

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

---

---

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

\_\_\_\_\_  
FORM 10-K  
\_\_\_\_\_

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-14088

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

Texas  
(State or other jurisdiction of incorporation or  
organization)

75-2095676  
(IRS Employer Identification No.)

3512 East Silver Springs Boulevard - #243 Ocala, FL 34470  
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (877) 513-6294

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
|---------------------|---|

Securities registered pursuant to section 12(g) of the Act:

|                                  |
|----------------------------------|
| Common Stock<br>(Title of class) |
|----------------------------------|

Edgar Filing: Acacia Diversified Holdings, Inc. - Form 10-K

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) Yes  No  and, (2) has been subject to such filing requirements for the past 90 days. Yes  No

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

---

Table of Contents

Indicate by check mark if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of Form 10-K or any amendment to this Form 10-K. Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

**APPLICABLE ONLY TO REGISTRANTS 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 Section 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

Issuer's revenues for its most recent fiscal year. \$0

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was \$590,731 as of June 11, 2012, based on a value of \$0.10 per share.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 11,562,524 as of February 21, 2013

Table of Contents

## TABLE OF CONTENTS

|              | PAGE   |
|--------------|--|
| PART I.      |  |
| Item 1.      | <u>Description of Business</u> 4   |
| Item 1A.     | <u>Risk Factors</u> 7  |
| Item 1B.     | <u>Unresolved Staff Comments</u> 12  |
| Item 2.      | <u>Description of Property</u> 12  |
| Item 3.      | <u>Legal Proceedings</u> 13  |
| Item 4.      | <u>Submission of Matters to a Vote of Security Holders</u> 13  |
| PART II.     |  |
| Item 5.      | <u>Market for Common Equity and Related Stockholder Matters</u> 14                                       |
| Item 6.      | <u>Selected Financial Data</u> 16  |
| Item 7.      | <u>Management's Discussion and Analysis or Plan of Operations</u> 16                                     |
| Item 7A.     | <u>Quantitative and Qualitative Disclosures About Market Risk</u> 24                                     |
| Item 8.      | <u>Financial Statements and Supplementary Data</u> 24  |
| Item 9.      | <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u> 24           |
| Item 9A (T). | <u>Controls and Procedures</u> 24  |
| Item 9B.     | <u>Other Information</u> 25  |
| PART III.    |  |
| Item 10.     | <u>Directors, Executive Officers, and Corporate Governance</u> 26  |
| Item 11.     | <u>Executive Compensation</u> 28   |
| Item 12.     | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 30 |
| Item 13.     | <u>Certain Relationships and Related Transactions, and Director Independence</u> 30                      |
| Item 14.     | <u>Principle Accountant Fees and Services</u> 31   |
| Item 15.     | <u>Exhibits, Financial Statement Schedule and Reports on Form 8-K</u> 32                                 |
|              | <u>SIGNATURES</u> 33   |

Table of Contents

PART I

Item 1. Business of the Company

Background and History of the Parent Company

Acacia Diversified Holdings, Inc., formerly known as Acacia Automotive, Inc. (“we”, “us”, the “Company”, or the “Parent Company”) was incorporated in Texas on October 1, 1984 as “Gibbs Construction, Inc.”. The Company changed its name on October 18, 2012. In the following years, the Company grew to a full service, national commercial construction company and completed an initial public offering of its Common stock pursuant to a registration thereof on Form S-1 in January, 1996. In April 2000, Gibbs Construction, Inc. sought protection under Chapter 11 of the United States Bankruptcy Code following a similar filing by the Company’s largest client, which led to significant losses on several of the Company’s projects.

Prior to filing its petition for relief, Gibbs Construction, Inc. had 4,060,000 shares of common stock issued and outstanding. The plan of reorganization filed by the Company placed the then-existing assets of the Company in a liquidating trust (the “Trust”), issued 501,000 shares of common stock to such trust, and agreed to issue 1,000,000 shares of preferred stock to its primary creditor, Thacker Asset Management, LLC (“TAM”). TAM thereafter agreed to sell to the Company certain existing contracts, furniture, fixtures and equipment in exchange for an additional 4,000,000 shares of common stock. Following those transactions, there were 8,561,000 shares of the Company’s common stock issued and outstanding, the majority of which were held by TAM.

TAM was unsuccessful in its efforts to bring the Company back to profitability and out of bankruptcy. Accordingly, all operating activities ceased in 2002. On June 26, 2006, the bankruptcy trustee requested and received an Order for Final Decree. On October 5, 2006, the 501,000 shares of common stock issued to the Trust were abandoned, returned to the Company, and thereupon cancelled leaving 8,060,000 shares issued and outstanding.

Initial Restructuring of the Company by Mr. Sample

On August 15, 2006, for the sum of \$50,000, Steven L. Sample acquired 4,000,000 shares, or 46.7%, of the 8,561,000 issued and outstanding shares of common stock of the Company from TAM and its associates. Mr. Sample also satisfied several outstanding liabilities of the company such as those associated with completing the bankruptcy proceedings, professional costs related to the Company’s ongoing SEC reporting requirements and expenses associated with recapitalizing the company. These expenses totaled \$138,862. As consideration for the payment of these expenses by Mr. Sample, the Company agreed to effect a one for eight reverse stock split, to issue to Mr. Sample an additional 8,117,500 shares of Common stock and 500,000 shares of Preferred stock. For the assistance of Harry K. Myers, Jr., a principal of Baker #1, Ltd., the entity owning TAM, the registrant agreed to issue to him 25,000 shares of preferred stock and 450,000 shares of common stock.

In order to further restructure and rehabilitate the Company and to satisfy its obligations to Mr. Sample, its board of directors recommended that its stockholders amend the Articles of Incorporation to effect a one for eight reverse stock split, and increase the number of authorized shares of common stock to 150,000,000. The board of directors also recommended the authorization of a series of preferred stock. On February 1, 2007, the Company’s shareholders approved these actions and also approved changing the Company’s name from Gibbs Construction, Inc. to Acacia Automotive, Inc. These amendments to the Company’s Articles of Incorporation were effective February 20, 2007.

Immediately following the approval of these amendments, the Company adopted a stock option plan, which was ratified by the Company’s stockholders in November 2007, reserving 1,000,000 shares thereunder. In February 2007, pursuant to such plan, the directors granted 500,000 shares of its common stock to Mr. Tony Moorby, who was at that

time the Company's president, as well as 15,000 total shares to two other then-officers. With these grants, the exercise of warrants to purchase 250,000 shares of common stock, the exchange of the preferred stock issued to a creditor in Gibbs' bankruptcy proceeding for 100,000 shares of common stock, and the payment of 10,000 shares of common stock to a consultant, there were 11,997,524 shares of common stock issued and outstanding on March 31, 2008. In subsequent actions resulting from the terms of the Settlement Agreement relating to certain litigation between Mr. Moorby, the Company and others, the Company cancelled the 65,000 Common stock purchase options previously issued to Mr. Moorby during his tenure as an officer and director of the Company, and as a further requirement of that Settlement Agreement Mr. Moorby was also required to return to the Company for cancellation the 500,000 shares of Common stock issued to him in 2007. In the same settlement agreement, the Company also cancelled 190,000 Common stock purchase options issued to former director and officer David Bynum. Messrs. Moorby and Mr. Bynum were also required by the terms of that Settlement Agreement to return 17,000 shares and 25,000 shares, respectively, of the Company's common stock to the Company's CEO, Mr. Sample, who had personally gifted those shares to Messrs. Moorby and Bynum and their respectively family members. (See Part I, Item 3 – "Legal Proceedings")

## Table of Contents

### Business of the Company

The Company's primary objective is to identify and acquire going concerns in the automotive auction industry, with a focus on whole vehicle automobiles and light trucks. Whole vehicle refers to vehicles that are frequently in good repair, are roadworthy, and operate under their own power as opposed to salvage units, being damaged vehicles that are often considered total losses for insurance or business purposes. In addition, the Company believes that if the acquired auction or auctions do not service the boat, recreational or motor home segments or the medium and heavy-duty truck and equipment segments, it will seek to add one or more of those services to the auction's activities, assuming the local market will support such additional services.

The Company considers its automobile auction operations as indicative of the basis of services rendered by the Company. The Company will have to raise cash to acquire additional automobile auctions, possibly through the sale of common stock.

On July 10, 2007, the Company completed the acquisition of all of the assets of Augusta Auto Auction, Inc., which had conducted its business under the name Augusta Auto Auction and previously as Hilltop Auto Auction. The Company issued 500,000 shares of its common stock and a warrant to purchase 50,000 additional shares to its three owners in exchange for the assets and business of the auction. The warrant has a term of five years and an exercise price of \$1.00 per share. In addition, the Company issued to two of those individuals separate warrants to purchase 75,000 shares of common stock each as consideration for entering into a non-compete agreement with the Company. Of the 75,000 warrants issued to each of those individuals for non-compete agreements, they were given the right to purchase 25,000 shares of Common stock each at \$1.00, \$2.00 and \$4.00 respectively for an average aggregate price of \$2.33 per share within five years of issuance. Those warrants have now expired.

On December 26, 2009, the Company completed the acquisition of certain assets of Chattanooga Auto Auction Limited Liability Company for cash consideration in the amount of \$5,000. Acacia Chattanooga Vehicle Auction, Inc., a subsidiary of Acacia Automotive, Inc., operated this auction from a leased facility in Chattanooga, Tennessee prior to disputes that arose between the Company and the seller of those assets in September of 2010. The Company accounted for those operations as discontinued operations effective August 31, 2010, and first accounted for those as discontinued operations effective with its report on Form 10-Q for the period ended June 30, 2010. (See Part II, Item 9B – "Other Information" and Part I, Item 3 – "Legal Proceedings".)

### History of Augusta Auto Auction

Augusta Auto Auction, Inc. (the "Augusta Auction") is an automotive auction located in North Augusta, South Carolina, part of the Augusta, Georgia, metropolitan area, and is located three miles from the center of that city. The auction was originally formed and operated for many years in its present location as Hilltop Auto Auction. In 2002 the group of three individuals from which the registrant purchased the auction formed Augusta Auto Auction, Inc. after acquiring it from the owners of Hilltop Auto Auction. The auction consists of a leased premises of approximately five acres, as well as additional rented property directly across the street. The main facility consists of a two-lane auction arena housed within one of two administration buildings that total some 4,900 square feet, three smaller outbuildings consisting of two storage buildings, and a security building also utilized for vehicle check-in and check-out. The additional rented property provides several additional acres of parking and an indoor storage facility of some 1,800 square feet.

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"). AAVA was formed for the sole purposes of acquiring the assets of the Augusta Auto Auction, which it did in July of 2007, and operating the auction.

In subsequent events, the Company disposed of the assets and the business related to its Augusta auction on July 31, 2012. (See Part II, Item 9B – “Other Information”).

#### Business of the Auctions

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

Auctions generate revenues from fees for services, including buyer fees, seller fees, transportation fees, title fees, draft and floor plan financing fees, reconditioning fees, and more. Augusta Auto Auction primarily relies upon the efforts of its management for sales and marketing, but anticipates adding additional personnel in the future to increase the scope of those operations. The auction primarily marketed its activities through its employees and commercial media.



## Table of Contents

### Industry

Automotive auctions are the hub of a massive redistribution system for used vehicles and equipment. These auctions enable commercial and institutional customers and selling dealers to easily dispose of their used vehicles to franchised, independent, and wholesale used vehicle and equipment dealers. The auction's responsibility is to maximize the selling price obtained for clients' used vehicles and equipment, efficiently transfer the physical and administrative ownership of the units (including the preparation and transfer of certificates of title and other evidence of ownership), and transfer funds resulting from the buy/sell transactions as quickly as possible from the buyers to the sellers. The auction promotes its services to a large number of dealers seeking to restock their inventories for resale opportunities. Auctions are traditionally held weekly, if not more frequently, at the various locations to accommodate the needs of buyers and sellers in diverse segments of the industry. During the process, auctions do not generally take title to or ownership of the vehicles consigned for sale, but instead facilitate the transfer of vehicle ownership directly from seller to buyer, and in so doing they generate fees from the buyer and from the seller. In addition to these "buy/sell" fees, the auctions can generate substantial revenues by providing other services to clients, including: vehicle appearance reconditioning (detailing) services; paint and body repair; paintless dent repair (PDR); glass repair and replacement; key replacement; upholstery repair; minor mechanical repair; title services; sales of tires, batteries and accessories (TBA); marshaling (controlled storage) and inspection services, inbound and outbound transportation and delivery services, and more. In most instances, customers may also purchase each of these value-added services separately and directly from the auction in addition to having these services performed to units enrolled in the normal vehicle auction process.

The total number of vehicles offered for sale, and the total number of vehicles sold allow for determination of the total and per unit costs incurred and fees generated by the process. An important measure to the results of the used vehicle auction process is the conversion percentage, which represents the number of vehicles sold as a percentage of the vehicles offered for sale. In general, a high sales volume and conversion percentage efficiency at an auction converts to increased fees, lower costs, and greater profit opportunities. Auto auctions can also provide additional services to their clients, often including: (1) in-house services such as processing, advertising and marketing of the vehicles to be offered for sale; registration of new dealers and clients; processing of sale proceeds and other funds; handling arbitration disputes from the auction sale/purchase process; preparation of and transmittal of vehicle condition reports; security services for client inventories; creation and distribution of sales and marketing reports; as well as the actual sale of vehicles by licensed auctioneers; (2) internet-based solutions, including on-line bulletin board auctions and on-line live auctions that are simulcast in real-time in cooperation with the actual physical auctions; and, (3) title processing and other paperwork administration and ancillary services.

### Competition

The Company anticipates competing principally by service. Management of the Company believes that service is one keystone upon which auto auctions are routinely measured, and has identified and made the practical execution of a high level of service to its clients an integral part of its business and operating plans.

The industry served by the Company is highly competitive across the entire United States and Canada. It is anticipated that any of our acquisition targets would potentially compete with a variety of knowledgeable and experienced companies. The main competitors the Company would expect to face throughout the United States are: (1) Manheim Auto Auctions: Manheim, a subsidiary of Cox Enterprises, operates more than 100 locations throughout the world, including whole car auto auctions and salvage or specialty auctions in the United States. Manheim owns several of the country's largest auction facilities, and our management considers them to be very competitive and the leader in technological processes and Internet marketing capabilities. (2) ADESA Auto Auctions: ADESA, traded on the NYSE under the symbol KAR prior to being acquired by an investor group led by Kelso and Company in April of 2007 and thereby being taken private, is the second-largest auto auction company in North America with more than 60 whole

car auctions and many salvage auctions. They operate automotive auctions in the United States and in Canada. KAR Auction Services, the parent of Adesa Auctions, went public again in December of 2009, marking the third time the auction entity has found itself in the public sector. The company's stock trades on the New York Stock Exchange under the symbol KAR. Acacia's Management believes that ADESA's technological processes and Internet marketing capabilities, while lagging those of Manheim, are nonetheless formidable. (3) Auction Broadcasting Company (ABC), Americas Auto Auctions, and other smaller firms operate multiple auction locations. While not nearly so large in their technological processes and Internet marketing capabilities as Manheim or ADESA, those auction companies have developed similar business models. (4) Independent auto auctions: There are hundreds of independent auto auctions operating in the United States. Acacia actually sees these independent auctions as targets for future acquisitions, and enjoys a friendly relationship in most instances. (5) "Mobile" auctions: There are several companies that operate "mobile" auctions. Their plans primarily entail engaging larger dealerships to periodically host "on-site" auctions that utilize these companies' auctioneering and administrative services. Management does not believe these smaller independent mobile auctions are a substantial threat to our operations and will not likely become so under their present or anticipated business models.

There are at least eleven auto auctions in operation in Georgia and six or more in South Carolina providing direct or indirect competition to the Company's Augusta auction.. The two largest whole-car national automobile auction companies, Mannheim and ADESA, have a total of three such auctions in Georgia, all near Atlanta. While ADESA does not have a whole car auction in South Carolina, Mannheim has one in Darlington. In addition to those auction operations, there are several other independent whole car auto auctions operating within that geography, some specializing in sales of damaged or "salvage" units, and perhaps one or more mobile auctions that will host on-site auctions at dealerships.

## Table of Contents

All our competitors will be seeking the same or similar clients as those targeted by our planned operations in every state in which we may seek to operate, many of which presently have significantly greater financial, technical, marketing and other resources than our Company. Our Company expects that it will face additional competition from existing competitors and new market entrants in the future. The principal competitive factors in our markets will emanate from the larger national companies and will include: (i) brand name recognition of competitors; (ii) larger, more modern, and better-equipped facilities; (iii) superior Internet system engineering and technological expertise; (iv) more extensive staffs of experienced management and support personnel; (v) broader geographic presence; (vi) greater financial resources; (vii) introductions of new and enhanced services and products; and, (viii) greater variety of services offered. We will have no control over how successful our competitors are in addressing these factors. Increased competition can result in price reductions, reduced gross margins and loss of market share, any of which could harm our net revenue and results of operations. The Company will rely upon its ability to offer the same or similar services as the competition, but with a higher level of service and customer satisfaction.

