year ended December 31, 2010 to $1,112,520 for the same period in 2011. This is due primarily to a decrease in amortization, wages and bad debt expenses. Amortization expense, including impairment decreased $1,569,150 or 82.8% from $1,894,209 for the year ended December 31, 2010 to $325,059 for the same period in 2011. Wages decreased $142,933 or 28.3% from $504,429 for the year ended December 31, 2010 to $361,496 for the same period in 2011. Bad debt expense decreased $260,029 or 118.4% from $219,671 for the year ended December 31, 2010 to $(40,358) for the same period in 2011.

INTEREST EXPENSE. Interest expense for the year ended December 31, 2011 decreased by $15,929 or 56.9% from $28,009 for the year ended December 31, 2010 to $12,080 for the same period in 2011. This decrease was a result of the satisfaction of debt from financing recent acquisitions of customer bases.

INCOME TAXES. For the years ended December 31, 2011 and 2010 corporate income tax expense of $125,634 and $354,795 were accrued.

BALANCE SHEET. Net accounts receivable decreased $21,579 or 28.9% from $74,669 on December 31, 2010 to $53,090 on the same date in 2011. Investments increased $1,949,492 or 378.4% from $515,202 on December 31, 2010 to $2,464,694 on December 31, 2011. This increase is the result of investing in real estate to employ idle cash. Customer list decreased $245,114 or 87.8% from $279,075 on December 31, 2010 to $33,961 on December 31, 2011. This decrease is substantially due to scheduled amortization. Deferred tax assets decreased $426 from

$763,033 on December 31, 2010 to $762,607 on December 31, 2011. This is due to the recognition of tax benefits of timing differences of certain tax deductions. Other assets decreased $39,070 or 12.8% from $305,250 on December 31, 2010 to $266,180 on December 31, 2011. Accounts payable increased by $55,571 or 357.0% from $15,565 on December 31, 2010 to $71,136 on December 31, 2011. Accrued income taxes decreased $66,364 from $147,717 on December 31, 2010 to $81,353 on December 31, 2011. Accrued expenses increased by $8,905 or 39.5% from $22,528 on December 31, 2010 to $31,433 on December 31, 2011. Deferred revenue decreased by $132,398 or 22.3% from $594,038 on December 31, 2010 to $461,640 on December 31, 2011 representing corresponding reduced revenue from which customers have prepaid services on December 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled $17,268 and $939,328 at December 31, 2011 and 2010, respectively. EBITDA was $1,289,835 for the year ended December 31, 2011 as compared to $1,535,475 for the year ended December 31, 2010.

	2011	2010
EBITDA for the year ended December 31,	$1,289,835	$1,535,475
Interest expense	(12,080)	(28,009)
Tax benefits (expense)	(125,634)	(354,795)
Depreciation	(15,685)	(15,871)
Amortization	(325,059)	(1,894,209)
Net income for the year ended December 31,	$811,377	$(754,709)

Sales of Internet services which are not automatically processed via credit card or bank account drafts have been the Company's highest exposure to collection risk. To help offset this exposure, the Company has added a late payment fee to encourage timely payment by customers. Another effort to improve customer collections was the implementation of a uniform manual invoice processing fee, which has also helped to accelerate collections procedures. These steps and more aggressive collection efforts have shifted accounts receivable to a more current status which is easier to collect. The accounts receivable balance in the Current category increased from 51.0% to 63.0% of total accounts receivable from December 31, 2010 to December 31, 2011. The balance in the 30+ day category decreased from 30.0% to 25.0% of total accounts receivable from December 31, 2010 to December 31, 2011. The balance in the 60+ day category decreased from 19.0% to 12.0% of total accounts receivable from December 31, 2010 to December 31, 2011.

