Acacia Diversified Holdings, Inc.
Form 10-Q
February 22, 2013

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

r 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 x No r (2) Yes x No r

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 x No r

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 r	Accelerated filer r
Non-accelerated filer r	Smaller Reporting Company x

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

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 r No r

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, 2012: 11,562,524.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 307,230	$ -
Account receivable	2,404	
Deposits and prepaid expenses	7,857	2,576
Assets of discontinued operations	-	980,138
Total Current Assets	317,491	982,714
Property and equipment, net of accumulated depreciation of $40,506 and $46,729 in 2012 and 2011, respectively	44,238	48,396
Total Assets	$ 361,729	$ 1,031,110
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Cash overdraft	$ -	$ 488
Accounts payable	54,909	196,841
Accrued liabilities	4,176	424,592
Shareholder payable/receivable	884	56,743
Capital lease obligations, current portion	11,548	23,133
Note payable, current portion	39,000	39,000
Liabilities of discontinued operations	-	401,620
Total Current Liabilities	110,517	1,142,417
Noncurrent Liabilities		
Capital lease obligations, less current portion	-	8,471
Note payable, long term	24,025	61,364
Total Liabilities	134,542	1,212,252
Stockholders' Equity (Deficit)		
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	11,544,589	11,504,914
Retained deficit	(11,328,964)	(11,697,618)
Total Stockholders' Equity (Deficit)	227,187	(181,142)
Total Liabilities and Stockholders' Equity (Deficit)	$ 361,729	$ 1,031,110

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

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenues	$ -	$ -	$ -	$ -
Costs and expenses				
Employee compensation	104,661	71,365	252,705	320,979
General and administrative	138,715	84,787	276,685	275,963
(Gain) loss on sale of assets	4,430	-	4,430	-
Depreciation and amortization	4,249	4,321	12,784	12,823
Total costs and expenses	252,055	160,473	546,604	609,765
Operating income (loss) before other income (expense) and income taxes	(252,055)	(160,473)	(546,604)	(609,765)
Other income (expense)				
Interest expense	7,477	(1,071)	5,845	(3,791)
Total other income (expense)	7,477	(1,071)	5,845	(3,791)
Income (loss) before income taxes	(244,578)	(161,544)	(540,759)	(613,556)
Income taxes	-	-	-	-
Income (loss) from continuing operations	(244,578)	(161,544)	(540,759)	(613,556)
Gain on discontinued operations				
Gain on discontinued operations, net	36,047	87,350	337,434	383,195
Gain on disposition of discontinued operations	571,979	-	571,979	-
Net gain (loss) from discontinued operations	608,026	87,350	909,413	383,195
Net income (loss)	$ 363,448	$ (74,194)	$ 368,654	$ (230,361)
Basic and diluted income (loss) per share				
Loss from continuing operations	$ (0.02)	$ (0.01)	$ (0.05)	$ (0.05)
Income from discontinued operations, net	$ 0.05	$ 0.00	$ 0.08	$ 0.03
Net income (loss)	$ 0.03	$ (0.01)	$ 0.03	$ (0.02)
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.
(Previously Acacia Automotive, Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(Unaudited)

