

Acacia Diversified Holdings, Inc.
Form 10-Q
May 20, 2015

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 March 31, 2015

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.)

3512 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 Securities Exchange Act of 1934 during the preceding 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 o (2) Yes x No o

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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 Not applicable

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of March 31, 2015: 12,735,406.

Table of Contents

TABLE OF CONTENTS

		Page
PART I. Financial Information		
Item 1.	<u>Financial Statements</u>	F-1
Item 1B.	<u>Unresolved Staff Comments</u>	1
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	1
Item 4(T).	<u>Controls and Procedures</u>	7
PART II. Other Information		
Item 5.	<u>Other Information</u>	9
Item 6.	<u>Exhibits</u>	9
	<u>Signatures</u>	10

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACACIA DIVERSIFIED HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
Current Assets		
Cash	\$ 2,230	\$ -
Accounts receivable	134,034	212,786
Employee accounts receivable	25	-
Prepaid expenses	16,090	24,613
Inventory, stated at lower of average cost or market	130,064	67,646
Total Current Assets	282,443	305,045
Property and Equipment, net of accumulated depreciation of \$208,088 and \$181,078 in 2015 and 2014, respectively	661,218	686,728
Other assets	12,341	12,341
Total Assets	\$ 956,002	\$ 1,004,114
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
Current Liabilities		
Cash overdraft	\$ 11,254	\$ 3,466
Accounts payable	92,384	170,282
Accrued liabilities	590,118	532,775
Shareholder payable	-	35,365
Note payable, current portion	181,445	167,996
Total Current Liabilities	875,201	909,884
Noncurrent Liabilities		
Related party payables, subsidiary acquisition	246,201	244,105
Notes payable, less current portion	179,805	207,612
Total Liabilities	1,301,207	1,361,601
Commitments and contingencies	-	-
Stockholders' (Deficit)		
Common stock, \$0.001 par value, 150,000,000 shares authorized; 12,735,406 shares issued and outstanding in 2015 and 2014, respectively	12,735	12,735
Additional paid-in capital	11,975,724	11,975,724
Retained deficit	(12,333,664)	(12,345,946)
Total Stockholders' (Deficit)	(345,205)	(357,487)
Total Liabilities & Stockholders' (Deficit)	\$ 956,002	\$ 1,004,114

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

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(Unaudited)

	2015	2014
Revenues		
Citrus Extracts	\$204,860	\$294,535
Acacia Transport Services	69,236	-
Total Revenues	274,096	294,535
Cost of revenues, including \$25,416 and \$20,354 of depreciation for 2015 and 2014, respectively	(105,811)	(115,143)
Gross profit	168,285	179,392
Costs and expenses		
Employee compensation	102,616	103,034
General and administrative	44,689	135,163
Depreciation and amortization	1,594	2,247
Total costs and expenses	148,899	240,444
Operating income (loss) before other income (expense) and income taxes	\$19,386	\$(61,052)
Other income (expense)		
Other income	-	-
Interest expense	(7,104)	(5,385)
Total other income (expense)	(7,104)	(5,385)
Income (loss) before income taxes	12,282	(66,437)
Income taxes	-	-
Net profit (loss)	\$12,282	\$(66,437)
Basic and diluted loss per share		
Profit (loss) per share	\$0.00	\$(0.01)
Weighted average number of common shares outstanding	12,735,406	12,529,309

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

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(Unaudited)

	2015	2014
Net income (loss)	\$12,282	\$(66,437)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	27,010	22,601
Common stock, stock options, and warrants issued for services and compensation	-	91,000
Changes in operating assets and liabilities		
Accounts receivable	78,752	11,643
Employee accounts receivable	(25)	82
Deferred revenue	-	125,000
Prepaid expenses	8,523	(1,250)
Inventory	(62,418)	(127,684)
Accounts payable	(77,898)	(91,208)
Accrued liabilities	57,343	100,639
Shareholder payable	(35,365)	(36,545)
Net cash flows provided by (used in) operating activities	8,204	27,841
Cash flows provided by (used in) investing activities		
Proceeds from sale of assets	-	-
Purchase of property and equipment	(1,500)	(1,007)
Net cash flows provided by (used in) from investing activities	(1,500)	(1,007)
Cash flows provided by (used in) from financing activities		
Cash overdrafts	7,788	(3,405)
Net note borrowings/payments	(14,358)	(12,890)
Related party payable	2,096	-
Net cash flows provided by (used in) by financing activities	(4,474)	(16,295)
Net increase (decrease) in cash and cash equivalents	2,230	10,539
Cash, beginning of period	-	1,452
Cash, end of period	\$2,230	\$11,991
Supplemental disclosures of cash flow information		
Cash paid during year for:		
Interest	\$7,104	\$5,385
Income taxes	\$-	\$-

