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)

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

For the quarterly period ended June 30, 2014

o 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 o No x (2) Yes o No x

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 o No x

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of June 30, 2014: 12,626,809.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACACIA DIVERSIFIED HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 14,535	$ 1,452
Accounts receivable	9,046	89,918
Employee accounts receivable	324	939
Inventory, stated at lower of average cost or market	239,798	-
Prepaid expenses	1,250	-
Total Current Assets	264,953	92,309
Property and Equipment, net of accumulated depreciation of $126,890 and $81,414 in 2014 and 2013, respectively	642,788	685,274
Other Assets	7,341	7,341
Total Assets	$ 915,082	$ 784,924
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
Current Liabilities		
Cash overdraft	$ -	$ 3,405
Accounts payable	155,180	253,082
Accrued liabilities	399,668	217,271
Shareholder payable	57,030	102,677
Deferred revenue	125,000	-
Note payable, current portion	104,920	102,661
Total Current Liabilities	841,798	679,096
Noncurrent Liabilities		
Related party payables, subsidiary acquisition	361,291	361,291
Notes payable, less current portion	121,755	149,971
Total Liabilities	1,324,844	1,190,358
Stockholders’ (Deficit)		
Common stock, $0.001 par value, 150,000,000 shares authorized; 12,626,809 and 12,496,809 shares issued and outstanding in 2014 and 2013, respectively	12,627	12,497
Additional paid-in capital	11,867,235	11,776,365
Retained deficit	(12,289,624)	(12,194,296)
Total Stockholders’ (Deficit)	(409,762)	(405,434)
Total Liabilities & Stockholders’ (Deficit)	$ 915,082	$ 784,924

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

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ACACIA DIVERSIFIED HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Revenues	$ 329,415	$ -	$ 623,950	$ -
Costs of revenues, including $20,602 and $40,956 of depreciation for the respective 2014 periods	(177,673)	-	(292,816)	-
Gross profit	151,742	-	331,134	-
Costs and expenses				
Employee compensation	114,739	35,943	217,772	101,826
General and administrative	56,604	80,760	191,768	213,245
Depreciation	2,273	2,784	4,520	5,551
Total costs and expenses	$ 173,616	$ 119,487	$ 414,060	$ 320,622
Operating income (loss) before other income (expense) and income taxes	(21,874)	(119,487)	(82,926)	(320,622)
Other income (expense)				
Other income	-	3,035	-	10,035
Interest income	(7,016)	(1,609)	(12,402)	(4,018)
Total other income (expense)	(7,016)	1,426	(12,402)	6,017
Income (loss) before income taxes	(28,890)	(118,061)	(95,328)	(314,605)
Income taxes	-	-	-	-
Net loss	$ (28,890)	$ (118,061)	$ (95,328)	$ (314,605)
Basic and diluted loss per share				
Loss per share	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.03)
Weighted average number of common shares outstanding	12,626,809	11,562,524	12,571,095	11,562,524

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

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ACACIA DIVERSIFIED HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(Unaudited)

	2014	2013
Cash flows from operating activities		
Net income (loss)	$ (95,328)	$ (314,605)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	45,476	5,551
Common stock and stock options and warrants issued for services and compensation	91,000	14,096
Changes in operating assets and liabilities		
Accounts receivable	80,872	7,500
Employee accounts receivable	615	-
Deferred revenue	125,000	-
Prepaid expenses	(1,250)	1,104
Inventory	(239,798)	-
Accounts payable	(97,901)	109,079
Accrued liabilities	182,397	11,893
Shareholder payable	(45,647)	(294)
Net cash flow (used in) operating activities	45,436	(165,676)
Cash flows provided by (used in) investing activities		
Purchase of equipment/leasehold improvements	(2,991)	-
Net cash flow provided by (used in) investing activities	(2,991)	-
Cash flows provided by (used in) financing activities		
Cash overdraft	(3,405)	-
Note payable payments	(25,957)	(13,000)
Capital lease borrowings (payments)	-	(6,269)
Net cash flow provided by (used in) financing activities	(29,362)	(19,269)
Net increase (decrease) in cash and cash equivalents	13,083	(184,945)
Cash, beginning of period	1,452	189,260
Cash, end of period	$ 14,535	$ 4,315
Supplemental disclosures of cash flow information		
Cash paid during year for:		
Interest	$ 12,402	$ 4,018
Income taxes	$ -	$ -

	2014	2013
Non-cash investing and financing activities		
Utility deposit	$ -	$ (5,000)
Property and equipment	-	(712,300)
Related party payable	-	293,393
Notes payable	-	226,100
Common stock	-	900
Additional paid-in capital	-	196,907
	$ -	$ -

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

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ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION

THE COMPANY - Acacia Diversified Holdings, Inc., ("Acacia" or the "Company") is an entity actively engaged in the citrus byproducts manufacturing industry.