	2012	2011
Cash flows from operating activities		
Net Income (loss)	$ 368,654	$ (230,361)
Less (income) from discontinued operations, net of income taxes	(909,413)	(383,195)
Net (loss) before discontinued operations	(540,759)	(613,556)
Adjustment to reconcile net loss before discontinued operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,784	12,823
Stock options issued for services	39,675	31,572
(Gain) loss on disposal of assets	4,430	
Changes in Operating Assets and Liabilities		
Deposits and prepaid expenses	(3,114)	(1,987)
Accounts Payable	(142,317)	21,571
Accrued Liabilities	(419,950)	228,492
Shareholder payable/receivable	(55,859)	(22,869)
Cash flow provided by (used in) continuing activities	(1,105,110)	(343,954)
Cash flow provided by (used in) discontinuing activities	242,868	601,624
Net cash flow provided by (used in) operating activities	(862,242)	257,670
Cash flows provided by (used from) investing activities		
Proceeds from sale of assets	5,818	-
Purchase of equipment/leasehold improvements	(18,874)	-
Cash flow provided by (used in) continuing activities	(13,056)	-
Cash flow provided by (used in) discontinuing activities	1,240,411	(1,278)
Net cash flow provided by (used in) investing activities	1,227,355	(1,278)
Cash flow provided by (used in) financing activities		
Cash Overdraft	(488)	3,002
Capital lease borrowings (payments)	(20,056)	(13,372)
Note payable payments	(37,339)	-
Cash flow provided by (used in) continuing activities	(57,883)	(10,370)
Cash flow provided by (used in) discontinuing activities	-	(255,236)
Net cash flow provided by (used in) financing activities	(57,883)	(265,606)
Net increase (decrease) in cash and cash equivalents	307,230	(9,214)
Cash, beginning of period	-	9,214
Cash, end of period	$ 307,230	$ -
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Interest	$ (5,845)	$ 3,791
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 CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012 and 2011

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 sold the Augusta auction for $1,237,500 and realized a gain on the sale of approximately $572,000. However, the proceeds were insufficient to offset other corporate expenses and provide long-term operating capital. That transaction was approved by the majority of the shareholders of the Company in actions by less than unanimous written consent of the shareholders representing more than 67% of the voting stock of the Company.

As of September 30, 2012, the Company is without revenue-producing operations, and is reviewing opportunities for new mergers, acquisitions, or business combinations.

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, 2011.

CONSOLIDATION – The Company had one wholly owned subsidiary, Acacia Augusta Vehicle Auction, Inc., as of December 31, 2011. That subsidiary was sold on July 31, 2012, and the Company has accounted for those operations as discontinued at December 31, 2011. All significant intercompany accounts are eliminated in consolidation.

NOTE 2 – GOING CONCERN

As of September 30, 2012, the Company had limited liquid assets and no revenues. As such, and without finding new sources of revenue, the Company will in a short period of time find itself unable to continue to meet its obligations as they come due. 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.

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.

The Company sold its Augusta auction on July 31, 2012, and has accounted for those operations as discontinued effective with its Annual Report on Form 10-K for the year ended December 31, 2011. Accordingly, the Company will provide only limited components of its operational information in this Discussion and Analysis of Financial Condition and Results of Operations, and has elected to eliminate certain information and comparative results to prior periods in this report, as they would not be reflective of similar results or provide a proper basis for review.

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 sold its Augusta auction operation on July 31, 2012, and currently has no 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. 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. Accordingly, the Company is now seeking new opportunities for acquisitions, mergers, or other business combinations. The Company may have to raise additional capital to meet its plans, and there is no assurance it will be successful in its attempts.

Background

Acacia Diversified Holdings, Inc., formerly known as Acacia 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 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 and other costs of bringing the Company out of bankruptcy and the 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 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.

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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 2,000,000 shares 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 of the Company.

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 10, 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. Acacia's management sold the assets of this auction on July 31, 2012. 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. The Company first accounted for those operations as discontinued on its Annual Report on Form 10-K for the year ended December 31, 2011.

On December 26, 2009, the Company acquired its second auto auction 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 in September of that same year. The ongoing litigation between the parties was settled on February 28, 2012. The Company first accounted for those operations as discontinued in its Quarterly Report on Form 10-Q for the period ended June 30, 2010.

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 had 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.

Discussion Regarding the Company's Operations

The Company sold its Augusta auction operations in the Augusta, Georgia, area on July 31, 2012, and has accounted for those operations as discontinued effective with its Annual Report on Form 10-K for the year ended December 31, 2011. Accordingly, the Company will provide only limited components of its discussion and analysis of financial condition and results of operations, and has elected to eliminate certain information and comparative results to prior periods in this report, as they would not be reflective of similar results or provide a proper basis for review.