The prices to be charged by any auction the Company may acquire will generally be reflective of the competitive pricing in its local marketplace. Some of these local markets may face competitive pressures from national automobile auction chains such as ADESA and Manheim which have greater size as well as financial and market strengths the Company lacks.

### Employees

As of December 31, 2011, the Parent Company had two officers, being Steven L. Sample, its Chairman, President and Chief Executive Officer, and Patricia Ann Arnold, its Secretary. Ms. Arnold serves in her capacity as a non-employee, while Mr. Sample serves as a full-time employee of the Company. The Parent Company had one other full time employee and one part-time employee in 2011.

The Company, should it be successful in executing its business plan, believes that it may be required to expand its staff to implement the controls necessary to manage a larger organization. This would likely result in the need for a Chief Financial Officer or Corporate Controller as well other officers and managers and basic support personnel. The Company will endeavor to operate with the smallest corporate management staff possible so as to maintain the lowest overhead possible while still effecting sufficient management processes to properly guide the company.

### Governmental Regulation

The Company, as with most companies operating vehicle auctions, is subject to various permits and licenses. These include vehicle dealer licenses, auctioneer licenses, business permits and licenses, sales tax permits, and others. The Company believes that it has obtained all permits necessary to function under the current state and federal regulations.

### Available Information

Our Web address is [www.acacia.bz](http://www.acacia.bz). The Company attempts to make its electronic filings with the Securities and Exchange Commission ("SEC") (including all Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and if applicable, amendments to those reports) are available free of charge on the Web site as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition, information regarding our board of directors is available on our Web site. The information posted on our Web site is not incorporated into this Annual Report on Form 10-K.

Any materials that we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet Web site that contains reports, proxy

statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is [www.sec.gov](http://www.sec.gov).

#### Item 1A. Risk Factors

Our auditors have issued a going concern opinion with respect to our consolidated financial statements although our financial statements are prepared using generally accepted accounting principles applicable to a going concern.

The Company has incurred significant losses as a consolidated entity since July 2007, losses that have continued since that time through fiscal 2011. These continuing losses raise substantial doubt about our ability to continue as a going concern and our auditor's opinion with respect to our financial statements contain a going concern opinion. The accompanying audited consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result from the outcome of this uncertainty.

Table of Contents

Because We Have Limited Operating History, it is Difficult to Evaluate Our Business.

The Company began its operations as an automotive concern in July 2007 with the acquisition of one automobile auction. Because of our limited operating history, you have very little operating and financial data about us upon which to base an evaluation. You should consider our prospects in light of the risks, expenses and difficulties we may encounter, including those frequently encountered by new companies. If we are unable to execute our plans and grow our business, either as a result of the risks identified in this section or for any other reason, this failure would have a material adverse effect on our results of operations, business prospects, and financial condition.

We plan to grow through acquisitions, and investors have little current basis to evaluate the possible merits or risks of the target businesses' operations or our ability to identify and integrate acquired operations into our company. To the extent we complete a business combination with a financially unstable company or an entity in its development stage, we may be affected by numerous risks inherent in the business operations of those entities. Although our management will endeavor to evaluate the risks inherent in a particular target business, we cannot assure you that we will properly ascertain or assess all of the significant risk factors.

The purchase of our securities is a purchase of an interest in what should be considered as a high risk venture or in a new or "start-up" venture with all the unforeseen costs, expenses, problems, and difficulties to which such ventures are subject.

We plan to grow through acquisitions

Because we intend to develop and expand our business through selective acquisitions of automobile auctions and other complementary businesses, there are significant risks that we may not be successful. We may not be able to identify, acquire or profitably manage additional companies or assets or successfully integrate such additional companies or assets without substantial costs, delays or other problems. In addition, companies we may acquire may not be profitable at the time of their acquisition or may not achieve levels of profitability that would justify our investment. Acquisitions may involve a number of special risks, including:

§ adverse short-term effects on our reported operating results,

§ diversion of management's attention,

§ dependence on retaining, hiring and training key personnel,

§ risks associated with unanticipated problems or legal liabilities,

§ amortization of acquired intangible assets, some or all of which could reflect poorly on our operating results and financial reports,

§ implementation or remediation of controls, procedures and policies appropriate for a public company at companies that prior to the acquisition lacked these controls, procedures and policies; and,

§ incursion of debt to make acquisitions or for other operating uses.

We will implement our acquisition strategy in what may be considered a mature industry

We believe the vehicle redistribution industry through auctions may be considered a mature industry in which single-digit or low double-digit growth may occur. Most growth for our Company would, accordingly, occur largely

through acquisitions. To the extent that competitors are also seeking to grow through acquisitions, we could encounter competition for those acquisitions or a generally increasing price to acquire automobile auctions.

A primary part of the Company's strategy is to establish revenue through the acquisition of additional companies or operations. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional companies or successfully integrate the operations of additional companies into those of the Company without encountering substantial costs, delays or other problems. In addition, there can be no assurance that companies acquired in the future will achieve or maintain profitability that justify liabilities that could materially adversely affect the Company's results of operations or financial condition. The Company may compete for acquisition and expansion opportunities with companies that have greater resources than the Company. There can be no assurance that suitable acquisition candidates will be available, that purchase terms or financing for acquisitions will be obtainable on terms acceptable to the Company, that acquisitions can be consummated or that acquired businesses can be integrated successfully and profitably into the Company's operations. Further, the Company's results of operations in fiscal quarters immediately following a material acquisition could be materially adversely affected while the Company integrates the acquired business into its existing operations.

## Table of Contents

The Company will attempt to acquire business entities that are going and functioning concerns with a trailing history of profitability, but may acquire certain businesses that have either been unprofitable, have had inconsistent profitability prior to their acquisition, or that have had no operating history. An inability of the Company to improve the profitability of these acquired businesses could have a material adverse effect on the Company. Finally, the Company's acquisition strategy places significant demands on the Company's resources and there can be no assurance that the Company's management and operational systems and structure can be expanded to effectively support the Company's acquisition strategy. If the Company is unable to successfully implement its acquisition strategy, this inability could have a material adverse effect on the Company's business, results of operations, or financial condition. The Company may face the opportunity to enhance shareholder value by being acquired by another company. Upon any acquisition of the Company, the Company would be subject to various risks, including the replacement of its management by persons currently unknown. There can also be no assurance that, if acquired, new management will be successfully integrated or can profitably manage the Company. In addition, any acquisition of the Company may involve immediate dilution to existing shareholders of the Company. In its present configuration, the Company cannot be forcibly acquired in a hostile takeover, and therefore the Company can review the ultimate impact on its shareholders prior to engaging in any such activities. No assurances can be given that the Company will be able to or desire to be acquired, or be able to acquire additional companies.

### Need for Additional Financing

The Company intends to fund its operations and other capital needs for the next six months from revenues generated from operations and from lines of credit associated with its auction operations, but there can be no assurance that such funds will be sufficient to meet the obligations of our business. The Company may require additional amounts of capital for its future expansion and working capital, possibly from private placements or borrowing, but there can be no assurance that such financing will be available, or that such financing will be available on acceptable terms.

### Dependence on Key Personnel

Our future performance depends in significant part upon the continued service of our Chief Executive Officer, Steve Sample. The loss of his services could have a material adverse effect on our business, prospects, financial condition and results of operations. The Company does not presently maintain key man life insurance on Mr. Sample, but may obtain such insurance at the discretion of its board of directors for such term as it may deem suitable or desirable. Our future success may depend on our ability to attract and retain highly qualified technical, sales and managerial personnel. Although the Company feels that there is a sufficient pool of talent available, 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.

### Technological Change

Technology, particularly the ability to use the Internet to view vehicles, to conduct Internet auctions, to allow customers to participate through the Internet in on-site auctions, and to allow several management functions for buyers and sellers for vehicle auctions is characterized by rapidly changing technology, evolving industry standards, frequent new product and service announcements, introductions and enhancements, and changing customer demands. Our future success will to some degree depend on our ability to adapt to rapidly changing technologies, our ability to adapt its solutions to meet evolving industry standards and our ability to improve continually the performance, features and reliability of its solutions. The failure of the Company to adapt successfully to such changes in a timely manner could have a material adverse effect on the Company's business, results of operations and financial condition. Furthermore, there can be no assurance that the Company will not experience difficulties that could delay or prevent the successful implementation of solutions, or that any new solutions or enhancements to existing solutions will adequately meet the requirements of its current and prospective customers and achieve any degree of significant market acceptance. If the

Company is unable, for technological or other reasons, to develop and introduce new solutions or enhancements to existing solutions in a timely manner or in response to changing market conditions or customer requirements, or if its solutions or enhancements do not achieve a significant degree of market acceptance, the Company's business, results of operations and financial condition could be materially and adversely affected.

#### Competition

The industry served by the Company is highly competitive across the entire United States and Canada. We currently or potentially compete with a variety of companies. Our first acquisition and only operations in 2011 services the Augusta, Georgia area. The Company would prefer that other early acquisitions, if any, would be in the eastern or central United States, but there is no assurance the Company will be able to adhere to that plan or to make any acquisitions at all.



## Table of Contents

### Control

The Company is effectively controlled by its CEO and Chairman, Steven L. Sample, who currently owns 48.91% of the Company's issued and outstanding common stock. Mr. Sample will initially retain effective control over the Company's operations, including the election of a majority of its board of directors, the issuance of additional shares of equity securities, and other matters of corporate governance, and based upon the Company's current business plan, it is anticipated that Mr. Sample will continue to have effective but not necessarily ultimate control of the Company well into future, perhaps even after some subsequent private offerings or a public offering.

### Management of Growth

The Company is continually seeking to identify and acquire additional auto auctions or other viable businesses. As a result, the Company must manage relationships with a growing number of third parties as it seeks to accommodate this goal. The Company's management, personnel, systems, procedures and controls may not be adequate to support the Company's future operations. The Company's ability to manage its growth effectively will require it to continue to expand its operating and financial procedures and controls, to replace or upgrade its operational, financial and management information systems and to attract, train, motivate, manage and retain key employees. If the Company's executives are unable to manage growth effectively, the Company's business, results of operations and financial condition could be materially adversely affected. If successful in acquiring additional auto auctions, the Company expects to inherit a substantial portion of the staff necessary to operate the new entities. We may find that some of the personnel and management of any acquisition target(s) may not be suitable for continued employment, while other suitable candidates may elect to discontinue their employment or affiliation with the Company for various reasons. This can create a burden on the Company's management as it seeks to fill key positions. Failure of the Company to do so in a timely manner can result in disruption of auction operations, loss of revenues, and a subsequent reduction in profits.

### Risks Associated with Expansion

The Company commenced auction operations in the Augusta, Georgia area in 2007, and desires to expand into other locations and markets in the automotive or other diverse businesses. To date, the Company does not have experience in developing services on a regional or national scale. There can be no assurance that the Company will be able to deploy successfully its services in these markets. There are certain risks inherent in doing business in several diverse markets, such as; unexpected changes in regulatory requirements, potentially adverse tax consequences, local restrictions, controls relating to inter-company communications and technology, difficulties in staffing and managing distant operations, fluctuations in manpower availability, effects of local competition, weather and climactic trends, and customer preferences, any of which could have a material adverse effect on the success of the Company's operations and, consequently, on the Company's business, results of operations, and financial condition.

### Product and Service Offerings

The Company is primarily a service business. It is important to our future success to expand the breadth and depth of our service offerings to stay abreast of the competition and to enhance our potentials for growth of revenues and profits. Expansion of our service categories and service offerings in this manner will require significant additional expenditures and could strain our management, financial and operational resources. For example, we may find it prudent to build, outfit, and operate a body and paint shop at an auction facility that does not presently have one. We cannot be certain that we will be able to do so in a cost-effective or timely manner or that we will be able to offer certain services in demand by our customers, or to do so in a quality manner. Furthermore, any new service offering that is not favorably received by the Company's clients could damage our reputation. The lack of market acceptance of new services or our inability to generate satisfactory revenues from expanded service offerings to offset their costs

could harm our business. If we do not successfully expand our sales and service operations, our revenues may fall below expectations. If we do not successfully expand our operations on an ongoing basis to accommodate increases in demand, we will not be able to fulfill our customers' needs in a timely manner, which would harm our business. Most of our service operations are anticipated to be handled at our facilities, but some services may be performed at offsite locations or by approved vendors or contractors. Any future expansion may cause disruptions in our business and may be insufficient to meet our ongoing requirements. The Company may also move into other diverse businesses such as manufacturing, marketing, or otherwise, and is not limited to considering only service business offerings.

#### Government Regulation and Legal Uncertainties

Any new legislation or regulation, or the application of laws or regulations from jurisdictions whose laws do not currently apply to the Company's business could have a material adverse effect on the Company's business, results of operations and financial condition.

## Table of Contents

### Check, Credit Card, and Other Fraud

Our business would be harmed if we experience significant check, credit card, or other fraud. If we fail to adequately control fraudulent transactions, our revenues and results of operations could be harmed. The Company's auction operations subscribe to the services of Auction Insurance Agency as a protection against risks similar to these, but while the Company's exposure to loss in this event is thought to be limited by the purchase of insurance, losses could nonetheless occur. Any losses sustained as a result of fraud or fraudulent activity would adversely affect the Company's business and results of operations, and its financial condition could be materially adversely affected.

### Liability Claims

The Company may face costly liability claims by consumers. Any claim of liability by a client, employee, consumer or other entity against us, regardless of merit, could be costly financially and could divert the attention of our management. It could also create negative publicity, which would harm our business. Although we maintain liability insurance, it may not be sufficient to cover a claim if one is made.

### Risks of Low Priced Stocks

Although the Company is currently a public company, its trading is limited to the OTC Pink Sheets. The Company's shares were traded on the NASDAQ exchange as Gibbs Construction prior to that entity's financial difficulties, after which it was moved to the OTC Pink Sheets. A trading market for the Company's common stock could develop further, but there can be no assurance that it will do so. The Securities and Exchange Commission (the "SEC" or "Commission") has adopted regulations which define a "penny stock" to be any equity security, such as those being offered by the Company herein, that has a market price (as therein defined) of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to any transaction involving a penny stock by a retail customer, of a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock market. Disclosure is also required to be made about commissions payable to both the broker/dealer and the registered representative and current quotations for the securities. Accordingly, market makers may be less inclined to participate in marketing the Company's securities, which may have an adverse impact upon the liquidity of the Company's securities. The Company would wish to attempt to return to the NASDAQ Exchange upon success in achieving the requirements to do so, which include minimal capitalization and other benchmarks.

### No Assurance of Payment of Dividends

Should the operations of the Company become profitable it is likely that the Company would retain much or all of its earnings in order to finance future growth and expansion. Therefore, the Company does not presently intend to pay dividends, and it is not likely that any dividends will be paid in the foreseeable future.

### Potential Future Capital Needs

The Company may not be successful in generating sufficient cash from operations or in raising capital in sufficient amounts on acceptable terms. The failure to generate sufficient cash flows or to raise sufficient funds may require the Company to delay or abandon some or all of its development and expansion plans or otherwise forego market opportunities and may make it difficult for the Company to respond to competitive pressures, any of which could have a material adverse effect on the Company's business, results of operations, and financial condition. While the Company may seek to raise capital through the offering of Common stock in a private placement, there can be no assurance that the proceeds in any such Offering will be sufficient to permit the Company to implement its proposed business plan or that any assumptions relating to the implementation of such plan will prove to be accurate. To the

extent that the proceeds of any such Offering are not sufficient to enable the Company to generate meaningful revenues or achieve profitable operations, the inability to obtain additional financing will have a material adverse effect on the Company. There can be no assurance that any such financing will be available to the Company on commercially reasonable terms, or at all.

#### Implementation of Business Plan

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

## Table of Contents

### Item 1B. Unresolved Staff Comments

The Company received a comment letter from the Securities and Exchange Commission dated November 22, 2010 (the "Comment Letter"). The Comment Letter propounded thirty (30) comments relating to the Company's: (a) Annual Report on Form 10-K filed for the period ending December 31, 2009; (b) Quarterly Report on Form 10-Q for the period ending September 30, 2009; (c) Quarterly Report on Form 10-Q for the period ending March 31, 2010; and (d) Current Report on Form 8-K dated October 25, 2010.

We determined that our previously reported financial results for the three months and nine months ended September 30, 2009 and 2008 were not reviewed by the Company's auditors. However, by reason of unintentional oversight, the Company erroneously failed to label those results as having been "Not Reviewed". Notwithstanding the foregoing, the annual financial results of the Company were audited in 2009 and 2008.