On July 10, 2013 the Company, by and through its wholly-owned subsidiary Citrus Extracts, Inc., acquired certain assets and assumed liabilities related to those assets from Red Phoenix Extracts, Inc., a corporation located in Fort Pierce, Florida. The Company commenced revenue-producing operations on July 10, 2013, but did not actually commence manufacturing operations employing the acquired assets until the beginning of the 2014 Florida citrus season in December of 2013, being later than usual due to delays in ripening of the citrus fruit crop in making it suitable for juice extraction operations. Generally speaking, the citrus season would begin at or near the first of November each year; however, this year's citrus crop experienced a slower maturity of the fruit for juice processing, specifically the acids levels not yet having fallen to the proper levels and the brix (sugar) levels having not yet elevated to the proper level, all of which is anticipated to occur later in November and early December. During the off-season the Company has been engaged in various preparations, updates and maintenance to its machinery and equipment such as to prepare it for the upcoming manufacturing operations. The Company will continue to evaluate other opportunities for new mergers, acquisitions, or business combinations symbiotic to its new operations or otherwise.

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, 2013.

CONSOLIDATION – As of June 30, 2014, Citrus Extracts, Inc. is the sole subsidiary of the Company, and all significant intercompany accounts and transactions are eliminated in consolidation.

NOTE 2 – SUBSEQUENT EVENTS

On July 2014, RPE reacquired $113,597 of the original debt transferred to the Company in the asset acquisition agreement and reacquired the $69,950 in trade obligations, thereafter becoming a creditor to the Company in those amounts replacing others. It further extended a new advance to the Company in the amount of $65,000 cash, resulting in total obligations to RPE of $248,547.

Following those actions, on August 20, 2014 the Company issued 108,597 new common shares to RPE in extinguishment of a portion of its obligations, those shares being valued at $1.00 each. Following the issuance of those shares, the Company's debt obligation to RPE from the original acquisition transaction was reduced to $139,950 and its remaining debt obligations to others from that transaction was reduced to $109,846.

In the asset acquisition transaction with RPE, the Company also assumed responsibility for two leases for a facility of approximately 14,525 square feet consisting of two adjacent building units located at 3495 S. U.S. Hwy.1, Bldgs. 12-E, leased by RPE, and 12-W, leased by Active Citrus, Inc., Ft. Pierce, FL 34982 (the "Leases"). Those leases remained in the name of RPE and Active Citrus until March and February of 2014, respectively, whereupon both leases were cancelled by the lessees and rewritten with the Company becoming the lessee on each. The Company pays a combined $4,691 per month for the two leased units to the to the Fort Pierce State Farmer's Market in Fort Pierce, Florida. The Farmers Market is owned and operated by the State of Florida, and the leases are subject to additional 1-year lease renewals, that being the maximum allowed by the Florida authority operating the facility.

The Company also leased certain adjacent warehouse space for several months in 2014 on a month-to-month basis, and rented on a month-to-month basis an additional warehouse in the Fort Pierce State Farmers Market consisting of approximately 1,900 square feet for $838.50 per month beginning at October 2014 and continuing into 2015.

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ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 – SUBSEQUENT EVENTS (Continued)

On January 15, 2014 the Company formed Acacia Transport Services, Inc. as a wholly-owned subsidiary. That subsidiary was formed for the primary purpose of providing 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 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, an actual transport operations from Lambeth Groves commenced in early August 2014.

Acacia Transports' plan was to acquire three tandem-axle diesel road tractors, five tandem-axle aluminum end-dump trailers, one straight truck with a stainless steel tank for small peel-hauling operations, as well as other support equipment and vehicles to accommodate its obligations to Lambeth Groves. On July 22, 2014 that subsidiary acquired its first trailer, and subsequently finalized its purchase of the other tractors, trailers, and equipment through the end of August 2014.

The Florida citrus season typically extends from approximately the beginning of November each year through the end of June the following year, with the remainder being considered as the "off-season" when there is little activity. Lambeth Groves generally acquires various supplies of fresh citrus products citrus products during the citrus season as supplies to support its own juice extraction operations during the off-season. The peel resulting from those off-season juice production operations becomes a source of off-season raw materials for production at the Company's Citrus Extracts operations, and the transport of that peel is accommodated by Acacia Transport Services. Thus, Acacia Transport, through its agreement with Lambeth Groves, has obtained a potential source of peel in limited quantities for its revenue-generating operations during the off-season in addition to the larger volumes of peel generated in the normal citrus season, while at the same time providing a supply of off-season raw peel to its sister Citrus Extracts, Inc. subsidiary for its food-grade ingredient product manufacturing.

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 are expected to begin with the onset of the 2015 citrus season at approximately November 1, 2014, the number of loads transported "in season" generally being maximized during the period of December through March or April.

NOTE 3 – GOING CONCERN

As of June 30, 2014, the Company had limited liquid assets and had not generated sufficient revenues from its new Citrus Extracts, Inc. operations to achieve profitability on a consolidated basis. As a result, without generating larger revenues or finding new and viable sources of revenue the Company may not be able to meet its future obligations as they come due and will have difficulties meeting expenses relating to the expansion of the Company.

The Company has been successful in establishing high production levels with its organic and non-organic peel products, but has been slow to fully develop its market for the more valuable organic products. There is a lag period between production of the newly offered organic and actual sale and delivery of those products. Buyers of the organic products must be identified, contacted, provided with samples for testing, provided with product certifications, milling products and packaging to their specifications, allowed time to gain sales commitments from their own clients, then shipping the products to the buyer and waiting to collect the sales proceeds. Those processes are often lengthy and drawn out, particularly when relating to the food industry. While the Company's Citrus Extracts subsidiary has sold considerable quantities of its organic and non-organic products in subsequent events, it is anticipated that it may take more than a year to develop selling channels sufficient to insure sale of its full production of its products.