The aging of accounts receivable as of December 31, 2011 and 2010 is as shown:

	2011		2010	
Current	$33,362	63.0 %	$38,037	51.0 %
30+	13,123	25.0 %	22,550	30.0 %
60+	6,605	12.0 %	14,082	19.0 %
90+	-	- %	-	- %
Total	$53,090	100.0%	$74,669	100.0%

Pursuant to the approval of the board of directors, the Company's management believes that it is in the best interests of the Corporation to implement a program to purchase ("Purchase Program"), as investments, real estate with the Company's surplus cash flows. Any real estate purchased pursuant to the Purchase Program will be held as investment until such time or times as the Board of Directors, in its discretion, may deem advisable to sell or otherwise dispose of the property.

The current real estate market presents the unique opportunity to acquire properties at deep discounts from assessments with the potential for substantial profits. Management evaluates property as it becomes available with respect to the market value versus the acquisition cost, in addition to other conditions that could affect the resale value. Renovations are made as needed to maximize the market appeal and value prior to listing for sale.

Management believes that there is sustainable cash flow potential for the near future in real estate and is actively pursuing the program. As of the balance sheet date, December 31, 2011, the Company has invested approximately $2,465,000 in surplus funds and is continuing the investing process. Management has determined that the Purchase Program will not impair the Company’s capital, cash flows or 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, the Company’s ability to expand its customer base, make strategic acquisitions, general market conditions, competition and pricing. Although the Company believes 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 7A. QUANTATITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

None

ITEM 8. FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Sitestar Corporation

Lynchburg, VA 24502-2334

We have audited the accompanying consolidated balance sheets of Sitestar Corporation as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sitestar Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Santora CPA Group

Newark, DE 19713-4309

March 30, 2012

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SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2011 and 2010

ASSETS

CURRENT ASSETS	2011	2010
Cash and cash equivalents	$17,268	$939,328
Accounts receivable, net of allowances of $2,586 and $5,433	53,090	74,669
Prepaid expenses	13,037	1,500
Real estate, at cost	2,464,694	515,202
Total current assets	2,548,089	1,530,699
PROPERTY AND EQUIPMENT, net	164,159	177,844
CUSTOMER LIST, net of accumulated amortization of $12,286,712 and $11,977,598	33,961	279,075
GOODWILL, net	1,288,559	1,288,559
DEFERRED TAX ASSETS	762,607	763,033
OTHER ASSETS	266,180	305,250
TOTAL ASSETS	$5,063,555	$4,344,460

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

SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2011 and 2010

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	2011	2010
Accounts payable	$71,136	$15,565
Accrued income taxes	81,353	147,717
Accrued expenses	31,433	22,528
Deferred revenue	461,640	594,038
Notes payable, current portion	900,615	900,615
Note payable - stockholders, current portion	-	-
Total current liabilities	1,546,177	1,680,463
NOTES PAYABLE, less current portion	-	-
NOTES PAYABLE - STOCKHOLDERS, less current portion	95,958	49,460
TOTAL LIABILITIES	1,642,135	1,729,923
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding	-	-
Common Stock, $0.001 par value, 300,000,000 shares authorized and 91,326,463 shares issued in 2011 and 2010, and 74,085,705 and 74,735,705 shares outstanding in 2011 and 2010.	91,326	91,326
Additional paid-in capital	13,880,947	13,880,947
Treasury Stock, at cost, 17,240,758 and 16,590,758 common shares	(789,518)	(785,024)
Accumulated deficit	(9,761,335)	(10,572,712)
Total stockholders' equity	3,421,420	2,614,537
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5,063,555	$4,344,460

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

SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
REVENUE		
Internet	$3,673,902	$5,051,916
Real estate	888,660	-
	4,562,562	5,051,916
COST OF REVENUE		
Internet	1,806,378	2,330,477
Real estate	675,478	-
	2,481,856	2,330,477
GROSS PROFIT	2,080,706	2,721,439
OPERATING EXPENSES		
Selling, general and administrative expenses	1,112,520	3,084,703
Customer list impairment	20,408	3,209
TOTAL OPERATING EXPENSES	1,132,928	3,087,912
INCOME (LOSS) FROM OPERATIONS	947,778	(366,473)
OTHER INCOME (EXPENSES)		
Gain (loss) on disposal of assets	1,313	(8,132)
Interest expense	(12,080)	(28,009)
TOTAL OTHER INCOME (EXPENSES)	(10,767)	(36,141)
INCOME (LOSS) BEFORE INCOME TAXES	937,011	(402,614)
INCOME TAX (BENEFIT) EXPENSE	125,634	354,795
NET INCOME (LOSS)	$811,377	$(757,409)
BASIC AND DILUTED INCOME PER SHARE	$0.01	$(0.01)
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	74,281,294	75,200,826

