

Acacia Diversified Holdings, Inc.
Form 10-Q
February 20, 2013

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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

For the transition period from _____ to _____

Commission file number: 1-14088

Acacia Diversified Holdings, Inc.
(Exact name of small business issuer as specified in its charter)

Texas
(State or other jurisdiction of incorporation or
organization)

(IRS Employer Identification No.)

3515 East Silver Springs Blvd. - #243 Ocala, FL
(Address of principal executive offices)

34470
(Zip Code)

(877) 513-6294
(Registrant's telephone number)

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

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.

(1) Yes No (2) Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant HAS FILED ALL DOCUMENTS AND REPORTS REQUIRED TO BE FILED BY Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of September 30, 2011: 11,562,524.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACACIA DIVERSIFIED HOLDINGS, INC.
(Formerly Acacia Automotive, Inc.)
CONSOLIDATED BALANCE SHEETS

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,900	\$ 11,113
Certificate of deposit (restricted)	-	150,006
Accounts receivable, net of allowance for doubtful accounts of \$32,000	320,872	290,248
Deposits and prepaid expenses	32,060	23,022
Total Current Assets	354,832	474,389
Property and equipment, net of accumulated depreciation of \$180,540 and \$146,389 in 2011 and 2010, respectively	130,601	163,475
Other Assets		
Goodwill	427,929	427,929
Customer list and Non-Compete Agreement, net of amortization of \$425,432 and \$397,384, respectively	215,702	243,750
Total Other Assets	643,631	671,679
Total Assets	\$ 1,129,064	\$ 1,309,543
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Cash overdraft	\$ 19,733	\$ 8,964
Accounts payable	513,853	422,276
Accrued liabilities	312,870	95,027
Shareholder payable	76,205	99,074
Line of credit	-	263,000
Capital lease obligations, current portion	19,257	21,647
Liabilities of discontinued operations	150,000	150,000
Total Current Liabilities	1,091,918	1,059,988
Noncurrent Liabilities		
Capital lease obligations, less current portion	23,795	37,415
Total Liabilities	1,115,713	1,097,403
Stockholders' Equity		
Common stock, \$0.001 par value, 150,000,000 shares authorized; 11,562,524 shares issued and outstanding.	11,562	11,562
Additional paid-in capital	11,474,090	11,442,518
Retained deficit	(11,472,301)	(11,241,940)
Total Stockholders' Equity	13,351	212,140
Total Liabilities and Stockholders' Equity	\$ 1,129,064	\$ 1,309,543

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

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ACACIA DIVERSIFIED HOLDINGS, INC.
(Formerly Acacia Automotive, Inc.)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	\$ 340,050	\$ 502,252	\$ 1,177,021	\$ 1,458,878
Costs and expenses				
Cost of fees earned	47,573	142,311	150,072	369,085
Employee compensation	171,267	336,187	629,398	627,689
General and administrative	174,075	57,781	552,194	374,117
Depreciation and amortization	20,034	24,754	62,199	72,547
Total costs and expenses	412,949	561,033	1,393,863	1,443,438
Operating income (loss) before other income (expense) and income taxes	(72,899)	(58,781)	(216,842)	15,440
Other income (expense)				
Interest income	-	23	1	136
Other income	-	-	57	-
Interest expense	(1,295)	(2,134)	(13,577)	(10,201)
Total other income (expense)	(1,295)	(2,111)	(13,519)	(10,065)
Income (loss) before income taxes	(74,194)	(60,892)	(230,361)	5,375
Income taxes	-	-	-	-
Income (loss) from continuing operations	(74,194)	(60,892)	(230,361)	5,375
Gain (loss) on discontinued operations				
(Loss) on discontinued operations, net	-	(158,715)	-	(346,784)
Gain on disposition of discontinued operations	-	231,163	-	450,055
Net gain (loss) from discontinued operations	-	72,448	-	103,271
Net income (loss)	\$ (74,194)	\$ 11,556	\$ (230,361)	\$ 108,646
Basic and diluted loss per share				
Income (loss) from continuing operations	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ 0.00
Income (loss) from discontinued operations, net	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01
Net income (loss)	\$ (0.01)	\$ 0.00	\$ (0.02)	\$ 0.01
Weighted average number of common shares outstanding	11,562,524	11,562,524	11,562,524	11,562,524

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

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ACACIA DIVERSIFIED HOLDINGS, INC.
(Formerly Acacia Automotive, Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(Unaudited)

	2011	2010
Cash flows from operating activities		
Net Income (loss)	\$ (230,361)	\$ 108,646
Less (income) loss from discontinued operations, net of income taxes	-	(103,271)
Net income (loss) before discontinued operations	(230,361)	5,375
Adjustment to reconcile net loss before discontinued operations to net cash provided by		
(used in) operating activities:		
Depreciation and amortization	62,199	72,547
Stock options and warrants issued for services	31,572	49,680
Changes in Operating Assets and Liabilities		
Accounts Receivable	(30,624)	(393,197)
Certificate of Deposit (restricted)	150,006	36
Deposits and prepaid expenses	(9,039)	(3,325)
Accounts Payable	91,576	115,875
Accrued Liabilities	217,846	(173,994)
Due to (from) shareholder	(22,869)	-
Cash flow provided by (used in) continuing activities	260,306	(327,003)
Cash flow provided by (used in) discontinuing activities	-	114,352
Net cash flow provided by (used in) operating activities	260,306	(212,651)
Cash flows provided by (used from) investing activities		
Proceeds from sale of assets	-	-
Purchase of equipment/leasehold improvements	(1,278)	(21,887)
Cash flow provided by (used in) continuing activities	(1,278)	(21,887)
Cash flow provided by (used in) discontinuing activities	-	105,142
Net cash flow provided by (used in) investing activities	(1,278)	83,255
Cash flow provided by (used in) financing activities		
Cash Overdraft	10,769	201,161
Borrowings line of credit and revolver (net)	(263,000)	(106,000)
Capital lease payments	(16,010)	(25,578)
Cash flow provided by (used in) continuing activities	(268,241)	69,583
Cash flow provided by (used in) discontinuing activities	-	43,733
Net cash flow provided by (used in) financing activities	(268,241)	113,316
Net increase (decrease) in cash and cash equivalents	(9,213)	(16,080)
Cash, beginning of period	11,113	21,035
Cash, end of period	\$ 1,900	\$ 4,955
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Interest	\$ 13,577	\$ 10,201
Income tax	\$ -	\$ -

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

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ACACIA DIVERSIFIED HOLDINGS, INC.
(Formerly Acacia Automotive, Inc.)
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 AND 2010

NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION

Acacia Diversified Holdings, Inc., formerly known as Acacia Automotive, Inc., (“Acacia” or the “Company”) is engaged in acquiring and operating businesses, having operated automotive auctions from July 2007 through July 2012.