As a result, the inability by the Company to currently sell and deliver all its finished peel product inventory without extended holding periods will only serve to exacerbate cash flow concerns until the sales pipeline fills. While the inventory supplies, if sold in a timely manner, are quite 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 attempting to find new purchasers for its citrus ingredient products, attempting to find new acquisition, merger, or other business combination prospects, and/or attempting to raise funds from the public through the sale of its equity securities in a private offering made pursuant to Regulation D promulgated under the Securities Act of 1933. There can be no assurance that Management's plans will be successful.

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Item 1B. Unresolved Staff Comments

None

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

The Company sold its Augusta auction subsidiary, its only revenue-producing operations, 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, 2011. The Company had no revenue-producing operations from July 31, 2012 until July 10, 2013 when it acquired assets and launched its new Citrus Extracts, Inc. ("CEI") subsidiary, its only revenue-producing subsidiary. Accordingly, these comparative results not be reflective of similar results for prior periods or provide a proper basis for review versus those periods.

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

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.

The food products manufactured in these establishments are typically sold to wholesalers or retailers for inclusion as ingredients into various food products or direct distribution to consumers. The Company's Citrus Extracts subsidiary concentrates its efforts on manufacturing ingredients that are used in foods and beverages, including spices, teas, beers, and other food commodities.

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.

Generally, the volume of products produced, and therefore available for sale, is highest in the first, second, and fourth calendar quarters of each year and lower in the third quarter. This results primarily from the availability of raw citrus peel for production use during the Florida "citrus season" each year. This seasonality is affected by several factors, most particularly weather conditions that affect the timing of maturity of brix and sugar levels in the fruit, being the determinant as to the suitability of the fruit for juicing operations. The Company's Citrus Extracts subsidiary relies upon the citrus peel resulting from those juice operations as its source of raw materials for production of its finished products. Among the other factors that have in the past and/or could in the future affect the Company's operating results are: general business conditions; news relating to the healthful benefits of our products; trends in the food industry and changes in personal eating habits; economic conditions, including fuel prices and interest rate fluctuations; the introduction of new competitors; competitive pricing pressures; and costs associated with the acquisition of businesses or technologies; and the contractual relationships of our customers with their end-user clients and the resultant periodic fluctuations in their orders. As a result of the above factors, operations are subject to significant variability and uncertainty from quarter to quarter, and revenues and operating expenses related to volume will fluctuate accordingly on a quarterly basis.

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Background and History of the Company

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.

In the years following 1984, Gibbs grew to become 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, 1996, trading on the NASDAQ Exchange under the symbol GBSE.

However, in April, 2000, immediately following a period in which the Federal Reserve raised interest rates six times between June 1999 and May 2000 in an effort to cool the economy, Gibbs faced financial difficulties and was unsuccessful in its efforts to bring the Company back to profitability.

Initial Restructuring of the Company

On August 15, 2006, Steven L. Sample agreed to acquire control of Gibbs Construction, Inc.. To do so, he initially acquired 46.7%, of common stock of Gibbs. In addition Mr. Sample paid substantial expenses of the Company including the costs of audits and legal expenses required to bring the Company's SEC filings current.

In order to further restructure and rehabilitate the Company such that it could be made to enter the automotive auction business and to satisfy its obligations to Mr. Sample, the shareholders of the Company at a Special Meeting of Shareholders on February 1, 2007 ratified all the actions recommended by the Company's board of directors, causing the Company to (i) issue new common and preferred shares to Mr. Sample; (ii) amend the Company's articles of incorporation in setting the par value of the shares at $0.001 per share; (iii) effect a one for eight reverse stock split; (iv) increase the number of authorized shares of common stock to 150,000,000 and authorize a series of preferred stock with 2,000,000 shares; and, (v) change the Company's name from Gibbs Construction, Inc. to Acacia Automotive, Inc. Those amendments to the Company's Articles of Incorporation became effective February 20, 2007. In conjunction with those events, the Company changed its stock-trading symbol to from GBSE to ACCA to better reflect its new name. On May 29, 2007, Mr. Sample exchanged all his preferred shares for an equal number of common shares of the Company and a number of warrants to purchase Common shares. There are no preferred shares issued or outstanding as of December 31, 2014, and no plans to issue any new preferred shares.

In that restructuring the Company retained its substantial tax loss carryforward, which has grown to become approximately $12,940,000 as of December 31, 2014.

Immediately following the approval of these amendments, the Company adopted its Acacia Automotive, Inc. 2007 Stock Incentive Plan, which was ratified by the Company's stockholders in its Annual meeting held November 2007, initially reserving 1,000,000 shares thereunder. In subsequent actions, the shareholders of the Company approved amendments to the Acacia Automotive, Inc. 2007 Stock Incentive Plan (the "Plan"), renaming it the Acacia Diversified Holdings, Inc. 2012 Stock Incentive Plan and making that revised plan effective as of January 1, 2012. All material terms of the 2007 Plan remained in full force and effect as they were merged into the revised Plan.