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

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SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Common Stock		Additional Paid-in	Treasury	Accumulated	
	Shares	Amount	Capital	Stock	Deficit	Total
Balance at December 31, 2009	76,199,705	$91,326	$13,880,947	$(735,696)	$(9,815,303)	$3,421,247
Repurchase of shares	(1,464,000)			(49,328)		(49,328)
Net income					(757,409)	(757,409)
Balance at December 31, 2010	74,735,705	91,326	13,880,947	(785,024)	(10,572,712)	2,614,537
Repurchase of shares	(650,000)			(4,494)		(4,494)
Net income (loss)					811,377	811,377
Balance at December 31, 2011	74,085,705	$91,326	$13,880,947	$(789,518)	$(9,761,335)	$3,421,420

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

SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$811,377	$(757,409)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	340,744	1,910,080
Allowance for doubtful accounts	(2,847)	(8,883)
(Increase) decrease in accounts receivable	24,426	389,987
(Increase) decrease in prepaid expenses	(11,537)	(70)
(Increase) decrease in real estate	(1,949,492)	(515,202)
(Increase) decrease in deferred income taxes	426	(2,172)
Increase (decrease) in accounts payable	55,571	(116,033)
Increase (decrease) in accrued expenses	8,905	(6,524)
Increase (decrease) in deferred revenue	(132,398)	(267,197)
Increase (decrease) in accrued income taxes	(66,364)	(267,098)
Net cash provided by (used in) operating activities	(921,189)	359,479
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,000)	-
Purchase of customer list	(64,000)	(21,520)
Decrease in other assets	24,125	
(Purchase) sale of assets held for resale	-	58,675
Purchase of non-competition agreements	(1,000)	(1,000)
Net cash provided by (used in) investing activities	(42,875)	36,155
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from notes payable - stockholders	299,800	-
Net proceeds from notes payable	-	17,020
Purchase of treasury stock	(4,494)	(49,328)
Reduction of notes payable	-	(17,020)
Repayment of notes payable – stockholders	(253,302)	(497,785)
Net cash provided by (used in) financing activities	42,004	(547,113)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(922,060)	(151,479)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	939,328	1,090,807
CASH AND CASH EQUIVALENTS - END OF YEAR	$17,268	$939,328

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

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SITESTAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

During the years ended December 31, 2011 and 2010, the Company paid $155,638 and $437,764 of income taxes and paid interest expense of $12,000 and $28,000.

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:

None.

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

SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Lines of Business

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

Principles of Consolidation

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

Certain reclassifications have been made to the prior year’s consolidated financial statements in order to conform to the current year presentation. The reclassifications had no effect on previously reported net income, earnings per share, or stockholders’ equity.

Use of Estimates

In accordance with Generally Accepted Accounting Principles (GAAP), the preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period.

On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. The most significant accounting estimates inherent in the preparation of the Company’s financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. These accounting policies are described at relevant sections in the notes to the consolidated financial statements.

Fair Value of Financial Instruments

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

SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Accounts Receivable

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

For the years ended December 31, 2011 and 2010, bad debt expense was $(40,358) and $219,671. As of December 31, 2011 and 2010, accounts receivable consists of the following:

	2011	2010
Gross accounts receivable	$55,676	$80,102
Less allowance for doubtful accounts	(2,586)	(5,433)
	$53,090	$74,669

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

Property and Equipment

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

Impairment of Long-Lived Assets

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

SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

The Company evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible impairment. If there are indications of impairment, the Company uses future undiscounted cash flows of the related asset or asset grouping over the remaining life in measuring whether the assets are recoverable. In the event such cash flows are not expected to be sufficient to recover the recorded asset values, the assets are written down to their estimated fair value. Long-lived assets to be disposed are reported at the lower of carrying amount or fair value of the asset less cost to sell.