In June of 2007 the Company raised capital through a private placement offering that enabled it to acquire for common stock in July of that same year the assets and business of Augusta Auto Auction, Inc, in North Augusta, South Carolina. This wholly owned subsidiary, doing business as Acacia Augusta Vehicle Auction, Inc., became the first operations of Acacia Automotive, Inc.

In December of 2009, the Company acquired the assets and business of Chattanooga Auto Auction Limited Liability Company in Chattanooga, Tennessee. This wholly owned subsidiary, doing business as Acacia Chattanooga Vehicle Auction, Inc., became the second operations of Acacia Automotive, Inc. On August 31, 2010, the Company discontinued operations at its Chattanooga auction, first accounting for those operations as discontinued in its Quarterly Report on Form 10-Q for the period ended June 30, 2010.

On July 31, 2012, the Company discontinued operations at its Augusta auction after selling that business, and will first account for those operations as discontinued in its Annual Report on Form 10-K for the period ended December 31, 2011.

BASIS OF PRESENTATION - The Company has elected to prepare its financial statements in accordance with generally accepted accounting principles in the United States (GAAP) with December 31, as its year-end. The consolidated financial statements and notes are representations of the Company’s management who are responsible for their integrity and objectivity.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for annual financial information and with the instructions to Form 10-Q and Article 10 of Regulation SX. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the results for the interim period have been included. All such adjustments are of a normal and recurring nature. These interim results are not necessarily indicative of results for a full year. These unaudited consolidated financial statements should be read in connection with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

CONSOLIDATION

The Company owns 100% of the voting stock of Acacia Augusta Vehicle Auction, Inc. The consolidated financial statements include the accounts of the Company and Acacia Augusta Vehicle Auction, Inc. dba / Augusta Auto Auction, Inc. All significant intercompany accounts are eliminated in consolidation.

NOTE 2 – SUBSEQUENT EVENTS

In the third and fourth quarter of 2010, the Company and its CEO, and the Seller of the Chattanooga auto auction assets and certain other related parties, entered into litigation resulting from disputes following the Company's acquisition of the assets and related business of Chattanooga Auto Auction Limited Liability Company in December of 2009. On February 28, 2012, all parties to those litigations entered into a global Settlement Agreement and Release. All parties to the Settlement Agreement agreed to a mutual non-disparagement agreement and release from any liabilities or future litigations. The settlement included a \$150,000 payment to the seller of the Chattanooga auction, which was paid in February 2012. The Settlement Agreement and Release did not constitute an admission by any party of any liability or violation of law. The Company considered those operations as discontinued effective August 31, 2010.

On July 26, 2012, a majority of the shareholders of the Company entered into a series of Written Consent Resolutions in Lieu of a Special Meeting of Shareholders. These included: (i) the shareholders of the Company voted to change the name of the Company to Acacia Diversified Holdings, Inc., which name became effective on October 18, 2012; (ii) the shareholders of the Company authorized and approved the sale of certain assets of the Company's Augusta Vehicle Auction, Inc. to Southern Vehicle Auctions, Inc.; (iii) the shareholders of the Company approved an amendment to the Company's Articles of Incorporation as to conform with the newly enacted Texas Business Organizations Code; (iv) the shareholders of the Company voted to authorize to update and extend the Company's Acacia Automotive, Inc. 2007 Stock Incentive Plan and to rename it the Acacia Diversified Holdings, Inc. 2012 Stock Incentive Plan; (v) the shareholders of the Company voted in favor of extending the employment contract of the Company's CEO for an additional two years; and finally, (vi) the shareholders of the Company authorized the Secretary of the Company to take those steps reasonably necessary for effectuating those resolutions.

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ACACIA DIVERSIFIED HOLDINGS, INC.
(Formerly Acacia Automotive, Inc.)
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 AND 2010

NOTE 2 – SUBSEQUENT EVENTS (Continued)

Each of the foregoing actions resulting from the Shareholders Resolution were first reported in their entirety on the Company's Current Report on Form 8-K filed August 27, 2012, which included a true and accurate copy of each of the relevant supporting documents and agreements, all of which is incorporated herein by reference.

NOTE 3 – GOING CONCERN

As of September 30, 2011, the Company had limited liquid assets and its revenues were not sufficient to meet the Company's obligations as they come due and are insufficient to satisfy expenses relating to the expansion of the Company. These factors raise substantial doubt as to the ability of the Company to continue as a going concern. Management's plans include attempting to find additional operational businesses to buy and raising funds from the public through a stock offering. Management intends to make every effort to identify and develop sources of funds. There can be no assurance that Management's plans will be successful and should they not be, the Company may be compelled to cease operations.

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Item 1B. Unresolved Staff Comments

The Company received a comment letter from the Securities and Exchange Commission dated November 22, 2010 (the "Comment Letter"). The Comment Letter related to deficiencies in the Company's: (i) Annual Report on Form 10-K filed for the period ending December 31, 2009; (ii) Quarterly Report on Form 10-Q for the periods ending September 30, 2009 and March 31, 2010; and its, (iii) Current Report on Form 8-K dated October 25, 2010. Accordingly, on October 19, 2012, the Company filed with the Securities and Exchange Commission its response to the Comment Letter, made necessary conforming changes resulting from the correction of these errors and filed amendments for each of those reports as further detailed in "Item 1B. Unresolved Staff Comments" of the Company's Annual Report on Form 10-K for the period ended December 31, 2010, which is incorporated herein by reference.

Management does not consider any of the previously reported information to have contained material deficiencies. As such, those amended reports did not reflect any material changes to the financial statements of the Company, but were changed to properly reflect information related to financial reporting and discussions within those reports.

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

Forward-Looking Information

The Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of the Form 10-Q contain forward-looking information. The forward-looking information involves risks and uncertainties that are based on current expectations, estimates, and projections about the Company's business, management's beliefs, and assumptions made by management. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", and variations of such words and similar expressions are intended to identify such forward-looking information. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking information due to numerous factors, including, but not limited to, availability of financing for operations, successful performance of internal operations, impact of competition and other risks detailed below as well as those discussed elsewhere in this Form 10-Q and from time to time in the Company's Securities and Exchange Commission filings and reports. In addition, general economic and market conditions and growth rates could affect such statements.