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 and operating an auction at that same location. This became the Company's only revenue-producing operations at that time.

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 Auction and operating an auction at that same location. This became the Company's second revenue-producing operations at that time.

Disputes arose between the Company and the seller of those Chattanooga assets in September of 2010. 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 in incorporated herein by reference.

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Thus, from February 2007 through July of 2012, the Company's primary objective had been to identify, acquire and operate going concerns in the automotive auction industry. Following the sale of its Augusta auction assets, the Company on October 18, 2012 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.

Recent Activities of the Company

The Company was without revenue-producing operations from July 31, 2012 until July 10, 2013, when it, through its new wholly-owned subsidiary Citrus Extracts, Inc., entered into a definitive agreement to acquire certain assets and assumed 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 its common stock. 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.

In that transaction, the Company also assumed certain liabilities of RPE, including indebtedness and trade payables in the amount of $519,493 for certain loan and payable obligations and responsibility for a forklift lease in the amount of $465 per month for the remaining 16 months of the lease. That forklift lease expired in October of 2014, and the Company exercised its option to purchase at that time. As a part of the assumed indebtedness the Company accepted responsibility for payment of the remaining $226,100 due on an SBA equipment loan at $5,205.46 per month.

In that same transaction, the Company also assumed responsibility for two leases for a facility of approximately 14,525 square feet consisting of two adjacent building units located at 3495 S. U.S. Hwy.1, Bldgs. 12-E and 12-W. The Company pays a combined $4,691 per month for the two leased units to the to the Fort Pierce State Farmer's Market in Fort Pierce, Florida. The Farmers Market is owned and operated by the State of Florida, and the leases are subject to additional 1-year lease renewals, that being the maximum term allowed by the Florida authority operating the facility.

On July 2014, RPE reacquired $113,597 of the original debt transferred to the Company in the asset acquisition agreement and reacquired the $69,950 in trade obligations, thereafter becoming a creditor to the Company in those amounts replacing others. It further extended a new advance to the Company in the amount of $65,000 cash, resulting in total obligations to RPE of $248,547.

Following those actions, on August 20, 2014 the Company issued 108,597 new common shares to RPE in extinguishment of a portion of its obligations, those shares being valued at $1.00 each. Following the issuance of those shares, the Company's debt obligation to RPE from the original acquisition transaction was reduced to $139,950 and its remaining debt obligations to others from that transaction was reduced to $109,846.

The Company on January 15, 2014 formed Acacia Transport Services, Inc. ("ATS") as a wholly-owned subsidiary. That subsidiary was formed for the primary purpose of providing a continuous source of raw citrus peel materials for the Company's Citrus Extracts, Inc. manufacturing plant, and for the secondary purpose of generating transport revenues by hauling excess raw citrus peel materials to local farmers for use as feed for livestock. On July 2, 2014, ATS entered into an Agreement for Citrus Peel Hauling Services with Lambeth Groves Juice Company, a citrus juice extraction company located in Vero Beach, Florida, some 20 miles from Citrus Extracts, Inc. That contract called for ATS to assume all responsibilities for hauling the raw, remediated citrus peel products from Lambeth Groves by July 30, 2014, which it did, and actual transport operations from Lambeth Groves commenced on August 7, 2014 and transported subsequent loads going forward from that date, becoming the Company's second revenue-producing subsidiary at that time in conjunction with the Citrus Extracts subsidiary. Full-scale transport operations finally began with the onset of the 2015 citrus season that again started later than anticipated at approximately the beginning of December, 2014, with the number of loads transported “in season” generally being maximized during the period of mid-to-late December through March or April.

In July and August of 2014 Acacia Transport acquired three tandem-axle diesel road tractors, five tandem-axle aluminum end-dump trailers, one 53 foot tandem axle closed van trailer, one straight truck with a stainless steel tank for small peel-hauling operations, as well as other spare parts and support equipment to accommodate its obligations to Lambeth Groves and Citrus Extracts.

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.

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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.

In addition to the foregoing, the Company will continue to seek and evaluate other acquisition, business combination or merger opportunities. Such opportunities need not be in our current area of operations and may be more consistent with our objective to become a holding company with a diverse array of businesses. There can be no assurance that any such evaluations will result in viable acquisition opportunities, or that any viable acquisition opportunities could result in a formal business combination or relationship. Moreover, there can be no assurances that if we are able to identify a suitable opportunity, that we will have the financial ability to close such contemplated transaction or that the target will accept any bona fide offer made by us. Should the Company require additional capital to close such a transaction, that may require us to offer to sell and sell either our debt or equity securities. There can be no assurances, however, that any such efforts would be successful. There have been no tentative or definitive plans for acquisition or merger agreements resulting from any evaluations.

Business Overview - Citrus Extracts, Inc.

In addition to our line of non-organic citrus ingredient products, our Citrus Extracts subsidiary began manufacturing organic citrus ingredient products in limited quantities in 2013 and in substantially larger quantities beginning in January of 2014. The Company secures it source of fresh non-organic citrus peel directly from the normal operations of a citrus juice processor less than 20 miles from our manufacturing facility, also obtaining its fresh organic peel from that plant in conjunction with its special juice extraction operations for Uncle Matt’s Organic Juice Company-Florida’s largest and most respected organic juice manufacturer. All our food grade products are gluten free, non-gmo, certified Kosher, and in the case our organic products, bear the USDA National Organic Certification.