Moreover, we further determined that management's discussion provided in various parts of the quarterly reports were not adequate to provide an accurate basis for review.

The Company further determined that, through an unintentional oversight, it had failed to file certain updated and amended documents relating to its acquisition of the Chattanooga auction business that were changed from the time the documents were initially executed and/or incorporated into the master documents as filed on Form 8-K on September 16, 2009, and the date of final closing of the transactions on December 26, 2009.

Accordingly, we made necessary conforming changes in "Management's Discussion and Analysis of Financial Condition and Results of Operations" resulting from the correction of these errors, and relabeled certain financial information as "Not Reviewed" where applicable. We further submitted additional information updating the changes to the acquisition documents relating to the Chattanooga auction.

On October 19, 2012 the Company filed with the Securities and Exchange Commission its response to the Comment Letter, the amendment on Form 10-K/A for the period ended December 31, 2009, the amendment on Form 10-Q/A for the period ended September 30, 2009, the amendment on Form 10-Q/A for the period ended March 31, 2010, and the amendment to Form 8-K/A for events first reported on September 16, 2009 in connection with the prior presentment of our financial statements, management's discussion and analysis thereof, controls and procedures and information presented on Forms 8-K.

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

### Item 2. Description of Properties

Throughout 2011, the Company operated an auto auction in North Augusta, South Carolina. In July 2008, the Company renewed a twelve-month lease on the location where the Augusta Auto Auction has operated for several years. The lease term can be further extended and currently has a monthly lease rate of \$2,975. The facility consists of approximately five acres, houses two administrative buildings and a two-lane auction arena, and provides parking for several hundred vehicles. The compound is fenced and protected by an electrified security fence system as well as security systems in its buildings and auction arena. In addition to the main auction facility, the registrant also leases property that is used for additional vehicle storage (both indoor and outdoor) and customer parking for approximately 400 additional customer vehicles on sale days. The indoor storage areas and part of the outdoor storage areas are protected by an electrified security fence system as well as security systems in both areas. This property is located

directly across the street from the main auction facility and is leased on a month-to month basis for approximately \$1283 per month. The Company also maintains administrative space in Ocala, Florida, at a cost of approximately \$621 per month, which it may cancel at any time. These lease expenses of the Company amounted to \$51,100 per year in 2011 and 2010.

Table of Contents

Item 3. Legal Proceedings

The Company acquired its second auto auction in December 2009, located in Chattanooga, Tennessee. Following disputes with the seller of those operations and certain related parties, the Company discontinued operations at that location effective August 31, 2010, after which the Company and its CEO, the Seller of the Chattanooga auction, and its related parties entered into litigation. The ongoing litigation between the parties was concluded in a Settlement Agreement and Release on February 28, 2012 (the "Settlement Agreement"). Accordingly, the Company considered those as discontinued operations effective August 31, 2010, as first reported in the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2010. These events were further reported in the Company's Current Report on Form 8-K filed on November 19, 2012, its Amended Annual Report on Form 10-K /A for the period ended December 31, 2009, and its Annual Report on Form 10-K for the period ended December 31, 2010, which described those events in detail, and which reports are incorporated herein by reference. All the parties to the Settlement Agreement agreed to a mutual non-disparagement agreement and release from any liabilities or future litigations seeking damages therefor. The Settlement Agreement did not constitute an admission by the Company, its CEO, or any other party of any liability or violation of law. (See Part I, Item 3 – "Legal Proceedings", and Part II, Item 9B – "Other Information")

Item 4. Submission of Matters to a Vote of Security Holders

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

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

Table of Contents

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Our stock has been thinly traded during the past five fiscal years. Moreover, we do not believe that any institutional or other large scale trading of our stock has occurred, or will in fact occur in the near future. We are presently traded on the Over the Counter Pink Sheets under the ticker symbol ACCA. There are currently five market makers who seek to create a market for our stock. The following table sets forth information as reported by the National Association of Securities Dealers Composite Feed or Other Qualified Interdealer Quotation Medium for the high and low bid and ask prices for each of the twelve quarters ending December 31, 2011. The following prices reflect inter-dealer prices without retail markup, markdown or commissions and may not reflect actual transactions.

|                         | Closing Bid |           | Closing Ask |         |
|-------------------------|-------------|-----------|-------------|---------|
|                         | High        | Low       | High        | Low     |
| Quarters ending in 2009 |             |           |             |         |
| March 31                | \$ 0.15     | \$ 0.15   | \$ .50      | \$ 0.50 |
| June 30                 | 0.15        | 0.05      | .85         | 0.16    |
| September 30            | 0.10        | 0.01      | 2.00        | 0.10    |
| December 31             | \$ 0.15     | \$ 0.0003 | \$ 0.51     | \$ 0.10 |
| Quarters ending in 2010 |             |           |             |         |
| March 31                | \$ 0.60     | \$ 0.0022 | \$ 2.00     | \$ 0.10 |
| June 30                 | 0.13        | 0.05      | 0.99        | 0.90    |
| September 30            | 0.21        | 0.12      | 0.90        | 0.90    |
| December 31             | \$ 0.21     | \$ 0.20   | \$ 0.90     | \$ 0.60 |
| Quarters ending in 2011 |             |           |             |         |
| March 31                | \$ 0.21     | \$ 0.01   | \$ .60      | \$ 0.60 |
| June 30                 | 0.10        | 0.02      | 6.00        | 0.599   |
| September 30            | 0.08        | 0.032     | 6.00        | 0.55    |
| December 31             | \$ 0.11     | \$ 0.0093 | \$ 3.90     | \$ 1.98 |

As of December 31, 2012 the Company had 128 stockholders of record. The Company believes that it may also have as many as 200 or more additional beneficial shareholders. The number of both shareholders of record and beneficial shareholders may change on a daily basis and without the Company's immediate knowledge.

Holders of common stock are entitled to receive dividends as may be declared by our board of directors and, in the event of liquidation, to share pro rata in any distribution of assets after payment of liabilities. The board of directors has sole discretion to determine: (i) whether to declare a dividend; (ii) the dividend rate, if any, on the shares of any class of series of our capital stock, and if so, from which date or dates; and (iii) the relative rights of priority of payment of dividends, if any, between the various classes and series of our capital stock. We have not paid any dividends and do not have any current plans to pay any dividends.

At its meeting of directors on February 1, 2007, the Company's board of directors approved the Acacia Automotive, Inc. 2007 Stock Incentive Plan<sup>1</sup> (the "Plan"), which was approved by our stockholders on November 2, 2007, reserving 1,000,000 shares to be issued thereunder in the form of common stock or common stock purchase options. Warrants, which may be included as equity compensation, are not a component of the Plan. In resolutions since the implementation of the Plan, the directors granted restricted stock, warrants, and options for compensation summarized as follows as of December 31, 2011, including new shares added to the Plan effective as through January 1, 2011:





Table of Contents

## SUMMARY OF EQUITY COMPENSATION PLANS

| Plan Description   | Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants <sup>3</sup> | Weighted Average Exercise Price of Outstanding Options and Warrants | Number of Securities Remaining Available for Future Issuance |
|--|--|---|--|
| Initial Number of Shares and Options Available for Issue Under Plan 1, 3         | -  | -   | 1,000,000  |
| Equity Plans Not Approved by Shareholders <sup>2</sup>                           | 1,425,000  | \$2.33  | 1,000,000  |
| Equity Compensation Approved by Security Holders through 12-31-2011 <sup>3</sup> | 735,000  | 0.43  | 2,172,200  |
| Options Forfeited by Former Holders <sup>3</sup>                                 | (255,000)  | 0.43  | 2,427,200  |
| Options Outstanding as of December 31, 2011                                      | 480,000  | 0.43  | 2,427,200  |
| Warrants Outstanding as of December 31, 2011                                     | 1,425,000  | 2.33  | 2,427,200  |
| Total Options and Warrants Above as of December 31, 2011                         | 1,905,000  | \$ 1.85   | 2,427,200  |

1 The Company's Stock Incentive Plan started with 1,000,000 shares available for issuance, and provides for the number of shares or options available for issue under the Plan to be increased each year. After first deducting for the number of shares or options issued under the plan each year, the number available is then increased on the first day of each calendar year in an amount equal to 4% of the issued and outstanding common shares as of December 31st immediately preceding the date of such increase, but in no event more than 1,000,000 shares per calendar year. The number of shares by which the Plan increased on January 1, 2011 and 2012 was 462,500 and 462,500 shares, respectively, after adjusting to account for the return of certain shares of the Company's common stock and the cancellation of certain options to two former directors and officers of the Company (see footnote 3 below). The number of shares by which the Plan is now considered to have been increased on January 1st in each of the four years from 2008 through 2011 is 478,900, 482,500, 483,300, and 462,500, respectively.

2 Reflects (i) 475,000 warrants issued on May 29, 2007, at a strike price of \$1.00 per share for a term of 10 years and which vested immediately in exchange for conversion of 475,000 shares of preferred stock of the Company for 475,000 shares of its common stock; and (ii) 950,000 warrants issued on the same date with the following conditions: 316,666 warrants issued at a strike price of \$2.00 per share and exercisable after January 1, 2008, 316,667 warrants issued at a strike price of \$3.00 per share and exercisable after January 1, 2009, and 316,667 warrants issued at a strike price of \$4.00 per share and exercisable after January 1, 2010, but all of those 950,000 warrants were later considered to have lapsed due to ambiguous language at issuance. The Company issued the same amount of new warrants on December 30, 2010, which vested immediately with a term of six years and a strike price the same as when originally issued.

3 In subsequent events occurring on February 28, 2012, two former directors of the Company were required to forfeit 255,000 options under the terms of the Settlement Agreement to litigations between those directors and the Company. Former director Tony Moorby was required by the terms of the Settlement Agreement to forfeit 65,000 common stock purchase options to the Company and former director David Bynum was similarly required by the terms of the Settlement Agreement to forfeit 190,000 common stock purchase options to the Company. Those 255,000 forfeited options are now considered non-existent and are not allocated against the total options available under the Company's Acacia Automotive, Inc. 2007 Stock Incentive Plan or its Acacia Diversified Holdings, Inc. 2012 Stock Incentive Plan.

These totals do not include 500,000 shares of restricted common stock issued to Tony Moorby in 2007 upon joining the Company as a director and its President. In those same events occurring on February 28, 2012 and pursuant to the terms of the settlement of litigations between Moorby and the Company, Mr. Moorby was required to forfeit and return to the Company those 500,000 shares of common stock. Those 500,000 forfeited shares have been considered as returned to the Company's treasury effective December 31, 2010, are now considered non-existent, and are not allocated against the total options or shares available under the Company's Acacia Automotive, Inc. 2007 Stock Incentive Plan or its Acacia Diversified Holdings, Inc. 2012 Stock Incentive Plan.

In related events, the Company issued in December, 2009, 10,000 shares each of restricted common stock to Alexis Ann Jacobs and Keith Whann, the principals and former owners of the Chattanooga Auction. Those shares were issued for services and not issued for compensation under the Plan. The issuance of those shares was exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 4(2) thereof as a transaction not involving a public offering. While the Company's transfer agent recorded the transfer of those shares, the recipients of those issuances claimed they never received the shares. In accordance with the February 28, 2012 Settlement Agreement and Release to litigations between Jacobs, Whann and the Company, Ms. Jacobs and Mr. Whann executed documents necessary to cancel those shares, which were subsequently considered as returned to the Company's treasury effective December 31, 2010, together with Mr. Moorby's shares as detailed above. The extinguishment of those shares affect the calculation of new Plan shares since 2010, these cancellations having that effect on new Plan shares calculated beginning with January 1, 2011, as based on the total issued and outstanding shares of the Company as of December 31, 2010.

Table of Contents

The following table sets forth the common stock returned to the Company by Mr. Moorby, Ms. Jacobs, and Mr. Whann in those transactions following the settlement of litigations February 28, 2012, each being considered as returned to the Company's treasury effective as of December 31, 2010. (See Part I, Item 3 – "Legal Proceedings" and Part II, Item 9B – "Other Information")

Shares Returned to the Company's Treasury Following Settlement of Litigations

|                              | Common Stock |           |
|------------------------------|--------------|-----------|
|                              | Shares       | Par Value |
| Lawsuit settlement 2/28/2012 | (520,000)    | \$ (520)  |

There were no new shares, options, or warrants issued in 2011.

Item 6. Selected Financial Data

Not Applicable

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following summarizes the factors affecting the operating results and financial condition of Acacia Diversified Holdings, Inc., fka/Acacia Automotive, Inc. This discussion should be read together with the financial statements and the notes to financial statements included elsewhere in this report. In addition to historical financial information, the following discussion and analysis contain forward-looking statements.

Forward-Looking Statements

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 may, will, should, could, expects, plans, anticipates, believes, estimates, predicts, intends, potential, proposed, or continue or the 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. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Executive Overview

With the acquisition of the Augusta Auto Auction on July 10, 2007, the Company commenced operations at that location and conducted its first weekly auction under the Company's ownership and management on July 11th of that year. The Company's Augusta auction sells vehicles and equipment for automotive dealers and commercial accounts, as well as for the United States Marshals Service. The Company sold the business and related assets of the Augusta auction operation on July 31, 2012, and had accounted for those as discontinued operations herein.

The Company acquired its second auto auction in December, 2009, located in Chattanooga, Tennessee. Following disputes with the seller of those operations and certain related parties, the Company discontinued operations at that

location effective August 31, 2010, after which the Company and its CEO, the Seller of the Chattanooga auction, and its related parties entered into litigation. The ongoing litigation between the parties was settled on February 28, 2012. Accordingly, the Company considered those as discontinued operations effective August 31, 2010, as first reported in the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2010. These events were further reported in the Company's Current Report on Form 8-K filed on November 19, 2012, its Amended Annual Report on Form 10-K /A for the period ended December 31, 2009, and its Annual Report on Form 10-K for the period ended December 31, 2010, which described those events in detail, and which reports are incorporated herein by reference. (See Part I, Item 3 – "Legal Proceedings", and Part II, Item 9B – "Other Information")

#### Discussion Regarding the Auto Auction Industry

Sales of used vehicles totaled 7.66 million units worth \$73 billion in 2010, versus 8.42 million units worth \$81 billion in 2010 at National Auto Auction Association (NAAA) member auctions in North America, according to the trade organization's 15th annual survey. The survey found that the number of vehicles entering auctions in 2011 decreased by 2.8% to 13.7 million units from 14.1 million units in 2010. None of these figures include the more numerous auctions that are not members of the NAAA organization. Both the Company's auctions have been NAAA members at all times during their ownership by the Company.

## Table of Contents

In 2011, new car and light truck sales were up 9.6% to 12.6 million units versus 11.5 million in 2010. U.S. used vehicle sales in 2011 accounted for 38.8 million units, up from 36.9 million in 2010, showing the second annual increase following four years of declines prior to 2010.

Generally, as an industry standard, the volume of vehicles sold at the vehicle auctions is highest in the first and second calendar quarters of each year and slightly lower in the third quarter. Fourth quarter sales are generally lower than all other quarters as used vehicle auction volumes tend to decline during prolonged periods of winter weather conditions combined with holiday disruptions. This seasonality could be affected, however, by the timing of auctions by special customers such as the United States Marshal Service or others. While these standards are subject to short and medium-term variations, the Company's revenues therefore would generally be expected to be highest in the first or second calendar quarter, while the fourth calendar quarter have the lowest revenues with profitability affected by additional costs associated with the holidays and winter weather.

### Discussion Regarding the Car Park (Vehicles in Operation or VIO)

Management is of the opinion that auto auctions are largely not susceptible to downturns in the broader economy of the United States because, in part, the industry is more dependent on the size of the U.S. "Car Park" (e.g., the number of vehicles in operation or "VIO") than it is upon manufacturing output, retail sales of motor vehicles, or other factors. While this has historically proven true, the recent periods of recession and economic downturn caused measurable weakness in the overall auto auction industry, even though the Company's auction operations in Augusta reflected sharply higher sales and revenues. The Company attributes this increase at its Augusta Auction to its management and implementation of proven practices after assuming control of its auctions.

The U.S. Car Park has changed little in recent years, accounting for 248.9 million units in 2009, 248.2 million units in 2010, and 248.9 million units in 2011, indicating the number of vehicles in operation has begun rebounding following the recession.

### Consolidated Operating Results in 2011 and 2010

In 2011 our consolidated net loss increased to \$455,000 from a loss of \$216,000 in 2010, largely on a loss of \$872,000 from continuing operations, being approximately \$171,000 larger than in 2010 due primarily to a gain in 2010 of \$170,000 from settlement of lawsuits. Our 2011 consolidated costs and expenses were similar to 2010.

