

IDACORP INC
Form S-3ASR
November 20, 2008
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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON NOVEMBER 20, 2008

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

IDACORP, Inc.

(Exact name of registrant as specified in its charter)

Idaho

1221 West Idaho Street

82-0505802

(State or other jurisdiction of
incorporation or organization)

Boise, Idaho 83702-5627

(I.R.S. Employer
Identification Number)

(208) 388-2200

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

J. LaMont Keen

Darrel T. Anderson

Thomas R. Saldin, Esq.

President and Chief Executive Officer

Senior Vice President - Administrative Services
and Chief Financial Officer

Senior Vice President and General Counsel

IDACORP, Inc.

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1221 West Idaho Street

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(208) 388-2200

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(Names, addresses, including zip codes, and telephone numbers,
including area codes, of agents for service)

Copies to:
Elizabeth W. Powers, Esq.
Dewey & LeBoeuf LLP
1301 Avenue of the Americas
New York, New York 10019
(212) 259-8000

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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CALCULATION OF REGISTRATION FEE

| Title of each class of securities to be registered | Amount to be registered | Proposed maximum offering price per unit | Proposed maximum aggregate offering price | Amount of registration fee |
|--|-------------------------|--|---|----------------------------|
| Common Stock, without par value. | | | | |
| | | | | |
| Debt Securities. | | | | |
| | | | | |
| Total | | | | |
| ... | \$598,804,023 | \$ (1) | \$ (1) | \$ (1) |

(1) This registration statement is filed in accordance with Rule 415(a)(6) under the Securities Act and registers only securities that were previously registered and remain unsold. In accordance with Rule 415(a)(6), no registration fee is due.

This registration statement includes (i) \$300,000,000 aggregate initial offering price of securities previously registered pursuant to Registration Statement No. 333-64737 filed by the registrant on September 30, 1998 and (ii) \$298,804,023 aggregate initial offering price of securities previously registered pursuant to Registration Statement No. 333-83434 filed by the registrant on February 26, 2002 and that in each case remain unsold. Pursuant to Rule 415(a)(6), \$88,500 and \$27,489 of filing fees previously paid in connection with such unsold securities, respectively, will continue to be applied to such unsold securities.

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PROSPECTUS

\$598,804,023
IDACORP, Inc.
Common Stock
Debt Securities

We may offer from time to time, in one or more series:

- our common stock and
- our debt securities.

We may offer these securities in any combination in one or more offerings up to a total amount of \$598,804,023. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and any supplements carefully before you invest.

We may offer these securities directly or through underwriters, agents or dealers, as described in the Plan of Distribution. The supplements to this prospectus will describe the terms of any particular plan of distribution, including any underwriting arrangements.

We list our common stock on the New York Stock Exchange under the symbol IDA.

Our principal executive offices are located at 1221 West Idaho Street, Boise, Idaho 83702-5627, and our telephone number is (208) 388-2200.

Investing in our securities involves risks. Please see Risk Factors on page 2 of this prospectus as well as the risk factors in our most recent Annual Report on Form 10-K and in any other reports we file pursuant to the Securities Exchange Act of 1934 that we incorporate by reference in this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

November 20, 2008

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell securities and seeking offers to buy securities only in states where offers and sales are permitted.

The information contained in or incorporated by reference in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the securities offered hereunder.

Unless we indicate otherwise, or the context otherwise requires, references in this prospectus to the Company, we, us and our or similar terms are to IDACORP, Inc.

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RISK FACTORS

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Investing in our securities involves risks. You should carefully consider the risk factors described below and in our most recent Annual Report on Form 10-K and in any other reports we file pursuant to the Securities Exchange Act of 1934 that we incorporate by reference in this prospectus as well as those included in any prospectus supplement hereto. Our subsequent filings with the Securities and Exchange Commission may contain amended and updated discussions of significant risks.

The risks and uncertainties that we incorporate by reference are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business, financial condition and results of operations could be materially and adversely affected.

Future sales of our common stock in the public market could lower our stock price.

We may sell additional shares of common stock through our dividend reinvestment plan, director or employee stock option or benefit plans or stock purchase or ownership plans as well as through public offerings. We cannot predict the size of future issuances of our common stock, or the effect, if any, that future issuances and sales of shares of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock, or the perception that such sales could occur, may adversely affect the prevailing market price of our common stock.

The market price of our common stock is uncertain and may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for them. We cannot predict whether the market price of our common stock will rise or fall. Numerous factors influence the trading price of our common stock. These factors may include changes in our financial condition, results of operations and prospects, legal and administrative proceedings and political, economic, financial and other factors that can affect the capital markets generally, the stock exchanges on which our common stock is traded and our business segments.

Our charter and bylaws and Idaho law could delay or prevent a change in control that you may favor.

The terms of some of the provisions in our articles of incorporation and bylaws and provisions of Idaho Business Corporation Act could delay or prevent a change in control that you may favor or may impede the ability of the holders of our common stock to change our management.

In particular, the provisions of our articles of incorporation and amended bylaws:

- authorize our board of directors to issue up to 20,000,000 shares of preferred stock in one or more series without further action by shareholders

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- divide the members of our board of directors into three classes having staggered terms, with directors in each class elected to three-year terms
- limit the shareholders' right to remove directors, fill vacancies and increase or reduce the number of directors
- regulate how shareholders may present proposals or nominate directors for election at shareholders' meetings and
- require a supermajority vote of shareholders to amend certain provisions.

We are subject to the provisions of the Idaho Control Share Acquisition Law and the Idaho Business Combination Law. The Idaho Control Share Acquisition Law is designed to protect minority shareholders if someone acquires 20% or more of our voting stock. An acquiring person must disclose to us its identity, acquisition plans and financing. The acquiring person cannot vote a number of shares exceeding the applicable percentages, unless two-thirds of the outstanding voting stock, excluding shares owned by the acquiring person, approves of such voting power. The Idaho Business Combination Law prohibits us from engaging in certain business combinations with a person who owns 10% or more of our outstanding voting stock for three years after that person acquired the shares, unless our board of directors approved of the business combination or the acquisition in advance. The Idaho Business Corporation Act provides that notice and informational requirements and special shareholder meeting and voting procedures must be followed prior to consummation of a proposed merger or share exchange, as defined in the Idaho Business Corporation Act.

Statutory and regulatory factors will limit another party's ability to acquire us and could deprive you of the opportunity to gain a takeover premium for your shares of common stock.

Even if our board of directors favors a sale of the company, a sale would require approval of a number of federal and state regulatory agencies, including the Federal Energy Regulatory Commission, the Idaho Public Utilities Commission, the Oregon Public Utility Commission and the Wyoming Public Service Commission. The approval process could be lengthy and the outcome uncertain, which may deter otherwise interested parties from proposing or attempting a business combination. These regulatory constraints may result in a limited number of potential buyers.

FORWARD-LOOKING STATEMENTS

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In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are hereby filing cautionary statements. You should read these cautionary statements with the cautionary statements and risk factors under **Risk Factors** in this prospectus and in any prospectus supplement and with those included in our most recent Annual Report on Form 10-K and in any other reports that we file pursuant to the Securities Exchange Act of 1934 that we incorporate by reference in this prospectus.

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These cautionary statements identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements made by us or incorporated by reference in this prospectus or any prospectus supplement. Any statements that express or involve discussions about expectations, beliefs, plans, objectives, assumptions or future events or performance are not statements of historical facts and may be forward-looking. These statements often, but not always, use words or phrases such as anticipates, believes, estimates, expects, intends, plans, predicts, projects, may result, may continue or similar expressions. Forward-looking statements include estimates, assumptions and uncertainties and are qualified in their entirety by reference to, and are accompanied by, the following important factors. These factors are difficult to predict, contain uncertainties, are beyond our control and may cause actual results to differ materially from those contained in forward-looking statements:

- changes in and compliance with governmental policies, including new interpretations of existing policies, and regulatory actions and regulatory audits, including those of the Federal Energy Regulatory Commission, the North American Electric Reliability Corporation, the Western Electricity Coordinating Council, the Idaho Public Utilities Commission and the Oregon Public Utility Commission with respect to allowed rates of return, industry and rate structure, day-to-day business operations, acquisition and disposal of assets and facilities, operation and construction of plant facilities, provision of transmission services, including critical infrastructure protection and system reliability, relicensing of hydroelectric projects, recovery of power supply costs, recovery of capital investments, present or prospective wholesale and retail competition, including but not limited to retail wheeling and transmission costs, and other refund proceedings
- changes arising from the Energy Policy Act of 2005
- changes in tax laws or related regulations or new interpretations of applicable law by the Internal Revenue Service or other taxing jurisdiction
- litigation and regulatory proceedings, including those resulting from the energy situation in the western United States, and penalties and settlements that influence business and profitability
- changes in and compliance with laws, regulations and policies including changes in law and compliance with environmental, natural resources, endangered species and safety laws, regulations and policies and the adoption of laws and regulations addressing greenhouse gas emissions or global climate change
- global climate change and regional weather variations affecting customer demand and hydroelectric generation
- over-appropriation of surface and groundwater in the Snake River Basin resulting in reduced generation at hydroelectric facilities
- construction of power generation, transmission and distribution facilities including an inability to obtain required governmental permits and approvals, rights-of-way and siting, and risks related to contracting, construction and start-up
- operation of power generating facilities, including performance below expected levels, breakdown or failure of equipment, availability of transmission and fuel supply