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.

As with other industries in the food-manufacturing subsector, CEI transforms raw agricultural products into products for intermediate or final consumption. The groups composing this industry are distinguished by the type of raw materials they process into food products, (generally of animal or vegetable origin). Our manufacturing plant currently specializes in natural citrus products. The food products manufactured in these establishments are typically sold to wholesalers or retailers for inclusion as ingredients into various food products or direct distribution to consumers. The Company’s Citrus Extracts subsidiary concentrates its efforts on manufacturing food grade ingredients that are used in foods and beverages, including spices, teas, beers, and other food commodities, but can also effectively and efficiently transform this fresh, raw citrus peel material into highly saleable by-products for use in the nutraceutical, skin care, cosmaceutical and botanical industries.

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. Generally, the volume of products produced, and therefore available for sale, is highest in the first, second, and fourth calendar quarters of each year and lower in the third quarter. This results primarily from the availability of raw citrus peel for production use during the Florida “citrus season” each year, generally from about November through May. This seasonality is affected by several factors, most particularly weather conditions that affect the timing of maturity of brix and sugar levels in the fruit, being the determinant as to the suitability of the fruit for juicing operations. The Company’s Citrus Extracts subsidiary relies upon the citrus peel resulting from those juice operations as its source of raw materials for production of its finished ingredient products. Among the other factors that have in the past and/or could in the future affect the Company's operating results are: general business conditions; news relating to the healthful benefits of our products; trends in the food industry and changes in personal eating habits; economic conditions, including fuel prices and interest rate fluctuations; the introduction of new competitors; competitive pricing pressures; and costs associated with the acquisition of businesses or technologies; and the contractual relationships of our customers with their end-user clients and the resultant periodic fluctuations in their orders. As a result of the above and other factors, operations are subject to significant variability and uncertainty from quarter to quarter, and revenues and operating expenses related to volume will fluctuate accordingly on a quarterly basis.

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Discussion Regarding Citrus Products

Citrus possesses a unique, modular construction. Its many beneficial components are located in the parts that most consumers would throw away. The outer skin, or flavedo, contains pigments that give each fruit its distinctive color. This exterior surface also is dotted with oil glands. Just underneath is the white portion of the peel, or the albedo. Under the albedo lie the familiar citrus segments. Each of these is made up of several membrane-encased juice vesicles. Each segment's collection of juice vesicles is further surrounded by an outer membrane known as the lamella. In seeded fruit, the seeds are found toward the center of the segments. Beyond that, citrus fruits have a core made of a soft, spongy material that visually resembles the albedo.

Citrus fruits are about 50% to 60% juice. Not only does juice make up the majority of the fruit, it also is the largest consumer market for citrus — with orange juice the clear leader. Juice processing originated as a way to use fruit that was deemed unsuitable for the fresh market. Now, more than 80% of the oranges grown in Florida are pressed for juice. First, mature fruit is washed and graded before stainless-steel juice extractors press out the juice. After extraction, the juice passes through a finisher which, using various means, removes excess pulp and seeds.

Juice may be the primary component of citrus processing, but the non-juice material is valuable and loaded with beneficial properties. Most juice processors elect to do little more than find a cost-effective way of disposing of it. Often, the peel and other residue is treated with lime, pressed to remove fluids and dehydrated to around 10% for use as animal feed.

Although the term citrus peel "waste" is commonly used, in reality citrus peel is extremely clean and rich in valuable nutrients. The actual components of citrus peel include:

- sugar (amounting to approximately 10% of the peel);
- citrus oils (d-limonene and cold press oils) at appropriately 3%;
- seeds (for spices and nutraceuticals) at approximately 1%;
- fiber solids (primary ingredient) approximately 50%, and,
- water, which constitutes the remainder of the peel.

Over 7 billion pounds of citrus peel material is created each year in Florida alone as a result of the production of orange, grapefruit, and lemon juice processing companies. These companies, such as Lambeth Groves Juice Company (the source of CEI's fresh, raw citrus peel), Tropicana (Pepsico), Florida's Natural, Minute Maid (Coca-Cola) and others are required by the EPA to remediate their residual citrus peel "waste" material in an effort to eliminate pollutive dumping that was previously allowed.

Citrus Extracts processes that remediated peel with processes that have the following advantages:

- No waste water or volatile organic compound ("VOC") air emissions are generated as a result of our process.
- Every part of the waste peel material is utilized as food grade products with no remaining residue.
- All natural processes with no additives.

Consumer products that focus on nutritionally beneficial ingredients such as rutin, d-limonene, hesperiden, potassium, Vitamin C, iron and Vitamin A, which have strong application uses for nutraceuticals, skin care, cosmetics and certain industrial uses, are found in abundance in our CitraBlend products. This product retains the valuable oils, sugars and citrus bioflavonoids that are most functional for these applications. In addition to its progressive growth in conventional citrus products, the Company entered into an exclusive agreement in August 2013 with Uncle Matt's Organic Juice to begin selling organic certified citrus products.