Three Months Ended September 30, 2012

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, 2012, compensation for our executives was about $16,000 per month and our option and warrant expense averaged about $4,200 per month. Other corporate G&A expenses in the third quarter of 2012 included a charge for legal and accounting fees of approximately $94,000, office rents of about $1,900, and other traditional expenses for travel, convention expenses, equipment lease/rental, postage and shipping, printing and office supplies, insurance, telephone, light, heat, power, etc.

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Consolidated Operations

After selling its Augusta auction, the Company's only remaining revenue-producing operations, in July of 2012, the Company accounted for those operations as discontinued beginning with its Annual Report on Form 10-K for the year ending December 31, 2011. As a result of accounting for its operations as discontinued, the Company does not report revenues or costs of fees earned in it current financial reports, but does report certain other operating expenses associated with the Parent Company. Revenues and other components are reflected in the consolidated statements of operations as gains or losses from discontinued operations.

In the three month period ended September 30, 2012, the Company generated a consolidated net income of approximately $363,000. This resulted from a loss from continuing operations and a net gain from discontinued operations.

The net loss of about $245,000 from continuing operations included several components: (i) about $105,000 representing employee compensation; (ii) about $4,000 representing expenses for amortization and depreciation; (iii) a gain of about $7,000 representing interest expense; (iv) a loss on sale of assets of about $4,000; and, (v) about $139,000 in general and administrative expense, which incurred a charge of about $13,000 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 2007 through 2011 but not yet fully vested or exercised.

The net gain of about $608,000 on discontinued operations included two components: (i) a net gain of about $36,000 on discontinued operations; and, (ii) a net gain of about $572,000 on disposition of discontinued operations.

After applying this net gain on discontinued operations of about $608,000 against the loss from continuing operations of about $245,000, the Company reported a net income of about $363,000 for the three months ended September 30, 2012.

Nine Months Ended September 30, 2012

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, 2012, compensation for our executives was about $19,000 per month and our option and warrant expense averaged about $4,400 per month. The first nine months of 2012 included a charge for legal and accounting fees of approximately $133,000, office rental costs of approximately $5,600, 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

After selling its Augusta auction operation in July of 2012, the Company's only remaining revenue-producing operations, the Company accounted for those operations as discontinued beginning with its Annual Report on Form 10-K for the period ending December 31, 2011, and continuing forward. As a result of accounting for its operations as discontinued, the Company does not report revenues or costs of fees earned in it current financial reports, but does report certain other operating expenses associated with the parent company. Revenues and other components are reflected in the consolidated statements of operations as gains from discontinued operations.

In the nine month period ended September 30, 2012, the Company generated a consolidated net income of approximately $369,000. This resulted from a loss from continuing operations and a net gain from discontinued operations.

The net loss of about $541,000 from continuing operations included several components: (i) about $253,000 representing employee compensation; (ii) about $13,000 representing expenses for amortization and depreciation; (iii) a gain of about $6,000 representing interest expense; (iv) a loss on sale of assets of about $4,000; and, (v) about $277,000 in general and administrative expense, which incurred a charge of about $40,000 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 2007 through 2011 but not yet fully vested or exercised.

The net gain of about $909,000 on discontinued operations included two components: (i) a net gain of about $337,000 on discontinued operations; and, (ii) a net gain of about $572,000 on disposition of discontinued operations.

After applying this net gain on discontinued operations of about $909,000 against the loss from continuing operations of about $541,000, the Company reported a net income of about $368,000 for the nine months ended September 30, 2012.

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Liquidity and Capital Resources

Our accountants have issued, in their prior audit report, a going concern opinion reflecting a conclusion that our operations may not be able to continue because of a lack of financial resources.

The Company's liquidity in 2011 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 third three months of 2012 was again provided by management fee revenues assessed to the Augusta operations and again by personal financial support from the Company's CEO.