The category Other Income (Expense) listed in the Company's Consolidated Statements of Operations for the fiscal year ended 2011 resulted in a total other expense of approximately \$12,500 for the Company. This was comprised primarily of interest expense. This category included a gain of \$168,687 in 2010 for settlement of indebtedness and lawsuits associated with discontinuing operations at the Company's Chattanooga location after August 31, 2010, and reflected no gain or expense for that item in 2011. Absent that settlement, Other Income and Expense for 2011 actually represented expense of approximately \$11,000 higher than 2010. (See Part I, Item 3 - "Legal Proceedings" and Part II, Item 9B - "Other Information")

The combinations of the above incomes and expenses resulted in a net Total Other Expense to the Company of approximately \$12,500 in 2011 and total Other Income to the Company of \$170,500 in 2010.

As a result of the fact that the Company sold the business and related assets of its Acacia Augusta Vehicle Auction subsidiary on July 31, 2012, those operations will be considered as discontinued operations.

The following table sets forth certain information about year-over-year performance at the Augusta Auto Auction regarding the number of units offered, that is, the number of units brought to the auto auction, entered into the system

and offered for sale, the number of units actually sold, and the conversion rate, that is, the number of units actually sold as a percentage of the number of units brought through the auction for sale, as well as changes in total revenues comparing 2011 and 2010:

|  | Twelve<br>Months |   |
|--|------------------|---|
| 2011 Number Of Units Offered For Sale vs. 2010           | +9.1%            |   |
| 2011 Number of Units Actually Sold vs. 2010              | +4.8%            |   |
| 2011 Conversion Rate As A Percentage Of Units<br>Offered | 51               | % |
| 2010 Conversion Rate As a Percentage Of Units<br>Offered | 53               | % |

## Table of Contents

Consolidated employee expense, which included the corporate expenses and the expenses at the auctions, decreased in 2011 principally as a result of the elimination of \$102,800 in salary expense accruing to Mr. Tony Moorby, an ex-director and officer of the Company. The elimination of this liability was a result of the Settlement Agreement relating to the litigation between the Company and its CEO on the one hand, and the Seller of the Chattanooga auto auction, its principals, and ex-Directors and officers of the Company Mr. Moorby and David Bynum, on the other hand. (See Part I, Item 3 – “Legal Proceedings”, and Part II, Item 9B – “Other Information”)

In a meeting held on January 21, 2011 outside the presence of the Company’s CEO, the Company’s Compensation Committee, with the support of the majority of the full body of the independent members of the Company’s board of directors, voted to award an Employment Agreement to its CEO effective as of January 1, 2011, granting him an initial bonus at the time of execution as well as granting him a salary increase for the first time in his five years of service as a director and officer of the Company. The Chairman of the Compensation Committee of the Company’s board of directors chaired that meeting, and subsequently recognized to the CEO that the Compensation Committee and the majority of the Company’s independent members of its Board of Directors recognized that the CEO had, in addition to providing management and industry expertise, continually provided substantial financial assistance to the Company by way of personal loans, personal loan guarantees, and the indemnification of sources of finance, together with his willingness to accept substantial deferrals of his personal compensation over the years, as well as other service to the Company. That Employment Agreement provided for further salary increases of \$10,000 per year after 2011 and annual bonuses as a percentage of his salary and which may be increased in any year by the board of directors for favorable performance or other factors. To continue assisting with the Company’s liquidity, Mr. Sample again agreed to defer his 2011 salary and bonus compensations, and at December 31, 2011, the Company owed Mr. Sample accrued compensation of \$358,510, representing salary and bonus from 2010 and 2011, which remained unpaid as of that date.

Consolidated general and administrative expense increased to \$381,000 in 2011 from \$367,000 in 2010 reflecting increased costs associated with discontinued operations at Chattanooga.

Depreciation and amortization costs remained level, with future depreciation and amortization costs expected to remain under \$17,000 per year.

### Critical Accounting Policies

Our financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles ("GAAP") applied on a consistent basis. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

We regularly evaluate the accounting policies and estimates that we use to prepare our financial statements. A complete summary of these policies is included in Note 2 of the notes to our financial statements. In general, management's estimates are based on historical experience, information from third party professionals, and various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

### Liquidity and Capital Resources

Our accountants have issued, in their 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.



A given auction will generate large receivables and payables, only part of which are revenues and expenses, representing receivables from purchasers of vehicles and payables to those selling vehicles. Settling these transactions, not only the cash transfers between buyers and sellers but administrative tasks such as title clearance on vehicles, typically takes only a few days after an auction. Frequently, when we hold an auction on or near the end of a quarter, those unsettled receivables and payables may appear inordinately large relative to revenues, particularly since these receivables and payables reflect not only our fees but the sales price of the vehicles, and may distort the ratio of receivables or payables to revenues, causing them to appear exceptionally large.

We must have readily available funds to facilitate these transactions. Accordingly, we obtained a \$300,000 line of credit with Wells Fargo Bank (Wachovia Bank, N.A. prior to its acquisition by Wells Fargo) for use by our Augusta Auction, secured by the Company's deposits at the bank and guaranteed by the Company's CEO. Additionally, since 2007 and until January 31, 2011, the Company maintained a certificate of deposit with the Wachovia Bank of just over \$150,000, partially guaranteeing its \$300,000 line of credit for use at the Augusta auction. Financing at the Augusta unit had been satisfactory prior to January 31, 2011, and as such, liquidity there had been sufficient to maintain the auction's operations. Following Wells Fargo's acquisition of Wachovia Bank, that bank did not find the Company to be an acceptable lending risk under its diverse underwriting guidelines. As a result, Wells Fargo terminated its line of credit with the Augusta Auction, leaving the auction with minimal sources of liquidity.

## Table of Contents

Following those events, the Company's CEO personally arranged for and guaranteed various interventional financing for the Company to accommodate the auction's needs, including direct injections of capital, loans from his immediate family and related parties, and further deferral of his salary and expenses. As a result of those activities by the Company's CEO, Mr. Sample, the auction's financial posture was stabilized and it was able to continue its operations. Over time, the Company increased its deposits as a direct and proximate result of the favorable cash flow of the auction operation.

The Company looks to its operations to provide cash flow and cash return on our investment. However, the operating cash flow from our Augusta operation was not sufficient to support the Parent Company's operations on a consolidated basis as of the close of the fiscal year 2011, requiring the intervention of the CEO as stated above. Going forward, the Company expects to seek to reduce overhead and variable costs, increase cash flow from operations, and/or acquire additional operations sufficient to cover the costs of overheads in order to maintain a positive cash flow.

On November 6, 2011, the Company identified a potential candidate for sale of its Augusta auction, and entered into a non-binding Letter of Intent for that purpose. That Letter of Intent was dependent upon the buyers finding success in obtaining financing and other factors. Following protracted delays in the buyers finding suitable financing, a change in the structure of the buyer's group, and changes in the original terms of the sale, the buyer's group completed the purchase on July 31, 2012. Those operations are accounted for as discontinued in the Company's Annual Report on Form 10-K for the period ending December 31, 2011. Following the sale of those assets, the Company will have no operations or corresponding operating revenues. As such, the Company will need to find new sources of revenues to support its expenses in order to continue as a going concern. (See Part II – Item 9B – “Other Information”)

The Company's cash in fiscal year 2011 was provided by management fee revenues assessed to the Company's Augusta Auto Auction operations and by personal financial support from the Company's CEO. In 2011, the cash flow from our Augusta operation was sufficient to support those operations, but was not sufficient to also support the Parent Company's operations on a consolidated basis. Our operations in 2011 did not provide sufficient cash flow to cover our corporate activity on an ongoing basis, essentially our executive officers, administrative overhead, and overhead that includes the cost of lawyers and accountants required to be publicly held. Following the discontinuation of its remaining auction operations in July, 2012, the Company will no longer have the income from its operating subsidiary as a source of revenue to meet its expenses. As a result of those deficiencies and the loss of its revenue-producing operations, the Company will have to institute or acquire additional operations with revenues sufficient to cover the costs of overheads.

As of December 31, 2011, the Company had a negative consolidated cash flow of about \$9,000 for the year. This resulted from a positive net cash flow of approximately \$33,000 provided by operating activities, which was offset by a negative net cash flow used in investing activities of about \$1,000 and a negative net cash flow used in financing activities of about \$41,000.

The positive cash flow of about \$33,000 provided by operating activities had two components: (i) cash used in continuing activities of about \$425,000; and, (ii) cash provided by discontinuing activities of about \$458,000.

The negative net cash flow of about \$1,000 used in investing activities reflected cash used in discontinuing activities.

The negative net cash flow of about \$41,000 used in financing activities had two components: (i) cash used in continuing activities of about \$18,000 resulting primarily from capital lease payments; and, (ii) cash used in discontinuing activities of about \$23,000.

As a result, the \$33,000 provided by operating activities was offset by the \$1,000 used in investing activities and the additional \$41,000 cash used in financing activities, for a net decrease in cash of about \$9,000 for the period ended

December 31, 2012. This net decrease in cash of \$9,212 in 2011 compared to a decrease in cash of \$10,823 for 2010.

## Table of Contents

### Cash Balance vs. Overdraft

Our auction operating software accounts for checks made as payments to sellers when written, even though they may not actually be issued to the seller, since the sellers are only paid when they actually present to the auction a title representing ownership in any unit sold. Additionally, the auction's rules require that it cannot deposit the buyer's funds until we provide him with the title representing ownership of the vehicle purchased. The auction's operating software systems, however, creates a check or "virtual" check immediately following sale of the unit, whether or not the title has been presented. Hence, the operating and thus, financial, systems reflect that we have issued a large number of checks to sellers when, in fact, they have not been "virtually" issued but not "physically" issued, resulting in the appearance that funds have been paid to sellers when in fact they have not yet been released. In those instances where the title has not yet been presented, and where the system indicates that a virtual payment has been made to the seller, the auction is also not allowed to deposit the purchase payment funds from the buyers of those units, thus making it appear as if our CAR (checking) account is overdrafted – when in truth and in fact it is not. Thus, we actually have a cash balance in the CAR account, generally quite significantly so, while the system shows as a virtual concept that the account is overdrafted. The software system used by the auction is provided by Auction Software, Inc. (ASI), is in use by nearly 90 independent auctions, is the most common independent auction operating system in use in the United States, and is in the opinion of the auction the best software available for its use at this time. One must therefore review the balance sheet to see the number of ASI payables and ASI receivables and look at the cash in the account to determine the actual status. That appears to be common practice in this type of industry. Any actual overdraft account as depicted in the Company's financial reporting is reviewed by the Company's auditors to reflect those outstanding checks to the Car Account and insure accurate reporting.

The Company will require substantial infusions of working capital or a substantial increase in the cash generated from operations together with a managed cost structure to insure long-term liquidity. The Company may be compelled to seek infusions of working capital in the form of equity or debt capital, the former being considered most beneficial to the Company. Management, however, is of the opinion that equity capital is not presently a viable option, given the economic conditions the country has experienced since 2008. There is no assurance the Company will be successful in obtaining infusions of capital to fuel its growth. As such, the Company determined to concentrate on maximizing its opportunities at the auction level, and has experienced increased cash flow from operations because of such efforts. The Company's corporate overhead is not large by industry standards, and management believes that such expense could ultimately be covered by revenues from operations of its units given current growth rates.

In subsequent events, the Company sold its Augusta auction business and the related assets on July 31, 2012, and had accounted for those as discontinued operations in the Annual Report on Form 10-K for the period ended December 31, 2011. (See Part II – Item 9B – "Other information")

### Stock-Based Compensation

The Company accounts for stock options in accordance with FASB ASC 505, "Equity," and FASB ASC 718, "Compensation—Stock Compensation." Accordingly, stock compensation expense has been recognized in the statement of operations based on the grant date fair value of the options for the year ended December 31, 2011.

Under ASC 718 and 505, the fair value of options is estimated at the date of grant using a Black-Scholes-Merton ("Black-Scholes") option-pricing model, which requires the input of highly subjective assumptions including the expected stock price volatility. Volatility is determined using historical stock prices over a period consistent with the expected term of the option.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 123R "Share-Based Payment" ("SFAS No. 123(R)") to account for stock-based compensation under ASC 718 and ASC 605,

Compensation-Stock Compensation. The Codification requires that all stock-based compensation be recognized as expense in the financial statements and that such cost be measured at the fair value of the award at the grant date. An additional requirement of ASC 718 is that estimated forfeitures be considered in determining compensation expense. Estimating forfeitures did not have a material impact on the determination of compensation expense in 2011 and 2010. ASC 718 requires cash flows resulting from tax deductions from the exercise of stock options in excess of recognized compensation cost (excess tax benefits) to be classified as financing cash flows. This requirement had no impact on our consolidated statement of cash flows in 2011 and 2010, as no options were exercised. During the years ended December 31, 2011 and 2010, respectively, the Company issued no stock awards to employees.

Table of Contents

The Company did not issue any stock options or warrants in 2011.

On December 23, 2010, the Company issued stock options to purchase 145,000 shares of the Company's common stock for \$.60 per share, with a life of ten (10) years in connection with the Board of Directors authorization. The aggregate value of these stock options was \$73,064. These options generally vest over a four-year period.

|                         | 2010 |        |
|-------------------------|------|--------|
| Estimated fair value    | \$   | 0.55   |
| Expected life (years)   |      | 4.3    |
| Risk free interest rate |      | 1.07 % |
| Volatility              |      | 168 %  |
| Dividend yield          |      | -      |

Risk-free interest rate – This is the yield on U.S. Treasury Securities posted at the date of grant (or date of modification) having a term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Expected life—years – This is the period of time over which the options granted are expected to remain outstanding. Options granted by the Company had a maximum term of ten years. An increase in the expected life will increase compensation expense.

Expected volatility – Actual changes in the market value of stock are used to calculate the volatility assumption. An increase in the expected volatility will increase compensation expense.

Dividend yield – This is the annual rate of dividends per share over the exercise price of the option. An increase in the dividend yield will decrease compensation expense. The Company does not currently pay dividends and has no immediate plans to do so in the near future.

The fair values of options issued are being amortized over the respective vesting periods (primarily four years). The amortized cost recognized for the years ended December 31, 2011 and 2010 were \$62,396 and \$62,396, respectively. Future amortization of the fair value of options is as follows:

| Year | Amount    |
|------|-----------|
| 2012 | \$ 48,053 |
| 2013 | 24,259    |
| 2014 | 1,700     |
|      | \$ 74,012 |

## Stock Options

|                                      | 2011             |                                 | 2010             |                                 |
|--------------------------------------|------------------|---------------------------------|------------------|---------------------------------|
|                                      | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding at beginning of the year | 480,000          | \$ 0.43                         | 590,000          | \$ 0.39                         |
| Granted                              | -                | -                               | 145,000          | 0.60                            |
| Exercised                            | -                | -                               | -                | -                               |
| Forfeited or cancelled               | -                | -                               | (255,000)        | (0.43)                          |

Edgar Filing: Acacia Diversified Holdings, Inc. - Form 10-K

|                            |         |        |         |         |
|----------------------------|---------|--------|---------|---------|
| Outstanding at end of year | 480,000 | 0.43   | 480,000 | 0.43    |
| Exercisable                | 407,500 | \$0.40 | 371,250 | \$ 0.38 |

21

---

Table of Contents

## Stock Warrants

The exercisable outstanding stock purchase warrants was 2,206,250 for the years ended December 31, 2011 and 2010 with a weighted average exercise price of \$1.89. The following summarizes the warrant activity.

|  | 2011      |                | 2010        |                |
|--|-----------|----------------|-------------|----------------|
|  | Number of | Weighted       | Number of   | Weighted       |
|  | Warrants  | Average        | Warrants    | Average        |
|  |           | Exercise Price |             | Exercise Price |
| Warrants outstanding at beginning of the year <sup>1</sup> | 1,956,250 | \$ 2.13        | 1,956,250   | \$ 2.13        |
| Granted  | -         | -              | 1,000,000   | 3.00           |
| Exercised  | -         | -              | -           | -              |
| Forfeited or cancelled                                     | -         | -              | (1,000,000) | 3.00           |
| Warrants outstanding at end of year                        | 1,956,250 | 2.13           | 1,956,250   | 2.13           |
| Exercisable  | 1,956,250 | \$ 2.13        | 1,956,250   | \$ 2.13        |

## Impairment of Long-Lived Assets and Goodwill

Goodwill represents the excess of cost over fair value of identifiable net assets of businesses acquired. Goodwill is tested for impairment annually in the second quarter, or more frequently as impairment indicators arise. The goodwill impairment test is a two-step test. Under the first step, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and we must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with ASC 805, Business Combinations. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. These events may include changes in the manner in which we intend to use an asset or a decision to sell an asset. The Company's management believes that no impairment is deemed necessary at December 31, 2011.