The Company's CitraBlend ingredient products are made from 100% fresh, clean, citrus peel with no chemicals or additives and provide not only a high fiber additive (over 45% fiber), but also combines a highly functional hydrocolloid (pectin) in a single product. In addition to these benefits, CitraBlend is 100% gluten free. The high concentration of pectin (over 9%) in CitraBlend makes it a truly unique and multifunctional natural product.

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The following chart reflects the beneficial components in our CitraBlend and CitraBlend Organic products. You can see below that our CitraBlend and CitraBlend Organic ingredient products have more natural fiber than rye, oats, carrots, wheat, and lintel; natural hydrocolloids as in alginate, carrageenan, xanthan, guar gum, and locust beans; and more antioxidants than apples, blueberries, guava, pears, and pistachio nuts. With such an outstanding array of beneficial components, our CitraBlend products are perfectly suited as ingredients for the food and beverage industry.

COMPARISON CHART: FIBER, HYDROCOLLOIDS, AND ANTIOXIDANTS
CITRABLEND AND CITRABLEND ORGANIC INGREDIENTS

CitraBlend Organic ingredient products also contain no genetically modified organisms (GMO), and most importantly, all of our Company's citrus products are 100% natural with no chemicals added and are manufactured in south Florida in the heart of the United States citrus industry.

The Company is seeking to identify buyers for its products. Once identified, and assuming an interest is present in purchasing our ingredient products, the potential buyer will generally request samples of our products which they will test in determining the suitability for their specific applications. Following a finding of suitability, the potential buyer will query its buyers to see if a market exists. Upon a positive finding, the buyer can then open discussions for its future purchasing needs and engage in a purchase order for product. This process can be rather slow and tedious, particularly in the food and beverage industries, resulting in long interludes between initial sales contacts and final purchase understandings. As a result of this process, the Company believes growth will be slower than originally anticipated. The Company's products are laboratory tested and certified in each required category, and the company holds proper certifications for its organic and kosher ratings.

Recent Events and Direction of the Company in 2014

The Company's immediate objective is to operate in the citrus extract manufacturing industry by and through its wholly-owned subsidiary, Citrus Extracts, Inc. ("CEI"). As an integral part of that plan, the Company formed Acacia Transport Services, Inc. ("ATS") in subsequent events as a transport subsidiary that arranged for a contracted source of raw peel and for the means to transport it to the Company's CEI subsidiary. 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.

The Company intends to continue to expand its current revenue-producing capabilities as well as seek and evaluate other acquisitions, business combinations and merger opportunities. The Company anticipates that it will need substantial working capital to provide for expenses related to the recent start-up of its manufacturing operations, extinguishment of certain debt it incurred in conjunction with the acquisition of the Red Phoenix Extracts assets, and to cover general overhead expenses in the short term. The Company anticipates that it will require additional capital to meet its short-term business objectives. There can be no assurance, however, that the Company will be successful in its efforts to raise capital, or if it is successful that the amounts of capital raised will be sufficient to meet its needs and obligations. (See "Item 5. Subsequent Events".)

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Discussion Regarding Cost of Revenues (Same as "Costs of Goods Sold", "Costs of Fees Earned" or "Costs of Services")

As is generally consistent with reporting in most industries, the Company has designed its financial reports to reflect total revenues less cost of revenues (sometimes indicated in our financial reports as "Costs of Goods Sold", "Costs of Fees Earned" or "Costs of Services") in arriving at a gross profit before deducting operating expenses. Costs of goods sold include costs similar to "production costs", including certain subscribed services; labor and contract labor for operations; outside services, pick up and delivery, rental of vehicles or equipment to facilitate operations, direct tools/supplies/equipment; fuel expense; maintenance; parts; shipping costs; discounts; policy allowance; return allowances; and, miscellaneous operations expenses. The Company's independent accountants have elected to class the salaries, including related taxes, of production personnel to the "salary" classification in its consolidated reports, rather than as costs of revenues.

Discussion Regarding the Company's Operations

The Company sold its Augusta auction operations in the Augusta, Georgia area, its only revenue-producing operations, 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, 2012. The Company resumed revenue-producing operations following its acquisition of the certain assets of Red Phoenix Extracts, Inc. on July 10, 2013, which were placed into its new Citrus Extracts, Inc. subsidiary. The Company had no revenue-producing operations from August 1, 2012 until July 10, 2013, and then its operations were very limited as it awaited the 2014 Florida citrus season to come into play in December of 2013. Accordingly, the Company's discussion and analysis of financial condition and results of operations may not provide an adequate basis for comparative review.

The Company uses the average cost method to value its inventory and products sold, including a per pound depreciation charge. The average cost is expected to increase during the 2014 fiscal year as: (i) the Company intends to make additional repairs and upgrades to its plant facility; (ii) certain raw material costs vary in relation to seasonal availability; (iii) the Company anticipates utilizing additional warehousing space as it grows its sales and inventories; and (iv) certain products sold require additional processing to meet customer requests.

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.

Three months ended June 30, 2014

In the second quarter of 2014, Citrus Extracts, Inc. was the Company's only revenue-producing subsidiary. The sale of citrus byproducts began on a limited basis in the third quarter of 2013. Accordingly, no revenues were derived from the sale of citrus byproducts for the three-month period ended June 30, 2013.