General

The Company believes that vehicle auctions have historically shown that the number of units they sell do not generally decline substantially during recession. We believe this is attributable to, among other facts, that in a recession the overall demand for used vehicles does not decline as significantly, or at least declines less than new car production would indicate, because some consumers that would otherwise purchase new vehicles purchase used vehicles, acquiring vehicles traditional purchasers of new vehicles may otherwise forgo or delay. For those reasons and more, we believe that the auto auction industry is more dependent upon the number of actual used vehicles in operation (VIO) in the U.S., rather than upon retail vehicle sales and manufacturing output.

As is common with other auto auctions, the Company has experienced and expects to continue to experience fluctuations in its quarterly results of operations due to a number of factors, many of which are beyond the Company's control and which are common to the auto auction industry. Generally, the volume of vehicles sold at the Company's auctions is highest in the first and second calendar quarters of each year and slightly lower in the third quarter. Fourth quarter volume of vehicles sold is generally lower than all other quarters. This seasonality is affected by several factors including weather, the timing of used vehicles available for sale from selling customers, holidays, and the seasonality of the retail market for used vehicles, which affect the demand side of the auction industry. Used vehicle auction volumes tend to decline during prolonged periods of winter weather conditions. Among the other factors that

have in the past and/or could in the future affect the Company's operating results are: general business conditions; trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing; economic conditions including fuel prices and interest rate fluctuations; trends in the vehicle remarketing industry; the introduction of new competitors; competitive pricing pressures; and costs associated with the acquisition of businesses or technologies. As a result of the above factors, operations are subject to significant variability and uncertainty from quarter to quarter, and revenues and operating expenses related to volume will fluctuate accordingly on a quarterly basis.

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Background

Acacia Diversified Holdings, Inc., formerly known as Automotive, Inc. (“we”, “us”, “Acacia”, or the “Company”) was incorporated in Texas on October 1, 1984 as “Gibbs Construction, Inc.” (“Gibbs”). In the following years, Gibbs grew to a full service, national commercial construction company and completed an initial public offering of its common stock pursuant to a registration thereof on Form S-1 in January of 1996. In April of 2000, following the filing of bankruptcy by its largest client which left Gibbs in an untenable financial posture and absent the ability to obtain bonding for new construction projects, Gibbs sought bankruptcy protection in April of 2000. Failing attempts to implement various plans over the next six years, Harry K. Myers, Jr., a principal of the entity controlling Gibbs, contacted Steven L. Sample, the current CEO of Acacia, who agreed to assist with the restructuring of Gibbs. Mr. Sample paid the legal costs of and the other costs of bringing the Company out of bankruptcy and other costs of bringing Gibbs current in its filings with the Securities and Exchange Commission.

On August 15, 2006, following those actions, Mr. Sample acquired from Mr. Myers, for the additional sum of \$50,000 cash, 4,000,000 shares, or 46.7%, of the 8,561,000 issued and outstanding shares of the common stock of Gibbs, together with the \$138,862 Mr. Sample paid to satisfy several of Gibbs’ outstanding liabilities, including those associated with professional costs related to the Company’s ongoing expenses as well as costs associated with recapitalizing the company.

As consideration for the payment of these expenses by Mr. Sample, and in order to further restructure and rehabilitate the Company and to satisfy its obligations to Mr. Sample, Gibbs’ board of directors also recommended: (i) that its stockholders amend the Articles of Incorporation to effect a one for eight reverse stock split and increase the number of authorized shares of Common Stock to 150,000,000; (ii) that its shareholders authorize of a series of preferred stock; (iii) that the Company issue to Mr. Sample an additional 8,117,500 shares of Common stock and 500,000 shares of preferred stock; and, (iv) for the assistance of Mr. Myers, in these transactions, to issue to him 450,000 new shares of common stock and 25,000 new shares of preferred stock.

Following the submission of a proxy statement by the Company and thereafter holding its First Special Meeting of Shareholders on February 1, 2007, Gibbs’ shareholders approved the foregoing actions and also approved changing the Company’s name from Gibbs Construction, Inc. to Acacia Automotive, Inc. These amendments to the Company’s Articles of Incorporation were effective February 20, 2007. Immediately following the approval of these amendments, the Company also adopted a stock option plan, which was ratified by the Company’s stockholders in November 2007, reserving 1,000,000 shares thereunder. Following that first Special Meeting of Shareholders in February of 2007, the Company set out to raise over \$1,000,000 in capital, which it accomplished in a private placement offering that closed in June of that same year.

On July 11, 2007, the Company acquired for common stock the assets and the associated business of Augusta Auto Auction, Inc. in North Augusta, South Carolina, becoming the Company’s first operations under the management of Acacia. The Company conducted its first weekly auction at Augusta on July 11, 2007. The Company continued to operate the Augusta auction until July 31, 2012, at which time it sold those assets and the related business. That transaction was approved by a majority of the shareholders representing more than 67% of the voting stock of the Company. The details of all this transaction was reported on the Current Report on Form 8-K dated August 27, 2012, which includes a full detail of the actions taken and is incorporated herein by reference. (See Part II. Item 5 - “Other Information”)

On December 26, 2009, the Company acquired its second auto auction in located in Chattanooga, Tennessee. Following disputes with the seller of those operations and certain related parties, the Company discontinued operations at that location effective August 31, 2010, after which the Company and its CEO, the Seller of the Chattanooga auction, and its related parties entered into litigation. The ongoing litigation between the parties was

settled on February 28, 2012. Accordingly, the Company considered those operations as discontinued effective August 31, 2010, as first accounted for in the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2010. (See Part II. Item 5 - "Other Information")

Business of the Auction

The Company's Augusta auction subsidiary sold cars and other vehicles from the time it was acquired on July 10, 2007, until its sale July 31, 2012. On November 6, 2011, the Company identified a potential candidate for sale of its Augusta auction, and entered into a non-binding Letter of Intent for that purpose. That letter of Intent was dependent upon the buyers finding success in obtaining financing and other factors. Following protracted delays in the buyers finding suitable financing, a change in the structure of the buyer's group, and changes in the original terms of the sale, the buyer's group completed the purchase on July 31, 2012. Following the sale of those assets, the Company will have no operations or corresponding operating revenues. As such, the Company will need to find new sources of revenues to support its expenses in order to continue as a going concern.