Overall, our operations were close to self-funding in 2011 with a negative net cash flow of \$9,212 for the year. The Company has accrued compensation of \$358,510 owed to Mr. Steven Sample, the Company's Chief Executive Officer. This deferral of salary and bonus is in large part pursuant to his employment agreement, but reflects an accommodation by Mr. Sample to assist the Company's cash management through 2011 and with accommodations for periods thereafter. The Company does not anticipate paying Mr. Sample in either preferred or common stock.

We continue to plan for the expansion of the Company through acquisitions and will have to raise additional capital to fund those acquisitions. Further, we would seek to eventually establish a wholesale vehicle floorplan financing facility for purchasers of automobiles at our auctions, which would also require additional financing.



Table of Contents

## Discussion Regarding the Company's Consolidated Operating Results

## Liquidity and Need for Additional Capital

The Company is currently engaged in its plan of seeking to grow through acquisitions as well as through its efforts to structure and build. To succeed in doing so, the Company will require additional capital, which the Company anticipates raising through sale of Common stock.

In January of 2011, the Company's liquidity was supplemented by a \$300,000 line of credit with Wachovia Bank, N.A. at its North Augusta location. Since July of 2007 that line of credit was used for general business purposes and to cover some instances in which payments to dealers selling vehicles through the auctions are advanced prior to collecting payments from buyers of those vehicles. The Company held a certificate of deposit with Wachovia Bank of just over \$150,000 guaranteeing its line of credit in North Augusta. The Company's CEO also personally guaranteed that line of credit of the Company, which had always been handled in an exemplary fashion and resulted in no disputes. However, in early January of 2011, following the acquisition of Wachovia Bank by Wells Fargo Bank in 2010, that bank indicated that its underwriting standards did not provide for clients similar to the Company, and it discontinued the Company's line of credit at the Augusta auction on short notice. On January 31, 2011, that \$300,000 line of credit was terminated, and the Company utilized the proceeds of its certificate of deposit, coupled with its own cash, to pay off the line of credit and proceed forward without that same liquidity assistance.

The Company's liquidity in 2011 was supplemented by the Company's CEO, Mr. Sample, who loaned personal funds to the Company, personally borrowed capital to assist the Company, and arranged for loans from his family which required his personal guarantee on those transactions. To further assist the Company with liquidity, Mr. Sample allowed the Company to continue to defer his 2011 compensations, such that at December 31, 2011, the Company owed Mr. Sample accrued compensation of \$358,510 from 2010 and 2011, which remained unpaid as of that date.

The Company did not attempt to secure capital through a private placement of its securities in 2011 or 2010.

The Company anticipates seeking additional capital through the sale of its equity securities, but has not yet determined the size, structure or timing of the contemplated offering, and no guarantees can be made that, should the Company endeavor to sell its equity securities, that it will be able to find willing buyers for such securities. Moreover, as the Company contemplates selling its securities by way of an exemption from registration, there can be no guarantees that the Company will be able to identify suitable buyers to whom the Company may legally offer such securities. The Company is planning for its operations to provide sufficient operating capital to fund the corporate overhead, but the implementation of the litigation proceedings in the fourth quarter of 2010 and the costs of those legal actions placed an increased burden on its cash.

The following table sets forth certain obligations for which the Company has contracted:

| Contractual Obligations      | Total      | Less Than 1<br>Year | 1-3 Years | 4-5 Years | More Than 5<br>Years |
|------------------------------|------------|---------------------|-----------|-----------|----------------------|
| Long-Term Debt Obligations   | \$ 100,364 | \$ 39,000           | \$ 61,364 | \$ -      | \$ -                 |
| Capital Lease Obligations    | 35,288     | 26,404              | 8,884     | -         | -                    |
| Operating Lease Obligations* | 51,100     | 51,100              | -         | -         | -                    |
| Totals                       | \$ 186,752 | \$ 116,504          | \$ 70,248 | \$ -      | \$ -                 |

\* The Company's operating lease at its Augusta operations and rental for its administrative space in Ocala are on a month-to-month basis, have amounted to \$51,100 per year in 2011 and 2010, and have been reflected above as if on an annual basis for one future year.

### Financing of Planned Expansions and Other Expenditures

The Company currently has no plans to arrange for financing of planned expansions or other expenditures, but may elect to raise capital through the sale of its securities at a future date. There is no assurance the Company could be successful in doing so.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

Item 8. Financial Statements and Supplementary Data

The response to this item is submitted as a separate section of this Form 10-K. See “Item 15. Exhibits, Financial Statements and Reports on Form 8-K.”

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 9A(T). Controls and Procedures

Inherent Limitations on the Effectiveness of Controls Over Financial Reporting

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

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

Disclosure Controls and Procedures

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

operations and required disclosure.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial 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 and Chief Financial Officer concluded that the Company's disclosure controls and procedures were, for the reasons set forth below, not effective as of December 31, 2011.

## Table of Contents

### Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). 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)

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

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

This Annual Report does not include an attestation report of the Company's registered accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only the management's report in this Annual Report.

### Item 9B. Other Information

The Company acquired its second auto auction in December 2009, located in Chattanooga, Tennessee. Following disputes with the seller of those operations and certain related parties, the Company discontinued operations at that location effective August 31, 2010, after which the Company and its CEO, the Seller of the Chattanooga auction, and its related parties entered into litigation. The ongoing litigation between the parties was settled on February 28, 2012. Accordingly, the Company considered those as discontinued operations effective August 31, 2010, as first reported in the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2010. Those events were further reported in the Company's Current Report on Form 8-K filed on November 19, 2012, its Amended Annual Report on Form 10-K /A for the period ended December 31, 2009, and its Annual Report on Form 10-K for the period ended December 31, 2010, which described those events in detail, and which reports are incorporated herein by reference. The Settlement Agreement did not constitute an admission by any party of any liability or violation of law. All the parties to the Settlement Agreement agreed to a mutual non-disparagement agreement and release from any liabilities or future litigations seeking damages therefor. (See Part I, Item 3 – "Legal Proceedings")

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

Company authorized the Secretary of the Company to take those steps reasonably necessary for effectuating those resolutions.

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

On November 6, 2011, the Company identified a potential candidate for sale of its Augusta auction, and entered into a non-binding Letter of Intent for that purpose. That Letter of Intent was dependent upon the buyers finding success in obtaining financing and other factors. Following protracted delays in the buyers finding suitable financing, a change in the structure of the buyer's group, and changes in the original terms of the sale, the buyer's group completed the purchase on July 31, 2012. Those operations will be accounted for as discontinued in the Company's Annual Report on Form 10-K for the period ending December 31, 2011. Following the sale of those assets, the Company will have no operations or corresponding operating revenues. As such, the Company will need to find new sources of revenues to support its expenses in order to continue as a going concern.

Table of Contents

## PART III

## Item 10. Directors, Executive Officers, and Corporate Governance

## Executive Officers and Directors

The directors and executive officers of the Company, and their respective ages, as of December 31, 2011, and positions held with the Company, were as follows:

| Name                | Age | Position   |
|---------------------|-----|--|
| Steven L. Sample    | 64  | Director, Chairman of the Board, and Chief Executive Officer |
| Patricia Ann Arnold | 55  | Secretary  |

Steven L. Sample became a director and officer of the Company in August 2006 when he was named as a Director and Chief Executive Officer. From January 2004 through December 2005, he served as Executive Director of Sales for ADESA Corporation, the second-largest automobile auctions conglomerate in North America, when he left ADESA to draft the business plan for his Acacia concept. From January 2002 through December 2003, he was the General Sales Manager of ADESA's Ocala, Florida Auto Auction where he was credited for a loss-to-profit turnaround of approximately \$1.75 million in the first ten months 2002, followed by continuing profitability in ensuing years. From September 1990 through December 2001, he was employed by Mid-America Auto Auction, an Anglo-American Auto Auction (Anglo-American later being acquired by ADT and renamed ADT Automotive Auctions), which was generally acquired by Manheim Auctions in 2000, with Mr. Sample serving as General Sales Manager and in other strategic capacities. Mr. Sample was considered by many to be the most successful auction manager in the United States in the rent-a-car industry segment, winning numerous awards from such notables as Alamo Rent-A-Car, National Car Rental, AVIS/Budget Rental Group, Dollar-Thrifty Automotive Rental Group, and others. Prior to that time, Mr. Sample managed a number of automotive dealerships in various capacities for the big three U.S. automakers and such notable imports as Lamborghini, Maserati, Volkswagen, AMG, and others.

Patricia Ann Arnold was named Secretary of the Company on February 1, 2007. Since January of 2008 until January 2013, Ms. Arnold has served as Executive Assistant to the Managing Director, Executive Vice President of Operations and Executive Vice President of Development of Lend Lease (US) Public Partnerships LLC (f/k/a Actus Lend Lease). From 2002 through 2007, Ms. Arnold served as a Labor & Employment Paralegal with the law firm of Baker, Donelson, Bearman, Caldwell & Berkowitz; Litigation Paralegal with Stewart Estes and Donell from 1998 to 2002; and, Litigation Paralegal with Manier, Herod, Hollobaugh & Smith, in Nashville, Tennessee. Prior to the Nashville employment, Ms. Arnold was employed in similar positions with law firms in Louisville, Kentucky, since 1984.

Four other directors served during a portion of 2011 as follows:

Danny R. Gibbs was appointed to the Company's Board of Directors on February 1, 2007 and served until his resignation on September 29, 2011. There was no disagreement with the Company that prompted Mr. Gibbs' departure. Prior to that and commencing in 1984, Mr. Gibbs, a co-founder of Gibbs Construction, Inc. served as its President, General Manager, director, and Chief Financial Officer until November 2000 when the Company's assets and liabilities were transferred to a receiver in bankruptcy. From January 2000 through December 2003, Mr. Gibbs was a Senior Project Manager for Thacker Operating Company responsible for estimating costs of construction projects, managing and overseeing them. Beginning in January 2004 he became the Senior Project Manager for Dimensional Construction, Inc..

Dr. James C. Hunter was appointed to the board of directors on February 1, 2007, and served until his resignation on September 28, 2011. There was no disagreement with the Company that prompted Dr. Hunter's departure. In April 2008 he was named Chief Medical Officer for the Carolinas Medical Center in Charlotte, North Carolina, where he is responsible for physician credentialing and relations with oversight for all quality efforts. In 2005 and prior to April 2008, he was named Chief Medical Officer, Cape Fear Valley Health System in Fayetteville, North Carolina where he also had similar responsibilities. From 1998 to 2005 he was Senior Vice President of Medical Affairs and Chief Quality Officer of Munroe Regional Health System in Ocala, Florida where he had similar responsibilities. During that time, Dr. Hunter earned his MBA degree. From 1995 to 1998 he served as Director of Inpatient Clinical Affairs, Inpatient Internal Medicine, and Emergency Medicine for two healthcare organizations in Myrtle Beach, South Carolina. Prior to 1995 Dr. Hunter was an Emergency Physician.

V. Weldon Hewitt was appointed to the board of directors on February 1, 2007, and served until his resignation on September 29, 2011. There was no disagreement with the Company that prompted Mr. Hewitt's departure. Since 1985 he has been the owner and Chief Executive Officer of Hewitt Marketing, Inc., which provides original equipment manufacture radios and other media devices and electronics, mobile cellular telephones, power-actuated equipment and accessories to many major vehicle manufacturers. Prior to 1985, Mr. Hewitt founded and served as Chief Executive Officer of an original equipment manufacturer that attained as high as \$20,000,000 in annual revenues providing audio systems for new luxury cars.



## Table of Contents

The Company's Board of Directors named Frank Lawrence to serve as one its directors on November 3, 2007 and served until his resignation on September 30, 2011. There was no disagreement with the Company that prompted Mr. Lawrence's departure. Mr. Lawrence was the previous majority owner of the automobile auction located in the Augusta, Georgia area that the Company acquired in July of 2007. Mr. Lawrence is the owner and operator of Bobby Jones Ford-Lincoln-Mercury in Augusta, Georgia, a dealership he has owned since 1991, prior to which he successfully managed a number of wholesale and retail dealership operations. Sadly, Mr. Lawrence passed away in 2012 of natural causes.

### Committees of the Board of Directors

As of December 31, 2011, there were no committees of the board of directors by virtue of the fact that Mr. Sample served as the sole director. From October 19, 2010, through September 30, 2011, the following directors served in the capacities noted below.

V. Weldon Hewitt, Danny R. Gibbs and Frank Lawrence were appointed to serve as the members of the Corporation's Compensation Committee with V. Weldon Hewitt being named the Chairman of said Committee. The duty of the Compensation Committee is to provide a general review of the Company's compensation and benefit plans to ensure that they meet corporate objectives and to oversee the Company's Stock Option Plan and other benefit plans. In addition, the Compensation Committee will review the compensation of officers of the Company and the recommendations of the Chief Executive Officer on (i) compensation of all employees of the Company and (ii) adopting and changing major Company compensation policies and practices. Except with respect to the administration of the Stock Option Plan, the Compensation Committee will report its recommendations to the entire Board of Directors for approval. The Compensation Plan does not have a charter, and the committee has not reviewed the compensation of executives as it presently reflects basic compensation in a start up environment.

Danny R. Gibbs and Steven L. Sample were appointed to serve as the members of the Corporation's Primary Committee as designated in the Corporation's 2007 Stock Incentive Plan. The duties of this Primary Committee is to review, approve, and authorize the issuance of warrants, stock, and options under the provisions of the Corporation's 2007 Stock Incentive Plan, whether automatic or otherwise. Mr. Gibbs is the Plan Administrator and Chairman of the Options Committee.

V. Weldon Hewitt, Danny R. Gibbs and Dr. James C. Hunter were appointed to serve as the members of the Corporation's Audit Committee with Danny R. Gibbs being designated as the Committee's financial expert thereof, Mr. Gibbs being independent by virtue of the standards set forth by the American Stock Exchange and by virtue of his experience in the supervision of a principal financial officer and acting in that capacity in a public company. The duties of the Audit Committee will be to recommend to the entire Board of Directors the selection of independent certified public accountants to perform an audit of the financial statements of the Company, to review the activities and report of the independent certified public accountants, and to report the results of such review to the entire Board of Directors. The Audit Committee will also monitor the internal controls of the Company.

Danny R. Gibbs, Dr. James C. Hunter and Steven L. Sample were appointed to serve as the members of the Corporation's Nominating Committee with Dr. Hunter being named the Chairman of said Committee.

### Code of Ethics

Given that the Company only instituted operations in the last three and a half years, the Company has not adopted a Code of Ethics for the principal executive officer, principal financial officer, or principal accounting officer or controller.

Section 16(a) Beneficial Ownership Reporting Compliance.

There were no common stock options awarded in 2011. On December 23, 2010, Messrs Gibbs, Hewitt, Hunter and Lawrence were awarded common stock options of 45,000, 30,000, 30,000, and 20,000, respectively, for their 2010 service as non-employee directors and for service on various Committees of the Board of Directors. Those awards were reported on Forms 4 on June 28, 2011. In subsequent events, Mr. Lawrence passed away in 2012, affecting the vesting of certain of his option privileges.

On February 1, 2007, Mr. Moorby was awarded 500,000 shares of the Common stock of the Company. This transaction was reported on Form 3 on June 15, 2007. This grant of common stock and various grants of common stock purchase options to Mr. Moorby were subsequently reported on Forms 4. Similarly, Mr. Bynum had previously been awarded Common stock purchase options as reported on various Forms 3 and 4. Mr. Moorby and Mr. Bynum ceased to be Directors of the Company following disputes that resulted in their resignations on September 17, 2010 and subsequent litigations by and between the Company and its CEO on the one hand, and the Seller of the Chattanooga auction assets, certain of its principals, Mr. Moorby, and Mr. Bynum on the other hand. Those litigations were settled in February of 2012.

Table of Contents

In subsequent actions resulting from the terms of that Settlement Agreement dated February 28, 2012, between the parties to the litigations, the Company cancelled 65,000 Common stock purchase options previously issued to Mr. Moorby during his tenure as an officer and director of the Company, and Mr. Moorby was also required to return to the Company for cancellation the 500,000 shares of common stock issued to him in 2007. In the same Settlement Agreement to the litigations, the Company also cancelled 190,000 common stock purchase options issued to former director and officer David Bynum. Those actions were accounted for in the 2010 financial reports of the Company. Messrs. Moorby and Mr. Bynum were also required by the terms of that settlement to return 17,000 shares and 25,000 shares, respectively, of the Company's common stock to the Company's CEO, Mr. Sample, who had personally gifted those shares to Messrs. Moorby and Bynum and their respectively family members. (See Part I, Item 3 – "Legal Proceedings")

## Item 11. Executive Compensation

The following table sets forth certain information concerning the compensation earned during the years ended December 31, 2011 and 2010 by the Company's Chief Executive Officer, for whom disclosure is required:

## SUMMARY COMPENSATION TABLE

| Name and Principal Position | Fiscal Year | Annual Compensation |            |            |
|-----------------------------|-------------|---------------------|------------|------------|
|                             |             | Salary              | Bonus      | Total      |
| Steven Sample, CEO (1)      | 2011        | \$ 185,000          | \$ 183,222 | \$ 368,222 |
| Steven Sample, CEO (1)      | 2010        | 150,000             | 237,306    | 387,306    |

(1) Mr. Sample became CEO of the Company in 2006 and has continued to serve without interruption. The Company provided automobiles to Mr. Sample in 2011 and 2010, the value of which was less than \$10,000 per year.