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 June 30, 2014, the Company transported and processed approximately 2.7 million pounds of raw, fresh citrus peel in producing approximately 495,000 pounds of finished ingredient products, and sold about 296,000 pounds of finished ingredient products at an average price of about $1.11 per pound.

In the three-months ended June 30, 2014, total costs and expenses were about $352,000, including operating costs and expenses of about $174,000 and cost of revenues of about $178,000 as compared to total costs and expenses of about $119,000 in the same period of 2013 consisting of operating costs but no cost of revenues. This increase of about

196% in total costs and expenses in the three months ended June 30 of 2014 versus 2013 is caused by: (i) approximately $36,000 increase in employee compensation related to the Company's subsidiary that was not in existence at June 30, 2013; (ii) an increase in parent company employee compensation of about $43,000; and, (iii) the cost of revenues of about $178,000 related to manufacturing operations in 2014 that were not present in 2013, all of which was offset by a small decrease in consulting expense and professional fees.

The consolidated net loss decreased from $118,061 to $28,890 in the three-month period ended June 30, 2013 and 2014, respectively. This decline in the net loss of approximately $89,000 is primarily the result of the gross profit of about $152,000 recognized on 2014 sales and about $24,000 in reduced general and administrative cost offset by increases in employee compensation of about $79,000, increased interest expense of about $5,000, and about $3,000 less other income than in the same period of 2013.

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Six months ended June 30, 2014

In the first six months of 2014, Citrus Extracts, Inc. was the Company's only revenue-producing subsidiary. The sale of citrus byproducts began on a limited basis in the third quarter of 2013. Accordingly, no revenues were derived from the sale of citrus byproducts for the six-month period ended June 30, 2013. In the six months ended June 30, 2014, the Company transported and processed approximately 5.5 million pounds of raw, fresh citrus peel in producing approximately 994,000 pounds of finished ingredient products, and sold about 533,000 pounds of finished ingredient products at an average price of about $1.17 per pound.

In the six-months ended June 30, 2014, total costs and expenses were about $707,000, including operating costs and expenses of about $414,000 and cost of revenues of about $293,000 as compared to total costs and expenses of about $321,000 in the same period of 2013 consisting of operating costs but no cost of revenues. This increase of about $93,000, or about 29% in operating costs and expenses in the six months ended June 30 of 2014 versus 2013 is caused by approximately $59,000 increase in employee compensation related to the Company's subsidiary that was not in existence at June 30, 2013, and an increase in parent company employee compensation of about $56,000, all of which was offset by a small decrease in consulting expense and professional fees.

The consolidated net loss decreased from $314,605 to $95,328 in the six-month period ended June 30, 2013 and 2014, respectively. This decline in the net loss of $219,277 is primarily the result of the gross profit of about $331,000 recognized on 2014 sales and about $21,000 in reduced general and administrative cost offset by increases in employee compensation of about $116,000 mostly due to the new subsidiary's operations, increased interest expense of about $8,000, and about $10,000 less other income than in the same period of 2013.

Discussion Regarding EBITDA

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

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

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.

The Company's Citrus Extracts subsidiary, its only revenue-producing subsidiary, had no operations in Q1 and Q2 of 2013. As such, there is no reasonable basis for comparing the EBITDA results for the current three-month and six-month periods ended June 30, 2014, versus the same periods ended June 30, 2013.

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Discussion Regarding Citrus Extracts, Inc. EBITDA

The following table represents the EBITDA results for Citrus Extracts, Inc. during the three months ended June 30, 2014:

Citrus Extracts, Inc.	Three Months Ended June 30, 2014 (Unaudited)
Net income	$ 97,354
Add back:	
Income taxes	-
Interest expense, net of interest income	4,238
Depreciation	20,602
EBITDA	$ 122,194

The following table represents the EBITDA results for Citrus Extracts, Inc. for the six months ended June 30, 2014:

Citrus Extracts, Inc.	Six Months Ended June 30, 2014 (Unaudited)
Net income	$ 236,601
Add back:	
Income taxes	-
Interest expense, net of interest income	7,009
Depreciation	40,956
EBITDA	$ 284,566

Discussion Regarding Consolidated EBITDA

The following table represents the consolidated EBITDA results for the Company during the three months ended June 30, 2014:

Acacia Diversified Holdings, Inc.	Three Months Ended June 30, 2014 (Unaudited)
Net income (loss)	$ (28,890)
Add back:	
Income taxes	-
Interest expense, net of interest income	7,016
Depreciation	28,875
EBITDA	$ 7,001

The following table represents the consolidated EBITDA results for the Company for the six months ended June 30, 2014:

Acacia Diversified Holdings, Inc.	Six Months Ended June 30, 2014 (Unaudited)	
Net income (loss)	$	(95,328)
Add back:		
Income taxes		-
Interest expense, net of interest income		12,402
Depreciation		45,476
EBITDA	$	(37,450)

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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.