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The Company's Augusta auction primarily sells "whole car" vehicles for automotive dealers and commercial concerns, and to a lesser extent, salvage units. Whole car units are usually units in reasonable repair and operating condition, while salvage units are generally, but not always, inoperative and often have been damaged or devalued as a result of exposure to water, fire, collision, theft or otherwise. The Augusta auction also sells vehicles and equipment under a contract with the United States Marshals Service. Dealers and other qualified buyers attend the weekly auctions and bid on offered units. The highest bidder owns the vehicle, subject to any limiting reserve prices established by the owner/seller of the unit(s). In most cases, the buyers and sellers of the units pick up and deliver them to the auction property, but the auction does provide transport services, generally for a fee. The Company's Augusta auction also holds a Thursday night auction that is open to public bidders in addition to dealers, and occasionally holds special sales at other times.

The Auction generates revenues from fees for services, including buyer fees, seller fees, transportation fees, title fees, draft and floor plan financing fees, reconditioning fees, and more. Augusta Auto Auction primarily relies upon the efforts of its management for sales and marketing, but also utilizes commercial media.

Discussion Regarding Costs of Fees Earned (Same as Costs of Goods Sold)

As is generally consistent with reporting in the auto auction industry, the Company has designed its financial reports to reflect total revenues less costs of goods sold (indicated in our financial reports as "Costs of Fees Earned" or "Costs of Services") in arriving at a gross profit before deducting operating expenses. Costs of goods sold include costs similar to "production costs", including certain subscribed services; auctioneers and ringmen; contract labor for lot operations, sale day drivers, arbitration mechanic, and related; outside services, contract towing, pick up and delivery, rental of vehicles or equipment to facilitate operations, direct tools/supplies/equipment; fuel expense for auction operations; maintenance – lot operations; parts for lot operations (as with maintenance); vehicle lot damage associated with lot operations; vehicle transport damage; keys as outside services; title expense; shipping costs, bailout/reimbursement (contra) expenses – particularly relating to repossession operations; marshaling expense; gain/loss on sale of inherited vehicles; ASI costs of good sold – being an account ASI utilized in the software operating system for certain applications (not material); buyer's fee policy allowance; sellers fee policy allowance; vehicles return allowances; and, miscellaneous operations expenses. The Company's independent accountants have elected to class the salaries, including related taxes, of auction production personnel to the "salary" classification in its consolidated reports, rather than as costs of fees earned.

Discussion Regarding Management Fees

In the same fashion as some other auto auction holding companies, the Company generates revenues to pay its corporate overhead by assessing fees to its operating units. These fees, designated as Intercompany Charges or Management Fees, appear as Other Expense below the Net Ordinary Income line on the operating units' income statements and as other revenue on the parent company's operating statements. In the three months ended September 30, 2011, the Company's Augusta Auto Auction unit, its only operating unit, generated a profit of about \$87,000 before assessment of Management Fees at \$25,000 per month, or \$75,000 for the period, and sustaining a net profit of about \$12,000 for the period after the assessment of Management Fees. The Company has continued assessing the same \$25,000 monthly Management Fee to its Augusta auction as in recent periods, anticipating an additional assessment at year's end. Management Fees, as with all significant intercompany accounts and transactions, are eliminated in consolidation.

Discussion Regarding Operations

Three Months Ended September 30, 2011

Operating Results of the Auction

The Augusta auction generated, before Intercompany Charges, a profit of about \$87,000 on revenues of about \$342,000 for the three months ended September 30, 2011, compared to a profit of about \$134,000 on revenues of \$493,000 in the same period of 2010. Q3 of 2010 saw a significant increase in revenues and profits resulting from the sale of a large number of travel trailers in the auction process during that period. Of that Q3 2011 profit, about \$16,000 represented expenses for amortization and depreciation and about \$200 represented net interest expense, compared to about \$21,000 in expenses for amortization and depreciation and about \$2,000 in net interest expense during the same period of 2010. Similar to other auction holding companies, the Company assesses Intercompany Charges in the form of Management Fees to its auction operating unit to cover the operating overheads of the parent Company. The Management Fee allocation at the Augusta auction unit was set at \$25,000 per month in 2011 and 2010. After a deduction for the \$75,000 in Management Fees payable to the parent Company during the period ended September 30, 2011 and 2010, the auction earned a net profit of \$12,361 and \$58,573, respectively.

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The third quarter of 2011 saw a 1.3% decrease in the number of vehicles sold on a decrease of 2% in the number of units offered for sale at our Augusta Auto Auction operation versus the same period in the previous year.

Augusta Auto Auction	Three Months	
Units Offered For Sale vs. Q3 2010	-2.0	%
Units Actually Sold vs. Q3 2010	-1.3	%
Conversion Rate (Units Offered for Sale vs. Units Sold) Q3 2011	46	%
Conversion Rate (Units Offered for Sale vs. Units Sold) Q3 2010	46	%
Change in Buy/Sell Fee Revenues vs. First Nine Months 2010	-6.5	%

Fluctuations in units offered and sold from period to period may reflect seasonal differences, adverse climatic conditions, special offerings of units, economic conditions and otherwise. The variances shown from 2011 to 2010 above are not extraordinary.

The Company has accounted for the Chattanooga auction as discontinued operations on its consolidated financial statements beginning with its Quarterly Report on Form 10-Q for the period ended June 30, 2010. (See Note 2 – “Subsequent Events” and Part II, Item 5 – “Other Information”.)

Operating Results of the Parent Company

The parent company incurs expenses at the corporate level in addition to those incurred at our auto auction operations. In the three month period ended September 30, 2011, compensation for our executives was about \$20,000 per month and our option and warrant expense averaged about \$3,500 per month. For the same three-month period the Company incurred a net ordinary loss of approximately \$162,000 before booking Intercompany Charges of \$75,000 as Management Fee Income from its Augusta operating unit, resulting in a net loss of approximately \$87,000 for the period. Other corporate G&A expenses accounted for approximately \$92,000 in the third quarter of 2011, and included a charge for legal and accounting fees of approximately \$47,000, and other traditional expenses for travel, convention expenses, equipment lease/rental, postage and shipping, printing and office supplies, insurance, telephone, light, heat, power, etc.