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 a discounted 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 for the customer lists was $309,114 and $1,760,820 for the years ended December 31, 2011 and 2010. Amortization of customer lists for the years ended December 31, 2012, 2013 and 2014 is expected to be $28,508, $5,453 and $0, respectively. Amortization expense for non-competition agreements was $15,945 and $133,389 for the years ended December 31, 2011 and 2010. Amortization of non-competition agreements for the years ended December 31, 2012, 2013 and 2014 is expected to be $667, $525 and $85, respectively. In accordance with GAAP, amortization of goodwill ceased effective January 1, 2002. For the years ended December 31, 2011 and 2010, there was no impairment of goodwill.

Real Estate

Real estate is carried at cost. All costs directly related to the improvement and carrying of real estate are capitalized, including renovations and property taxes, to the extent the capitalized costs of the property do not exceed the estimated fair value of the property. If the cost of the real estate exceeds the estimated fair value, the excess is charged to expense. Fair value is estimated based on comparable sales in the geographic area the real estate is located, and is evaluated annually, or when events or changes in circumstances indicate the carrying value of the real estate may not be recoverable.

SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

Internet

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

Real Estate

Revenue from real estate is recognized upon closing of the sale, as all conditions for full revenue recognition have been met at that time. All costs associated with the property sold are removed from the consolidated balance sheets and charged to cost of revenue at that time.

Advertising and Marketing Costs

The Company expenses costs of advertising and marketing as they are incurred. These expenses for the years ended December 31, 2011 and 2010 were approximately $30,000 and $24,000, respectively.

Income Taxes

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

Income Per Share

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

	2011	2010
Net income (loss) available to common shareholders	$811,377	$(757,409)
Weighted average number of common shares	74,281,294	75,200,826
Basic and diluted income (loss) per share	$.01	$(.01)

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SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Comprehensive Income

As of and for the years ended December 31, 2011 and 2010, the Company had no items that represent other comprehensive income and therefore, has not included a schedule of comprehensive income in the consolidated financial statements.

Recently Issued Accounting Pronouncements

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

NOTE 2 – ACQUISITIONS

Jellico

Effective August 1, 2010, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of Jellico.com, Inc., a Tennessee-based Internet Service Provider. The total purchase price was $17,020 representing the fair value of the assets acquired which consisted of a $10,000 cash payment at closing with the remaining balance due in 4 monthly installments beginning September 2010.

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

Customer list	$21,520

Non-compete agreement	1,000
Deferred revenue	(5,500)
Purchase price	$17,020

<u>NCISP</u>

Effective March 1, 2011, the Company entered into an Asset Purchase Agreement pursuant to which it acquired the Internet related assets of NCISP, a North Carolina-based Internet Service Provider. The total purchase price was $55,000 representing the fair value of the assets acquired which consisted of a $55,000 cash payment at closing.

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

Customer list	$64,000
Non-compete agreement	1,000
Deferred revenue	(10,000)
Purchase price	$55,000

SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

The following table presents the unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2011 and reflects the results of operations of the Company as if the acquisition of NCISP had been effective January 1, 2011. The pro forma amounts are not necessarily indicative of the combined results of operations had the acquisition been effective as of that date, or of the anticipated results of operations, due to cost reductions and operating efficiencies that are expected as a result of the acquisition.

	2011
Net sales	$4,567,562
Gross profit	$2,083,706
Selling, general and administrative expenses	$1,105,928
Net income	$841,377
Basic income per share	$0.01

NOTE 3 - SALE OF ASSETS

None.

NOTE 4 - PROPERTY AND EQUIPMENT

The cost of property and equipment at December 31, 2011 and December 31, 2010 consisted of the following:

	2011	2010
Land	$10,000	$10,000
Building	213,366	213,366
Automobile	11,500	9,500
Computer equipment	1,164,061	1,164,061
Furniture and fixtures	59,862	59,862
	1,458,789	1,456,789
Less accumulated depreciation	(1,294,630)	(1,278,945)

$164,159	$177,844

Depreciation expense was $15,685 and $15,871 for the years ended December 31, 2011 and 2010, respectively.

