Acacia Diversified Holdings, Inc.
Form 10-Q/A
October 19, 2012

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

Form 10-Q/A

(Mark One)

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

For the quarterly period ended March 31, 2010

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

For the transition period from __________________ to ______________

Commission file number: 1-14088

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

Texas (State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
3515 East Silver Springs Blvd. - #243 Ocala, FL (Address of principal executive offices)	34470 (Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o (Not required)

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of March 31, 2010: 12,082,524.

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Explanatory Note

Overview of Amendment on this Form 10-Q/A

This first amendment on Form 10-Q/A (this "Amendment") amends the Quarterly Report on Form 10-Q (the "Original Quarterly Report") for the quarter ended March 31, 2010, which was originally filed with the Securities and Exchange Commission (the "SEC") on July 23, 2010. We are filing this Amendment in response to a comment letter received from the SEC (the "Comment Letter") in connection with its review of the Original Quarterly Report.

This Amended report is therefore being filed to supplement and amend information provided in the Quarterly Report on Form 10-Q for the three months ended March 31, 2009 filed on July 23, 2010 by Acacia Diversified Holdings, Inc. f/k/a Acacia Automotive, Inc. in order to fully disclose information then-disclosed in its financial results and in its Management's Discussion and Analysis of Financial Condition and Results of Operations. On July 26, 2012, the shareholders of the Company voted to change the name of the Company to Acacia Diversified Holdings, Inc.

We have determined that our previously reported financial results for the three months ended March 31, 2009 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 have further determined that management's discussion provided in various parts of the quarterly report was not adequate to provide an accurate basis for review.

Accordingly, we have 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 have relabeled certain financial information as "Not Reviewed" where applicable.

Management does not consider any of the previously reported financial information to have contained material deficiencies. As such, this Amendment does not reflect any material changes to the financial statements of the Company, but is changed to properly reflect periods in which the quarterly financial statements were not reviewed by the Company's outside auditors.

The following sections of this Form 10-Q/A have been revised to reflect the restatement:

Part I

Item 1 – Financial Statements
Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 4(T) – Controls and Procedures; and

Part II

Item 5 – Other Information

Other than those amendments made in response to the Comment Letter, no attempt has been made in this Amendment to modify or update other disclosures presented in the Original Quarterly Report. This Amendment does not reflect events occurring after the filing of the Original Quarterly Report or modify or update those disclosures, including the exhibits to the Original Quarterly Report affected by subsequent events. Accordingly, this Amendment should be read in conjunction with our filings with the SEC subsequent to the filing of the Original Quarterly Report, including any amendments to those filings.

In light of the amendments provided herein, readers are warned to not rely on the information disclosed for those three months ended March 31, 2009 as reported on Form 10-Q by the Company on July 23, 2010. Except to the extent relating to the restatement of our financial statements and other financial information described above, the financial statements and other disclosure in this Form 10-Q/A do not reflect any events that have occurred after this Form 10-Q was initially filed on July 23, 2010. That is, the Company does not make any attempt herein to disclose or otherwise account for events subsequent to the periods contemplated herein, other than those events specifically referenced herein.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ACACIA AUTOMOTIVE, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
CURRENT ASSETS		
Cash	$ 8,971	$ 21,035
Certificate of Deposit (Restricted)	150,096	150,041
Accounts receivable	803,637	315,822
Shareholder receivable	36,500	-
Employee receivable	168	-
Deposits and prepaid expenses	59,810	41,146
Total Current Assets	1,059,182	528,044
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $111,701 and $92,005 in 2010 and 2009, respectively	328,000	305,487
OTHER ASSETS		
Goodwill	427,929	427,929
Customer list and Non-Compete Agreement, net of amortization of $369,259 and $359,884 respectively	271,875	281,250
Total Other Assets	699,804	709,179
TOTAL ASSETS	$ 2,086,986	$ 1,542,710
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Cash overdraft	$ 331,029	$ 92,186
Accounts payable	629,476	371,611
Accrued liabilities	453,815	378,476
Line of credit	197,000	265,000
Capital lease obligations, current portion	25,368	31,362
Total Current Liabilities	1,636,688	1,138,635
NONCURRENT LIABILTIES		
Revolving loan	225,370	92,024
Capital lease obligations, less current portion	59,382	47,320
TOTAL LIABILITIES	1,921,440	1,277,979
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value, 150,000,000 shares authorized; 12,082,524 shares issued and outstanding.	12,082	12,082
Additional paid-in capital	11,294,228	11,277,668
Retained deficit	(11,140,764)	(11,025,019)
TOTAL STOCKHOLDERS' EQUITY	165,546	264,731

TOTAL STOCKHOLDERS' EQUITY AND LIABILITES	$	2,086,986	$	1,542,710

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

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ACACIA AUTOMOTIVE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009

	2010 (Unaudited)	2009 (Not Reviewed)
REVENUES		
Total Revenues	$ 978,144	$ 321,650
OPERATING EXPENSES		
Cost of services (exclusive of depreciation and amortization)	136,228	81,351
General and administrative	920,900	217,265
Depreciation and amortization	29,455	54,176
Loss on sale of assets	2,617	761
Total operating expenses	1,089,200	353,553
Operating income (loss) before other income (expense) and income taxes	(111,056)	(31,903)
OTHER INCOME (EXPENSE)		
Interest Income	206	444
Interest Expense	(4,895)	(5,985)
Total Other Income (Expense)	(4,689)	(5,541)
Income Tax	-	-
Net loss	$ (115,745)	$ (37,444)
BASIC AND DILUTED LOSS PER SHARE		
Weighted average shares outstanding	12,063,017	12,017,524
Earnings (Loss) per share	$ 0.00	$ 0.00