Following the divestiture of the Company's remaining auction operations after the sale of its Augusta auction assets on July 31, 2012, the Company no longer had any operating or revenue-producing assets until acquiring the assets on July 10, 2013 requisite to enable its new Citrus Extracts subsidiary's operation, and the ensuing implementation of full revenue-producing operations at that subsidiary in December of 2013, the Company relied upon its cash reserves from the sale of the Augusta auction subsidiary and from financial support of its CEO for its liquidity. Since instituting revenue-producing operations in December of 2013, the Company has relied upon its Citrus Extracts subsidiary 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 six months of 2014 provided sufficient cash flow to cover our corporate activity on a consolidated basis, essentially our executive officers, administrative overhead, and overhead that includes the cost of lawyers and accountants required to be publicly held.

As of June 30, 2014, the Company had a positive consolidated net cash flow of about $13,000 for the year to date. This resulted from a positive net cash flow of approximately $46,000 provided by operating activities, a negative net cash flow used in investing activities of about $3,000, and a negative net cash flow used in financing activities of about $29,000.

Cash Balances

The Company will require substantial infusions of working capital or a substantial increase in the cash generated from operations to insure long-term liquidity, and may seek infusions of working capital in the form of equity or debt capital, the former being considered most beneficial to the Company. 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 will seek to grow through enhancement of its manufacturing operations and its revenues, from the enlargement of its new transport operations subsidiary, and from acquisitions, mergers, or other business combinations, and anticipates that it will need to raise additional capital to do so. The Company may be compelled to raise this additional capital through an offering of its debt or equity securities. There can be no assurance that the Company will be successful in raising capital, or if it is successful, there can be no assurance it can raise capital in sufficient amounts to meet its liquidity needs.

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.

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Basis of Services Rendered and Contemplated Business

The Company entered the citrus byproducts manufacturing industry in July of 2013 through its Citrus Extracts, Inc. subsidiary. 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. In subsequent events of July of 2014 the Company instituted new operations in it Acacia Transport Services subsidiary. All these operations now form the new consolidated basis of services rendered.

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 continues to consider other merger, acquisition, or business combination opportunities in any industry. (See Part II. Item 5 – “Other Information” and “Subsequent Events”.)

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 increase its production and revenues, 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 find new sales outlets, 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 light 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 June 30, 2014. 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.

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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 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.

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 June 30, 2014.

Changes in Internal Control over Financial Reporting

During the second quarter of 2014 the Company did not make changes in its internal control.

PART II. OTHER INFORMATION

Item 5. Other Information.

Legal Proceedings.

None.

Other Events

In an 8-K dated June 13, 2014 the Company sadly announced the untimely passing on June 2, 2014 of Dr. David Sadler, one of the Company's directors, from natural causes. The vacancy created by the passing of Dr. Sadler currently remains unfilled.

On July 2014, RPE reacquired $113,597 of the original debt transferred to the Company in the asset acquisition agreement and reacquired the $69,950 in trade obligations, thereafter becoming a creditor to the Company in those amounts replacing others. It further extended a new advance to the Company in the amount of $65,000 cash, resulting in total obligations to RPE of $248,547.

Following those actions, on August 20, 2014 the Company issued 108,597 new common shares to RPE in extinguishment of a portion of its obligations, those shares being valued at $1.00 each. Following the issuance of those shares, the Company's debt obligation to RPE from the original acquisition transaction was reduced to $139,950 and its remaining debt obligations to others from that transaction was reduced to $109,846.

The Company rented on a month-to-month basis an additional warehouse in the Fort Pierce State Farmers Market consisting of approximately 1,900 square feet for $838.50 per month beginning at October 2014 and continuing into 2015.

On January 15, 2014 the Company formed Acacia Transport Services, Inc. as a wholly-owned subsidiary. That subsidiary was formed for the primary purpose of providing 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 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, an actual transport operations from Lambeth Groves commenced in early August 2014.

Acacia Transports' plan was to acquire three tandem-axle diesel road tractors, five tandem-axle aluminum end-dump trailers, one straight truck with a stainless steel tank for small peel-hauling operations, as well as other support equipment and vehicles to accommodate its obligations to Lambeth Groves. On July 22, 2014 that subsidiary acquired its first trailer, and subsequently finalized its purchase of the other tractors, trailers, and equipment through the end of August 2014.

The Florida citrus season typically extends from approximately the beginning of November each year through the end of June the following year, with the remainder being considered as the "off-season" when there is little activity. Lambeth Groves generally acquires various supplies of fresh citrus products citrus products during the citrus season as supplies to support its own juice extraction operations during the off-season. The peel resulting from those off-season juice production operations becomes a source of off-season raw materials for production at the Company's Citrus Extracts operations, and the transport of that peel is accommodated by Acacia Transport Services. Thus, Acacia Transport, through its agreement with Lambeth Groves, has obtained a potential source of peel in limited quantities for its revenue-generating operations during the off-season in addition to the larger volumes of peel generated in the normal citrus season, while at the same time providing a supply of off-season raw peel to its sister Citrus Extracts, Inc. subsidiary for its food-grade ingredient product manufacturing.

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 are expected to begin with the onset of the 2015 citrus season at approximately November 1, 2014, the number of loads transported "in season" generally being maximized during the period of December through March or April.

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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: MAY 20, 2015	By:	/s/ Steven L. Sample Steven L. Sample Chief Executive Officer and Principal Financial Officer