NOTE 5 NOTES PAYABLE

Notes payable at December 31, 2011 and 2010 consist of the following:

	2011	2010
Non-interest bearing amount due on acquisition of USA Telephone payable in thirty six monthly installments starting January 2008.	$900,615	$900,615
Less current portion	900,615	900,615
Long-term portion	$-	$-

SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

The future principal maturities of these notes are as follows:

Year ending December 31, 2012	$900,615
Year ending December 31, 2013	-
Year ending December 31, 2014	-
Year ending December 31, 2015	-
Year ending December 31, 2016	-
Thereafter	-
Total	$900,615

NOTE 6 NOTES PAYABLE - STOCKHOLDERS

Notes payable - stockholders at December 31, 2011 and 2010 consist of the following:

	2011		2010	
Note payable to officer and stockholder on a line of credit of $750,000 at an annual interest rate of 10% interest. The accrued interest and principal are due on January 1, 2014.	$	45,958	$	49,460
Note payable to stockholder. The note is payable on January 1, 2014 and bears interest at an annual rate of 6.0%.		50,000		-
		95,958		49,460

Less current portion		-		-
Long-term portion	$	95,958	$	49,460

The future principal maturities of these notes are as follows:

Year ending December 31, 2012	$-
Year ending December 31, 2013	-
Year ending December 31, 2014	95,958
Year ending December 31, 2015	-
Year ending December 31, 2016	-
Total	$95,958

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SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 7 COMMITMENTS AND CONTINGENCIES

Leases

The Company leases certain facilities for its corporate offices and retail stores under non-cancelable operating leases. Total rent expense for the years ended December 31, 2011 and 2010 was $66,626 and $66,626, respectively. Related party rent expense for each year is $48,000. Future minimum lease payments under operating leases with initial or remaining terms of one year or more are as follows:

Year ended December 31,	
2012	$66,000
2013	56,500
2014	16,500
Total	$139,000

Litigation

On or about January 16, 2008, the Company filed a Complaint in the Circuit Court in the Orange County Superior Court of the State of California against Frederick T. Manlunas, a former executive and director of the Company, for breach of contract, specific performance and declaratory relief. The Company is now in the process of cancelling 4,000,000 shares formerly owned by Mr. Manlunas.

A complaint has been filed in Belmont County, Ohio by First USA, Inc. alleging a breach of agreement for the purchase and sale of Internet Service Provider accounts dated July 1, 2006. The complaint demands judgment of approximately $150,000. The Company has vigorously defended this claim. This matter was dismissed by the plaintiff on December 11, 2009. This case was re-filed on December 9, 2010 and the Company is in the process of preparing the first set of interrogatories and requests for production of documents for service on the plaintiff. As of the balance sheet date the Company is still waiting for the production of the documents.

NOTE 8 STOCKHOLDERS' EQUITY

Classes of Shares

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

Preferred Stock

Preferred stock, any series, shall have the powers, preferences, rights, qualifications, limitations and restrictions as fixed by the Company's Board of Directors in its sole discretion. As of December 31, 2011, the Company's Board of Directors has not issued any Preferred Stock.

Common Stock

650,000 shares were repurchased by the Company and placed in treasury during the year ended December 31, 2011.

SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 9 INCOME TAXES

The provision for federal and state income taxes for the years ended December 31, 2011 and 2010 included the following:

	2011	2010
Current provision:		
Federal	$106,427	$303,422
State	18,781	53,545
Deferred provision:		
Federal	362	(1,846)
State	64	(326)
Valuation allowance	-	-
Total income tax provision	$125,634	$354,795

Deferred tax assets and liabilities reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2011 and 2010 are as follows:

	2011	2010
Accounts receivable	$2,586	5,433
Amortization of Intangible assets	3,312,441	$3,310,020
Less valuation allowance	(2,552,420)	(2,552,420)
Deferred tax asset	$762,607	$763,033

At December 31, 2011 and 2010, the Company has provided a valuation allowance for a portion of the deferred tax asset that management has not been able to determine that realization is more likely than not. No net operating loss carryforwards exist as of December 31, 2011.