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

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015 and 2014

NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION

THE COMPANY - Acacia Diversified Holdings, Inc. (“Acacia” or the “Company”) by and through its wholly-owned subsidiary, Citrus Extracts, Inc. (“CEI”) is an entity primarily engaged in the citrus byproducts manufacturing industry.

On July 10, 2013 the Company, by and through its new, wholly-owned Citrus Extracts, Inc. subsidiary, acquired certain assets and assumed liabilities related to those assets from Red Phoenix Extracts, Inc., (“RPE” or the “Seller”) located in Fort Pierce, Florida. The Company commenced revenue-producing operations on July 10, 2013. CEI was formed primarily for the purpose of manufacturing food grade ingredient products derived from raw citrus peel generated from juice manufacturing plants in the process of making citrus juice from fresh, whole fruit.

On January 15, 2014 formed Acacia Transport Services, Inc. (“ATS”) as a wholly-owned subsidiary, but activity did not begin until July of that year when it acquired several tandem-axle road tractors and dump trailers and other assets necessary to operate its transport business. ATS was formed for the primary purpose of providing transportation and a continuous source of raw citrus peel materials for Citrus Extracts, Inc.’s manufacturing plant, and for the secondary purpose of generating transport revenues in hauling excess raw citrus peel materials to local farmers for use as feed for livestock. On July 2, 2014, that subsidiary entered into an Agreement for Citrus Peel Hauling Services with Lambeth Groves Juice Company, a juice extraction company located in Vero Beach, Florida, some 20 miles from Citrus Extracts, Inc. That contract called for Acacia Transport to assume all responsibilities for hauling the raw, remediated citrus peel products from Lambeth Groves by July 30, 2014, and actual transport operations from Lambeth Groves commenced in early August 2014.

On March 1, 2014 the Company began performing milling operations using the trade name Acacia Milling Services at the Fort Pierce location for its Citrus Extracts subsidiary. Milling is the term applied to grinding or refining the finished citrus ingredient products rendered by Citrus Extracts into smaller, finer particles. These services vary from simple sifting operations that separate the various sizes of materials to creating specific cuts from the original material, such as “tea bag cut” size, granulated materials of various sizes, or “powders” of various mesh sizes. Generally the greater the mesh size (finer, smaller, particle size) requested by the customer, the higher the milling charges per pound. The Company does not currently maintain separate accounting functions for its new milling operations, but intends to further segregate those milling operations sometime in 2015 and to implement a new system of segregated financial reporting for those operations. The Company also intends to expand its offerings of those milling services to outside parties for the generation of additional revenues in the future.

Thus, Acacia Diversified Holdings, Inc., now (i) through its Citrus Extracts, Inc. subsidiary is now engaged in operating an agricultural processing and manufacturing business concentrating on optimizing citrus biomass (waste) materials into food, beverage, spice, nutraceutical, skin care, cosmetics, and botanical products; (ii) through its wholly-owned Acacia Transport Services, Inc. subsidiary in Fort Pierce, Florida is now engaged in the transportation industry; and, (iii) through its Acacia Milling Services operations is engaged in milling finished products for the Company’s Citrus Extracts, Inc. subsidiary and ultimately other clients.

CONSOLIDATION – At March 31, 2015 Citrus Extracts, Inc. and Acacia Transport Services, Inc. were the only operating subsidiaries of the Company and all significant intercompany accounts and transactions are eliminated in consolidation.