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- changes in operating expenses and capital expenditures, including costs and availability of materials, fuel and commodities
- blackouts or other disruptions of Idaho Power Company's transmission system or the western interconnected transmission system
- impacts from the formation of a regional transmission organization or the development of another transmission group
- population growth rates and other demographic patterns
- market prices and demand for energy, including structural market changes
- increases in uncollectible customer receivables
- fluctuations in sources and uses of cash
- results of financing efforts, including the ability to obtain financing or refinance existing debt when necessary or on favorable terms, which can be affected by factors such as credit ratings, volatility in the financial markets and other economic conditions
- actions by credit rating agencies, including changes in rating criteria and new interpretations of existing criteria
- changes in interest rates or rates of inflation
- performance of the stock market, interest rates, credit spreads and other financial market conditions, as well as changes in government regulations, which affect the amount and timing of required contributions to pension plans, and the reported costs of providing pension and other postretirement benefits
- increases in health care costs and the resulting effect on medical benefits paid for employees
- increasing costs of insurance, changes in coverage terms and the ability to obtain insurance
- homeland security, acts of war or terrorism
- natural disasters and other natural risks, such as earthquake, flood, drought, lightning, wind and fire
- adoption of or changes in critical accounting policies or estimates and
- new accounting or Securities and Exchange Commission requirements, or new interpretation or application of existing requirements.

Any forward-looking statement speaks only as of the date on which we make the statement. New factors emerge from time to time; we cannot predict all factors or assess the impact of any emerging factors on our business, or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

ABOUT IDACORP

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We are a holding company formed in 1998 whose principal operating subsidiary is Idaho Power Company. We are subject to provisions of the Public Utility Holding Company Act of 2005, which provides access to books and records to the Federal Energy Regulatory Commission and state utility regulatory commissions and imposes record retention and reporting requirements

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on us. In 1998, we exchanged one share of our common stock for each share of Idaho Power Company's common stock, and Idaho Power Company became our wholly-owned subsidiary.

Idaho Power Company is an electric public utility engaged in the generation, transmission, distribution, sale and purchase of electric energy and is regulated by the Federal Energy Regulatory Commission and the state utility regulatory commissions of Idaho and Oregon. Idaho Power Company is the parent of Idaho Energy Resources Co., a joint venturer in Bridger Coal Company, which supplies coal to the Jim Bridger generating plant owned in part by Idaho Power Company.

Idaho Power Company was incorporated under the laws of the state of Idaho in 1989 as successor to a Maine corporation organized in 1915. Idaho Power Company's service territory covers a 24,000 square-mile area in southern Idaho and eastern Oregon, with an estimated population of 982,000. Idaho Power Company holds franchises in 71 cities in Idaho and nine cities in Oregon and holds certificates from the respective public utility regulatory authorities to serve all or a portion of 25 counties in Idaho and three counties in Oregon. As of September 30, 2008, Idaho Power Company supplied electric energy to approximately 486,000 general business customers.

Idaho Power Company is one of the nation's few investor-owned utilities with a predominantly hydroelectric generating base. Idaho Power Company owns and operates 17 hydroelectric generation developments, two natural gas-fired plants and one diesel-powered generator and shares ownership in three coal-fired generating plants.

Our other operating subsidiaries are:

- IDACORP Financial Services, Inc., an investor in affordable housing and other real estate investments
- Ida-West Energy Company, an operator of small hydroelectric generation projects that satisfy the requirements of the Public Utility Regulatory Policies Act of 1978 and
- IDACORP Energy, a marketer of energy commodities, which wound down operations in 2003.

RATIOS OF EARNINGS TO FIXED CHARGES

| | Twelve Months Ended December 31, | | | | | Nine Months Ended September 30, 2008 |
|------------------------------------|---|-------------|-------------|-------------|-------------|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | |
| Ratio of Earnings to Fixed Charges | 1.42x | 1.95x | 2.44x | 2.61x | 2.40x | 3.11x |

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Supplemental Ratio of Earnings to Fixed
Charges(1)

1.41x

1.93x

2.41x

2.57x

2.37x

3.06x

(1) Includes interest on the guaranty of the American Falls Reservoir District bonds and Milner Dam, Inc. notes.

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DESCRIPTION OF COMMON STOCK

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This section summarizes the material terms of our common stock. This summary is not complete. We refer you to our articles of incorporation, as amended, and our amended bylaws, each of which is on file with the Securities and Exchange Commission and which we have incorporated by reference in this prospectus. We also refer you to the laws of the state of Idaho. The prospectus supplement relating to any offering of common stock will describe the number of shares offered and the initial offering price or method of determining the initial offering price of those shares.

Our articles of incorporation, as amended, authorize us to issue 120,000,000 shares of common stock, without par value, and 20,000,000 shares of preferred stock, without par value.

Dividend Rights. Subject to the prior rights of the preferred stock, holders of our common stock are entitled to receive any dividends our board of directors may declare on the common stock. The board of directors may declare dividends from any property legally available for this purpose.

Voting Rights. The common stock has one vote per share. The holders of our common stock are entitled to vote on all matters to be voted on by shareholders. The holders of our common stock are not entitled to cumulative voting in the election of directors.

Holders of our preferred stock will not have any right to vote except as established by our board of directors or as provided in our articles of incorporation or bylaws or by state law.

A majority of the outstanding shares entitled to vote on a particular matter at a meeting constitutes a quorum. Action on a matter is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless our articles of incorporation, the Idaho Business Corporation Act or our bylaws require a greater number of affirmative votes. A plurality of the votes cast determines the election of directors.

Liquidation Rights. Subject to the prior rights of the preferred stock, if we liquidate, dissolve or wind up, whether this is voluntary or not, the holders of our common stock will be entitled to receive any net assets available for distribution to shareholders.

Other Rights. The common stock is not liable to further calls or assessment. The holders of our common stock are not entitled to subscribe for or purchase additional shares of our capital stock. Our common stock is not subject to redemption and does not have any conversion or sinking fund provisions.

Effects on Our Common Stock If We Issue Preferred Stock. Our board of directors has the authority, without further action by shareholders, to issue up to 20,000,000 shares of preferred stock in one or more series. The board of directors has the authority to determine the terms of each series of preferred stock, within the limits of the articles of incorporation and the laws of the state of Idaho. These terms include the number of shares in a series, dividend rights, liquidation preferences, terms of redemption, conversion rights and voting rights.

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If we issue preferred stock, it may negatively affect the holders of our common stock. These possible negative effects include diluting the voting power of shares of our common stock and affecting the market price of our common stock. In addition, the ability of our board of directors to issue preferred stock without shareholder approval may delay or prevent a change in control of the company.

Transfer Agent and Registrar. Wells Fargo Bank is the transfer agent and registrar for the common stock.

Provisions of Our Articles of Incorporation and Our Bylaws That Could Delay or Prevent a Change in Control

Although it is not the intention of the board of directors to discourage legitimate offers to enhance shareholder value, the existence of unissued common stock, the ability of the board of directors to issue preferred stock without further shareholder action and other provisions of our articles of incorporation and bylaws may discourage transactions aimed at obtaining control of us.

Classified Board. We have divided the members of our board of directors into three classes having staggered terms. The number of directors in each class is as nearly equal as possible. Directors in each class are elected for a three-year term.

This classification of the board of directors may prevent shareholders from changing the membership of the entire board of directors in a relatively short period of time. At least two annual meetings, instead of one, generally will be required to change the majority of directors. The classified board provisions could have the effect of prolonging the time required for a shareholder with significant voting power to gain majority representation on the board of directors. Where majority or supermajority board of directors approval is necessary for a transaction, such as an interested shareholder business combination, the inability to immediately gain majority representation on the board of directors could discourage takeovers and tender offers.

Number of Directors, Vacancies, Removal of Directors. Our bylaws provide that the board of directors will have at least 9 and at most 15 directors. The size of the board may be changed by a two-thirds vote of shareholders entitled to vote, or by a majority vote of the board of directors. A majority of the board decides the exact number of directors at a given time. The board fills any new directorships it creates and any vacancies.

Directors may be removed by the shareholders only for cause and only if at least two-thirds of the shares of our outstanding voting stock approve the removal.

These provisions may delay or prevent a shareholder from gaining control of the board.