NOTE 10 RELATED PARTY TRANSACTIONS

The Company leases its office building in Lynchburg, Virginia from a stockholder of the Company on a three year term basis. The date for renewal of the lease is November 1, 2013. For the years ended December 31, 2011 and 2010, the Company paid this stockholder $48,000 and $48,000, respectively, for rent on this office building.

SITESTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 11 - SEGMENT INFORMATION

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

Summarized financial information concerning the Company's reportable segments is shown in the following table for the years ended December 31, 2011 and 2010:

	December 31, 2011			
	Corporate	Real Estate	Internet	Consolidated
Revenue	$-	$888,660	$3,673,902	$4,562,562
Operating income (loss)	$(77,662)	$213,182	$812,258	$947,778
Depreciation and amortization	$-		$340,744	$340,744
Interest expense	$-		$(12,080)	$(12,080)
Goodwill	$-		$1,288,559	$1,288,559
Identifiable assets	$-	$2,464,694	$2,598,861	$5,063,555

	December 31, 2010			
	Corporate	Real Estate	Internet	Consolidated
Revenue	$-		$5,051,916	$5,051,916

Operating income (loss)	$(97,364)		$(269,109)	$(366,473)
Depreciation and amortization	$-		$1,910,080	$1,910,080
Interest expense	$-		$(28,009)	$(28,009)
Goodwill	$-		$1,288,559	$1,288,559
Identifiable assets	$-	$515,202	$3,829,258	$4,344,460

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NOTE 12 - SUBSEQUENT EVENTS

Under the “Purchase Program” for investment in real estate, as of March 30, 2012, the Company invested another $329,000 in real estate purchases since December 31, 2011 for a total investment of $2,794,000. Renovations will be made as needed to maximize the investments’ resale value.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were designed to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (2) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In addition, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective to achieve the foregoing objectives. A control system cannot provide absolute assurance, however, that the objectives of the control system are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Management’s Annual Report on Internal Control Over Financial Reporting

The Management of Sitestar Corporation is responsible for establishing and maintaining adequate internal control over its financial reporting. Sitestar Corporation's internal control over financial reporting is a process designed under the supervision of the Corporation's chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Sitestar Corporation's Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control Integrated Framework." Based on this assessment, Management determined that at December 31, 2011, the Corporation's internal control over financial reporting was effective.

(c) Change in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the fiscal quarter ended December 31, 2011, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTER AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

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

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

Name	Age	Position	Director since
Frank R. Erhartic, Jr.	43	President, CEO, Director	October 2001
Julia E. Erhartic	44	Secretary, Director	October 2001
Daniel Judd	55	CFO, Director	June 2004

Frank Erhartic, Jr., 43, Mr. Erhartic guides Sitestar's long-term market strategies and investments, oversees all product research and development and leads the company's day-to-day operations. An entrepreneur, Mr. Erhartic founded Computers by Design, a Sitestar subsidiary, in 1985 as a software development and computer services company while pursuing his high school diploma and later created a toner remanufacturing division called CBD Toner Recharge. In 1996, Mr. Erhartic started Lynchburg.net an Internet Service Provider which was acquired by Sitestar in 2000. He was named President and CEO in 2002, and has led the growth of the Company's customer base through a series of acquisitions. Mr. Erhartic has MCSE, Novell Netware and A+ certifications and is a graduate of Virginia Tech with degrees in both Management and Finance.

Julia Erhartic, 44, Ms. Erhartic graduated from Virginia Tech in 1990 with a major in Psychology and a minor in Communications Studies with an emphasis in Public Relations. Ms. Erhartic was the store manager of Computers by Design from 1991 through 1996. While also the Vice President of Computers by Design, she helped co-found the Internet division of Lynchburg.net in 1996 and then shifted her focus to public relations, accounting and customer service issues.