NOTE 2 – GOING CONCERN

As of March 31, 2015, the Company had only limited liquid assets and limited revenues from its subsidiaries. As such, and without substantially increasing revenue or finding new sources of capital, the Company will find it difficult to continue to meet its obligations as they come due. The Company is still locating new sources of sales for its organic and non-organic products. As a result, the inability by the Company to currently sell and deliver all its finished peel product inventory without extended holding periods may serve to exacerbate cash flow concerns until the sales pipeline fills. While the inventory supplies, if sold on a timely basis, are sufficient to meet the Company's immediate cash needs, these factors raise some doubt as to the ability of the Company to continue as a going concern. Management's plans include increasing production, which began in full during the first quarter of 2014, selling all its inventories of products in the normal course of production, attempting to start new businesses or to find additional operational businesses to buy, and attempting to raise funds from the public through an equity offering of the Company's common stock. Management intends to make every effort to identify and develop all these sources of funds, but there can be no assurance that Management's plans will be successful.

F-4

Table of Contents

Item 1B. Unresolved Staff Comments

None.

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

Forward-Looking Information

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains forward-looking statements that involve known and unknown risks, significant uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, or implied, by those forward-looking statements.

You can identify forward-looking statements by the use of the words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", "may", "will", "should", "could", "predicts", "potential", "proposed", or "continue" or negative of those terms. These statements are only predictions. In evaluating these statements, you should consider various factors which may cause our actual results to differ materially from any forward-looking statements.

Although we believe that the exceptions reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements due to numerous factors, including, but not limited to, availability of financing for operations, successful performance of operations, impact of competition and other risks detailed below as well as those discussed elsewhere in this Form 10-K 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. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Description of Historical Operations

Acacia Diversified Holdings, Inc. ("we", "us", the "Company", or the "Parent Company") was incorporated in Texas on October 1, 1984 as Gibbs Construction, Inc. ("Gibbs"). The Company changed its name from Gibbs Construction, Inc. to Acacia Automotive, Inc. effective February 20, 2007, and subsequently changed its name again from Acacia Automotive, Inc. to Acacia Diversified Holdings, Inc. effective October 18, 2012.

At a Special Meeting of the Company's Shareholders on February 1, 2007, a majority of the Shareholders of the Company ratified all the actions recommended by the Company's board of directors, including, among other matters: (i) effectuating a one for eight reverse stock split; (ii) increasing the number of authorized shares of common stock to 150,000,000 and authorizing a series of preferred stock with 2,000,000 shares; and, (ii) changing the Company's name from Gibbs Construction, Inc. to Acacia Automotive, Inc., indicating the Company's move into the automotive auction business.

In July 2007, the Company caused to be formed Acacia Augusta Vehicle Auction, Inc., a South Carolina corporation and wholly owned subsidiary of the Company. ("AAVA") for the sole purposes of acquiring certain assets of the Augusta Auto Auction in Augusta, Georgia, and operating an auction at that same location. This became the Company's first operating asset in the automotive auction industry and was the Company's only revenue producing business at that time. Later, in 2009, the Company caused to be formed Acacia Chattanooga Vehicle Auction, Inc., a Tennessee corporation and wholly owned subsidiary of the Company. ("ACVA") for the sole purposes of acquiring certain assets of the Chattanooga Vehicle Auction in Chattanooga, Tennessee, and operating an auction at that same location. The latter acquisition represented the Company's second, and final, automotive auction acquisition.

Due to a dispute that arose with the seller of the Chattanooga Vehicle Auction, the Company discontinued operations there effective August 31, 2010, accounting for those operations as discontinued effective that date, and first accounted for those as discontinued operations in its Quarterly Report on Form 10-Q for the period ended June 30, 2010. In late 2011, after successfully operating the Augusta auction for more than four years, the Company determined that it was in its best interests to sell the Augusta auction and thereafter entered into a Letter of Intent with two individuals for that purpose. The sale transaction was completed on July 31, 2012. Those events were reported in their entirety by the Company on its Current Report on Form 8-K on August 27, 2012, which is incorporated herein by reference. Following the disposition of the Augusta Vehicle Auction in 2012, the Company lacked significant operations and thereafter sought to become a diversified holding company.