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

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ACACIA AUTOMOTIVE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009

	2010 (Unaudited)	2009 (Not Reviewed)
Cash flows from operating activities		
Net loss	$ (115,745)	$ (37,444)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	29,455	54,176
Stock options and warrants issued for services	16,560	16,177
Loss on disposal of assets	2,617	761
Changes in operating assets and liabilities		
Certificate of deposit (restricted)	(55)	
Accounts receivable	(487,983)	149,420
Shareholder receivable	(36,500)	-
Deposits and prepaid expenses	(18,664)	1,681
Accounts payable	257,865	(94,764)
Accrued liabilities	75,339	33,732
Net cash flow provided (used in) operating activities	(277,111)	123,739
Cash flows provided (used) from investing activities	-	
Interest withdrawal from CD	-	6,959
Proceeds from sale of assets	20,000	-
Purchase of property and equipment	(65,210)	(5,013)
Net cash provided (used) from investing activities	(45,210)	1,946
Cash flows provided (used) from financing activities		-
Cash overdrafts	238,843	-
Shareholder payables	-	1,511
Borrowings and repayments from/on line of credit and revolver	65,346	(89,000)
Capital lease borrowings/payments	6,068	(1,584)
Net cash provided (used) by financing activities	310,257	(89,073)
Net increase (decrease) in cash and cash equivalents	(12,064)	36,612
Cash at beginning of period	21,035	5,586
Cash at end of period	$ 8,971	$ 42,198

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

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ACACIA AUTOMOTIVE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2010 AND 2009

NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION

Acacia Automotive, Inc. ("Acacia" or the "Company") is engaged in acquiring and operating automotive auctions, including automobile, truck, equipment, boat, motor home, RV, motorsports, and other related vehicles.

BASIS OF PRESENTATION

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

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for annual financial information and with the instructions to Form 10-Q and Article 10 of Regulation SX. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a full presentation have been included. All such adjustments are of a normal and recurring nature.

CONSOLIDATION

The Company owns 100% of the voting stock of Acacia Augusta Vehicle Auction, Inc. and 100% of the voting stock of Acacia Chattanooga Vehicle Auction, Inc. Following December 26, 2009, the Company's consolidated financial statements include the accounts of the Company, Acacia Augusta Vehicle Auction, Inc., and Acacia Chattanooga Vehicle Auction, Inc. All significant intercompany accounts and transactions are eliminated in consolidation. (See Note 2 – Subsequent Events)

NOTE 2 – SUBSEQUENT EVENTS – BUSINESS COMBINATION

On July 10, 2007, Acacia Automotive, Inc. (the "Company") purchased certain assets and assumed certain liabilities of Augusta Auto Auction, Inc. through its wholly-owned subsidiary Acacia Augusta Vehicle Auction, Inc., which operates an auto auction in the Augusta, Georgia area from a leased facility located in North Augusta, South Carolina. The purchase was accounted for under the purchase method of accounting. The results of operations for the Acacia Augusta Vehicle Auction, Inc. business are included in these financial statements from the date of the purchase. That auction also does business under the trade name Augusta Auto Auction, Inc.

On August 31, 2009, the Company entered into a Management Agreement with the owners of Chattanooga Auto Auction Limited Liability Company. The Management Agreement provided that the Company would temporarily act as manager of that auction (commonly known as the "Chattanooga Auto Auction") for the Seller from September 1, 2009, through December 25, 2009, as the Company awaited the transfer of ownership of the assets it was to acquire in an Asset Purchase Agreement with Seller (see below). Under the terms of the Management Agreement, the Company was to receive 50% of the net profits of the auction for the period. However, the Company soon entered into a verbal agreement with the Seller that it would forego the right to any portion of the profits during that period if the Seller would agree to fund certain maintenance, repair, and improvements to the physical plant and premises prior to the Company's assumption of a lease thereon. Additionally, there was no accounting of the operations of the Seller for that period provided to the Company until approximately April 1, 2010. The final result was that there were no profits generated or shared.

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On August 31, 2009, simultaneous with execution of the Management Agreement, the Company executed documents to purchase certain assets and the related business of Chattanooga Auto Auction Limited Liability Company through the Company's newly-formed wholly-owned subsidiary, Acacia Chattanooga Vehicle Auction, Inc., which then operated the auction from a leased facility in Chattanooga, Tennessee. The assignment of assets occurred on December 26, 2009, as the Company commenced operations at that location under the name of Acacia Chattanooga Vehicle Auction, Inc. d/b/a Chattanooga Auto Auction, and was accounted for under the purchase method of accounting. The results of operations for the Acacia Chattanooga Auto Auction, Inc. business were included in the Company's financial statements beginning with the Annual Report 10-K for the period ended December 31, 2009.