Mr. and Mrs. Erhartic are related by marriage. None of the other executive officers or key employees is related to any other of our directors, executive officers or key employees.

Dan Judd, 55, Mr. Judd has over thirty years of experience in accounting and management, he oversees financial reporting, planning, mergers and acquisitions, and finance support for all business operations. Before joining Sitestar in 2003, Mr. Judd ran his own accounting firm, Judd Enterprises, Inc., specializing in both taxes and accounting. He also held management positions in manufacturing and wholesale companies. Mr. Judd is a Certified Public Accountant and holds a Bachelor of Science degree in Commerce from the University of Virginia.

TERM OF DIRECTORS:

Director	Expiration of term
Frank R. Erhartic, Jr.	December 31, 2012
Julia Erhartic	December 31, 2012
Dan Judd	December 31, 2012

Section 16(a) Beneficial Ownership Reporting Compliance Pursuant to Section 16 (a) of the Securities Exchange Act of 1934, and the rules issued there under, our directors and executive officers are required to file with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. ownership and changes in ownership of common stock and other equity securities of the Company. Copies of such reports are required to be furnished to us. Based solely on a review of the copies of such reports furnished to us, or written representations that no other reports were required, we believe that, during our fiscal year ended December 31, 2011 all of our executive officers and directors complied with the requirements of Section 16 (a).

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

ITEM 11. EXECUTIVE COMPENSATION

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

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compen-sation ($)	Change in Pension Value and Non-qualified Deferred Compen-sation Earnings ($)	All Other Compen-sation ($)	Total ($)
Frank R, Erhartic, Jr. Principal Executive Officer (PEO)	2011	13,000							13,000
	2010	93,308							93,308
Daniel Judd, Principal Financial Officer (PFO)	2011	46,642							46,642
	2010	45,200							45,200
Julie E. Erhartic, (Officer)	2011	6,000							6,000
	2010	13,000							13,000

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Frank R. Erhartic, Jr., President, CEO and Director, earned a salary of $13,000 and $93,308 for the years ended December 31, 2011 and 2010, respectively. He received no other compensation. Daniel Judd, CFO and Director earned a salary of $46,642 and $45,200 for the years ended December 31, 2011 and 2010, respectively. He received no other compensation. Julia E. Erhartic, Secretary and Director, earned a salary of $6,000 and $13,000 for the years ended December 31, 2011 and 2010, respectively. She received no other compensation.

GRANTS OF PLAN-BASED AWARDS

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

There were no Equity Incentive Plans, Non-Equity Incentive Plans or Stock Awards for the years ended December 31, 2011 and 2010.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards					Stock Awards			
Name	Number of securities	Number of securities	Equity Incentive	Option Exercise	Option Expiration	Number of	Market Value of	Equity Incentive	Equity Incentive

	Underlying Unexercised Options (#) Exercisable	Underlying Unexercised Options (#) Unexercisable	Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Price ($)	Date	Shares of Units of Stock that have not vested (#)	Shares or Units of Stock that have not vested ($)	Plan Awards: Number of Unearned Shares, Units or other rights that have not vested (#)	Plan Awards Market or Payout Value of Unearned Shares, Units of other rights that have not vested ($)
PEO	N/A								
PFO	N/A								
Officer	N/A								

There were no Equity Incentive Plans, Non-Equity Incentive Plans or Stock Awards for the years ended December 31, 2011 and 2010.

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DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Frank R, Erhartic, Jr., Director							$0.00
Daniel Judd, Director							$0.00
Julie E. Erhartic, Director							$0.00

There were no Director compensation other than salary for the years ended December 31, 2011 and 2010.