Until July 31, 2012, the Company looked to its operations to provide cash flow and cash return on our investment. During the first nine months of 2012, 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 2012 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 raise capital or institute or acquire additional operations with revenues sufficient to cover the costs of overheads.

As of September 30, 2012, the Company had a positive consolidated cash flow of about $307,000 for the year to date. This resulted from negative net cash flow of approximately $862,000 used in operating activities, which was offset by positive net cash flow provided by investing activities of about $1,227,000 and negative net cash flow used by financing activities of about $58,000.

The positive cash flow of about $1,227,000 provided by investing activities had two components: (i) cash flow used in continuing activities of about $13,000 resulting from proceeds of about $6,000 from the sale of assets and about $19,000 cash used in purchase of equipment and leasehold improvements; and, (ii) cash flow provided by discontinuing activities of about $1,240,000.

The negative cash flow used in financing activities represented about $20,000 in capital lease payments and about $37,000 in payments on notes.

As a result, the $862,242 net cash flow used in operating activities was offset by the $1,227,255 cash flow provided by investing activities and the additional $57,883 cash flow used in financing activities for a net increase in cash of $307,230 for the nine months ended September 30, 2012.

Cash Balances

The Company will require substantial infusions of working capital or a substantial increase in the cash generated from new 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 and continuing into the current period. There is no assurance the Company will be successful in obtaining infusions of capital to fuel its growth.

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.

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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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 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. The Company's ability to implement its business plans will depend on its 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.

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Item 4T. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

As is typical with most smaller enterprises, our control processes are oriented toward operations, and production of financial statements reflects an outgrowth of operations and results of those operations. Internally, financial statements are a management tool to evaluate the operations and not an end of those operations. We closely monitor the daily results of our cash position and make certain that our cash position is adequate for the foreseeable future. Our financial statements are generated as part of the reporting on our operations, one metric of our operations, and as part of our obligations as a public entity.

Management, including our Chief Executive Officer who acts as our Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all errors and fraud, and our present efforts are oriented on improving the availability and thoroughness of information to management and its efficient reduction to generate financial statements. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports, such as this report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, particularly our Chief Executive Officer, to allow timely decisions regarding operations and required disclosure.

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). Under the supervision and with the participation of our management, particularly our chief executive officer, 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).

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 to provide reasonable assurance of achieving their objective pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2012.

Changes in Internal Control over Financial Reporting

During the third quarter of 2012 the Company did not make changes in its internal control.

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PART II. OTHER INFORMATION

Item 5. Other Information.

Submission of Matters to a Vote of Security Holders

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 the foregoing resolutions.

Discontinued Operations

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.

In November of 2011, the management of the Company determined that it was in the best interests of the Company to sell the Augusta auction. The Company sold the auction effective July 31, 2012. Those events were first reported on the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2012, which is incorporated herein by reference. As such, the Company began accounting for those operations as discontinued in its Annual Report on Form 10-K for the year ended December 31, 2011.

As of July 31, 2012, the Company is without revenue-producing operations, and is now reviewing opportunities for new mergers, acquisitions, or business combinations. There is no assurance the Company can be successful in identifying any such opportunities, or if it does identify any opportunities, that it can be successful in completing any acquisition or merger.

Limited Discussion and Analysis of Financial Condition and Results of Operations

The Company sold its Augusta auction operations in the Augusta, Georgia, area on July 31, 2012, and first accounted for those operations as discontinued effective with its Annual Report on Form 10-K for the year ended December 31, 2011. Accordingly, the Company will provide only limited components of its operational information in this report's Discussion and Analysis of Financial Condition and Results of Operations, and has elected to eliminate certain information and comparative results to prior periods in this report, as they would not be reflective of similar results or provide a proper basis for review.

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.	
Date: February 22, 2013	By:	/s/ Steven L. Sample Steven L. Sample Chief Executive Officer and Principal Financial Officer