Consolidated Operations

The Company's consolidated Q3 net loss of about \$74,000 compares to a consolidated net profit in the same period of 2010 of about \$12,000. Expenses included about \$171,000 for employee compensation compared to about \$336,000 in 2010; approximately \$20,000 for amortization and depreciation compared to about \$25,000 in the same period of 2010; about \$1,000 in interest charges compared to about \$2,000 in Q3 2010; about \$175,000 for general and administrative expense, compared to about \$58,000 in 2010, reflecting expenses related to the litigation and discontinued operations in Chattanooga during that period; and, the Company also incurred charges as a component of its G&A expense of approximately \$11,000 and \$17,000 in 2011 and 2010, respectively, in non-cash expenses for options and warrants under the Company's 2007 Stock Incentive Plan as the ratable expense for Q3 2011 resulting from options and warrants issued in 2006, 2007, 2008, 2009, and 2010 but not yet fully vested or exercised. (See Liquidity and Need for Additional Capital.)

Nine Months Ended September 30, 2011

Operating Results of the Auctions

The Augusta auction generated, before Intercompany Charges, a profit of about \$383,000 on revenues of about \$1,183,000 for the nine months ended September 30, 2011, compared to a profit of about \$441,000 on revenues of about \$1,457,000 in the same period of 2010. Of that nine months 2011 profit, about \$49,000 represented expenses for amortization and depreciation and about \$10,000 represented net interest expense, compared to about \$63,000 in expenses for amortization and depreciation and about \$7,500 in net interest expense during the same period of 2010. Similar to other auction holding companies, the Company assesses Intercompany Charges in the form of Management Fees to its auction operating unit to cover the operating overheads of the parent Company. The Management Fee allocation at the Augusta auction unit was set at \$25,000 per month in 2011 and 2010. After a deduction for the \$150,000 in Management Fees payable to the Parent Company during the nine months ended September 30, 2011 and 2010, the auction earned a net profit of \$158,206 and \$216,187, respectively.

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The first nine months of 2011 saw a 8.7% increase in the number of vehicles sold and an increase of 11.6% in units offered for sale at our Augusta Auto Auction operation versus the same period in 2010. The Company has consistently shown growth before, during, and after the recessionary periods and compared to all previous periods since the Company acquired the auction in July of 2007.

Augusta Auto Auction	Nine Months
Units Offered For Sale vs. First Nine Months 2010	+ 11.6 %
Units Actually Sold vs. First Nine Months 2010	+8.7 %
Conversion Rate (Units Offered for Sale vs. Units Sold) Nine Months 2011	49 %
Conversion Rate (Units Offered for Sale vs. Units Sold) Nine Months 2010	51 %
Change in Buy/Sell Fee Revenues vs. First Nine Months 2010	+2.8 %

Fluctuations in units offered and sold from period to period may reflect seasonal differences, adverse climatic conditions, special offerings of units, economic conditions and otherwise. The variances shown from 2011 to 2010 above are not extraordinary.

The Company has accounted for the Chattanooga auction as discontinued operations on its consolidated financial statements beginning with its Quarterly Report on Form 10-Q for the period ended June 30, 2010. (See Note 2 – “Subsequent Events” and Part II, Item 5 – “Other Information”.)

Operating Results of the Parent Company

The parent company incurs expenses at the corporate level in addition to those incurred at our auto auction operations. In the nine month period ended September 30, 2011, compensation for our executives was about \$30,000 per month and our option and warrant expense averaged about \$5,500 per month. Salary expense was larger in the period primarily due to bonuses for our executives, including amounts paid to the Company’s CEO under the terms of his employment agreement which became effective January 1, 2011, approved by the Company’s independent compensation committee and ratified by its independent directors. For the same nine-month period the Parent Company incurred a net ordinary loss of approximately \$614,000 before booking Intercompany Charges of \$225,000 as Management Fee Income from its Augusta operating unit, resulting in a net loss of approximately \$389,000 for the period. Other corporate G&A expenses accounted for approximately \$308,000 in the first nine months of 2011, and included a charge for legal and accounting fees of approximately \$156,000, office rental costs of approximately \$4,000, and other traditional expenses for travel, convention expenses, equipment lease/rental, postage and shipping, printing and office supplies, insurance, telephone, light heat power, etc.

Consolidated Operations

The Company's consolidated 2011 nine months net loss of about \$230,000 compares to a consolidated net profit in the same period of 2010 of about \$109,000. The periodic gain in 2010 was principally due to a favorable outcome for the Company from the litigations between the Company and the sellers of the Chattanooga auction, which operations were discontinued effective August 31, 2010, and a net income from discontinued operations at Chattanooga of about \$103,000. Of this consolidated nine months 2011 net loss, about \$629,000 represented employee compensation at all units versus about \$628,000 in the same period of 2010; about \$62,000 represented expenses for amortization and depreciation versus about \$73,000 in 2010, and, about \$14,000 represented interest expenses in 2011 versus about \$10,000 in the corresponding period in 2010. The Company’s nine month 2011 G&A expenses included a charge of

about \$32,000 in non-cash operating expenses for options and warrants issued under the Company's 2007 Stock Incentive Plan as the ratable expense for the period resulting from options and warrants issued in 2006, 2007, 2008, and 2009 but not yet fully vested or exercised versus about \$50,000 in the same period of 2010.

Discussion Regarding EBITDA

EBITDA, as presented herein, is a supplemental measure of our performance that is not required by, or presented in accordance with, generally accepted accounting principles in the United States, or GAAP. It is not a measurement of our financial performance under GAAP and should not be considered as a substitute for net income (loss) or any other performance measures derived in accordance with GAAP or as substitutes for cash flow from operating activities as measures of our liquidity.

EBITDA is defined as net income (loss), plus interest expense net of interest income, depreciation and amortization. Use of EBITDA as an evaluation of performance is commonly used in the vehicle auction industry.

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Management uses the EBITDA measure to evaluate our performance, to compare our performance to major auction companies' results, and to evaluate our results relative to certain incentive compensation targets. Management believes its inclusion is appropriate to provide additional information to investors for purposes of comparisons. EBITDA has limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of the results as reported under GAAP. While the Company believes that EBITDA may be a useful tool in comparing the financial performance of the Company to other auto auction entities, it may not be comparable to similarly titled measures reported by other companies.