ITEM 12. SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND

MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

The following table sets forth certain information as of March 30, 2012 regarding the record and beneficial ownership of our common stock by: (i) any individual or group (as that term is defined in the federal securities laws) of affiliated individuals or entities who is known by us to be the beneficial owner of more than five percent of the outstanding shares of our common stock; (ii) each of our executive officers and directors; and (iii) our executive officers and directors as a group.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percent Of Class (2)	
Frank and Julie Erhartic 7109 Timberlake Road Lynchburg, VA 24502	24,583,980	33.18	%
Daniel A. Judd 7109 Timberlake Road Lynchburg, VA 24502	133,865	00.18	%
All directors and officers As a group (3 persons)	24,717,845	33.36	%

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

(2) Percent of class is based on 74,085,705 shares of common stock outstanding as of March 30, 2012.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company leases its corporate headquarters located at 7109 Timberlake Road, Suite 201, Lynchburg, VA 24502 from Frank R. Erhartic, Jr., a stockholder of the Company pursuant to a lease agreement entered into on November 23, 2003. Pursuant to the lease agreement, the Company pays Mr. Erhartic rent in the amount of $48,000 per year. The lease agreement expires on November 1, 2013. Mr. Erhartic also is owed varying amounts on a line of credit he has with the Company and on occasions he draws down his line of credit to take advantage of investment opportunities that arise from time-to-time.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees to Independent Registered Public Accountants for Fiscal 2011 and 2010

	2011	2010
Audit fees	$60,500	$58,875
Audit related fees	-	13,500
Tax	2,000	1,875
Other	-	-
	$62,500	$74,250

AUDIT COMMITTEE

The Company does not have an audit committee.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

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

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Exhibit	Description	Filed
3.1(i)	Articles of Incorporation of the Registrant (December 17, 1992)	a
3.1(ii)	Amended Articles of Incorporation (July 29, 1998)	a
3.1(iii)	Amended Articles of Incorporation (October 26, 1998)	a
3.1(iv)	Amended Articles of Incorporation (July 14, 1999)	a
3.1(v)	Amended Articles of Incorporation (July 28, 1999)	a
3.2(i)	By-laws of the Registrant (December 17, 1992)	a
4.2	Convertible Debenture Purchase Agreement dated as of May 11, 2000 between the investors named therein and the Registrant	c
4.3	12% Convertible Debenture due May 11, 2001 made by the Registrant in favor of New Millenium Capital Partners II, L.L.C.	c
4.4	12% Convertible Debenture due May 11, 2001 made by the Registrant in favor of AJW Partners, L.L.C.	c
4.5	Stock Purchase Warrant dated as of May 11, 2000 issued by Registrant to New Millenium Capital Partners, L.L.C.	c
4.6	Stock Purchase Warrant dated as of May 11, 2000 issued by Registrant to AJW Partners, L.L.C	c
4.7	Registration Rights Agreement dated as of May 11, 2000 by and between the Registrant and the investors named therein.	c
10.1	Lease for Corporate Office	b
10.13	Statement of changes in beneficial ownership of securities.	k
10.14	Definitive Purchase Agreement to acquire certain assets of Idacomm, Inc, effective September 16, 2005.	l
10.15	Definitive Purchase Agreement to acquire Inc, effective January 1, 2006	m
10.16	Amendment to report audited financial statements for Definitive Purchase Agreement to acquire Inc.	n
10.17	Definitive Purchase Agreement to acquire certain assets of First USA, Inc, effective July 1, 2006.	o
10.18	Definitive Purchase Agreement to acquire certain assets of OW Holdings, Inc, effective February 28, 2007.	p

SCHEDULE 21. LIST OF SUBSIDIARIES

Sitestar.net, Inc.

FRE Enterprises, Inc.

Advanced Internet Services, Inc.

NetRover Inc.

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

	2002.	
32.1	Certification Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	q

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

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

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

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

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

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

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

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

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

q   Filed herewith

SIGNATURES

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

Signature	Title	Date
/s/ Frank Erhartic, Jr. Frank Erhartic, Jr.	President, Chief Executive Officer, Director (Principal Executive Officer)	March 30, 2012

/s/ Daniel A. Judd Daniel A. Judd	Chief Financial Officer (Principal Financial Officer, Principal Accounting Officer)	March 30, 2012

/s/ Julie Erhartic Julie Erhartic	Secretary, Director	March 30, 2012

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