Meetings of Shareholders

Calling of a Special Meeting. The president, a majority of the board of directors or the chairman of the board may call a special meeting of the shareholders at any time. Holders of at least 20% of the outstanding shares entitled to vote may call a special meeting if such holders

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sign, date and deliver to our secretary one or more written demands describing the purpose(s) of the proposed meeting. Upon receipt of one or more written demands from such holders, our secretary is responsible for determining whether such demand or demands conform to the requirements of the Idaho Business Corporation Act, our articles of incorporation and bylaws. After making an affirmative determination, our secretary will prepare, sign and deliver the notices for such meeting. The shareholders may suggest a time and place in their demand(s), but the board of directors will determine the time and place of any such meeting by resolution. These provisions for calling a special meeting may delay or prevent a person from bringing matters before a shareholder meeting.

No Cumulative Voting. Our articles of incorporation do not provide for cumulative voting. This could prevent directors from being elected by a relatively small group of shareholders.

Advance Notice Provisions. Our bylaws require that for a shareholder to nominate a director or bring other business before an annual meeting, the shareholder must give notice to our secretary not later than the close of business on the 120th day prior to the first anniversary of the date on which we first mailed proxy materials for the preceding year's annual meeting. If the date of the annual meeting is more than 30 days before or after the anniversary date of the preceding year's annual meeting, the shareholder must deliver notice no later than the close of business on the 10th day following the day on which we first publicly announce the date of such meeting.

Our bylaws also limit business at a special meeting to the purposes stated in the notice of the special meeting.

These advance notice provisions may delay a shareholder from bringing matters before a shareholder meeting. The provisions may provide enough time for our board of directors to begin litigation or take other steps to respond to these matters, or to prevent them from being acted upon, if our board of directors finds it necessary or desirable for any reason.

Amendment of Articles of Incorporation. Our articles of incorporation require an 80% vote of shareholders entitled to vote in order to amend the provisions relating to the board of directors and the amendment of our articles of incorporation, unless such amendment is recommended by two-thirds of the continuing directors, as defined.

Amendment of Bylaws. Amendment of the bylaws relating to the board of directors or advance notice provisions for shareholder meetings requires a two-thirds vote of shareholders entitled to vote or a majority vote of the board of directors.

Provisions of Idaho Law That Could Delay or Prevent a Change in Control

Idaho Control Share Acquisition Law. We are subject to the provisions of the Idaho Control Share Acquisition Law. This law is designed to protect minority shareholders in the event that a person acquires or proposes to acquire shares of voting stock giving it at least 20%, at least 33 1/3%, or more than 50% of the voting power in the election of our directors. Under this law, an acquiring person must deliver to us an information statement that includes the acquiring person's identity, its acquisition plans and its financing. The acquiring person cannot

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vote the shares it holds that are greater than the applicable percentages unless two-thirds of the outstanding voting stock, excluding shares owned by the acquiring person, approves of such voting power. If the acquiring person so requests and complies with other requirements, we must hold a special meeting within 55 days of receiving the information statement from the acquiring person for the shareholders to vote. If the acquiring person does not deliver the information statement, or our shareholders do not approve such voting power, we may redeem all of the acquiring person's shares that exceed the applicable percentage at their fair market value.

Idaho Business Combination Law. We are also subject to the Idaho Business Combination Law. This law prohibits us from engaging in certain business combinations with a person who owns 10% or more of our outstanding voting stock for a three-year period after the person acquires the shares. This prohibition does not apply if our board of directors approved of the business combination or the acquisition of our shares before the person acquired 10% of the shares. After the three-year period, we could engage in a business combination with the person only if two-thirds of our outstanding voting stock, excluding shares owned by the person, approve, or the business combination meets minimum price requirements.

DESCRIPTION OF DEBT SECURITIES

We will issue the debt securities offered in this prospectus under our senior debt securities indenture, dated as of February 1, 2001. Deutsche Bank Trust Company Americas, formerly known as Bankers Trust Company, is the trustee under the indenture. We may amend and supplement this indenture and will supplement it by one or more supplemental indentures relating to these debt securities.

This section briefly summarizes the material provisions of the indenture and uses some terms that are not defined in this prospectus but that are defined in the indenture. This summary is not complete. The indenture is on file with the Securities and Exchange Commission, and we have incorporated it by reference in this prospectus. You should read the indenture for a complete understanding of its provisions and for the definition of some terms used in this summary. In this summary, we have included references to section numbers of the indenture so that you can easily locate these provisions.

The debt securities that we may issue under this indenture will be unsecured. The indenture does not limit the amount of debt securities that we may issue and it does not restrict the amount or type of other debt that we or our subsidiaries may issue or contain any other provisions that would afford holders of the debt securities protection in the event of a highly leveraged transaction. We may use other indentures or documentation containing provisions different from those included in the indenture under which we are offering these debt securities in connection with future issues of debt securities.

We are a holding company whose primary source of funds is cash received from our subsidiaries in the form of dividends or other intercompany transfers. If any of our subsidiaries liquidate or reorganize, the claims of the subsidiary's creditors to the proceeds will be prior to the claims of our creditors, except to the extent we are a creditor of the subsidiaries. As a result,

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all of our debt securities will be effectively subordinated to all existing and future obligations of our subsidiaries.

The debt securities that we are offering in this prospectus will rank equal in right of payment to our other unsecured indebtedness that is outstanding now or that we may issue in the future, except for any indebtedness that, by its terms, is subordinate to these debt securities.

We will issue debt securities in series. Each series of debt securities may have different terms and, in some cases, debt securities of the same series may have different terms. The prospectus supplement relating to a particular series of debt securities will contain the following information about those debt securities to the extent applicable:

- the title of the series

- any limit on the aggregate principal amount of the series

- the date or dates on which we will issue the debt securities of that series and on which we will pay the principal amount and any premium

- the rate or rates at which the debt securities of that series will bear interest, or how we will determine the rate or rates

- the date or dates from which interest will accrue

- the dates on which we will pay interest on the debt securities of that series and the regular record dates for the interest payment dates

- the place or places where we will pay the principal of, premium, if any, and interest, if different from those we describe in this prospectus

- any redemption terms, including mandatory redemption through a sinking fund or otherwise, redemption at our option and redemption at the option of the holder

- whether any debt securities of that series will be issued as original discount securities and the amount of the discount
- any events of default, interest rates payable upon an event of default, or restrictive covenants if other than set forth in this prospectus
- the denominations in which we will issue the debt securities of that series, if other than denominations of \$1,000 and any integral multiple of \$1,000
- the provisions for the satisfaction and discharge of the indenture if different from those we describe in this prospectus and
- any other terms of the debt securities of the series.

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our corporate culture. To attract top talent, we believe we will have to offer attractive compensation packages. The risks of over-hiring or over compensating and the challenges of integrating a rapidly growing employee base may impact profitability.

Additionally, if we do not effectively manage our growth, the quality of our services could suffer, which could adversely affect our business, brand and reputation, results of operations and financial condition. If operational, technology and infrastructure improvements are not implemented successfully, our ability to manage our growth will be impaired and we may have to make significant additional expenditures to address these issues. To effectively manage our growth, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. This will require that we refine our information technology systems to maintain effective online services and enhance information and communication systems to ensure that our employees effectively communicate with each other and our growing base of customers. These system enhancements and improvements will require significant incremental and ongoing capital expenditures and allocation of valuable management and employee resources. If we fail to implement these improvements and maintenance programs effectively, our ability to manage our expected growth and comply with the rules and regulations that are applicable to publicly reporting companies will be impaired and we may incur additional expenses.

We may be subject to regulatory inquiries, claims, suits, or prosecutions which may impact our profitability.

Any failure or perceived failure by us to comply with applicable laws and regulations may subject us to regulatory inquiries, claims, suits and prosecutions. We can give no assurance that we will prevail in such regulatory inquiries, claims, suits and prosecutions on commercially reasonable terms or at all. Responding to, defending and/or settling regulatory inquiries, claims, suits and prosecutions may be time-consuming and divert management and financial

resources or have other adverse effects on our business. A negative outcome in any of these proceedings may result in changes to or discontinuance of some of our services, potential liabilities or additional costs that could have a material adverse effect on our business, results of operations, financial condition and future prospects.

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Expanding our product offerings or number of offices may not be profitable.

We may choose to develop new products to offer. Developing new offerings involves inherent risks, including:

- Ø our inability to estimate demand for the new offerings;
- Ø our inability to perfect the new products;
- Ø our ability to locate and identify new buyers for those products;
- Ø competition from more established market participants; and
- Ø a lack of market understanding.

In addition, expanding into new geographic areas and/or expanding current service offerings is challenging and may require integrating new employees into our culture as well as assessing the demand in the applicable market.

Risks of Low Priced Stocks

Following its initial public offering of its common stock in 1996, the Company's shares were originally traded on the NASDAQ Exchange into 2000 as Gibbs Construction, Inc. under the trading symbol GBSE. Gibbs encountered severe financial difficulties in 2000, after which it was moved from the NASDAQ Capital Markets to the OTC Pink Sheets. Following the resurrection of the Company's operations in 2007 through the intervention and assistance of the Company's current CEO, Mr. Sample, its stock currently trades on the OTCQB exchange under the trading symbol ACCA. Most of the Company's issued and outstanding common shares continue to be restricted shares resulting in a small "float". For that and other reasons the Company's securities have been thinly traded, and while a trading market for the Company's common stock could develop further with its current or new operations and the further release of restrictions on registered shares, there can be no assurance that it will do so. The Company returned to the OTC Pink Sheets following a delinquency in filing required reports, but anticipates returning to the OTCQB market immediately following the filings if this Annual Report for 2014 on Form 10-K.