The following table represents the consolidated EBITDA results for the Company during the three months ended September 30, 2011 and 2010:

	Three Months Ended September 30, (Unaudited)	
	2011	2010
Net income (loss)	\$ (74,194)	\$ 11,556
Add back:		
Income taxes	-	-
Interest expense, net of interest income	1,295	2,111
Depreciation and amortization*	30,558	41,314
EBITDA	\$ (42,341)	\$ 54,981

* In addition to the expenses during the third quarter for depreciation and amortization of \$20,034 and \$24,754 in 2011 and 2010, respectively, we accrued for the issuance of stock options and warrants \$10,524 in Q3 of 2011 and \$16,560 in Q3 2010, which is included with depreciation and amortization above.

The following table represents the consolidated EBITDA results for the Company for the nine months ended September 30, 2011 and 2010:

	Nine Months Ended September 30, (Unaudited)	
	2011	2010
Net income (loss)	\$ (230,361)	\$ 108,646
Add back:		
Income taxes	-	-
Interest expense, net of interest income	13,576	10,065
Depreciation and amortization*	93,771	122,227
EBITDA	\$ (123,014)	\$ 240,938

*In addition to depreciation and amortization expense of \$62,199 and \$72,547 for the first nine months of 2011 and 2010, respectively, we accrued for the issuance of stock options and warrants \$31,572 in 2011 and \$49,680 in 2010, which is included with depreciation and amortization as indicated above.

Liquidity and Capital Resources

The Company's liquidity in 2010 was provided by management fee revenues assessed to the Company's Augusta Auto Auction operations and by personal financial support from the Company's CEO. The Company's liquidity during the first nine months of 2011 was provided by management fee revenues assessed to the Augusta operations and again by

personal financial support from the Company's CEO.

During the first nine months of 2011, the cash flow from our Augusta operation was sufficient to support those operations, but was not sufficient to also support the Parent Company's operations on a consolidated basis. Our operations in the third quarter of 2011 did not provide sufficient cash flow to cover our corporate activity on an ongoing basis, essentially our executive officers, administrative overhead, and overhead that includes the cost of lawyers and accountants required to be publicly held. Following the discontinuation of its remaining auction operations in July, 2012, the Company will no longer have the income from its operating subsidiary as a source of revenue to meet its expenses. As a result of those deficiencies and the loss of its revenue-producing operations, the Company will have to institute or acquire additional operations with revenues sufficient to cover the costs of overheads. (See Part II. Item 5 - "Other Information")

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The auction operations' liquidity in 2010 was supplemented by a \$300,000 line of credit in Augusta with Wachovia Bank, N.A. and to a lesser degree from a \$2,000,000 line of credit at Chattanooga from Alexis Jacobs, the seller of the Chattanooga auction acting as a private funding source, through August 31, 2010, when the Company discontinued operations at that location. Those lines of credit were used to cover instances in which payments to dealers selling vehicles through the auctions exceeded collected payments for those vehicles, and also to augment any other cash needs of those auctions in the normal course of business, including allowing the auctions to meet their obligations to creditors and the parent Company. However; in January of 2011, the Augusta auction's line of credit was discontinued on short notice by Wells Fargo Bank after it acquired Wachovia Bank, which had provided the \$300,000 line of credit to the company since July 2007 in a relationship that had been exemplary.

Since 2007 and continuing until February 1, 2011, the Company maintained a certificate of deposit with the Wachovia Bank of just over \$150,000, partially guaranteeing that \$300,000 line of credit for use at the Augusta auction. Following the abrupt discontinuation of the Augusta auction's credit line in January of 2011, the Company used the funds associated with that CD and other cash to pay off its obligations to the bank's new Wells Fargo owners. Subsequently, the Company's CEO found it necessary to seek various forms of emergency short-term financing to offset the lost line of credit. With some successes in that area, coupled with his own personal financial support of the Company and outside loans that he personally guaranteed, he was successful in bringing the auction to a posture of being self-sufficient without a commercial line of credit.

Prior to discontinuation of those lines of credit, the bank and the private funding source charged an interest rate on the line of credit equal to prime plus 1.5% on the outstanding daily balance, if any, and the greater of (i) the sum of the one month London interbank offered rate (Libor) as published in the Wall Street Journal (or such other publication or reference reasonably selected by the Lender if no longer published in the Wall Street Journal) plus 500 basis points, or (ii) 6.0% percent per annum, respectively. The Augusta line of credit was secured by all of the Company's deposits at the bank, and the Chattanooga line of credit was secured by the assets of the Chattanooga auction, both credit lines being guaranteed by the Company and personally guaranteed by Mr. Sample. (See Part II. Item 5 – "Other Information")

We look for our operations to provide the cash flow and cash return on our investment. As of September 30, 2011, the Company had a negative consolidated cash flow of about \$9,000 for the year to date. This resulted from a positive net cash flow of approximately \$260,000 provided by operating activities, which was offset by a negative net cash flow used in investing activities of about \$1,000 from purchase of equipment, and by a negative net cash flow used by financing activities of about \$268,000 resulting from about \$11,000 in cash overdrafts, about \$16,000 in capital lease payments, and \$263,000 used to pay off the Augusta auction's line of credit. The cash flow statement for the nine months ended September 30, 2011, reflected cash overdrafts of \$10,769, although the Company never experienced actual overdrafts. This is an example of the impact of virtual checks on the Company's cash reporting as described above.

As a result, the \$260,306 net cash flow provided by operating activities was offset by the \$1,278 cash flow used in investing activities and the \$268,241 cash flow used in financing activities, for a net decrease in cash of \$9,213 for the period ended September 30, 2011.

Cash Balances vs. Overdraft

Our auction operating software accounts for checks made as payments to sellers when written, even though they may not actually be issued to the seller, since the sellers are only paid when they actually present to the auction a title representing ownership in any unit sold. Additionally, the auction's rules require that it cannot deposit the buyer's funds until we provide him with the title representing ownership of the vehicle purchased. The auction's operating software systems, however, creates a check or "virtual" check immediately following sale of the unit, whether or not the title has been presented. Hence, the operating and thus, financial, systems reflect that we have issued a large number

of checks to sellers when, in fact, they have on been “virtually” issued but not “physically” issued, resulting in the appearance that funds have been paid to sellers when in fact they have not yet been released. In those instances where the title has not yet been presented, and where the system indicates that a virtual payment has been made to the seller, the auction is also not allowed to deposit the purchase payment funds from the buyers of those units, thus making it appear as if our CAR (checking) account is overdrafted – when in truth and in fact it is not. Thus, we actually have a cash balance in the CAR account, generally quite significantly so, while the system shows as a virtual concept that the account is overdrafted. The software system used by the auction is provided by Auction Software, Inc. (ASI), is in use by nearly 100 independent auctions, is the most common independent auction operating system in use in the United States, and is in the opinion of the auction the best software available for its use at this time. One must therefore review the balance sheet to see the number of ASI payables and ASI receivables AND look at the cash in the account to determine the actual status, a common practice in this type of industry. The actual overdraft account as depicted in the Company’s financial reporting is reviewed by the Company’s auditors to reflect outstanding checks to the Car Account and insure accurate reporting. The cash flow statement for the nine months ended September 30, 2011, reflected cash overdrafts of \$10,769, although the Company never experienced actual overdrafts. This is an example of the impact of virtual checks on the Company’s cash reporting as described above.