In its Current Report on Form 8-K filed on September 16, 2009, the Company disclosed copies of all the execution documents and related forms of other documents available as of the execution of the Asset Purchase Agreement and the Management Agreement on August 31, 2009, including, without limitation, the anticipated financing agreements and ground lease. Each such document was to be executed at a final closing effective December 26, 2009.

In its Current Report on Form 8-K filed December 30, 2009 the Company indicated that: (a) the acquisition of the Chattanooga Auction had closed; (b) that the line of credit provided to the Company's Chattanooga subsidiary (as borrower) by Alexis Ann Jacobs (as lender) was increased from $1.5 to $2.0 million with the terms of that credit line amended to allow the Company to use the finds for "general corporate purposes in the normal course of business"; and, (c) that the original transaction documents were in fact filed with the Form 8-K dated September 16, 2009. The Company, through an unintentional oversight, failed to include changed or updated documents with that Form 8-K. The Company filed concomitant herewith an Amended Current Report on Form 8-K/A dated October 19, 2012 to fully disclose the amended documents

The Company has determined that its previously reported financial results for the three months and nine months ended September 30, 2009 and three months ended March 31, 2009 were not reviewed by the Company's auditors, but by reason of unintentional oversight the Company erroneously failed to label those results as "Not Reviewed". The annual financial results of the Company were audited in 2009 and 2008. We further determined that the discussion provided in various parts of the report were not adequate to properly set forth the Company's views.

Accordingly, we have 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 have made disclosures of certain prior quarterly financial information as "Not Reviewed" where applicable.

Management does not consider any of the prior reported quarterly financial information to contain material deficiencies and the Company's annual financial information was audited in 2009 and 2008. As such, this Amendment does not address any material changes to the financial statements of the Company, but is changed to properly reference those periods in which the quarterly financial statements were not reviewed by the Company's outside auditors.

NOTE 3 – GOING CONCERN

As of March 31, 2010, the Company had limited liquid assets and its revenues were not sufficient to meet the Company's obligations as they come due and are insufficient to satisfy expenses relating to the expansion of the Company. These factors raise substantial doubt as to the ability of the Company to continue as a going concern. Management's plans include attempting to find additional operational auto auctions 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 is can be no assurance that Management's plans will be successful and should they not be, the Company may be compelled to cease operations.

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Item 1B. Unresolved Staff Comments

The Company is in receipt of a comment letter from the Securities and Exchange Commission dated November 22, 2010 (the “Comment Letter”). The Comment Letter propounds 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. The first amendment on Form 10-K/A, the first amendment on Form 10-Q/A for the period ended September 30, 2009, the first amendment on Form 10-Q/A for the period ended March 31, 2010 and the first Amendment on Form 8-K/A for events first reported on September 16, 2009 are filed concomitant herewith in response to the Comment Letter in connection with the presentment of our financial statements, management's discussion and analysis thereof, controls and procedures and information presented on Forms 8-K.

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

Forward-Looking Information

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

General

The Company believes that vehicle auctions have historically shown that units they sell do not generally decline substantially during recession. We believe this is attributable to, among other facts, that in a recession the overall demand for used vehicles does not decline as significantly, or at least declines less than new car production would indicate, because some consumers that would otherwise purchase new vehicles purchase used vehicles, acquiring vehicles traditional purchasers of used vehicles may otherwise forgo or delay. For those reasons and more, we believe that the auto auction industry is more dependent upon the number of actual used vehicles in operation (VIO) in the U.S., rather than upon retail vehicle sales and manufacturing output. However, the recent recession proved to be quite severe, and resulted in a greater loss of units for sale or sold at most auto auctions than in recent recessionary periods, even though our auction operations have actually seen an increase in volumes in most instances.

During the first quarter of 2010, wholesale automotive markets improved throughout the entire U.S. as compared to previous year’s levels. While lower volumes of vehicles continue to be available to the wholesale markets as compared to pre-recessionary periods, the constrictions are not sufficient to preclude profitability, especially at auctions. During previous periods of economic downturns and recession, the automotive auction industry has traditionally fared well compared to many other industries. This period has proved to be similar.

New vehicle sales in the first quarter of 2010 showed an increase of approximately 15% over the same period in 2009, shedding a positive light on industry improvement. On October 21, 2009 Reuters reported U.S. auto sales are projected to rise nearly one-fifth to 11.8 million units in 2010, according to industry tracking firm CSM Worldwide, citing signs that the worst of the economic downturn had passed. Sales of 11.8 million units would represent the first year-on-year increase in U.S. light vehicle sales since 2005.

Automotive News reported on April 9th that ADESA Auction Inc. figures show that the average used vehicle price in March was $10,549, a 7 percent increase over the year-earlier average price and a 4 percent boost over February. The report also indicated Manheim's Used Vehicle Value Index rose to a record 119.9 last month, a 13 percent increase over March 2009. The index stood at 118.1 in February and 106.1 in March of last year.