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 of the Company, that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. In the event the Company determined to offer its common stock for sale, or elected to utilize its common stock in an acquisition or merger transaction, it would be required to advise the potential purchasers or parties to any such acquisition or merger transaction of the risks of penny stocks. 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.

If the Company were successful in identifying a new business opportunity and/or identifying an acquisition or merger target, became successful in actually launching a new business or acquiring or merging with any such target, and was successful in bringing profitable operations to the Company, it would intend to seek to meet the new listing requirements of the NASDAQ Capital market and attempt to return to that Exchange, which listing requirements include minimal capitalization, share price, and other benchmark requirements. There is no assurance the Company can successfully identify any suitable new business opportunity, acquisition or merger candidate, or if successful in identifying a new business opportunity or merger/acquisition candidate, that it can be successful in developing a new business or completing any acquisition or merger, or if successful in developing a new business or completing any acquisition or merger that the Company could be successful in meeting the new listing requirements of the NASDAQ, or if successful in meeting those requirements, that the NASDAQ would accept the Company as a member, or that if

the Company were successful in achieving a listing on the NASDAQ exchange that its share values would improve. Any attempt to return to the NASDAQ Exchange, even if the Company were successful in meeting the requirements to do so, could take as long as two years to complete.

We are subject to penny stock regulations and restrictions and you may have difficulty selling shares of our common stock.

The SEC has adopted regulations which generally define so-called “penny stocks” to be an equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. Our common stock is a “penny stock”, and we are subject to Rule 15g-9 under the Exchange Act, or the “Penny Stock Rule”. This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers. For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser’s written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell our securities and may affect the ability of purchasers to sell any of our securities in the secondary market.

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For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the SEC relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

No Assurance of Payment of Dividends

Should the Company acquire additional operations, and 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 its new operations or in raising capital in sufficient amounts or on acceptable terms to meet its capital needs. 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, there can be no assurance that it will be successful in doing so, or if successful in raising capital 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 sufficient 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, or that the Company will be successful in finding new operations.

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 its business plans. No assurance can be given that we will be able to obtain additional capital, or, if available, that such capital will be available at terms acceptable to us, or that we will be able to generate profit from operations, or if profits are generated, that they will be sufficient to carry out our business plans, or that the plans will not be modified.

Item 1B. Unresolved Staff Comments

None.

Item 2. Description of Properties

The Company's Citrus Extracts, Inc. subsidiary leases manufacturing and administrative facilities in Ft. Pierce, Florida for a combined rent of \$4,691 per month on a year-to-year lease – the maximum allowed by Florida state law in this facility. The leased premises consists of two buildings of approximately 15,000 combined square feet indoors housing its manufacturing operations, warehouse space, elevated loading docks, and office space. The lease also provides for sufficient outdoor parking and operating space such as to accommodate the Company's needs. The Company also

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currently maintains office and administrative space in Ocala, Florida, at a cost of approximately \$600 per month, which it may cancel at any time. The Company also rents on a month-to-month basis an additional warehouse in the Fort Pierce State Farmers Market consisting of approximately 1,900 square feet for \$838.50 per month for additional temporary warehouse space.

Item 3. Legal Proceedings

None.

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

None.

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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 QB Market under the ticker symbol ACCA. There were seven market makers who commonly made markets in our stock as of December 31, 2014. 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, 2014. 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 2012 | | | | |
| March 31 | \$0.25 | \$0.03 | \$1.96 | \$1.20 |
| June 30 | 0.51 | 0.05 | 1.20 | 0.51 |
| September 30 | 0.10 | 0.03 | 0.99 | 0.99 |
| December 31 | \$0.10 | \$0.01 | \$0.99 | \$0.75 |
| Quarters ending in 2013 | | | | |
| March 31 | \$0.01 | \$0.01 | \$1.80 | \$0.69 |
| June 30 | 0.25 | 0.15 | 1.80 | 0.80 |
| September 30 | 0.65 | 0.20 | 1.80 | 0.55 |
| December 31 | \$0.51 | \$0.36 | \$1.00 | \$0.51 |
| Quarters ending in 2014 | | | | |
| March 31 | \$ 0.55 | \$ 0.06 | \$ 1.41 | \$ 0.70 |
| June 30 | 0.20 | 0.06 | 0.70 | 0.70 |
| September 30 | 0.20 | 0.06 | 0.70 | 0.65 |
| December 31 | \$ 0.13 | \$ 0.10 | \$0.65 | \$ 0.51 |

As of December 31, 2014 the Company had 191 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 Plan¹ (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. On July 26, 2012, our shareholders voted to update and extend the Acacia Automotive, Inc. 2007 Stock Incentive Plan, renaming it the Acacia Diversified Holdings, Inc. 2012 Stock Incentive Plan. Warrants, which may be included as equity compensation of used in other manners, 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, 2014:

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SUMMARY OF EQUITY COMPENSATION PLANS

| Plan Description at December 31, 2013 and 2014 | Number of Shares to be Issued Upon Exercise of Outstanding Options | Weighted Average Exercise Price of Outstanding Options | Number of Shares Remaining Available for Future Issuance |
|---|--|--|--|
| Initial Number of Securities Available for Issue Under the Plan (1) | - | - | 1,000,000 |
| Total Options approved and issued through 12-31-2013 (2) | 735,000 | 0.43 | - |
| Options forfeited by former holders through 12-31-2013 (2) | (645,000) | 0.44 | - |
| Total Equity Plan Options outstanding at December 31, 2013 | 90,000 | 0.34 | 3,743,200 |
| Total options approved and issued in 2014 (2) | - | - | - |
| Options forfeited by former holders in 2014 (2) | - | - | - |
| Total Equity Plan Options outstanding at December 31, 2014 (2) | 90,000 | 0.34 | 4,243,072 |

- (1) The Company's Acacia Automotive, Inc. 2007 Stock Incentive Plan began with 1,000,000 authorized securities, to which were added 4% of the issued and outstanding shares of stock of the Company on the first calendar day of each year, but not to exceed 1,000,000 shares added in any calendar year. In 2012, the Company made certain revisions to and changed the name of its plan to the Acacia Diversified Holdings, Inc. 2012 Stock Incentive Plan.
- (2) The number of Options issued and forfeited under the Plan in the years 2007 through 2014 and the increases in securities added to the Plan for each year are as follows:

| Year | Options Granted | Options Forfeited | Securities added to Plan | Securities available* at December 31st |
|------|-----------------|-------------------|--------------------------|--|
| 2007 | 155,000 | -0- | -0- | 845,000 |
| 2008 | 240,000 | -0- | 479,900 | 1,084,900 |
| 2009 | 195,000 | -0- | 482,500 | 1,372,400 |
| 2010 | 145,000 | (255,000) | 483,300 | 1,965,700 |
| 2011 | -0- | (390,000) | 462,500 | 2,818,200 |
| 2012 | -0- | -0- | 462,500 | 3,280,700 |
| 2013 | -0- | -0- | 462,500 | 3,743,200 |
| 2014 | -0- | -0- | 499,872 | 4,243,072 |

* This number will increase on January 1, 2015 by 509,416 securities, bringing the total securities authorized for issuance under the plan as of that date to 4,752,488.

Item 6. Selected Financial Data

Not Applicable

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

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

Although we believe that the exceptions reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements due to numerous factors, including, but not limited to, availability of financing for operations, successful performance of operations, impact of competition and other risks detailed below as well as those discussed elsewhere in this Form 10-K and from time to time in the Company's Securities and Exchange Commission filings and reports. In addition, general economic and market conditions and growth rates could affect such statements. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

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Executive Overview

With the acquisition of the Augusta Auto Auction on July 10, 2007, the Company commenced revenue-producing 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 sold vehicles and equipment for automotive dealers and commercial accounts, including banks and finance companies, as well as for the United States Marshals Service. The Company sold the business and related assets of the Augusta auction on July 31, 2012, and first accounted for those operations as discontinued on its Annual Report of Form 10-K for the year ended December 31, 2011.

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 in September of that same year. 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 accounted for them as discontinued 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.

On July 10, 2013 the Company, through its wholly-owned subsidiary Citrus Extracts, Inc., entered into a definitive agreement to acquire certain assets (the "Assets") of Red Phoenix Extracts, Inc., a Florida corporation ("RPE" or the "Seller") in Fort Pierce, Florida. The transaction is more particularly described in the Company's Current Report on Form 8-K dated July 10, 2013.