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The Company will require substantial infusions of working capital or a substantial increase in the cash generated from operations to insure long-term liquidity, and may seek infusions of working capital in the form of equity or debt capital, the former being considered most beneficial to the Company, but not being considered a viable option in the economic conditions the country has experienced since 2008. There is no assurance the Company will be successful in obtaining infusions of capital to fuel its growth or aid in any acquisition or merger activities. The Company's corporate overhead is not large by industry standards, but it nonetheless will require additional revenues or reduced overheads, or both, so achieve liquidity in the absence of additional injections of capital, particularly in light of the disposal of the Company's only revenue producing subsidiary in July of 2012. (See Part II. Item 5 - "Other Information")

Accounts Receivable

Trade receivables include the unremitted purchase price of vehicles purchased by third parties at the auctions, fees to be collected from those buyers and amounts for services provided by the Company related to certain consigned vehicles in our possession. These amounts due with respect to the consigned vehicles are generally deducted in settlement from the sales proceeds upon the eventual auction or other disposition of the related vehicles. Due to the nature of the Company's business, substantially all trade and finance receivables are due from vehicle dealers, salvage buyers and sellers, institutional, commercial and fleet sellers, governmental agencies, and insurance companies. The Company has possession of vehicles or vehicle titles collateralizing a significant portion of the trade and finance receivables. The Company's receivables are recorded when billed, advanced, or accrued and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables, net of allowance for doubtful accounts, represents their estimated net realizable value. The Company estimates its allowance for doubtful accounts based on historical collection trends, the age of the outstanding receivables and existing economic conditions. The allowances for doubtful accounts and credit losses are based on management's evaluation of the receivables portfolio under current conditions, the volume of the portfolio, overall portfolio credit quality, review of specific collection issues and such other factors which in management's judgment deserve recognition in estimating losses.

Frequently, when we hold an auction near the end of a quarter, our receivables and payables will be large compared to prior quarters or as a ratio of receivables or payables to revenues for that quarter and the other quarters. Receivables and payables for a given auction are substantially liquidated within days of the auction process, but may appear distorted when occurring close to the end of an accounting period but prior to settlement.

Revenue Recognition

Revenues and the related costs are recognized when the services are performed. Auction fees from sellers and buyers are recognized upon the sale of the vehicle through the auction process. Most of the vehicles that are sold at auction are consigned to the Company by the seller and held at the Company's facilities. The Company does not take title to these consigned vehicles and recognizes revenue when a service is performed as requested by the owner of the vehicle. The Company does not record the gross selling price of the consigned vehicles sold at auction as revenue. Instead, the Company records only its auction fees as revenue because it does not take title to the consigned vehicles, has no influence on the vehicle auction selling price agreed to by the seller and buyer at the auction, and the fees that the Company receives for its services are generally based on fixed amounts according to locally-published rate schedules. Revenues from reconditioning, logistics, vehicle inspection and certification, titling, and salvage recovery services are generally recognized when the services are performed.

Discussion Regarding Allowance for Bad Debts.

The Company does not generally provide an allowance for bad debts or doubtful accounts based on its actual operating experience. At December 31, 2010, there was a net allowance of \$32,000 for uncollectible accounts, but no amounts were charged off.

Financing of Planned Expansions and Other Expenditures

The Company plans to grow through acquisitions, mergers, or other business combinations, and anticipates that it will need to raise additional capital to do so, probably through a private placement offering of its common stock. However, the current economy is not considered to be conducive to raising capital, and the Company does not feel that a substantial opportunity for success in doing so is available at this time.

Financial Reporting and New Technologies

As part of its commitment to improve our operating and reporting efficiencies, the Company employs a certified public accountant.

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Contemplated Business

While the Company heretofore considered its automobile auctions as indicative of the basis of services rendered by the Company, it now believes there are suitable opportunities for success in diverse industries and business models. Accordingly, the Company changed its name from Acacia Automotive, Inc. to Acacia Diversified Holdings, Inc. effective October 18, 2012, to reflect the Company's determination to employ a broader scope and direction in expanding its business model into more diversified service and product offerings, and is preparing to consider other merger, acquisition, or business combination opportunities in any industry. (See Part II. Item 5 – "Other Information")

Implementation of Business Plan

The Company currently does not have sufficient working capital to pursue its business plans in their entirety as described herein. Our ability to implement our business plans will depend on our ability to find new mergers, acquisitions, or business combinations or to obtain sufficient working capital to execute its business plans. No assurance can be given that we will be able to obtain additional capital, or, if available, that such capital will be available at terms acceptable to us, or that we will be able to generate profit from new operations, or if profits are generated, that they will be sufficient to carry out our business plans, or that the plans will not be modified.

Conflicts of Interest.

The Company is or may be subject to various conflicts of interest. The Company does not have a fully independent management staff, and will be relying on its management for the day-to-day management and operations of the Company and the Company's assets. As such, certain employees may have conflicts of interest in allocating time, services and functions to the Company in deference to their other activities.

The Company's Secretary, a non-salaried position with the Company, is employed full-time in Nashville, Tennessee in a diverse business. The Company does not make heavy demands on its Secretary, who is not expected to give substantial time to the affairs of the Company.

The Company has no full-time corporate officer serving as managerial staff except for its President and CEO, who devotes the majority of his business time and efforts to the management and direction of the Company. As such, there is not now, nor has there previously been considered to be, any material conflict of interest on his part.

The CEO of the company has served as a director of the Company as well as an officer and director of the Company's subsidiary corporations. Service in those capacities with subsidiaries and related businesses is not considered in itself to constitute a conflict of interest on the part of our employees or directors.