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As is common with other auto auctions, the Company has experienced and expects to continue to experience fluctuations in its quarterly results of operations due to a number of factors, many of which are beyond the Company's control and which are common to the auto auction industry. Generally, the volume of vehicles sold at the Company's auctions is highest in the first and second calendar quarters of each year and slightly lower in the third quarter. Fourth quarter volume of vehicles sold is generally lower than all other quarters. This seasonality is affected by several factors including weather, the timing of used vehicles available for sale from selling customers, holidays, and the seasonality of the retail market for used vehicles, which affect the demand side of the auction industry. Used vehicle auction volumes tend to decline during prolonged periods of winter weather conditions. Among the other factors that have in the past and/or could in the future affect the Company's operating results are: general business conditions; trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing; economic conditions including fuel prices and interest rate fluctuations; trends in the vehicle remarketing industry; the introduction of new competitors; competitive pricing pressures; and costs associated with the acquisition of businesses or technologies. As a result of the above factors, operations are subject to significant variability and uncertainty from quarter to quarter, and revenues and operating expenses related to volume will fluctuate accordingly on a quarterly basis.

Background

Acacia Automotive, Inc. (“we”, “us”, or the “Company”) was incorporated in Texas on October 1, 1984 as “Gibbs Construction, Inc.”. 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.

The plan of reorganization filed by the Company placed the then-existing assets of the Company in a liquidating trust 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 additional shares of Common Stock. Following those transactions, the majority of the issued and outstanding stock was 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.

Post Bankruptcy Restructuring

In events leading to June 26, 2006, Steven L. Sample, the Company’s current CEO, acquired TAM’s Common stock and paid the remaining costs of the bankruptcy for Gibbs Construction, after which the bankruptcy trustee requested and received an Order for Final Decree.

On August 15, 2006, for the sum of $50,000.00, 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 greed 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 thereby increasing 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 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 the 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.

Subsequent to the Company changing its name to Acacia Automotive, Inc. and revising its capital structure, it raised over $1,000,000 in a private placement offering in June of 2007. On July 10, 2007, the Company acquired its first automotive auction business in the Augusta, Georgia, metropolitan area.

Business of the Auctions

Both the Company's auctions primarily sell "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 Chattanooga Auction also sells vehicles and equipment under a contract with the U.S. Government's General Services Administration (GSA), primarily offering off-lease vehicles and other units for the GSA and other governmental agencies, and the Augusta Auction sells vehicles and equipment under a contract with the United States Marshals Service. Dealers and other qualified buyers attend the weekly auctions and bid on offered units. The highest bidder owns the vehicle, subject to any limiting reserve prices established by the owner/seller of the unit(s). In most cases, the buyers and sellers of the units pick up and deliver them to the Auction property, but the Auction does provide transport services, generally for a fee. Both the Company's auctions also hold a Friday night auction that is open to public bidders in addition to dealers, and occasionally holds special sales at other times.

The 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. While both auctions market their activities through their employees and commercial media, Chattanooga Auto Auction, the larger of the two, has a separate sales and marketing staff.

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.

History of Chattanooga Auto Auction

Chattanooga Auto Auction (the "Chattanooga Auction") is an automotive auction located in Chattanooga, Tennessee, and is located approximately ten miles from the center of that city. The auction was originally formed January 24, 1996, as Chattanooga Auto Auction Limited Liability Company and thereafter continued to operate in its present location until its assets were acquired by the Company on December 26, 2009. The property consists of approximately 56 acres, mostly paved, with a two-lane test-driving track and several buildings. The auction arena consists of eight lanes attached to a 25,730 square foot office complex. The property includes a three lane, 14,800 square foot reconditioning center, a 4,500 square foot vehicle check-in center, and a 3,130 square foot five-bay structure intended for use as a mechanical repair center.

In August of 2009, the Company caused to be formed Acacia Chattanooga Vehicle Auction, Inc. a Tennessee corporation and wholly-owned subsidiary of the Company ("ACVA"). ACVA was formed for the sole purpose of acquiring the assets of the Chattanooga Auto Auction Limited Liability Company, which it anticipates with the closing of that acquisition in December of 2009 and operating the auction.

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

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

Discussion Regarding Management Fees

In the same fashion as some other auction holding companies, the Company generates revenues to pay its corporate overhead by assessing fees to its operating units. These fees, designated as Intercompany Charges or Management Fees, appear as Other Expense below the Net Ordinary Income line on the operating units’ income statements and as income on the parent company’s operating statements. In 2009, the Company’s Augusta Auto Auction unit, its only operating unit for all but 6 days of that year, generated a profit of $271,892 before assessment of Management Fees at $25,000 per month, and sustaining a net loss of $28,108 for the year after the assessment of Management Fees. In 2010, the Company has continued assessing the same $25,000 monthly Management Fee to its Augusta auction, anticipating an additional assessment at year end, and effective January 1st also allocated a $35,000 monthly Management Fee to its Chattanooga auction unit assessed as its share of the Company’s corporate overhead with an anticipation of additional year-end assessments based on performance. As a result of the newness of the Chattanooga operation, the complexities of combining that material acquisition into our management system and consolidated financial reporting, and a final decision on the Management Fee allocation for that auction not being announced to the Company’s management until February 2010, the Management Fee for the Chattanooga auction was not yet reflected as an operating expense in that auction’s financial reports for Q1 of 2010, although amounts were allocated as Intercompany Charges on the Company’s balance sheet during that period with provisions to report those costs going forward. Management Fees, as with all significant intercompany accounts and transactions, are eliminated in consolidation.