Table of Contents

In accordance therewith, on October 18, 2012, the Company changed its name from Acacia Automotive, Inc. to Acacia Diversified Holdings, Inc. in an effort to exemplify the Company's desire to expand into alternative industries as well as more diversified service and product offerings. On July 10, 2013 the Company, through its new wholly-owned subsidiary CEI, entered into a definitive agreement to acquire certain assets and assumed certain liabilities related to those assets from Red Phoenix Extracts, Inc. ("RPE"), a corporation located in Fort Pierce, Florida. The assets included, among other things, furnishings, machinery, and equipment. As consideration for the assets, the Company issued to the holders of RPE nine hundred thousand (900,000) restricted shares of the Company's common stock. CEI also assumed certain liabilities of RPE, including, specifically, the lease for RPE's Fort Pierce, Florida location. There was no cash consideration in the transaction, which was more particularly described in the Company's Current Report on Form 8-K dated July 10, 2013, which is incorporated by reference herein.

Description of Current Operations

The Company's current business operations are conducted through two (2) wholly-owned subsidiaries and a new operation that is not yet segregated as a subsidiary or division. They include:

Citrus Extracts, Inc.

Citrus Extracts, Inc. ("CEI") is a business in the food manufacturing industry subsector that transforms livestock and agricultural products into products for intermediate or final consumption. The industry groups are distinguished by the raw materials (generally of animal or vegetable origin) processed into food products. CEI utilizes our proprietary chemical-free, 100% natural processes in the manufacturing, sale, and distribution of all-natural, food-grade ingredients from raw, fresh, natural citrus peel resulting from citrus juicing operations. Through these controlled methods, CEI processes and dehydrates orange, lemon, grapefruit and tangerine peel into its "CitraBlend" and "CitraBlend Organic" products and then mills those products to varying sizes ranging from larger "cut & sift flakes" to 40+ mesh powders (or smaller sizes for custom orders). These ingredients, both organic and non-organic, find their way into many regional and national brand-name products commonly found on America's kitchen tables in the form of spices, teas, and otherwise. Our CitraBlend products are also utilized in brewing many local and regional craft beers in addition to nationally-recognized beer brands, and because we have only recently addressed that market it remains largely untapped. At this time CitraBlend is primarily sold through a network of distributors who blend our products and sell them as ingredients included in many well-known consumer products.

Acacia Transport Services, Inc.

Acacia Transport Services, Inc. ("ATS") is a business in the transportation industry that hauls fresh, raw, citrus peel resulting from the juice extraction process at juice plants. ATS has an exclusive contract to remove all the remediated raw citrus peel from Lambeth Groves Juice Company in Vero Beach, Florida, approximately 20 miles from the CEI manufacturing plant. ATS hauls much of the raw peel to CEI for use in its manufacturing processes, and delivers excess peel to local farmers for use as livestock feed. Acacia Transport Services transported its first load of raw peel from Lambeth Groves on August 7, 2014 and transported subsequent loads going forward from that date. Full-scale transport operations finally began with the onset of the 2015 citrus season that again started later than anticipated at about the beginning of December, 2014, the number of loads transported "in season" generally being maximized during the period of December through March or April.

Acacia Milling Services, Inc.

Acacia Milling Services ("AMS") is a developmental stage business in the milling or grinding industry that mills finished citrus ingredient products rendered by Citrus Extracts into smaller, finer particles. These milling services vary from simple sifting operations that separate the various sizes of materials to creating specific cuts from the

original material, such as “tea bag cut” size, granulated materials of various sizes, or “powders” of various mesh sizes. Generally the greater the mesh size (higher mesh sizes referring to finer, smaller, particle size) requested by the customer, the higher the milling charges per pound. The Company does not currently maintain separate accounting functions for its new milling operations, but intends to further segregate those milling operations later in 2015 and to implement a new system of segregated financial reporting for those operations as a separate division or new subsidiary of the Company, should the operations of AMS increase as expected. The Company also intends to expand its offerings of those milling services to outside parties for the generation of additional revenues in the future.

Effect of General Economic Factors on Operations

As is common with other businesses, 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 industry.