The Company on January 15, 2014 formed Acacia Transport Services, Inc. as a wholly-owned subsidiary for the primary purpose of providing transportation and a continuous source of raw citrus peel materials for its sister Citrus Extracts, Inc. manufacturing plant, and for the secondary purpose of generating transport revenues in hauling excess raw citrus peel materials to local farmers for use as feed for livestock. On July 2, 2014, that subsidiary entered into an Agreement for Citrus Peel Hauling Services with Lambeth Groves Juice Company, a juice extraction company located in Vero Beach, Florida, some 20 miles from Citrus Extracts, Inc. That contract called for Acacia Transport to assume all responsibilities for hauling the raw, remediated citrus peel products from Lambeth Groves by July 30, 2014, and actual transport operations from Lambeth Groves commenced on August 7, 2014.

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

Discussion Regarding Management Fees

In the same fashion as some other 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 2014, the Company's Citrus Extracts unit, its only operating unit for the first two quarters of 2014, and its Acacia Transport Services unit, which began operations in July of that year, were assessed those Intercompany Charges. Management Fees, as with all significant intercompany accounts and transactions, are eliminated in consolidation.

Discussion Regarding the Business of the Company's Subsidiaries

Business Overview - Citrus Extracts, Inc.

The Company's Citrus Extracts subsidiary utilizes our chemical-free, 100% natural processes in the manufacturing, sale, and distribution of all-natural food-grade ingredients made from raw, fresh, natural citrus peel resulting from citrus juicing operations. Through its trade secret processes, CEI processes and dehydrates orange, lemon, grapefruit and tangerine peel as CitraBlend and CitraBlend then mills it to varying sizes from "cut & sift flakes" to 40+ mesh powders (or smaller sizes for custom orders). These ingredients, both organic and non-organic, find their ways into many national brand-name products commonly found on America's kitchen tables in the form of spices, teas, national brand beer, specialty beverages, and otherwise. In addition to a national label beer, our products are found in many craft beers, and because we have only recently addressed that market it remains largely untapped. CitraBlend is currently primarily sold through a distributor network with emphasis on those industries.

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

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

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

Discussion Regarding Citrus Products

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

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

extraction, the juice passes through a finisher which, using various means, removes excess pulp and seeds.

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

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

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

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

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

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

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

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

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

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

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

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

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Business Overview - Acacia Transport Services, Inc.

The Company on January 15, 2014 formed Acacia Transport Services, Inc. as a wholly-owned subsidiary for the primary purpose of providing transportation and a continuous source of raw citrus peel materials for its sister Citrus Extracts, Inc. manufacturing plant, and for the secondary purpose of generating transport revenues in hauling excess raw citrus peel materials to local farmers for use as feed for livestock. On July 2, 2014, that subsidiary entered into an Agreement for Citrus Peel Hauling Services with Lambeth Groves Juice Company, a juice extraction company located in Vero Beach, Florida, some 20 miles from Citrus Extracts, Inc. That contract called for Acacia Transport to assume all responsibilities for hauling the raw, remediated citrus peel products from Lambeth Groves by July 30, 2014, and actual transport operations from Lambeth Groves commenced on August 7, 2014.

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

In a departure from the customary off-season lack of availability of raw citrus peel material for its production processes, Lambeth Groves generally acquires various supplies of fresh citrus products citrus products during the citrus season as supplies to support its own juice extraction operations during the off-season. The peel resulting from those off-season juice production operations becomes a source of off-season raw materials for production at the Company's Citrus Extracts operations, and the transport of that peel is accommodated by Acacia Transport Services. Thus, Acacia Transport, through its agreement with Lambeth Groves, has obtained a source of peel in limited quantities for its revenue-generating operations during the off-season in addition to the larger volumes of peel generated in the normal citrus season, while at the same time providing a supply of off-season raw peel to its sister Citrus Extracts, Inc. subsidiary for its food-grade ingredient product manufacturing. The Company anticipates seeing a benefit from this opportunity in the off-season occurring during the summer of 2015.

Acacia Transport Services transported its first load of raw peel from Lambeth Groves on August 7, 2014 and transported subsequent loads going forward from that date. Full-scale transport operations finally began with the onset of the 2015 citrus season that again started later than anticipated at approximately the beginning of December, 2014, the number of loads transported "in season" generally being maximized during the period of December through March or April.

The Company balances the lower revenue-producing potential, equipment cost, and operating expenses of its Acacia Transport subsidiary against the availability of peel for the manufacturing operations of its Citrus Extracts subsidiary, and has determined it to be a strategy that is very beneficial to the Company overall.

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

Discussion Regarding Operating Results of the Company

The Company acquired certain assets through its new Citrus Extracts, Inc. (“CEI”) subsidiary, the Company’s only revenue-producing subsidiary on July 10, 2013 only instituting full operations near the end of that year, and therefore had no revenue-producing operations for the majority of 2013.. CEI was the Company’s only revenue producing operations until August of 2014, when the Company formed its Acacia Transport Services, Inc. (“ATS”) subsidiary, the Company’s other revenue-producing subsidiary, ATS had no revenue producing operations at all in 2013 and the first two quarters of 2014, and had only very limited operations in the third quarter of 2014, becoming more active later in the fourth quarter as the 2015 Florida citrus season arrived. Accordingly, the Company’s discussion and analysis of financial condition and results of operations for 2014 may not be reflective of similar results in the prior year or provide a proper basis for comparative review.

In order to generate its finished, food-grade, dehydrated ingredient products, the Company utilizes raw, wet citrus peel in its confidential production processes. Generally speaking, each pound of our finished, dehydrated ingredient products requires approximately five to seven pounds of raw peel to complete that transformation process. In the twelve months ended December 31, 2014, the Company processed approximately 5.5 million pounds of raw, fresh citrus peel and sold over one million pounds of finished ingredient products at an average price of about \$1.40 per pound.

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Operating costs and expenses were about \$749,000 for the twelve months ended December 31, 2014, in addition to costs of revenues of about \$826,000, for total costs and expenses of about \$1,575,000 as compared to operating costs and expenses of about \$584,000 and costs of revenues of about \$232,000 for total costs and expenses of about \$816,000 for the twelve months ended December 31, 2013. This 2014 increase of about \$759,000, or 93% in total costs and expenses is caused by approximately \$188,000 increase in employee compensation related to the Company's subsidiary that was not in existence prior to July 10, 2013; an increase in the cost of revenues of about \$594,000 related to manufacturing operations that were also not present prior to July 10, 2013; an increase in interest expense of about \$5,000; and, was offset by a decrease of about \$20,000 in general and administrative expense and a gain on sale of assets of about \$41,000 in 2014.

The consolidated net loss decreased from \$683,308 to \$151,650 in the twelve months ended December 31, 2013 and 2014, respectively. This \$531,658 decline in the net loss is the result of the gross profit of \$586,712 recognized on 2014 sales versus a gross loss of 84,254 in 2013 primarily due to a lack of revenue producing operations for most of the year combined with the costs of preparing the plant for operations and supporting the overheads during the non-revenue producing periods.; a gain of \$25,955 in other income in 2014 versus 2013; and, an increase of \$165,263 in total costs and expenses.

Consolidated employee expense of \$451,348 in 2014 included the corporate compensation expenses at the parent company and compensation expenses at its Citrus Extracts subsidiary. Consolidated employee expense of \$263,126 in 2013 included corporate compensation at the parent company and the compensation expenses at the Citrus Extracts subsidiary for a partial year beginning on July 10th. As a result, consolidated employee expense in 2014 increased about 72% from the 2013 level.

Consolidated general and administrative expense decreased by about 7% in 2014 versus 2013, to about \$289,000 from about \$310,000. The Company attributes this to the increased G&A expenses associated with the additional costs encountered with the 2013 startup of new operations at the Company's Citrus Extracts subsidiary in Fort Pierce, Florida.

2014 depreciation and amortization costs were about 89% higher than in 2013, due to a full year's expense in 2014 rather than approximately 5 months' costs in 2013 following the acquisition of certain assets from Red Phoenix Extracts, Inc. on July 10, 2013 and, beginning in July 2014, for fleet and equipment acquisitions at its Acacia Transport Services, Inc. subsidiary. (See "Liquidity and Capital Resources".)

Discussion Regarding EBITDA

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

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

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

performance of the Company to other auto auction entities, it may not be comparable to similarly titled measures reported by other companies.

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

From August 1, 2012 until July 10, 2013, the Company had no revenue-producing operations. The Company's Citrus Extracts subsidiary, its only revenue-producing operations in 2013, initiated limited operations on July 10, 2013. In August of, 2014, the Company's Acacia Transport Services subsidiary first began limited operations. As such, these results may not be reflective of similar results in the prior year or provide a proper basis for comparative review.

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Discussion Regarding Citrus Extracts, Inc. EBITDA

The following table represents the EBITDA results for Citrus Extracts, Inc. during the twelve months ended December 31, 2014:

| Citrus Extracts, Inc. | Twelve Months Ended December 31, 2014 (Audited) |
|--|---|
| Net income (loss) | \$ 405,867 |
| Add back: | |
| Income taxes | - |
| Interest expense, net of interest income | 11,563 |
| Depreciation | 83,113 |
| EBITDA | \$ 500,543 |

Discussion Regarding Consolidated EBITDA

The following table represents the consolidated EBITDA results for the Company during the twelve months ended December 31, 2014:

| Acacia Diversified Holdings, Inc. | Twelve Months Ended December 31, 2014 (Audited) |
|--|---|
| Net income (loss) | \$ (151,650) |
| Add back: | |
| Income taxes | - |
| Interest expense, net of interest income | 30,535 |
| Depreciation | 99,820 |
| EBITDA | \$ (21,295) |

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.