In 2011, the Company's Compensation Committee took actions which were subsequently ratified by the independent members of the Company's board of directors, who voted to initiate an Employment Agreement with Mr. Sample effective January 1, 2011, increasing his salary and providing him with an initial bonus and a series of annual bonuses over the next 5 years. Mr. Sample did not receive any salary increase or employment bonus compensation in 2006, 2007, 2008, 2009, or 2010. On July 26, 2012, a majority of the shareholders representing more than 67% of the voting shares of the Company entered into a series of Written Consent Resolutions in Lieu of a Special Meeting of Shareholders. These included, among other actions, extending the employment contract of the Company's CEO for an additional two years. The initial bonuses associated with engaging Mr. Sample in an employment agreement in 2011 and the extension thereof in 2012 reflected the Company's desire to retain its CEO during periods in which his assistance with its liquidity were critical, including the loans he personally acquired for the Company or which he personally guaranteed for the Company. To continue assisting with the Company's liquidity, Mr. Sample again agreed to defer his 2011 salary and employment bonus compensations, and at December 31, 2011, the Company owed Mr. Sample accrued compensation of \$358,510, which remained unpaid as of that date. The Company has not paid any compensation to Mr. Sample in the form of common or preferred stock, and there is currently no plan to do so.

## Option Tables

The following table sets forth certain information concerning grants of options to purchase shares of common stock of the Company made during the last completed fiscal year to the executive officers named in the Summary Compensation Table.

EXECUTIVE STOCK OPTION GRANTS  
(YEAR ENDED DECEMBER 31, 2011)

|      | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options<br>Unexercisable | Weighted<br>Average Per<br>Share<br>Exercise<br>Price | Expiration<br>Dates |
|------|---|--|---|---------------------|
| None | -   | -  | -   | -                   |

No new options or warrants were issued in 2011.

Table of Contents

The following table sets forth certain information concerning grants of options to purchase shares of common stock of the Company made prior to the last completed fiscal year to the executive officers named in the Summary Compensation Table.

**EXECUTIVE STOCK OPTION GRANTS  
(YEARS ENDED DECEMBER 31, 2010 AND EARLIER)**

|                                  | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options<br>Unexercisable | Weighted<br>Average Per<br>Share<br>Exercise<br>Price | Expiration<br>Dates |
|----------------------------------|---|--|---|---------------------|
| Steven L. Sample <sup>1, 2</sup> | 475,000   | -  | 1.00  | 5/29/2017           |
|                                  | 950,000   | -  | 3.00  | 12/30/2016          |
| Patricia Arnold                  | 10,000  | -  | 0.01  | 2/1/2017            |

<sup>1</sup> 475,000 common stock purchase warrants, and not common stock options, issued in 2007 for conversion of preferred stock and not issued as compensation.

<sup>2</sup> 950,000 common stock purchase warrants, and not common stock options, issued in 2010 for conversion of preferred stock in 2007 and considered to have expired in 2010, but a like amount issued in that same year, and not issued as compensation.

No new options or warrants were issued in 2011.

#### Director Compensation

Since February 1, 2007, directors of the Company have served without compensation except under the Acacia Automotive, Inc. 2007 Stock Incentive Plan adopted on that same date for which each non-employee director of the Company was granted an option to acquire an initial 10,000 shares of common stock and 15,000 additional options were granted upon election to a full term and annually thereafter. In 2010, each non-employee director was granted options to acquire 15,000 shares of common stock at an exercise price of \$0.60 per share. In addition, certain non-employee directors received 5,000 additional options for service on Committees of the Board of Directors and similar grants for service in chairing or acting as the expert for the various Committees. Each of those options are similarly exercisable for \$0.60 per share, having all been granted on December 23, 2010. In 2011 the Company discontinued its options grant program for directors until further notice, and issued no new options or warrants in that year.

The following table sets forth certain information regarding compensation for directors for the fiscal years ended December 31, 2011 and 2010:

|                         | Dollar Amount Recognized for<br>Financial Reporting Purposes |       |
|-------------------------|--|-------|
|                         | 2011   | 2010  |
| Steven L. Sample (1)    | \$ -   | \$ -  |
| Danny Gibbs (2)         | 6,300  | 6,300 |
| James C. Hunter, MD (3) | 4,200  | 4,200 |
| V. Weldon Hewitt (2)    | 4,200  | 4,200 |
| Frank Lawrence (4)      | 2,800  | 2,800 |

|       |           |           |
|-------|-----------|-----------|
| Total | \$ 17,500 | \$ 17,500 |
|-------|-----------|-----------|

Upon a change of control, all outstanding options granted to executive officers and directors vest.

- (1) Continues to serve as the Company's sole director as of December 31, 2011
- (2) Served on the Company's board of directors until September 29, 2011
- (3) Served on the Company's board of directors until September 28, 2011
- (4) Served on the Company's board of directors until September 30, 2011. This figure of \$2,800 is net of 12,300 unvested options held by Mr. Frank J. Lawrence, a former director of the Company, but which expired following his passing in 2012

#### Benefit Plans

As part of the reorganization proceeding of Gibbs Construction, Inc. in bankruptcy, prior to the change of control resulting in the emergence of Acacia Automotive, Inc., all stock option plans and warrants existing prior to change of name and change of control to Acacia's management in 2006 were canceled. At the board of directors meeting held on February 1, 2007, the Company adopted a new stock incentive plan. Awards of options made after that date were in congruence with the Acacia Automotive, Inc. 2007 Stock Incentive Plan. The Company provides health, disability, and life insurance plans for its employees, and provides certain additional benefits to its CEO as are consistent for persons serving in that capacity and as are set forth in his employment agreement.

Table of Contents

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth as of December 31, 2011, the ownership of common stock by (i) each person known by the Company to be the beneficial owner of more than five percent of the Company's common stock, (ii) each director of the Company, and (iii) all directors and officers as a group. Except as otherwise indicated, each stockholder identified in the table possesses sole dispositive voting and investment power with respect to its or his shares.

| Name and Address of Beneficial Owner                | Shares Owned     |         |
|---|------------------|---------|
|   | Number of Shares | Percent |
| Steven L. Sample (1)                                | 5,655,214        | 48.9 %  |
| Patricia Ann Arnold (2)                             | 55,000           | 0.5%    |
| Gwendolyn Sample (3)                                | 937,000          | 8.0%    |
| All directors and officers as a group (two persons) | 5,710,214        | 49.4 %  |

(1) Excludes 1,425,000 warrants held by Mr. Sample issued in exchange for converting all his shares of the Company's preferred stock to common stock in 2007, and not for compensation. (See Item 12 - "Change of Control")

(2) Excludes options to purchase 10,000 shares of common stock at a weighted average exercise price of \$0.01 per share.

(3) Excludes options to purchase 35,000 shares of common stock at a weighted average exercise price of \$0.23 per share.

Unless otherwise indicated, the address for each of the above named individuals is 3512 East Silver Springs Boulevard - #243, Ocala, FL 34470.

## Change of Control

On August 15, 2006, Steven L. Sample agreed to acquire control of Gibbs Construction, Inc., an inactive corporation that had been in bankruptcy since 2000. To do so, he acquired for \$50,000, 4,000,000 shares, or 46.7%, of the 8,561,000 issued and outstanding shares of common stock of the registrant, then Gibbs Construction, Inc., from Thacker Asset Management, LLC (TAM) and its associates. In addition Mr. Sample paid expenses totaling \$138,862, such expenses including the costs associated with completing the bankruptcy proceedings and costs such as arranging for the Company's SEC filings to be brought current, after which the registrant agreed to effect a one for eight reverse stock split, to issue to Mr. Sample an additional 8,117,500 shares of common stock and 500,000 shares of Preferred stock. For the assistance of Harry K. Myers, a principal of Baker #1, Ltd., the entity owning TAM, the registrant agreed to issue to him 25,000 shares of Preferred stock and 450,000 shares of common stock.

To fulfill its obligations under this agreement, the registrant's board of directors recommended that its stockholders amend its corporate charter to effect a one for eight reverse stock split, to increase the number of authorized shares of common stock to 150,000,000 and to create and establish a series of preferred stock. The distinguishing feature of the preferred stock was that each share had 50 votes, but if Mr. Sample or the other recipient transferred the shares to any other entity other than for estate planning purposes, the shares automatically converted on a share for share basis to common stock and, in any event, would automatically convert to common stock upon the death of either recipient. On May 29, 2007, Mr. Sample exchanged 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, 2011, and no plans to issue any new preferred shares.

Item 13. Certain Relationships and Related Transactions, and Director Independence

With respect to certain transactions regarding the restructuring of the Company's corporate charter and transactions with Mr. Sample, see Item 12. – "Change of Control".

In 2006 the board of directors named Gwendolyn Sample as the Company's assistant secretary and on February 1, 2007, granted her an option to acquire 5,000 shares of Common stock for \$0.01 per share. On November 6, 2009, the Company granted her options to purchase 20,000 shares for \$0.10 per share, and on December 23, 2010, she was awarded options to acquire 10,000 additional shares at \$0.60 per share. Ms. Sample is the spouse of Steven L. Sample. In addition, the board of directors awarded L. Palmer Sample, an IT and MIS professional, 10,000 shares of restricted common stock for work performed in installing and maintaining the company's computer network system as well as creating, hosting, and maintaining the Company's e-mail system and Internet web site. On November 2, 2007, he was awarded 10,000 options to purchase common stock for \$0.80 per share, and on November 6, 2009, was granted options to purchase 5,000 shares of common stock for \$0.10 per share, and on December 23, 2010 was awarded 10,000 options to purchase Common stock at \$0.60 per share. Palmer is the son of Steven L. Sample. Mr. Sample's spouse and his son disclaim any beneficial ownership by Mr. Sample of any shares or options they own, and they disclaim any beneficial ownership of any shares or warrants he owns.



## Table of Contents

Mr. Sample became CEO of the Company in 2006. Since that time he has frequently borrowed funds for and on behalf of the Company and guaranteed various loans, notes, and obligations for the Company. In addition to those actions geared to the direct benefit of the Company and its liquidity, he has also borrowed to mitigate periods when payment of his salary and expenses were deferred to help the Company conserve cash. To continue assisting with the Company's liquidity, Mr. Sample again agreed to defer his 2011 salary and bonus compensations, and at December 31, 2011, the Company owed Mr. Sample accrued compensation of \$358,510, which remained unpaid as of that date.

### Director Independence

Prior to the departure of the Company's outside directors in September of 2011, we believe that, in accordance with the Company Guide of the American Stock Exchange, that Messrs. Gibbs, Hunter, Hewitt and Lawrence were independent directors, these four individuals comprising a majority of our Board of Directors in 2010 and prior to their departure in 2011. As of December 31, 2010 and through September 28, 2011, the following persons served on the committees of the board of directors: The Audit Committee was composed of Messrs Gibbs, Hewitt, and Hunter, all being independent. The Compensation Committee was composed of Messrs Hewitt, Gibbs, and Lawrence, all being independent. The Nominating Committee was composed of Messrs Hunter, Gibbs and Sample, Mr. Sample not being independent according to the American Stock Exchange Guide, a guide that permits smaller reporting companies, as we are, to have a Nominating Committee containing one director that is not independent. On September 28, 2011 Mr. Hunter resigned from the board of directors, followed by Messrs. Gibbs and Hewitt on September 29th and Mr. Lawrence on September 30th. Following those departures, Mr. Sample remained as the sole director of the Company. As the Company's sole director and an employee-officer of the Company, Mr. Sample is not considered to be independent.

### Conflicts of Interest.

The Company and its management may be subject to various conflicts of interest. The Company's management is not independent, yet it relies solely on management for guiding the day to day 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, 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. As such, there is not now, nor has there previously been considered to be, any material conflict of interest on his part.

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 December 31, 2011, and no conflict of interest is perceived.

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 14. Principle Accountant Fees and Services

The following is a summary of the aggregate fees billed to us for fiscal 2011 by Killman, Murrell & Company, P.C.:

Audit Fees

Fees for audit services totaled approximately \$44,284 in 2011 and \$86,259 in 2010, including fees for professional services for the audit of our annual financial statements and for the reviews of the financial statements included in each of our quarterly reports on Form 10-Q or Form 8-K.

Table of Contents

Item 15. Exhibits, Financial Statement Schedule and Reports on Form 8-K

(a) Financial Statements

The following financial statements are included herewith:

|   | Page        |
|---|-------------|
| <u>Report of Independent Certified Public Accountants</u> | F-1         |
| <u>Consolidated Balance Sheets</u>                        | F-2         |
| <u>Consolidated Statements of Operations</u>              | F-3         |
| <u>Consolidated Statements of Stockholders' Equity</u>    | F-4         |
| <u>Consolidated Statements of Cash Flows</u>              | F-5         |
| <u>Notes to Consolidated Financial Statements</u>         | F-6 to F-20 |

(b) Reports on Form 8-K

(c) Exhibits

31.1 Certification Pursuant To 18 U.S.C. Section 1350 As Adopted Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002

32.1 Certification Pursuant To 18 U.S.C. Section 1350 As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

KWCO, PC  
Certified Public Accountants

1931 E. 37th Street, Suite 7  
Odessa, Texas 79762  
(432) 363-0067  
Fax (432) 363-0376

2626 Royal Circle  
Kingwood, Texas 77339  
(281) 359-7224  
Fax (281) 359-7112

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
Acacia Diversified Holdings, Inc.  
(Formerly Acacia Automotive, Inc.)  
Ocala, Florida

We have audited the accompanying consolidated balance sheets of Acacia Diversified Holdings, Inc. (Formerly Acacia Automotive, Inc.) as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Acacia Diversified Holdings, Inc. as of December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 12 to the consolidated financial statements, the Company has suffered recurring losses from operations and its limited capital resources raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in Note 12. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KWCO, PC

KWCO, PC  
Odessa, Texas

February 22, 2013

F-1

---

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2011 AND 2010

|  | 2011                | 2010                |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| <b>Current Assets</b>  |                     |                     |
| Cash and cash equivalents  | \$ -                | \$ 9,212            |
| Deposits and prepaid expenses  | 2,576               | 942                 |
| Assets of discontinued operations  | 980,138             | 1,233,848           |
| <b>Total Current Assets</b>  | <b>982,714</b>      | <b>1,244,002</b>    |
| Property and Equipment, net of accumulated depreciation<br>of \$46,729 and \$29,584 in 2011 and 2010, respectively | 48,396              | 65,541              |
| <b>Total Assets</b>  | <b>\$ 1,031,110</b> | <b>\$ 1,309,543</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  |                     |                     |
| <b>Current Liabilities</b>   |                     |                     |
| Cash overdraft   | \$ 488              | \$ -                |
| Accounts payable   | 196,841             | 133,143             |
| Accrued liabilities  | 424,592             | 77,227              |
| Shareholder payable  | 56,743              | 99,074              |
| Capital lease obligations, current portion   | 23,133              | 18,091              |
| Note payable, current portion  | 39,000              | -                   |
| Liabilities of discontinued operations   | 401,620             | 738,264             |
| <b>Total Current Liabilities</b>   | <b>1,142,417</b>    | <b>1,065,799</b>    |
| <b>Noncurrent Liabilities</b>  |                     |                     |
| Capital lease obligations, less current portion  | 8,471               | 31,604              |
| Notes payable, less current portion  | 61,364              | -                   |
| <b>Total Liabilities</b>   | <b>1,212,252</b>    | <b>1,097,403</b>    |
| <b>Stockholders' Equity (Deficit)</b>  |                     |                     |
| Common stock, \$0.001 par value, 150,000,000 shares authorized;<br>11,562,524 shares issued and outstanding        | 11,562              | 11,562              |
| Additional paid-in capital   | 11,504,914          | 11,442,518          |
| Retained deficit   | (11,697,618)        | (11,241,940)        |
| <b>Total Stockholders' Equity (Deficit)</b>  | <b>(181,142)</b>    | <b>212,140</b>      |
| <b>Total Liabilities &amp; Stockholders' Equity (Deficit)</b>  | <b>\$ 1,031,110</b> | <b>\$ 1,309,543</b> |