Table of Contents

Discussion Regarding Current Financial Condition

The Company sold its Augusta auction operations in the Augusta, Georgia area, its only revenue-producing operations since 2007, on July 31, 2012, and accounted for those operations as discontinued effective with its Annual Report on Form 10-K for the year ended December 31, 2012. The Company resumed revenue-producing operations following its acquisition of certain assets on July 10, 2013, which were placed into its new Citrus Extracts, Inc. subsidiary. The CEI subsidiary uses the average cost method to value its inventory and products sold, including a per pound depreciation charge. The Company then acquired additional assets in forming its new Acacia Transport Services, Inc. subsidiary in July of 2014, commencing those operations in August of that year.

Three months ended March 31, 2015

In order to generate its finished, food-grade, dehydrated ingredient products, the Company utilizes raw, wet citrus peel in its confidential production processes. Generally speaking, each pound of our finished, dehydrated ingredient products requires approximately five to seven pounds of raw peel to complete that transformation process. In the three months ended March 31, 2015, the Company transported and processed approximately 1.3 million pounds of raw, fresh citrus peel in producing approximately 235,000 pounds of finished ingredient products, and sold approximately 129,000 pounds of finished ingredient products at an average price of approximately \$1.58 per pound.

In the three months that ended March 15, 2015 and 2014, the operations included the following related to revenues:

Period	Pounds Manufactured	Pounds Sold	Average Sale Price Per Pound
March 31, 2014	494,000	238,000	\$ 1.24
March 31, 2015	235,000	129,000	1.58
Change	(259,000)	(109,000)	\$ 0.34

The approximate \$90,000 decrease in ingredient sales was the result of the 109,000 decline in pounds sold (\$134,000 decline), offset by the \$0.34 per pound increase in average sales price (\$44,000 increase). The lower sales volume came primarily as the result of deliveries for some orders being pushed back from the first quarter into the second quarter. The lower production volume came primarily as the result of scaling back production to meet the current delivery demands.

There were no transport revenues for the period ended March 31, 2014.

The gross profit percentages were 61.3% and 60.9% at March 31, 2015 and 2014, respectively.

The general and administrative costs at March 31, 2014 included a \$91,000 noncash charge for common stock issued to various consultants for services rendered and the 2015 operations included no similar charge.

The consolidated net loss decreased from \$66,437 in the three-month period ended March 31, 2014 to become a consolidated net profit of \$12,282 in the same period of 2015, resulting in a \$78,719 decline to the net loss in becoming a net profit. This net profit and the associated positive net cash flow for the period ended March 31, 2015 was sufficient to cover the costs of all our corporate activity, essentially our executive officers, administrative overhead, and overhead that includes the cost of lawyers and accountants required to be publicly held.

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.

The term 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.

Table of Contents

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.

Further, the Company believes that EBITDA is more accurately illustrated for the Company's operating units before the deduction for Management Fees as Intercompany Charges. Those fees fall below the operating profit (loss) line in the Statement of Operations and are not reflective of operating results. Therefore, the EBITDA tables below do not include charges for Management Fees to the Company's Citrus Extracts subsidiary.

EBITDA at the Company's Citrus Extracts, Inc. Subsidiary:

The following table represents the EBITDA results for Citrus Extracts, Inc. during the three months ended March 31, 2015 and 2014*:

Citrus Extracts, Inc. (Subsidiary)	Three Months Ended March 31,	
	2015 (Unaudited)	2014 (Unaudited)
Net income	\$ 74,475	\$ 139,247
Add back:		
Income taxes	-	-
Interest expense, net of interest income	2,042	2,771
Depreciation	20,729	20,354
EBITDA	97,246	162,372

EBITDA at the Company's Acacia Transport Services, Inc. Subsidiary:

* The Company's Acacia Transport Services subsidiary had no operations in the three months ended March 31, 2014. As such, there is no basis for comparing the EBITDA results for that subsidiary for the current three-month period of 2015 versus the same period ended March 31, 2014. The following table represents the EBITDA results for Acacia Transport Services, Inc. during the three months ended March 31, 2015.