The Company looks to its operations to provide cash flow and cash return on our investment. However, the operating cash flow from our subsidiary operations was not sufficient to support the Parent Company's operations on a consolidated basis as of the close of fiscal 2014, again requiring the intervention of the CEO to provide financial support and liquidity for the Company. Going forward, the Company must generate greater revenues from operations at its subsidiaries in sufficient amounts to cover the costs of overheads in order to maintain a positive cash flow. The Company believes it is possible to do so from its subsidiary operations once it has identified additional buyers of its organic and non-organic ingredient products, but there can be no assurance the Company will do so.

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The Company's cash in fiscal year 2013 prior to the acquisition of certain assets on July 10th, and the subsequent implementation of limited production operations as it awaited the maturity of the 2014 citrus season, came from cash reserves generated in 2012, and again from personal financial support from the Company's CEO. In that same period, the cash flow from our Citrus Extracts, Inc. operation was not yet sufficient to support those operations, and was consequently not sufficient to also support the Parent Company's operations on a consolidated basis. Our operations in 2014 also 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 sale of its Augusta auction in 2012 and prior to the acquisition of assets to charge its new Citrus Extracts subsidiary and the implementation of full manufacturing operations at that subsidiary at the end of 2013 and the beginning of 2014, the Company no longer had the income from its operating subsidiaries as a source of revenue to meet its expenses, essentially generating little finished products and revenues until 2014. During its spooling-up period, which included the early part of 2014, the Company experienced extraordinary expenses associated with improving its plant facility and machinery, streamlining processes, generating new customers for its products, and generally coming into the mainstream as a manufacturer. While not unexpected or unforeseen, these factors nonetheless proved to negatively impact the operating efficiency and profitability of that subsidiary in its first full production year, resulting in reduced cash flows and liquidity to the Company.

As of December 31, 2014, the Company had a negative consolidated cash flow of about \$1,000 for the year. This resulted from positive net cash flows of approximately \$114,000 provided by financing activities offset by negative cash flows of about \$56,000 used in operating activities and about \$60,000 used in investing activities related to the purchase of equipment and leasehold improvements.

As a result of those deficiencies in 2014, the Company will have to increase its revenues, raise capital, or institute or acquire additional operations with revenues sufficient to cover the costs of overheads. There is no assurance the Company can be successful in increasing its revenues or obtaining infusions of capital to fuel its plans, or that it can be successful in identifying or acquiring other operations. The Company's corporate overhead is relatively small by industry standards, and management believes that such expense could ultimately be covered if it were successful in these efforts.

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 for the year ended December 31, 2014 based on the grant date fair value of the options.

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 2014 and 2013. 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 2014 and 2013, as no options were exercised. During the years ended December 31, 2014 and 2013, respectively, the Company issued no stock awards to employees.

The Company did not issue any stock options in 2014 or 2013 and had no ratable charge for options or warrants in 2014. However, in calculating its 2014 option and warrant expense, the Company relied upon the following parameters:

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.

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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, 2014 and 2013 were \$0.00 and \$26,002, respectively. There is no future amortization of the fair value of options.

Stock Options

| | 2014 | | 2013 | |
|--------------------------------------|---------------------|---------------------------------------|---------------------|---------------------------------------|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding at beginning of the year | 90,000 | \$0.34 | 90,000 | \$0.34 |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Forfeited or cancelled | - | - | - | - |
| Outstanding at end of year | 90,000 | \$0.34 | 90,000 | \$0.34 |
| Exercisable | 90,000 | \$0.34 | 90,000 | \$0.34 |

Stock Warrants

The exercisable outstanding stock purchase warrants was 1,326,250 for the years ended December 31, 2014 and 2013, with a weighted average exercise price of \$2.64. The following summarizes the warrant activity in 2014 and 2013.

| | 2014 | | 2013 | |
|---|-----------------------|---------------------------------------|-----------------------|---------------------------------------|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Warrants outstanding at beginning of the year | 1,326,250 | \$ 2.64 | 1,326,250 | \$ 2.64 |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Forfeited or cancelled | - | - | - | - |
| Expired | - | - | - | - |
| Warrants outstanding at end of year | 1,326,250 | 2.64 | 1,326,250 | 2.64 |
| Exercisable | 1,326,250 | \$ 2.64 | 1,326,250 | \$ 2.64 |

Liquidity and Need for Additional Capital

Overall, our operations were not self-funding in 2013 as a result of the lack of operations prior to July, and the delays associated with starting income producing operations at the new Citrus Extracts, Inc. subsidiary from July and beyond, exacerbated by the delays of citrus products maturing and coming to markets for the beginning of 2014 citrus season and were not self-funding in 2014 as a result of a lack of revenues from new operations. The annual citrus seasons generally begin in October or November each year, but the season started late in 2013 and 2014 with supplies of citrus only becoming generally available in December. The Company ended 2013 with a negative net cash flow of about \$188,000 resulting from about \$213,000 used in operating activities and about \$25,000 provided by financing activities.

In 2014 the Company ended the year with a negative cash flow of about \$1,000 resulting from about \$56,000 used in operating activities, about \$60,000 used in investment activities, and about \$114,000 provided by financing activities.

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Through December 31, 2014, the Company had accrued compensation of \$411,416 and cash advances to the Company of \$35,365 owed to Mr. Steven Sample, the Company's Chief Executive Officer, which remained unpaid as of that date. This deferred compensation represented amounts due to Mr. Sample beginning in early 2013, being pursuant to his Employment Agreement, and also to another employee of the Company. This lengthy deferral of compensation reflected a continuing accommodation by Mr. Sample to assist the Company's liquidity and cash management through those periods, as he had also done in prior years. The Company did not pay Mr. Sample in either preferred or common stock in 2014 or prior years, and does not currently anticipate doing so in the future.

To generate a positive cash flow, the Company will have to increase its revenues, raise capital or acquire new sources of revenues through acquisitions or mergers, and will probably have to raise additional capital to fund those acquisitions. There can be no assurance the Company will be successful in raising capital or in identifying new acquisition of merger targets, and if it is successful in identifying acquisition or merger candidates, there is no assurance the Company can be successful in completing any of those transactions.

In 2014 the Company was engaged in its plan of seeking to grow its revenues through increased manufacturing output and new marketing opportunities for its products, especially the organic products it anticipates producing in substantially greater quantities in the future. The Company is also seeking to grow through the creation of new businesses or through acquisitions, mergers or business combinations. To succeed in doing so, the Company will require additional capital. There is no assurance the Company can be successful in raising that capital.

The Company initiated a private placement of its securities at the end of August 2013, but suspended the offering after a short period prior to accepting any subscriptions pending changes to the Company's revised plans for operations and growth. The Company anticipates seeking additional capital through the sale of its equity securities possibly in 2015 or later, but no assurance can be made 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 a satisfactory number of suitable buyers to whom the Company may legally offer such securities. The Company would anticipate using the proceeds from any capital raise to bolster its new manufacturing operations, start new business operations, acquire new business operations, and/or seek a merger opportunity that could provide revenue streams to meet the Company's expenses. The Company has contracted for limited long-term obligations as of December 31, 2014 as set forth in the following table.

| Contractual Obligations | Total | Less Than 1 Year | 1-3 Years | 4-5 Years | More Than 5 Years |
|------------------------------|------------|---------------------|------------|-----------|----------------------|
| Long-Term Debt Obligations | \$ 375,608 | \$ 164,814 | \$ 210,794 | \$ - | \$ - |
| Operating Lease Obligations* | 35,346 | 31,746 | - | - | - |
| Totals | \$ 410,954 | \$ 196,560 | \$ 210,794 | \$ - | \$ - |

* The Company's Citrus Extracts subsidiary leases manufacturing and administrative space at its Ft. Pierce, Florida, location for \$4,691 per month since July of 2013, and the Company has rented administrative space in Ocala on a month-to-month basis at about \$600 per month in 2014 and 2013, which has been reflected above as if a lease on an annual basis for one future year. The Fort Pierce State Farmers Market, an industrial park managed by the State of Florida, only extends renewable leases on a year-to-year basis, with the end of lease occurring in June. Therefore, the table above reflects operating lease obligations of less than one year as the \$28,146 for the six months remaining on the annual lease at the Company's Citrus Extracts location in Fort Pierce, Florida, plus \$3,600 for the rent of the Company's facility in Ocala, Florida during the same period.