Discussion Regarding the Company’s First and Second Acquired Operating Entities

With the acquisition of the Augusta Auto Auction on July 10, 2007, the Company commenced operations, and conducted its first weekly auction on July 11th under Acacia’s management. The Company’s only operations were those operations until the acquisition of its second automotive auction in late 2009. With the acquisition of Chattanooga Auto Auction on December 26, 2009, the Company has two operating entities. The Chattanooga action conducted its first weekly auction under our ownership on December 29, 2009.

Operating Results of the Auctions

Three months ended March 31, 2010

Augusta Auto Auction

The Augusta auction incurred an operating profit of $169,072 on revenues of $412,562 for the three months ended March 31, 2010, before Intercompany Charges, compared to a profit of $62,952 on revenues of $321,000 in the same period of 2009. Of that profit, $20,359 represented non-cash expenses for amortization and depreciation and $3,777 represented interest charges, compared to $53,073 in non-cash expenses for amortization and depreciation and $5,495 in interest charges during the first quarter of 2009, leaving the auction in a positive cash-flow posture for both periods.

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The first quarter of 2010 saw a 39.8% increase in the number of vehicles sold and an increase of 28.9% in units offered at our Augusta Auto Auction operation versus the same period in the previous year. We have consistently shown improvements before, during, and after the recessionary periods.

Augusta Auto Auction	2010
Units Offered vs. Q1 2009	+28.9%
Units Sold vs. Q1 2009	+39.8%
Conversion Rate Q1 2009	54.4%
Conversion Rate Q1 2010	59.0%
Change in Buy/Sell Fee Revenues vs. Q1 2009	+32.9%

Despite a very weak general economy and poor performance by auto manufacturers and retailers, our Augusta operations have shown 2009 and 2010 year-over-year Q1 increases in units sold of 18.2% and 39.8%, respectively, and increases in total revenues of 50.1% and 31.2%, respectively.

Chattanooga Auto Auction

The Company's Chattanooga subsidiary did not have operations in 2009, and as such cannot make statements as to those operations, comparative or otherwise.

On December 26, 2009, the Company acquired the assets of Chattanooga Auto Auction Limited Liability Company and has thereafter operated an auction at the same location as Acacia Chattanooga Vehicle Auction, Inc., a wholly owned subsidiary of Acacia Automotive, Inc. While management believes that the Chattanooga Auction can obtain profitability, management notes that the Auction has generated significant losses in recent years under prior ownership. While the Company did not receive audited financial information on Chattanooga Auto Auction Limited Liability Company as part of its acquisition, the available financial information reflects net losses in 2009 and 2008 of $1,846,140 and $2,864,351 respectively. The Company must reverse that trend of substantial losses to become profitable on a consolidated basis. Failure to do so could have a material adverse effect on our results of operations, business prospects, and financial condition. Financial information provided to the Company by the Sellers of the Chattanooga auction suggest that the business had achieved profitability for the first six months of calendar year 2009, prior to its acquisition by the Company.

The Chattanooga auction incurred a loss of $173,402 on revenues of $553,858 for the three months ended March 31, 2010. The auction does not have comparative financial results to 2009 performance under prior ownership. None of the loss represented non-cash expenses for amortization, $6,232 represented depreciation, and $109 represented interest charges, leaving the auction in a negative cash-flow posture for the period.

The first quarter of 2010 saw a 15.7% increase in the number of vehicles sold and an increase of 17.5% in units offered at the Chattanooga Auto Auction operation versus the same period in the previous year. The Company has consistently shown improvement at its operating units even during recessionary periods and a generally difficult economy.

Chattanooga Auto Auction*	2010
Units Offered vs. Q1 2009	+17.5%
Units Sold vs. Q1 2009	+15.7%
Conversion Rate Q1 2009	52.4%
Conversion Rate Q1 2010	51.6%

* Sales statistics taken from the Seller's prior ASI auction operating software provided data for comparisons with the Company's current results at the Chattanooga Auction location.

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The Company has been engaged in extensive maintenance and repair of the facility and its infrastructure in restoring it to optimum condition and operating efficiency. The Chattanooga facility is significantly larger than Augusta's, has a monthly rent of approximately $63,000 per quarter compared to approximately $13,000 in Augusta, and will require a similar effort as that devoted to Augusta to utilize the facility effectively and develop its potential. In the first quarter of 2010, we also incurred approximately $27,000 in expense for repairs and maintenance to the facility and equipment, the bulk of which expenses that will largely be considered as non-recurring after Q3 of this year. Additionally, the Company has been engaged in implementing new procedures and standards at that auction, including the expenditure of approximately $62,000 for marketing, advertising, and promotional activities to establish itself under new ownership, as well as the addition or replacement of certain personnel, all of which has required substantial additional time, attention, and expense. While not yet profitable, the Chattanooga auction has displayed measurable growth under Acacia's management versus previous periods since the Company assumed management control September 1, 2009, under a short term Management Agreement with the previous owners as the parties awaited the closing and transfer of assets at December 26, 2009. The Company sees continued improvement toward profitability, anticipated to be as soon as 2011 or possibly later this year.