Investment in the Company will not carry with it the right to invest in any other property or venture of the CEO or other officers, employees, and directors of the Company.

Dependence on Key Personnel

Our future performance depends in significant part upon the continued service of our Chief Executive Officer, Steven L. Sample. The loss of his services could have a material adverse effect on our business, prospects, financial condition and results of operations. The Company does not presently maintain key man life insurance on Mr. Sample, but may obtain such insurance at the discretion of its board of directors for such term as it may deem suitable or desirable. Our future success may depend on our ability to attract and retain highly qualified technical, sales and managerial personnel. The competition for such personnel can be intense, and there can be no assurance that we can attract, assimilate or retain highly qualified technical, sales and managerial personnel for favorable compensations in the

future.

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Item 4T. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer who acts as our Chief Financial Officer, to allow timely decisions regarding required disclosure. During the 90-day period prior to the date of this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon that evaluation, for the reasons set forth above, and the fact that certain of the prior comparative financial statements contained herein were not reviewed by the Company's independent accountants, the Chief Executive Officer concluded that the Company's disclosure controls and procedures were not effective. As such, we have identified areas that we are addressing and which we believe need to be rectified.

Changes in Internal Control over Financial Reporting

As with most independent vehicle auction companies of its size, the Company's sales and accounts receivable software, as a part of its auction operating software, is not integrated with its financial accounting software. The integration would require a different software and operating system for the auction than is currently available from its vendors, would require additional meticulous steps to be undertaken on a regular basis, and would further require regular general review of business practices reflected by the information. We continue to press for our software provider to incorporate more efficient integration of information into our systems and seek qualified personnel to effect these processes, although the Company does not believe it will achieve full integration of those components in the near future, and does not believe there is any material deficiency created through the utilization of the systems as currently available to the auction.

After the Company suffered a minor computer server failure at its Augusta location in 2010, the Company determined that its practices in protecting data integrity were insufficient. While the Company at all times backed up its digital data from the auction operating systems on a daily basis, it had not been making daily backups of its financial data at the Augusta site. The data in question covered a period from mid-February to mid-April of 2010, was protected by hard copy financial records, was restored within a short time after the anomaly, and resulted in no loss of financial data, either digital or otherwise. Although there was no loss or damage, the Company recognized its deficiency in that area and immediately initiated new and improved provisions for protecting and preserving its digital data and information at all locations.

During the third quarter of 2011, the Company did not make changes in its internal control.

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PART II. OTHER INFORMATION

Item 5. Other Information.

The Company acquired its second auto auction in December 2009, located in Chattanooga, Tennessee. Following disputes with the seller of those operations and certain related parties, the Company discontinued operations at that location effective August 31, 2010, after which the Company and its CEO, the Seller of the Chattanooga auction, and its related parties entered into litigation. The ongoing litigation between the parties was settled on February 28, 2012. Accordingly, the Company considered those operations as discontinued effective August 31, 2010, as first accounted for in the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2010. Those events were further reported in the Company's Current Report on Form 8-K filed on November 19, 2012, its Amended Annual Report on Form 10-K /A for the period ended December 31, 2009, and its Annual Report on Form 10-K for the period ended December 31, 2010, which described those events in detail, and which reports are incorporated herein by reference. The Settlement Agreement and Release did not constitute an admission by any party of any liability or violation of law. All the parties to the Settlement Agreement agreed to a mutual non-disparagement agreement and release from any liabilities or future litigations seeking damages therefor.

On July 26, 2012, a majority of the shareholders representing more than 67% of the shares of the Company entered into a series of Written Consent Resolutions in Lieu of a Special Meeting of Shareholders. These included: (i) the shareholders of the Company voted to change the name of the Company to Acacia Diversified Holdings, Inc., which name became effective on October 18, 2012; (ii) the shareholders of the Company authorized and approved the sale of certain assets of the Company's Augusta Vehicle Auction, Inc. to Southern Vehicle Auctions, Inc.; (iii) the shareholders of the Company approved an amendment to the Company's Articles of Incorporation as to conform with the newly enacted Texas Business Organizations Code; (iv) the shareholders of the Company voted to authorize to update and extend the Company's Acacia Automotive, Inc. 2007 Stock Incentive Plan and to rename it the Acacia Diversified Holdings, Inc. 2012 Stock Incentive Plan; (v) the shareholders of the Company voted in favor of extending the employment contract of the Company's CEO for an additional two years; and finally, (vi) the shareholders of the Company authorized the Secretary of the Company to take those steps reasonably necessary for effectuating those resolutions.

Each of the foregoing actions resulting from the Shareholders Resolution were first reported in their entirety on the Company's Current Report on Form 8-K filed August 27, 2012, which included a true and accurate copy of each of the relevant supporting documents and agreements, all of which is incorporated herein by reference.

In subsequent events, the Company sold the Augusta auction, its only operations. The details of this transaction were reported on the Current Report on Form 8-K dated August 27, 2012, which includes a full detail of the actions taken and is incorporated herein by reference. The Company will first account for these operations as discontinued in its Annual Report on Form 10-K for the period ended December 31, 2012. Following the sale of the Augusta auction, the Company will have to find new sources of revenue in order to continue as a going concern.

The Company changed its name from Acacia Automotive, Inc. to Acacia Diversified Holdings, Inc. effective October 18, 2012, to reflect the Company's determination to employ a broader scope and direction in expanding its business model into more diversified service and product offerings, and is preparing to consider other merger, acquisition, or business combination opportunities in any industry.

Item 6. Exhibits

Exhibit

Number Exhibit Description

31.1 [Certification Pursuant To 18 U.S.C. Section 1350 As Adopted Pursuant to Section 302 of Sarbanes-Oxley Act Of 2002](#)

32.1 [Certification Pursuant To 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of Sarbanes-Oxley Act Of 2002](#)

101.INS XBRL Instance Document

101.SCH Taxonomy Extension Schema Document

101.CAL Taxonomy Extension Calculation Linkbase Document

101.DEF Taxonomy Extension Definition Linkbase Document

101.LAB Taxonomy Extension Label Linkbase Document

101.PRE Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

Acacia Diversified Holdings, Inc.
(Formerly Known as Acacia Automotive, Inc.)

Date: February 20, 2013

By: /s/ Steven L. Sample
Steven L. Sample
Chief Executive Officer and
Principal Financial Officer

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