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

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
CONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2011 AND 2010

|  | 2011       | 2010       |
|--|------------|------------|
| Revenues   | \$ -       | \$ -       |
| Costs and expenses   |            |            |
| Employee compensation  | 461,361    | 491,078    |
| General and administrative   | 381,100    | 366,842    |
| Depreciation and amortization  | 17,145     | 13,475     |
| Total costs and expenses   | 859,606    | 871,395    |
| Operating income (loss) before other income (expense) and income taxes | (859,606)  | (871,395)  |
| Other income (expense)   |            |            |
| Other income   | 118        | 6,390      |
| Interest expense   | (12,661)   | (4,531)    |
| Settlement of indebtedness and lawsuits                                | -          | 168,687    |
| Total other income (expense)   | (12,543)   | 170,546    |
| Loss before income taxes   | (872,149)  | (700,849)  |
| Income taxes   | -          | -          |
| Loss from continuing operations  | (872,149)  | (700,849)  |
| Gain on discontinued operations  |            |            |
| Gain (loss) on discontinued operations                                 | 416,471    | 23,548     |
| Gain on disposition of discontinued operations                         | -          | 460,380    |
| Net gain (loss) from discontinued operations                           | 416,471    | 483,928    |
| Net (loss)   | (455,678)  | (216,921)  |
| Basic and diluted loss per share                                       |            |            |
| Loss from continuing operations  | \$ (0.08)  | \$ (0.06)  |
| Income from discontinued operations, net                               | 0.04       | 0.04       |
| Net income (loss)  | (0.04)     | (0.02)     |
| Weighted average number of common shares outstanding                   | 11,562,524 | 11,562,524 |

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

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
YEARS ENDED DECEMBER 31, 2011 AND 2010

|                                  | Common Stock |           | Additional         | Retained        | Total        |
|----------------------------------|--------------|-----------|--------------------|-----------------|--------------|
|                                  | Shares       | Par Value | Paid-in<br>Capital | Deficit         |              |
| Balance December 31, 2009        | 12,082,524   | \$ 12,082 | \$ 11,277,668      | \$ (11,025,019) | \$ 264,731   |
| Stock options and stock warrants |              |           |                    |                 |              |
| issued for compensation          | -            | -         | 185,130            | -               | 185,130      |
| Lawsuit settlement               | (520,000)    | (520)     | (20,280)           | -               | (20,800)     |
| Net Loss                         | -            | -         | -                  | (216,921)       | (216,921)    |
| Balance December 31, 2010        | 11,562,524   | \$ 11,562 | \$ 11,442,518      | \$ (11,241,940) | \$ 212,140   |
| Stock options and stock warrants |              |           |                    |                 |              |
| issued for compensation          | -            | -         | 62,396             | -               | 62,396       |
| Net Loss                         | -            | -         | -                  | (455,678)       | (455,678)    |
| Balance December 31, 2011        | 11,562,524   | \$ 11,562 | \$ 11,504,914      | \$ (11,697,618) | \$ (181,142) |

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



Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2011 AND 2010

|  | 2011         | 2010         |
|--|--------------|--------------|
| Cash flows from operating activities                                       |              |              |
| Net income (loss)  | \$ (455,678) | \$ (216,921) |
| Less (income) loss from discontinued operations, net of income taxes       | (416,471)    | (483,928)    |
| Net income (loss) before discontinued operations                           | (872,149)    | (700,849)    |
| Adjustments to reconcile net loss to net cash used in operating activities |              |              |
| Settlement of indebtedness and lawsuits                                    | -            | (168,687)    |
| Depreciation and amortization  | 17,145       | 13,475       |
| Stock options and stock warrants issued for services                       | 62,396       | 185,130      |
| Changes in operating assets and liabilities                                |              |              |
| Deposits and prepaid expenses  | (1,635)      | (941)        |
| Accounts payable   | 63,698       | 60,427       |
| Accrued liabilities  | 347,366      | (127,873)    |
| Shareholder payable  | (42,331)     | 99,074       |
| Cash flow provided by (used in) continuing activities                      | (425,510)    | (640,244)    |
| Cash flow provided by (used in) discontinuing activities                   | 458,429      | 619,921      |
| Net cash flow provided by (used in) operating activities                   | 32,919       | (20,323)     |
| Cash flows provided by (used from) investing activities                    |              |              |
| Purchase of equipment/leasehold improvements                               | -            | (3,033)      |
| Cash flow provided by (used in) continuing activities                      | -            | (3,033)      |
| Cash flow provided by (used in) discontinuing activities                   | (1,278)      | 84,513       |
| Net cash flow provided by (used in) investing activities                   | (1,278)      | 81,480       |
| Cash flows from financing activities                                       |              |              |
| Cash overdrafts  | 488          | -            |
| Note payable, borrowings   | 100,364      | -            |
| Capital lease payments   | (18,090)     | (11,964)     |
| Cash flow provided by (used in) continuing activities                      | 82,762       | (11,964)     |
| Cash flow provided by (used in) discontinuing activities                   | (123,615)    | (60,014)     |
| Net cash flow provided by (used in) financing activities                   | (40,853)     | (71,978)     |
| Net increase (decrease) in cash and cash equivalents                       | (9,212)      | (10,821)     |
| Cash, beginning of year  | 9,212        | 20,033       |
| Cash, end of year  | \$ -         | \$ 9,212     |
| Supplemental disclosure of cash flow information                           |              |              |
| Cash paid during period for:   |              |              |
| Interest   | \$ 12,661    | \$ 4,531     |
| Income tax   | \$ -         | \$ -         |

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

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

NOTE 1 - THE COMPANY

Acacia Diversified Holdings, Inc., formerly known as Acacia Automotive, Inc., (“Acacia” or the “Company”) is engaged in acquiring and operating auctions that sell automobiles, trucks, equipment, boats, motor homes, RVs, and other related vehicles.

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

In December of 2009, the Company acquired the assets and business of Chattanooga Auto Auction Limited Liability Company in Chattanooga, Tennessee. This wholly-owned subsidiary, doing business as Acacia Chattanooga Vehicle Auction, Inc., became the second operations of Acacia Automotive, Inc., and was subsequently discontinued on August 31, 2010 following litigations between the Company and the seller of the Chattanooga assets. Those operations were first accounted for as discontinued in the Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2010.

As of December 31, 2011, Acacia owned one auction in North Augusta, South Carolina, and was subsequently sold on July 31, 2012. Those operations were first accounted for as discontinued effective with this Annual Report on Form 10-K for the year ended December 31, 2011.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**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.

**CONSOLIDATION** – The Company has one wholly-owned subsidiary, Acacia Augusta Vehicle Auction, Inc., as of December 31, 2011. The subsidiary was sold on July 31, 2012, and is accounted for as a discontinued operation at December 31, 2011 and 2010. In 2010 the Company had another subsidiary, Acacia Chattanooga Vehicle Auction, Inc., which became the subject of litigation and, as a result of the litigation, the Company lost control of the subsidiary as of August 31, 2010. That subsidiary is being accounted for as discontinued operations as of December 31, 2010. All significant intercompany accounts are eliminated in consolidation.

**USE OF ESTIMATES** - Preparing the Company’s financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions about current, and for some estimates, future economic and market conditions that affect the reported amounts of assets and liabilities about current, and for some estimates, future economic and market conditions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS - The Company considers all short-term investments purchased with a maturity of three months or less to be cash equivalents.

F-6

---

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

**EQUIPMENT AND VEHICLES** – Equipment and vehicles are stated at cost less accumulated depreciation. Major renewals and improvements are capitalized, while minor replacements, maintenance and repairs are charged to current operations. Depreciation is computed by applying the straight-line method over the estimated useful lives, which are generally three to fifteen years. After accounting for discontinued operations, depreciation expense for the years ended December 31, 2011 and 2010 totaled \$17,145 and \$13,475, respectively.

**CONCENTRATION OF CREDIT RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS** - The Company maintains cash balances at financial institutions, which at times exceed federally insured amounts. The Company has not experienced any material losses in such accounts.

The carrying amounts of cash and cash equivalents, accounts receivable, deposits, prepaid expenses, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments. Accounts payable include amounts due sellers from the proceeds of the sale of their consigned vehicles less any fees, to other vendors, and any outstanding checks to sellers and vendors.

**FAIR VALUE ESTIMATES** – In September 2006, the FASB issued SFAS No. 157 “Fair Value Measurements”. The objective of SFAS 157 (ASC 820) is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS 157 (ASC 820) defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 (ASC 820) applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements.

The Company measures its options and warrants at fair value in accordance with SFAS 157 (ASC 820). SFAS 157 (ASC 820) specifies a valuation hierarchy based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s own assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets;
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the Company to minimize the use of unobservable inputs and to use observable market data, if available, when estimating fair value. The fair value of the options at December 31, 2011 and 2010, was as follows:

|               |             |              |
|---------------|-------------|--------------|
| Quoted Prices |             |              |
| In Active     | Significant |              |
| Markets for   | Other       | Significant  |
| Identical     | Observable  | Unobservable |
| Assets        | Inputs      | Inputs       |

Edgar Filing: Acacia Diversified Holdings, Inc. - Form 10-K

|                              | (Level 1) | (Level 2)  | (Level 3) | Total      |
|------------------------------|-----------|------------|-----------|------------|
| Year Ended December 31, 2011 |           |            |           |            |
| 2011 Stock Options           | \$ -      | \$ 62,396  | \$ -      | \$ 62,396  |
| Year Ended December 31, 2010 |           |            |           |            |
| 2010 Stock Warrants          | \$ -      | \$ 122,734 | \$ -      | \$ 122,734 |
| 2010 Stock Options           | \$ -      | \$ 62,396  | \$ -      | \$ 62,396  |

Options were valued using the Black-Scholes model.

F-7

---

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

**RECLASSIFICATIONS** – Certain reclassifications have been made to previously reported amounts, so that the prior year’s presentation is comparative with the current year’s presentation.

**COMPENSATED ABSENCES** - The Company has not accrued a liability in accordance with FAS 43 (ASC 710), as the amount of the liability cannot be reasonably estimated at December 31, 2011 and 2010.

**LOSS PER COMMON SHARE** - Basic and diluted net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period, and does not include the impact of any potentially dilutive common stock equivalents. Potential common shares are not included in the computation of loss per share, as their effect is antidilutive.

In 2010, the retirement of 520,000 shares in connection with a lawsuit settlement as of February 28, 2012 was considered to be effective as of January 1, 2010.

**INCOME TAXES** - The Company files federal, state and foreign income tax returns in accordance with the applicable rules of each jurisdiction. We account for income taxes under the asset and liability method in accordance with ASC 740, Income Taxes. The provision for income taxes includes federal, state and local income taxes currently payable, as well as deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable amounts in years in which those temporary differences are expected to be recovered or settled. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized. In accordance with ASC 740, we recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company currently has substantial net operating loss carryforwards. The Company has recorded a valuation allowance equal to the net deferred tax assets due to the uncertainty of the ultimate realization of the deferred tax assets.

**ADVERTISING COSTS** - Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2011 and 2010 amounted to \$66,166 and \$71,270, respectively.

**CONTINGENCIES** - Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company’s management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company’s legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is possible that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company’s financial statements. If the

assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of range of possible loss if determinable and material, would be disclosed.

The Company stores a significant number of automobiles, trucks, boats and recreational vehicles owned by various customers and consigned to the Company to be auctioned. The Company is contingently liable for each consigned unit until the eventual sale or other disposition; however, the Company is generally not liable for damage related to severe weather conditions, natural disasters or other factors outside of the Company's control. Loss is possible; however, at this time management cannot estimate a range of loss that could occur. Individual stop loss and aggregate insurance coverage is maintained on the consigned units. These vehicles are consigned to the Company and are not included in the consolidated balance sheets. The Company discontinued operations at the remaining Augusta auction subsidiary following its sale on July 31, 2012. The Company did not experience any losses in these categories prior to discontinuation of those operations.

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

## CONTINGENCIES (Continued)

In the normal course of business, the Company also enters into various other guarantees and indemnities in its relationships with suppliers, service providers, customers and others. These guarantees and indemnifications do not materially impact the Company's financial condition or results of operations, but indemnifications associated with the Company's actions generally have no dollar limitations and currently cannot be quantified.

**STOCK BASED COMPENSATION** - The Company adopted the provisions of Statement of Financial Accounting Standards No. 123R "Share-Based Payment" ("SFAS No. 123(R)") to account for stock-based compensation under ASC 718 and ASC 605, Compensation-Stock Compensation. The Codification requires that all stock-based compensation be recognized as expense in the financial statements and that such cost be measured at the fair value of the award at the grant date. An additional requirement of ASC 718 is that estimated forfeitures be considered in determining compensation expense. Estimating forfeitures did not have a material impact on the determination of compensation expense in 2011 and 2010. ASC 718 requires cash flows resulting from tax deductions from the exercise of stock options in excess of recognized compensation cost (excess tax benefits) to be classified as financing cash flows. This requirement had no impact on our consolidated statement of cash flows in 2011 and 2010, as no options were exercised. During the years ended December 31, 2011 and 2010, respectively, the Company issued no stock awards to employees and issued no stock options or warrants in 2011.

On December 23, 2010, the Company issued stock options to directors to purchase 145,000 shares of the Company's common stock for \$.60, with a life of ten (10) years. The aggregate value of these stock options was \$77,700. These options generally vest over a four-year period.

The Black-Sholes model assumptions were:

|                         | 2010    |
|-------------------------|---------|
| Estimated fair value    | \$ 0.55 |
| Expected life (years)   | 4.3     |
| Risk free interest rate | 1.07 %  |
| Volatility              | 168 %   |
| Dividend yield          | -       |

**Risk-free interest rate** – This is the yield on U.S. Treasury Securities posted at the date of grant (or date of modification) having a term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

**Expected life—years** – This is the period of time over which the options granted are expected to remain outstanding. Options granted by the Company had a maximum term of ten years. An increase in the expected life will increase compensation expense.



Expected volatility – Actual changes in the market value of stock are used to calculate the volatility assumption. An increase in the expected volatility will increase compensation expense.

Dividend yield – This is the annual rate of dividends per share over the exercise price of the option. An increase in the dividend yield will decrease compensation expense. The Company does not currently pay dividends and has no immediate plans to do so in the near future.

F-9

---

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

## STOCK BASED COMPENSATION - (Continued)

The fair values of options issued are being amortized over the respective vesting periods (primarily four years). The amortized cost recognized for the years ended December 31, 2011 and 2010 were \$62,396 and \$62,396, respectively. Future amortization of the fair value of options is as follows:

| Year | Amount    |
|------|-----------|
| 2012 | \$ 48,053 |
| 2013 | 24,259    |
| 2014 | 1,700     |
|      | \$ 74,012 |

## Stock Options

|                                      | 2011                |                                       | 2010                |                                       |
|--------------------------------------|---------------------|---------------------------------------|---------------------|---------------------------------------|
|                                      | Number of<br>Shares | Weighted<br>Average<br>Exercise Price | Number of<br>Shares | Weighted<br>Average<br>Exercise Price |
| Outstanding at beginning of the year | 480,000             | \$ 0.43                               | 590,000             | \$ 0.39                               |
| Granted                              | -                   | -                                     | 145,000             | 0.60                                  |
| Exercised                            | -                   | -                                     | -                   | -                                     |
| Forfeited or cancelled               | -                   | -                                     | (255,000)           | (0.43)                                |
| Outstanding at end of year           | 480,000             | 0.43                                  | 480,000             | 0.43                                  |
| Exercisable                          | 407,500             | \$0.40                                | 371,250             | \$ 0.38                               |

## Stock Warrants

The exercisable outstanding stock purchase warrants was 1,956,250 for the years ended December 31, 2011 and 2010 with a weighted average exercise price of \$2.13. The following summarizes the warrant activity.

|                                      | 2011                |                                       | 2010                |                                       |
|--------------------------------------|---------------------|---------------------------------------|---------------------|---------------------------------------|
|                                      | Number of<br>Shares | Weighted<br>Average<br>Exercise Price | Number of<br>Shares | Weighted<br>Average<br>Exercise Price |
| Outstanding at beginning of the year | 1,956,250           | \$ 2.13                               | 1,956,250           | \$ 2.13                               |
| Granted                              | -                   | -                                     | 1,000,000           | 3.00                                  |
| Exercised                            | -                   | -                                     | -                   | -                                     |
| Forfeited or cancelled               | -                   | -                                     | (1,000,000)         | 3.00                                  |
| Outstanding at end of year           | 1,956,250           | 2.13                                  | 1,956,250           | 2.13                                  |
| Exercisable                          | 1,956,250           | \$ 2.13                               | 1,956,250           | \$ 2.13                               |



Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

**IMPAIRMENT OF LONG-LIVED ASSETS AND GOODWILL** - Goodwill represents the excess of cost over fair value of identifiable net assets of businesses acquired. Goodwill is tested for impairment annually in the second quarter, or more frequently as impairment indicators arise. The goodwill impairment test is a two-step test. Under the first step, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and we must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with ASC 805, Business Combinations. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. These events may include changes in the manner in which we intend to use an asset or a decision to sell an asset. The Company's management believes that no impairment is deemed necessary at December 31, 2011.