Discussion Regarding the Parent Company's Operating Results

Three months ended March 31, 2010

We incur expenses at the corporate level in addition to those incurred at our operations at our auto auction operations in Augusta and Chattanooga. In the three month period ended March 31, 2010, compensation for our executives as shown under Employee Compensation was about $20,000 per month and our option and warrant expense, which is amortized, averaged about $5,500 per month. For the same three-month period we incurred a loss of $115,745. Corporate G&A expenses accounted for approximately $113,545 in the first three months of 2010, and included a credit for legal and accounting fees of approximately $8,354 that resulted from reallocating certain expenses to the auction units, office rental costs of approximately $1,863, non-cash amortized warrant and option expenses of approximately $16,560, and other traditional expenses for travel, convention expenses, equipment lease/rental, postage and shipping, printing and office supplies, insurance, telephone, light heat power, etc.

We incurred a combined operating loss from our two auction operating entities of about $4,300, that loss excluding corporate overhead expenses charged to the subsidiary units as Management Fees, with the profit from our Augusta operations being offset by the loss from our Chattanooga operations. On a consolidated basis, the Company lost $115,745 in the first quarter of 2010, compared to a loss of $37,444 in the first quarter of 2009, the Company incurring in 2010 non-cash charges of $46,015 for depreciation expense and for ratable charges of $16,560 for previously issued options and warrants.

Discussion Regarding EBITDA

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

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

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

The following tables represent the consolidated EBITDA results for the Company during the first quarter of 2010 and 2009:

	Quarter Ended	
	March 31, 2010 (Unaudited)	March 31, 2009 (Not Reviewed)
Net income (loss)	$ (115,745)	$ (37,144)
Add back:		
Income taxes	-	-
Interest expense, net of interest income	4,689	5,541
Depreciation and amortization	29,455	54,176
EBITDA	$ (81,601)	$ 22,573

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In addition to the non-cash depreciation and amortization expenses, we accrued for the issuance of stock options and warrants $16,560 in Q1 of 2010 and $16,177 in Q1 2009. Subtracting those amounts from the above table increases/decreases the totals to $(65,041) and $38,750 for 2010 and 2009 respectively. Our failure to meet our cash needs from operations during Q1 of 2010 derives from our losses at the newly-acquired Chattanooga operation, although the majority of those losses are offset by profits the Augusta operation which, with our credit lines, more than funded itself in 2009 and continues to do so in 2010.

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.

The Company’s liquidity in 2007 and 2008 was provided through the closing of private placements of common stock in the amounts of $1,112,500 and $130,000 respectively, and from the Company's auction operations since July 10, 2007.

As of March 31, 2010, the Company has accrued salaries of $262,250 owed to Mr. Steven Sample, the Company’s Chief Executive Officer and Mr. Tony Moorby, the Company’s President and Chief Operating Officer until December 31, 2008. This deferral of salary is not pursuant to any employment agreement but reflects an accommodation by Messrs. Sample and Moorby to assist the Company’s cash management in 2008 and beyond, and Mr. Sample’s accommodations for periods thereafter. The Company does not anticipate paying either Mr. Moorby or Mr. Sample in either Preferred or Common stock.

On an operating basis, the Company was cash flow positive as a consolidated entity in 2009, largely as a result of the operating and financial successes at its Augusta auction unit. The Company’s cash in fiscal year 2009 has been provided mostly by management fee revenues assessed to the Company's Augusta Auto Auction operations as Intercompany Charges and to a lesser extent by personal financial support from the Company’s CEO. The Company has not attempted to secure capital through a private placement of its securities in 2009.

We look to our operations to provide the cash flow and cash return on our investment. The operating cash flow from our Augusta operation has proven sufficient to support those operations in the current manner, and had been sufficient to also support the Parent Company’s operations on a consolidated basis as of the close of the fiscal year 2009. With the addition of the new Chattanooga auction operation, cash flow has not been sufficient at that auction to support its own operations, and in conjunction with the Augusta auction is not currently able to support the Company’s consolidated operations. Going forward, the Company will have to reduce overheads, 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. This will depend in large part on the success or lack of success of operations at the new Chattanooga auction combined with continuing successful operations at the Augusta auction.

The parent Company’s liquidity in 2009 was provided by management fee revenues assessed to the Company's Augusta Auto Auction operations and by personal financial support from the Company’s CEO. The Company had a positive operating cash flow as a consolidated entity in 2009, largely as a result of these factors. The parent Company’s liquidity in the first quarter of 2010 was provided by management fee revenues assessed to both its operating auction units and by personal financial support of the Company’s CEO.

The Company’s liquidity in 2009 will be supplemented by a $300,000 line of credit negotiated with Wachovia Bank, N.A. secured against the assets of its North Augusta location. The bank charged an interest rate on the line of credit equal to prime plus 1.5% on the outstanding daily balance, if any, and the greater of (i) the sum of the one month London interbank offered rate (Libor) as published in the Wall Street Journal (or such other publication or reference reasonably selected by the Lender if no longer published in the Wall Street Journal) plus 500 basis points, or (ii) 6.0% percent per annum, respectively. The Augusta line of credit was secured by all of the Company's deposits at the bank and a certificate of deposit with Wachovia Bank of just over $150,000 which the Company has held since mid-2007.

The Company's Augusta auction operations continue to expand, and ultimately could outgrow the present physical facility. As a result, the Company may ultimately be forced to seek a larger operating facility for its auction operations there, since the auction cannot accommodate the desired growth at its present location. In that event, the Company will be faced with a need to raise additional capital to fund the changes. There is no assurance the Company will be able to secure the funding to do so, and as a result its future growth may ultimately be limited.