Financing of Planned Expansions and Other Expenditures

The Company plans to engage in a private offering of its equity securities in 2015 or later, anticipating using portions of any capital raised in that effort on planned upgrades to its manufacturing facilities, expansion of its production capabilities, and reduction of debt. There can be no assurance the Company can be successful in initiating a private offering of its securities, or if it is successful in initiating a private offering of its securities that it will be successful in raising capital, or if successful in raising capital that it can be successful in implementing any plan for acquisitions or adding or expanding any operations.

The Company formed a new subsidiary named Acacia Transport Services, Inc. (ATS), also operating out of the Fort Pierce, Florida facility, and acquired three over-the-road tandem-axle tractors, five tandem-axle aluminum end-dump trailers, and one 53 foot closed van trailer in conjunction with the signing of a new exclusive contract to receive raw citrus peel for use in its Citrus Extracts operations. The primary purpose of ATS is the transporting the raw citrus peel materials to Citrus Extracts for its manufacturing processes, and secondarily to haul excess peel to farmers for their use as cattle feed.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

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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 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 to generate financial statements. In designing and evaluating the 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 not effective as of December 31, 2014.

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)

During 2014 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.

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Item 9B. Other Information

On July 31, 2012, the Company sold its last remaining income-producing unit, Augusta Auto Auction prior to its current operations. Those operations were first accounted for as discontinued in the Company's Annual Report on Form 10-K for the year ending December 31, 2011. Following the sale of those assets, the Company had no revenue-producing operations or corresponding operating revenues until July of 2013.

On July 10, 2013, the Company, through its wholly-owned Citrus Extracts, Inc. ("CEI") subsidiary, acquired certain assets and assumed certain liabilities of Red Phoenix Extracts, Inc. of Fort Pierce, Florida. CEI had limited revenue producing operations in 2013 as it prepared for its new manufacturing start-up and awaited the beginning of the 2014 Florida citrus season, which was postponed by the delayed maturing of Florida's citrus crop, such that full operations did not commence at the facility until late December 2013 / early January 2014.

On January 15, 2014, the Company formed Acacia Transport Services, Inc. ("ATS") for the purposes of utilizing that corporation to house new subsidiary operations and to receive certain acquired assets. On July 2, 2014, ATS executed an exclusive agreement with Lambeth Groves Juice Company in Vero Beach, Florida to obtain all the raw citrus peel resulting from its juice extraction operations beginning July 30, 2014, and concomitant with that same time the Company acquired several road tractors and trailers for use in transporting the raw citrus peel for use at the Company's Citrus Extracts, Inc. manufacturing subsidiary and for disposing of excess peel to farmers. ATS hauled its first loads of raw citrus peel from Lambeth Groves on August 7, 2014 and thereafter as it became available.

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

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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, 2014, and positions held with the Company, were as follows:

| Name | Age | Position |
|---------------------|-----|---|
| Steven L. Sample | 67 | Director, Chmn. of the Board, and Chief Executive Officer |
| Patricia Ann Arnold | 58 | Secretary |
| Danny R. Gibbs | 57 | Director |
| V. Weldon Hewitt | 77 | Director |
| Dr. David Sadler | 66 | Director* |
| Dan L. Rigdon | 66 | Director |

Steven L. Sample, age 67, 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. 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. In 2013, Ms. Arnold joined Hospital Corporation of America (HCA) as a contractor in the Quality Standards section of the Clinical Services Group (CSG), and accepted the position of Executive Assistant to the Chief Health Information Officer in December of that year. From January of 2008 through January of 2013, Ms. Arnold 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.

Dan L. Rigdon, age 66. On September 1, 2013, Mr. Rigdon was appointed to the Company's Board of Directors. For the past 32 years Mr. Rigdon has served as Senior Pastor and most recently, Pastor Emeritus, in the Dallas Metroplex and has held numerous officer and director positions with a variety of organizations. At the age of 24, Reverend Rigdon was elected Executive Vice President of Christian Life College in Stockton, California after which he was elected Director of Promotions and Publications for the Youth Division of the United Pentecostal Church International ("UPCI"). Following that assignment, Reverend Rigdon was elected to the position of General Youth Secretary of UPCI, an organization of more than 9,800 ministers, ultimately being elected to General Youth President of that

organization. Following his tenure as General Youth President of UPCI, Reverend Rigdon was elected President of Christian Life College, Stockton, California. Reverend Rigdon was also a major contributor in the envisioning and formation of "Compassion Services International", serving as a driving force in the development of its philosophy and scope of endeavor and served as Chairman of its first Board of Directors in the early 1980's. For the past six years Reverend Rigdon has served on the Board of Directors of Natural Citrus Products Corporation.

Danny R. Gibbs, age 57 was reappointed to the Board of Directors on September 1, 2013 after originally serving from October of 1984 through September 29, 2011. Mr. Gibbs was the President of Gibbs Construction, Inc. (later becoming Acacia Automotive, Inc. and ultimately Acacia Diversified Holdings, Inc.) and a charter member of the Company's Board of Directors beginning with its formation in October of 1984 until April of 2000, and in February of 2007 Mr. Gibbs agreed to serve on Acacia's new board, where he served until September 29, 2011. The Company was most pleased to welcome Mr. Gibbs' return to its Board of Directors as he brings decades of experience in the public domain. From 2000 through 2003, Mr. Gibbs served as Senior Project Manager for TOC Companies in the Dallas, Texas area. From the beginning of 2004 through the present, he has served in a similar capacity with Dimensional Construction, Inc. Both companies were located in Garland, Texas where Mr. Gibbs resides with his family.

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V. Weldon Hewitt, age 77 was reappointed to the Board of Directors on September 1, 2013 after originally serving from February 1, 2007 through September 29, 2011. Mr. Hewitt has served as President and CEO of Hewitt Marketing since 1985, where he has been instrumental in establishing numerous OEM supplier contracts providing radios and other media devices and electronics, mobile cellular telephones, power-actuated equipment and accessories to many major vehicle manufacturers. Prior to that time, Mr. Hewitt founded and served as CEO of a manufacturing concern with annual sales of more than \$20 Million in audio sound systems for the luxury car market. His extensive experience in providing a wide variety of products and services to the automotive industry spans more than four decades. Mr. Hewitt resides near Louisville, Kentucky with his family.

* Dr. David Sadler was age 65 at the time of his first appointment to the Company's Board of Directors on September 1, 2013. Since 1987, Dr. Sadler had served as a Partner in a private practice of Cardiothoracic and Vascular Surgery in Longview, Texas. Born, reared and educated in Texas, Dr. Sadler co-founded the Cardiovascular and Thoracic Surgery programs at two Longview, Texas hospitals where he practiced for the past twenty years. He also co-founded Longview Thoracic and Cardiovascular Associates of Longview, Texas where he was a Managing Partner. Dr. Sadler received his Bachelor of Science from Texas A&M University in 1970 and served his General and Vascular Surgery Residency along with his Cardiovascular and Thoracic Residency at Parkland Memorial Hospital in Dallas, Texas. Dr. Sadler received his Doctor of Medicine degree from the University of Texas Southwestern Medical School in Dallas, Texas in 1974. In an 8-K dated June 13, 2014 the Company sadly announced the untimely passing on June 2, 2014 of Dr. Sadler from natural causes. At the time of his passing, Dr. Sadler also served as the Chairman of the Board of Directors of Natural Citrus Products Corporation and was a Managing Member of Alarma Patents, LLC.

Committees of the Board of Directors

On March 7, 2014, the Company appointed various directors to committees and the chairs thereof as follows: V. Weldon Hewitt, Danny R. Gibbs and Dan Rigdon were duly appointed to serve as the members of the Corporation's Compensation Committee with V. Weldon Hewitt being named the Chairman of said Committee; Danny R. Gibbs, Dr. David Sadler, and Steven L. Sample were duly appointed to serve as the members of the Corporation's Primary Committee as designated in the Corporation's Acacia Diversified Holdings, Inc. 2012 Stock Incentive Plan, with Danny R. Gibbs designated as the Plan Administrator and Chairman of such Committee; Dan Rigdon, Danny R. Gibbs, and Dr. David Sadler were duly appointed to serve as the members of the Corporation's Audit Committee with Dr. Sadler being designated as the Committee's Chairman and designated as its Financial Expert; and, Dan Rigdon, V. Weldon Hewitt, and Steven L. Sample were duly appointed to serve as the members of the Corporation's Nominating Committee, with Dan Rigdon being named the Chairman of said Committee.

As a result of the untimely passing of Director David Sadler on June 2, 2014 as reported in an 8-K dated June 13, 2014, and as a further result of the fact that Dr. Sadler was a member of the Company's Audit Committee and its Chairman and Financial Expert, we consider that committee to be incomplete and ineffective and as such we do not currently have an audit committee. Therefore, shareholders will have to rely on the entire board of directors to perform these functions until a full Audit Committee and chairman is empowered to sit.

Further to Dr. Sadler's passing, the Company considers the loss of his sitting on the Primary Committee for administration of its 2012 Stock Incentive Plan to have rendered that committee incomplete and ineffective, and as such we do not currently have a Primary Committee for administration of our 2012 Stock Incentive Plan. Therefore, shareholders will also have to rely on the entire board of directors to perform these functions until a full committee is empowered to sit.