Acacia Transport Services, Inc. (Subsidiary)	Three Months
	Ended March 31, 2015 (Unaudited)
Net income	\$ 48,201
Add back:	
Income taxes	-
Interest expense, net of interest income	2,232
Depreciation	4,685
EBITDA	\$ 55,118

Consolidated EBITDA of the Company:

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As a result of the added EBITDA of the Acacia Transport Services subsidiary combined with the EBITDA of the Citrus Extracts subsidiary, the Company generated a positive consolidated EBITDA during the period ended March 31, 2015. The following table represents the consolidated EBITDA results for the Company during the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
Net income	\$ 12,282	\$ (66,437)
Add backs:		
Income taxes	-	-
Interest expense, net of interest income	7,104	5,385
Depreciation and amortization expense	27,010	22,601
EBITDA	\$ 46,396	\$ (38,451)

Table of Contents

Liquidity and Capital Resources

The Company looks to its subsidiary operations to provide cash flow and cash return on its investment. 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 relies upon its revenue-producing operations from its Citrus Extracts and Acacia Transport subsidiaries and from financial support of its CEO to provide its liquidity.

The Company is currently working to increase its revenues from operations and continues to evaluate opportunities for business combinations or acquisitions. There can be no assurances that its revenues will be sufficient to meet its needs in the near future or if any such business combination or acquisition opportunities occur, or if they do occur, if they will present viable revenue-producing assets for the Company, or that the Company will be able to raise sufficient capital to acquire or combine with any such opportunity.

Our operations in the first three months of 2015 provided 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.

As of March 31, 2015, the Company had a positive consolidated net cash flow of approximately \$2,000 for the year to date versus a positive cash flow of approximately \$11,000 for the same period in 2014. This resulted from a positive net cash flow of approximately \$8,000 provided by operating activities, a negative net cash flow used in investing activities of approximately \$2,000, and a negative net cash flow used in financing activities of approximately \$4,000. The positive cash flow of approximately \$8,000 provided by operating activities was approximately \$20,000 less than the same period in 2014, due primarily to an increase in net income of approximately \$79,000 reflecting a net income of approximately \$12,000 in 2015 compared to a net loss of approximately \$66,000 in 2014, a reduction in accounts payable of approximately \$13,000, and a reduction of approximately \$43,000 in accrued liabilities offset by \$125,000 in deferred revenue in 2014 that was not present in 2015 but approximately \$69,000 in revenues from the Company's Acacia Transport Services subsidiary that were not present in 2014, an increase in inventories of approximately \$65,000, a reduction in prepaid expenses of approximately \$9,000, and an increase in accounts receivable of approximately \$67,000. Approximately \$4,000 was used in financing activities, reflecting a decrease of approximately \$12,000 from 2014 due to approximately \$2,000 in note payments, offset by approximately \$10,000 in related party payables and cash overdrafts resulting from accounting procedures and not actually from amounts overdrafted at banks.

The consolidated net profit and the positive net cash flow of \$2,230 for the period ended March 31, 2015, was sufficient to cover the costs of all our corporate activity, essentially our executive officers, administrative overhead, and overhead that includes the cost of lawyers and accountants required to be publicly held.

Cash Balances

The Company will require substantial infusions of working capital or a substantial increase in the cash generated from its new revenue-producing 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. There can be no assurance the Company will be successful in obtaining infusions of capital for any purposes.

Table of Contents

Financing of Planned Expansions and Other Expenditures

Management's plans include increasing production, selling all its inventories of products in the normal course of production, attempting to start new businesses or to find additional operational businesses to buy, and attempting to raise funds, possibly from the public through a stock offering. The Company plans to grow through acquisitions, mergers, or other business combinations, and anticipates that it will need to raise additional capital through the sale of its debt or equity securities to do so, possibly through a private placement exempt offering of the same. Management intends to make every effort to identify and develop all these sources of funds, but there can be no assurance that Management's plans will be successful.

Dependence on Key Personnel

Our future performance depends in significant part upon the continued service of our Chief Executive Officer, Steven L. Sample and now upon the continued service of William J. Howe, the President of the Company's new Citrus Extracts, Inc. subsidiary in Fort Pierce, Florida. The loss of either of their 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 or Mr. Howe, 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.