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Additionally, a $2,000,000 line of credit was negotiated the seller of the Chattanooga Auction at First Volunteer Bank for general corporate purposes in the normal course of business by the Company’s subsidiary there. That line of credit is secured by the assets of the Chattanooga auction, all of which are further guaranteed by the parent Company and personally guaranteed by the Company's CEO, Mr. Sample. The lender, Alexis Ann Jacobs, placed $2,000,000 cash on deposit with the bank that was linked to the Company’s Chattanooga auction CAR account, such that any cash requirement created on a day-to-day basis would be automatically covered through drafts on the lender’s account at that same bank. Financing at the Augusta unit has been satisfactory, and liquidity there has been sufficient to maintain the auction’s operations. In 2009, the Company only operated the Chattanooga operation for the last five days of that year, utilizing its credit resources at that location very little. The Company’s Chattanooga subsidiary utilized the credit line at that location to a fuller extent in the normal course of business in 2010. This credit line matures December 28, 2012.

The lender at Chattanooga will charge an interest rate equal to: (a) prime plus 1.5% on the outstanding daily balance, if any; and, (b) the greater of (i) the sum of the one month London interbank offered rate (Libor) as published in the Wall Street Journal (or such other publication or reference reasonably selected by the Lender if no longer published in the Wall Street Journal) plus 500 basis points, or (ii) 6.0% percent per annum, respectively.

Both those lines of credit in Augusta and Chattanooga are used for general corporate purposes in the normal course of business 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 anticipates increasing the size of the available line of credit in Augusta as its sales volume grows.

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 near the end of a quarter, those unsettled receivables and payables will appear 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, funds which are made available to our operations in the forms of the lines of credit.

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

The Company will have an option to purchase the real property upon which it currently operates its Chattanooga facility, and desires to ultimately effect that purchase. This plan would require additional capital, which the Company may not be able to obtain.

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

The Company is currently engaged in its plan of seeking to grow through acquisitions as well as through organic means. To succeed in doing so, the Company will require additional capital, which the Company anticipates raising through sale of Common stock, but does not yet have a planned date or target amount for any such offering. Moreover, 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. The Company did not attempt to secure capital through a private placement of its securities in 2009 or 2010, and does not expect to secure capital in that manner in the short term in 2010.

Cash Balances vs. Overdrafts

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

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The Company will require substantial infusions of working capital or a substantial increase in the cash generated from operations to insure long-term liquidity, and may seek infusions of working capital in the form of equity or debt capital, the former being considered most beneficial to the Company, but not being considered a viable option in the economic conditions the country has experienced in 2009 and 2008 and continuing into the current period. There is no assurance the Company will be successful in obtaining infusions of capital to fuel its growth. As such, the Company determined to concentrate on maximizing its opportunities at the auction level, and has heretofore been quite successful in that effort. The Company’s corporate overhead is not large by industry standards, and could foreseeably be covered by revenues from operations of its units given continuing growth at its Augusta operation and a stabilization of the new operations at its Chattanooga operation.

Accounts Receivable

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

Revenue Recognition

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

Chattanooga Auto Auction, having only been recently acquired, has not been brought to profitability and is not operating on a cash flow positive basis. As a result of the negative cash flow posture at Chattanooga, our current operations do not provide sufficient cash flow to cover fully 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.

Discussion Regarding Allowance for Bad Debts

The Company estimates its allowance for doubtful accounts based on historical collection trends, the age of the outstanding receivables and existing economic conditions. The allowances for doubtful accounts and credit losses are based on management's evaluation of the receivables portfolio under current conditions, the volume of the portfolio, overall portfolio credit quality, review of specific collection issues and such other factors which in management's judgment deserve recognition in estimating losses. At December 31, 2009 and 2008, there was no allowance for doubtful accounts required based on management's estimates. For the years ended December 31, 2009 and 2008, the Company recognized uncollectable accounts receivable losses of $25,685 and $27,370, respectively.

The Company's significant charge-offs are those temporarily required to be made by its independent accountants due to aging, all of which have been subsequently recovered, resulting in no loss to the Company or its subsidiaries. There were two charge-offs in 2009 totaling $16,090. Those amounts were charged off at the direction of our independent accounting firm due to their aging, but both were subsequently collected, again resulting in no loss to the Company.

Financing of Planned Expansions and Other Expenditures

The Company is currently engaged in its plan of seeking to grow through acquisitions as well as through organic means. To succeed in doing so, the Company will require additional capital, anticipated to be through sale of Common Stock. There is no assurance the Company will be successful in its attempts to locate and secure additional funding or additional acquisitions.

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Financial Reporting and New Technologies

As part of its commitment to improve our operating and reporting efficiencies, the Company engaged a certified public accountant and is currently seeking a Controller and/or Chief Financial Officer.

Contemplated Business

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 first two automobile auctions as indicative of the basis of services rendered by the Company. The Company will have to raise cash to acquire additional automobile auctions, probably 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.

With the acquisition of the Chattanooga auction in December of 2009 to augment its Augusta auction operation, the Company considers those first two automobile auctions 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.

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.

Conflicts of Interest.