**RECENT ACCOUNTING PRONOUNCEMENTS** – The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

NOTE 3 - RELATED PARTY TRANSACTIONS

From 2007 through the end of its fiscal 2010, the Company granted 10,000 common share stock purchase options to each of its outside directors upon their appointment in accordance to the Stock Incentive Plan for 2007. Additionally, 15,000 common share purchase options were granted to each eligible director for each year of elected annual service to the Company. This resulted in the issuance of 125,000 options to eligible non-employee directors in 2010. In other transactions, the Company issued 20,000 common stock purchase options to two employees for services to the Company. The aggregate value of the 145,000 options was \$77,700 amortized over a four-year period. On December 30, 2010, the Company's board of directors voted to temporarily suspend director compensation, including the issuance of common stock purchase options, to its members effective January 1, 2011. As such, the Company did not issue any common stock purchase options in 2011.

In 2010, 1,000,000 warrants to purchase common stock were issued to officers of the Company and related parties in exchange for preferred shares in 2007. Those warrants were considered to have expired in 2010 due to ambiguous language, and those new warrants were issued in that same year. Those warrants were valued at \$122,734.

NOTE 4 - EQUIPMENT AND VEHICLES

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method at rates intended to depreciate the costs of assets over their estimated useful lives. Upon retirement or sale of property and equipment, the cost of the disposed assets and related accumulated depreciation is removed from the accounts and any resulting gain or loss is credited or charged to selling, general and administrative

expenses. Expenditures for normal repairs and maintenance are charged to expense as incurred.

Additions and expenditures for improving or rebuilding existing assets that extend the useful life are capitalized. Leasehold improvements made either at the inception of the lease or during the lease term are amortized over the shorter of their economic lives or the lease term including any renewals that are reasonably assured. Property and equipment consisted of the following at December 31, 2011 and 2010:

|                               | 2011      | 2010      |
|-------------------------------|-----------|-----------|
| Vehicles                      | \$ 29,254 | \$ 29,254 |
| Computer equipment            | 37,463    | 37,463    |
| Furniture & fixtures          | 11,083    | 11,083    |
| Other equipment & software    | 17,325    | 17,325    |
| Total property and equipment  | 95,125    | 95,125    |
| Less accumulated depreciation | (46,729 ) | (29,584 ) |
| Net property and equipment    | \$ 48,396 | \$ 65,541 |

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

## NOTE 4 - EQUIPMENT AND VEHICLES - (Continued)

Equipment and vehicles acquired by capitalized leases and included in the above summary are set forth as follows at December 31, 2011 and 2010:

|                          | 2011      | 2010      |
|--------------------------|-----------|-----------|
| Cost                     | \$ 66,717 | \$ 66,717 |
| Accumulated Depreciation | (28,624)  | (15,281 ) |
|                          | \$ 38,093 | \$ 51,436 |

## NOTE 5 - INCOME TAXES

As of December 31, 2011 and 2010 the Company had net operating loss carryforwards of approximately \$12,299,000 and \$11,857,000 respectively, which will expire beginning in 2017. A valuation allowance has been provided for the deferred tax asset as it is uncertain whether the Company will have future taxable income. A reconciliation of the benefit for income taxes with amounts determined by applying the statutory federal income rate of (34%) to the loss before income taxes is as follows:

|   | 2011         | 2010         |
|---|--------------|--------------|
| Net Operating Loss  | \$ (455,678) | \$ (216,921) |
| Benefit for income taxes computed using the statutory rate of 34% | 154,931      | 73,753       |
| Non-deductible expense  | (23,801)     | (71,062)     |
| Change in valuation allowance                                     | (131,130)    | (2,691)      |
| Provision for income taxes  | \$ -         | \$ -         |

Significant components of the Company's deferred tax liabilities and assets at December 31, 2011 and 2010 are as follows:

|                                  | 2011         | 2010         |
|----------------------------------|--------------|--------------|
| Tax operating loss carryforwards | \$ 4,181,497 | \$ 4,031,661 |
| Intangible assets                | 82,466       | 84,248       |
| Total deferred tax assets        | 4,263,963    | 4,115,909    |
| Deferred tax liabilities         |              |              |
| Depreciation                     | (20,088)     | (12,864)     |
| Goodwill                         | (43,650)     | (33,950)     |
| Total deferred tax liabilities   | (63,738)     | (46,814)     |
| Net deferred tax assets          | 4,200,225    | 4,069,095    |
| Valuation allowance              | (4,200,225)  | (4,069,095)  |
|                                  | \$ -         | \$ -         |

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

NOTE 6 - STOCKHOLDERS' EQUITY

Options

The Company did not issue any common stock purchase options in 2011. On December 23, 2010, the Company issued stock options to purchase 145,000 shares of the Company's common stock for \$.60 per share, with a life of ten (10) years in connection with the Board of Directors authorization. The aggregate value of these stock options was \$73,064. These options generally vest over a four-year period.

Warrants

In 2010, 1,000,000 warrants to purchase common stock were issued at an average exercise price of \$3.00, with an aggregated estimated fair value of \$122,734 (\$0.12 per warrant). The Black-Sholes model was used to compute the estimated fair value using the following assumptions; expected life 3 years, risk-free interest rate 1.07%, dividend yield none, and volatility 168%. The Company did not issue any warrants in 2011.

Common Stock

On December 23, 2009, 20,000 shares of Common stock were issued to two affiliates of Chattanooga Auto Auction Limited Liability Company, the entity from which the Company acquired the assets of the Chattanooga Auction. The stock was valued at \$2,800 based upon the historic weighted average price per share for the most recent equivalent trading volume. The Company subsequently engaged in litigations against those individuals, who also claimed to have not received the shares. In the final settlement of the litigations on February 28, 2012, those 20,000 shares were cancelled and returned to the Company's treasury in April of 2012. As a further part of the settlement to that litigation, Tony Moorby, an ex officer and director of the Company, was required to return to the Company for cancellation the 500,000 shares of common stock he was awarded in 2007 relative to his hiring. The cumulative effect of these transactions was that 520,000 shares of the Company's common stock were cancelled and returned to its treasury in 2012 as a result of the litigation settlement. As a further part of the litigation settlement, the Company cancelled 65,000 common stock purchase options previously issued to Mr. Moorby, and 190,000 common stock purchase options previously issued to David Bynum, also a former officer and director of the Company.

NOTE 7 - DISCONTINUED OPERATIONS

Under ASC Topic 360-10-35, Property, Plant and Equipment – Subsequent Measurement (formerly referred to as SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets), we classify assets to be disposed of by our management or Board of Directors. Cash flows from our discontinued business are reflected as discontinued operating, investing, or financing activities in our statement of cash flows.

The Company discontinued operations at its Chattanooga location effective August 31, 2010, accounting for those operations as discontinued beginning with its Quarterly Report on Form 10-Q for the period ended June 30, 2010. The dispute between the Company and the seller of the Chattanooga business resulted in litigations beginning in September of 2010.

On February 28, 2012, the Company settled its litigations with the seller of the Chattanooga Auto Auction business and assets, including the litigations against her associates and former directors of the Company. The settlement resulted in a full release of liabilities of all the parties against one another.

In the fourth quarter of 2011, the management of the Company determined that it was in the best interests of the Company to sell the Augusta Auto Auction. The Company sold the auction effective July 31, 2012, and accounted for those operations as discontinued in this Annual Report on Form 10-K for the year ended December 31, 2011.



Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

## NOTE 7 - DISCONTINUED OPERATIONS - (Continued)

The following is a summary of financial information related to our discontinued operations for the years ended December 31, 2011 and 2010.

|  | Year Ended December 31, |                     |               |                 |                     |               |
|--|-------------------------|---------------------|---------------|-----------------|---------------------|---------------|
|  | Augusta<br>2011         | Chattanooga<br>2011 | Total<br>2011 | Augusta<br>2010 | Chattanooga<br>2010 | Total<br>2010 |
| Net Revenue  | \$ 1,483,382            | \$ -                | \$ 1,483,382  | \$ 1,756,987    | \$ 2,602,352        | \$ 4,359,339  |
| Costs and Expenses   |                         |                     |               |                 |                     |               |
| Costs of fees earned   | 208,879                 | -                   | 208,879       | 414,941         | 881,477             | 1,296,418     |
| Employee compensation  | 411,785                 | -                   | 411,785       | 393,111         | 1,054,958           | 1,448,069     |
| General and administrative                                   | 368,346                 | -                   | 368,346       | 436,169         | 1,019,158           | 1,455,327     |
| (Gain) loss on sale of assets                                | -                       | -                   | -             | (2,934)         | 3,215               | 281           |
| Depreciation and amortization                                | 64,816                  | -                   | 64,816        | 82,877          | 26,512              | 109,389       |
| Interest expense   | 13,085                  | -                   | 13,085        | 10,711          | 15,596              | 26,307        |
| Total costs and expenses                                     | 1,066,911               | -                   | 1,066,911     | 1,334,875       | 3,000,916           | 4,335,791     |
| Income (loss)<br>on discontinued operations,<br>net of taxes | 416,471                 | -                   | 416,471       | 422,112         | (398,564)           | 23,548        |
| Gain on disposition of<br>discontinued operations, net       | -                       | -                   | -             | -               | 460,380             | 460,380       |
| Total loss on discontinued<br>operations, net of taxes       | \$ 416,471              | \$ -                | \$ 416,471    | \$ 422,112      | \$ 61,816           | \$ 483,928    |
|  | Augusta<br>2011         | Chattanooga<br>2011 | Total<br>2011 | Augusta<br>2010 | Chattanooga<br>2010 | Total<br>2010 |
| Current assets   |                         |                     |               |                 |                     |               |
| Cash and<br>cash equivalents                                 | \$ 118,844              | \$ -                | \$ 118,844    | \$ 151,907      | \$ -                | \$ 151,907    |
| Accounts receivable  | 126,421                 | -                   | 126,421       | 290,248         | -                   | 290,248       |
| Prepays and<br>deposits                                      | 28,799                  | -                   | 28,799        | 22,081          | -                   | 22,081        |
| Property<br>and equipment, net<br>of depreciation            | 71,895                  | -                   | 71,895        | 97,933          | -                   | 97,933        |
| Goodwill   | 427,929                 | -                   | 427,929       | 427,929         | -                   | 427,929       |
| Intangibles  | 206,250                 | -                   | 206,250       | 243,750         | -                   | 243,750       |
| Total Assets   | \$ 980,138              | \$ -                | \$ 980,138    | \$ 1,233,848    | \$ -                | \$ 1,233,848  |
| Current liabilities  |                         |                     |               |                 |                     |               |
| Cash overdraft   | -                       | -                   | -             | 8,964           | -                   | 8,964         |
| Accounts<br>payable and                                      | 245,806                 | 150,000             | 395,806       | 306,932         | 150,000             | 456,932       |

| accrued liabilities |            |            |            |            |            |            |  |  |  |  |
|---------------------|------------|------------|------------|------------|------------|------------|--|--|--|--|
| Notes payable       | -          | -          | -          | 263,000    | -          | 263,000    |  |  |  |  |
| Leases payable      | 5,814      | -          | 5,814      | 9,368      | -          | 9,368      |  |  |  |  |
| Total Liabilities   | \$ 251,620 | \$ 150,000 | \$ 401,620 | \$ 588,264 | \$ 150,000 | \$ 738,264 |  |  |  |  |

F-14

---

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

## NOTE 7 - DISCONTINUED OPERATIONS - (Continued)

The gain on discontinued operations was determined as follows as of August 31, 2010:

|                     |    |           |
|---------------------|----|-----------|
| Liabilities         | \$ | 823,960   |
| Assets              |    | (363,580) |
| Gain on disposition | \$ | 460,380   |

The Company lost control of the Acacia Chattanooga Vehicle Auction business on August 31, 2010, and the amounts reflected above represent the assets and liabilities of the Chattanooga Auto Auction as of that date.

## NOTE 8 - ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31, 2011 and 2010:

|                              | 2011       | 2010      |
|------------------------------|------------|-----------|
| Accrued payroll and benefits | \$ 358,510 | \$ 40,491 |
| Accrued expenses - other     | 66,082     | 36,736    |
|                              | \$ 424,592 | \$ 77,227 |

## NOTE 9 - NON-CASH INVESTING AND FINANCING ACTIVITIES

During 2010, non-cash investing and financing activities included \$25,112 capital leases and \$520 representing the par value of 520,000 shares of the Company's common stock returned for cancellation under the terms of the Settlement Agreement of February 28, 2012 which ended the Company's litigations, those cancellations being accounted for as of January 1, 2010. The following table further displays the Company's 2011 and 2010 non-cash investing and financing activities:

|                            | 2011 | 2010      |
|----------------------------|------|-----------|
| Common stock               | \$-  | \$(520 )  |
| Additional paid-in capital | -    | (20,280 ) |
| Accounts payable           | -    | 20,800    |
| Leased equipment           | -    | (25,112 ) |
| Capital lease obligations  | -    | 25,112    |
|                            | \$ - | \$ -      |

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

## NOTE 10 - OPERATING LEASES

The Company leases its Augusta Auto Auction facility on a month-to-month basis. That rent is \$2,975 per month. Augusta Auto Auction also rents an indoor storage facility and additional parking across the street from the auction at the rate of \$1,283 per month. Total annual rent expense at the Augusta Auction operation amounted to \$51,100 and \$53,383 for the years ended December 31, 2011 and 2010. With the disposal of the Augusta auction business and its related assets on July 31, 2012, those lease obligations were extinguished.

## NOTE 11 - CAPITAL LEASES

The following are capital leases outstanding as of December 31, 2011 and 2010:

|   | 2011      | 2010      |
|---|-----------|-----------|
| VAR Resources, Inc. – monthly payments of \$269, including interest of 13.63% secured by computer equipment, matures August 31, 2013                                    | \$5,390   | \$ 8,608  |
| IBM Credit, Inc. – Monthly payments of \$ 84, including interest at 15.24% secured by computer equipment, matures January 31, 2012                                      | 84        | 1,095     |
| Marple Fleet Leasing – Monthly payments of \$710, including interest of 10.21%, secured by two vehicles, each with a residual value of \$ 2925, matures October 1, 2012 | 12,994    | 21,514    |
| VAR Resources, Inc – Monthly payments of \$841, including interest at 13.85% secured by computer equipment, matures August 31, 2013                                     | 16,820    | 26,912    |
| Total payments under capital lease  | 35,288    | 58,129    |
| Less amounts applicable to interest   | (3,684 )  | (8,434)   |
|   | 31,604    | 49,695    |
| Less current portion  | (23,133 ) | (18,091)  |
|   | \$8,471   | \$ 31,604 |

Future minimum lease payments under capital leases are:

|      |           |
|------|-----------|
| 2012 | 26,404    |
| 2013 | 8,884     |
|      | \$ 35,288 |

Table of Contents

ACACIA DIVERSIFIED HOLDINGS, INC.  
(FORMERLY ACACIA AUTOMOTIVE, INC.)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

NOTE 12 - GOING CONCERN

As of December 31, 2011, the Company has limited disposable cash and its revenues are not sufficient to and cannot be projected to cover operating expenses and expansion by the Company. These factors raise substantial doubt as to the ability of the Company to continue as a going concern. Management's plans include attempting to find additional operational business(es) to buy and raising funds from the public through a stock offering. Management intends to make every effort to identify and develop sources of funds. There can be no assurance that Management's plans will be successful.

In July 2012, the Company sold the Augusta auction at a significant gain. However, the proceeds were insufficient to provide long-term operating capital.

NOTE 13 - SUBSEQUENT EVENTS

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

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

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

On July 31, 2012, the Company sold the Augusta auction for \$1,237,500 and realized a gain on the sale of approximately \$572,000.

In May 2009, the FASB issued ASC 855, which establishes general standards of accounting for and disclosure of events after the balance sheet date but before financial statements are issued or are available to be issued. Accordingly, the Company evaluated subsequent events through February 21, 2013, the date the financial statements were issued, and determined that there were no other items to disclose.

F-17

---

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

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

Date: February 22, 2013

By: /s/ Steven L. Sample  
Steven L. Sample  
CEO, President, and  
Chairman of the Board

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature                                | Title    | Date              |
|--|----------|-------------------|
| /s/ Steven L. Sample<br>Steven L. Sample | Director | February 22, 2013 |

Table of Contents