Basis of Services Rendered and Contemplated Business

To better reflect the Company's determination to employ a broader scope and direction in expanding its business model into more diversified service and product offerings, the Company changed its name from Acacia Automotive, Inc. to Acacia Diversified Holdings, Inc. effective October 18, 2012.

The Company entered the citrus byproducts manufacturing industry in July of 2013 through its Citrus Extracts, Inc. subsidiary. Citrus Extracts utilizes our confidential and proprietary chemical-free, 100% natural processes in the manufacturing, sale, and distribution of all-natural, food-grade ingredients from raw, fresh, natural citrus peel resulting from citrus juicing operations. Through these controlled methods, CEI processes and dehydrates orange, lemon, grapefruit and tangerine peel into its CitraBlend and CitraBlend Organic products and then mills those products to varying sizes ranging from larger "cut & sift flakes" to 40+ mesh powders (or smaller sizes for custom orders). These ingredients, both organic and non-organic, find their way into many regional and national brand-name products commonly found on America's kitchen tables in the form of spices, teas and otherwise. Our CitraBlend products are also utilized in brewing many local and regional craft beers in addition to nationally-recognized beer brands, and because we have only recently addressed that market it remains largely untapped. At this time CitraBlend is primarily sold through a distributor network with emphasis on those industries.

On January 15, 2014 formed Acacia Transport Services, Inc. ("ATS") as a wholly-owned subsidiary, but activity did not begin until July of that year. ATS was formed for the primary purpose of providing transportation and a continuous source of raw citrus peel materials for its sister Citrus Extracts, Inc. manufacturing plant, and for the secondary purpose of generating transport revenues in hauling excess raw citrus peel materials to local farmers for use as feed for livestock. On July 2, 2014, that subsidiary entered into an Agreement for Citrus Peel Hauling Services with Lambeth

On March 1, 2014 the Company began performing milling operations using the trade name Acacia Milling Services at the Fort Pierce location for its Citrus Extracts subsidiary. Milling is the term applied to grinding or refining the finished citrus ingredient products rendered by Citrus Extracts into smaller, finer particles. These services vary from

simple sifting operations that separate the various sizes of materials to creating specific cuts from the original material, such as “tea bag cut” size, granulated materials of various sizes, or “powders” of various mesh sizes. Generally the greater the mesh size (finer, smaller, particle size) requested by the customer, the higher the milling charges per pound. The Company does not currently maintain separate accounting functions for its new milling operations, but intends to further segregate those milling operations in 2015 and to implement a new system of segregated financial reporting for those operations. The Company also intends to expand its offerings of those milling services to outside parties for the generation of additional revenues in the future.

All these operations now form the new consolidated basis of services rendered.

The Company continues to consider other merger, acquisition, or business combination opportunities in any industry.

Table of Contents

Implementation of Business Plan

The Company currently does not have sufficient working capital to pursue its business plans. 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. There can be no assurance 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 makes only minimal demands on its Secretary, who is not expected to give substantial time to the affairs of the Company.

The Company has no other full-time corporate officer except for its President and CEO, who devotes the majority of his business time and efforts to the management and direction of the Company and its subsidiaries. The President and CEO of the Company also serves as a director of the Company as well as having served as an officer and director of the Company's subsidiary corporations. Service in those capacities with the subsidiaries is not considered to constitute a conflict of interest on the part of employees, managers, or directors. The Company's President and CEO continues to serve in those capacities as of March 31, 2015. As such, there is not now, nor has there previously been considered to be, any material conflict of interest on his part. However, the CEO of the Company may reasonably be expected to have or gain other affiliations, associations, or ownership interests in other entities which could under certain conditions be considered to be conflicts of interest.

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.

Item 4T. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

As is typical with most small or relatively small 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 also acts as our Principal 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.

Table of Contents

Disclosure Controls and Procedures

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 Principal 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 March 31, 2015.

Changes in Internal Control over Financial Reporting

During the first quarter of 2015 the Company did not make changes in its internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 5. Other Information.

Legal Proceedings.

None.

Subsequent Events

None.

Other Events

None.

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

Table of Contents

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: May 20, 2015

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