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

The Company's full-time salaried Vice President and COO is engaged in ownership of a used car operation in Georgia and buys and finances vehicles for that operation, and also engages in various real estate transactions, all of which may compete for his time and attention in the Company's core auction business and related operations.

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

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

The President and Vice-President of the company serve as directors of the Company as well as officers and directors of the Company's subsidiary corporations. Service in those capacities with the subsidiaries is not considered in itself to constitute a conflict of interest on the part of those employee/directors.

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

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Dependence on Steven L. Sample

The Company depends in large part upon the continuing service of its President and CEO, Steven L. Sample. Mr. Sample was responsible for bringing the corporation out of bankruptcy, after being in the court for some six years, through the payment of expenses and taking actions to guide the Company into the future. Mr. Sample has invested significant capital into the Company, assisted the Company with capital during periods of shortages, allowed the Company to defer pay and expenses when necessary, and worked substantially more hours than expected of a normal management employee. If Mr. Sample were to become unable to manage the affairs of the Company for any reason, the Company may suffer materially from the loss of his leadership, guidance, and financial support.

Item 4T. Controls and Procedures

Management’s Report on Internal Control over Financial Reporting

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

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

Changes in Internal Control over Financial Reporting

In the course of conducting our audit for the fiscal year 2009, our auditor, Killman, Murrell & Company, P.C. indicated that we have three material weaknesses: (i) Reconciliations and account analysis were not performed in a timely manner as the Company did not have fully trained financial accounting personnel, which resulted in adjusting journal entries; (ii) The sales and accounts receivable software is not integrated with the financial accounting software and accounting personnel did not perform routine reconciliations of data entered on the sales reporting system to appropriate control accounts in the general ledger system with reconciliations made in the aggregate without individual account scrutiny regardless of materiality; and (iii) Before the audit sign off date the Company suffered a computer server system failure. Even though there was no apparent loss of data, there was a failure of operations personnel to perform systematic and recurring data backups on a routine basis.

During fiscal 2009 at the Company's Augusta and parent Company operations, the Company performed reconciliations and account analysis in a timely manner using a fully trained financial accountant. However, with the acquisition of its Chattanooga subsidiary on December 26, 2009, the Company attempted to reconcile Chattanooga's software and data with the parent Company's software and data, but was unsuccessful in achieving a timely melding of the systems. In addition, the Company had difficulty in locating financial personnel who were proficient with

Chattanooga's software, all of which resulted in failure to reconcile its accounts to the Annual Report in a timely manner. Ultimately the Company installed its software at the Chattanooga location and established a parallel accounting system with its other units, allowing for proper reconciliations and consolidation of the operating units. During this period, many reconciliations and account analysis were not performed in a timely manner. The Company is working to train the appropriate personnel at all locations to improve the speed and accuracy of reconciliations, and is also considering the addition of a qualified controller to its corporate team. The Company considers that these actions will mitigate this issue in the future.

As with most independent vehicle auction companies of its size, the Company’s sales and accounts receivable software, as a part of its auction operating software, is not integrated with its financial accounting software. The integration requires additional meticulous steps to be undertaken on a regular basis as well as general business review of business practices reflected by the information. We continue to press for efficient integration of information and seek qualified personnel to effect these processes.

The Company suffered a server failure at its Augusta location in February of 2010, and discovered that its practices in backing up and protecting certain digital financial data were insufficient. While the Company currently backs up its digital data from the auction operating systems on a daily basis, it had not been making daily backups of its financial data. The data in question covered a period from mid-February to mid-April of 2010, was protected by hard copy financial records, was fully restored within a short time after the anomaly, and resulted in no compromise or 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.

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PART II OTHER INFORMATION

Item 5. Other Information.

The Company's Balance Sheets as of March 31, 2009, the Statement of Operations for three months ended March 31, 2009, and the Statement of Cash Flows for the three months ended March 31, 2009 were not reviewed by the Company's independent accountants and as such are deemed deficient. The Company believes that this information, nonetheless, is not materially inaccurate and the information for the periods referred to are included in the audited information set forth in the Company's Annual Report on Form 10-K for the period ended December 31, 2009. As such, the Company has no current plan to address this deficiency.

During Q1 2010, the Company's CEO acquired 20,114 shares of the Company's Common stock by purchasing them on the open market at an average price per share of $0.302. Those transactions were reported by him as the Reporting Person on SEC Forms 4 dated 1/15, 1/19, 2/4, 2/11, 2/18, 2/23, and 3/11 of 2010. During Q2 2010, the Company's CEO acquired an additional 500 shares of the Company's stock by purchasing them on the open market at an average price per share of $0.927 per share. Those transactions were reported by him as the Reporting person on SEC Forms 4 dated 4/6, 5/4, and 5/14 of 2010. The CEO, as the Reporting Person, has never sold any shares of the Company and does not currently have any plans to do so.

Item 6. Exhibits

Exhibit Number	Exhibit Description
31.1	Certification Pursuant To 18 U.S.C. Section 1350 As Adopted Pursuant to Section 302 of Sarbanes-Oxley Act Of 2002
32.1	Certification Pursuant To 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of Sarbanes-Oxley Act Of 2002

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SIGNATURES

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

Acacia Automotive, Inc.

Date: October 19, 2012	By:	/s/ Steven L. Sample
		Steven L. Sample Chief Executive Officer and Principal Financial Officer