Three members of the board of directors are considered to be independent directors, but the fourth, its Chairman, is an officer and is not considered to be independent. Thus, there is a potential conflict in that the board member who is also part of management will participate in discussions concerning issues that may affect management decisions.

Code of Ethics

Given that the Company has had only limited operating history, the Company has not adopted a Code of Ethics for the principal executive officer, principal financial officer, or principal accounting officer.

Section 16(a) Beneficial Ownership Reporting Compliance.

There were no common stock options or warrants awarded in 2014 or 2013.

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Item 11. Executive Compensation

The following table sets forth certain information concerning the compensation earned during the years ended December 31, 2014 and 2013 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) | 2014 | \$ 185,000 | \$ 66,100 | \$ 251,100 |
| Steven Sample, CEO (1) | 2013 | \$ 185,000 | 15,000 | \$ 200,000 |

(1) Mr. Sample became CEO of the Company in 2006 and has continued to serve in that capacity without interruption. The Company provided automobiles, or allowances in lieu thereof, to Mr. Sample in 2014 and 2013, the value of which was less than \$10,000 per year.

To again assist with the Company's liquidity, Mr. Sample agreed to defer portions of his salary and employment bonus compensation in 2014 and 2013 pending an outcome that would provide sufficient capital to the Company such that it could settle past due compensation obligations. At December 31, 2014, the Company owed Mr. Sample compensation of \$411,416 accrued since April of 2013, including \$25,000 from 2012, \$135,316 from 2013, and \$251,100 from 2014 which remains unpaid. In addition, Mr. Sample agreed to defer certain bonus compensation until future years. 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, 2014)

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

No new options were issued in 2014.

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

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(YEARS ENDED DECEMBER 31, 2013 AND EARLIER)

| | Number of Securities Underlying Unexercised Options | Number of Securities Underlying Unexercised Options Unexercisable | Weighted Average Per Share Exercise Price | Expiration Dates |
|----------------------|---|--|---|---------------------|
| Steven L. Sample (1) | 950,000 | - | 3.00 | 12/30/2016 |
| Patricia Arnold | 10,000 | - | 0.01 | 2/1/2017 |

(1) 950,000 common stock purchase warrants 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 have been issued since 2010.

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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 upon his appointment or election to the board, and 15,000 additional options were granted upon election to a full term and annually thereafter. On December 30, 2010, the Company's Board of Directors suspended the issuance of options as compensation to its directors effective January 1, 2011, and as such issued no options as director compensation from that time through December 31, 2014. In July 2012, the shareholders of the Company ratified the renaming of the Stock Incentive Plan to the Acacia Diversified Holdings, Inc. 2012 Stock Incentive Plan, and extended of the term thereof. On October 28, 2013, the Company's Board of Directors voted to resume the issuance of common stock options to directors as compensation effective January 1, 2014, but took no action in that year to issue any options. As such, the Company did not issue any common stock purchase options in 2014 and 2013. No new options have been issued under either Plan for any reason since 2010.

The following table sets forth certain information regarding the equity compensation for directors for the fiscal years ended December 31, 2014 and 2013:

| | Dollar Amount Recognized for Financial Reporting Purposes | |
|-------------------------|--|------|
| | 2014 | 2013 |
| Steven L. Sample (1) | \$ - | \$ - |
| Danny Gibbs (2) | - | - |
| James C. Hunter, MD (3) | - | - |
| V. Weldon Hewitt (4) | - | - |
| Frank Lawrence (5) | - | - |
| David Sadler, MD (6)* | - | - |
| Dan L. Rigdon (7) | - | - |
| Total | \$ - | \$ - |

Upon a change of control, all outstanding options granted to executive officers and directors vest. In 2013 the Company took actions waiving the termination of stock option vesting for directors that left the Company in 2011.

- (1) Appointed to the Company's Board of Directors in August of 2006, and continues to serve as its Chairman.
- (2) Originally served on the Company's board of directors from 1984 through August of 2006. Was again appointed to the Board of Directors on February 1, 2007 where he served until September 29, 2011. Was reappointed to the Board of Directors on September 1, 2013.
- (3) Served on the Company's board of directors until from February 1, 2007, until September 28, 2011
- (4) Served on the Company's board of directors until from February 1, 2007, until September 28, 2011. Was re-appointed to the Board of Directors on September 1, 2013.
- (5) Served on the Company's board of directors until from November 3, 2007, until September 30, 2011.
- (6) Appointed to the Company's Board of Directors on September 1, 2013. In an 8-K dated June 13, 2014 the Company sadly announced the untimely passing on June 2, 2014 of Dr. Sadler from natural causes.
- (7) Appointed to the Company's Board of Directors on September 1, 2013.

Benefit Plans

As a part of the changes resulting in the emergence of Acacia Automotive, Inc. from the former Gibbs Construction, Inc. in 2007, all stock option plans and warrants existing prior to the change of name and change of control to Acacia's

management in 2007 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. On July 26, 2012, a majority of the shareholders representing more than 67% of the votes of the Company voted to extend the Company's stock incentive plan and rename it the Acacia Diversified Holdings, Inc. 2012 Stock Incentive Plan. The Company provided health, disability, and life insurance plans for its employees until July 31, 2012, 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. The Company is reviewing the potentials related to adding benefits for employees of its Citrus Extracts subsidiary, and anticipates making that determination in 2014.

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

The following table sets forth as of December 31, 2014, 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) | 5,510,369 | 43.27 % |
| Patricia Ann Arnold (2) | 55,000 | 0.43 % |
| Dr. David Sadler (3) | - | - |
| V. Weldon Hewitt | 110,000 | 0.86% |
| Dan L. Rigdon | 12,500 | 0.10 % |
| Danny R. Gibbs | 117,500 | 0.92 % |
| Gwendolyn Sample (4) | 937,000 | 7.36 % |
| All directors and officers as a group (six persons) | 5,805,369 | 45.58 % |

(1) Excludes 950,000 warrants held by Mr. Sample issued in exchange for converting all his shares of the Company's preferred stock to common stock in 2010, and not for compensation. Those warrants were considered to have expired in 2010 at which time they were re-issued at an average exercise price of \$3.00 per share.. Mr. Sample disclaims any beneficial ownership of any securities owned by others, and disclaims any beneficial ownership by others of any securities he owns.

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

(3) Excludes all shares held directly or in blind trusts or accounts not directly controlled by the shareholder. In events disclosed in an 8-K dated June 13, 2014 the Company sadly announced the untimely passing on June 2, 2014 of Dr. Sadler from natural causes.

(4) Not an officer or director of the Company. Excludes options to purchase 35,000 shares of common stock at a weighted average exercise price of \$0.23 per share. Mrs. Sample disclaims any beneficial ownership of any securities owned by others, and disclaims any beneficial ownership by others of any securities she owns.

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

None.

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

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, 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. In 2013, Palmer Sample also installed a new computer server for financial and accounting uses for the Company in Ocala, Florida, and performs services maintaining those systems. Palmer is the son of Steven L. Sample and Gwendolyn G. Sample. Mr. Sample's spouse and his son disclaim any beneficial ownership by Mr. Sample of any securities they own, and they disclaim any beneficial ownership of any securities he owns.

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Mr. Sample became CEO of the Company in 2006. On many occasions since that time he has personally borrowed funds for the benefit of and use by the Company, and has pledged his own assets in personally guaranteeing various lines of credit, 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 on his own accounts to mitigate extended periods when the Company has deferred payment of his salary and expenses as a means to help the Company conserve cash and maintain liquidity. Mr. Sample disclaims any beneficial ownership of any securities owned by others, and disclaims any beneficial ownership by others of any securities he owns.

Director Independence

We believe that, in accordance with the Company Guide of the American Stock Exchange, that Messrs. Gibbs, and Rigdon are independent directors, those two individuals being a majority of our current Board of Directors. As an employee-officer and director of the Company, Mr. Sample is not considered to be independent. However, as of December 31, 2014, the Company did not have an independent Audit Committee, Compensation Committee, or Nominating Committee by virtue of the fact that its independent board members were only appointed in September of that year and committees and chairs had not yet been appointed.

Conflicts of Interest.

The Company and its management may be subject to various conflicts of interest. The Company's management is not independent, yet the Company relies solely on management for guiding its day-to-day operations and managing its 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 and its subsidiaries. The President and CEO of the Company also serves as a director of the Company as well as having served as an officer and director of the Company's subsidiary corporations. Service in those capacities with the subsidiaries is not considered to constitute a conflict of interest on the part of employees, managers, or directors. The Company's President and CEO continues to serve in those capacities as of December 31, 2014. As such, there is not now, nor has there previously been considered to be, any material conflict of interest on his part. However, the CEO of the Company may reasonably be expected to have or gain other affiliations, associations, or ownership interests in other entities which could under certain conditions be considered to be conflicts of interest.

Any 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 2014 by KWCO, PC:

Audit Fees

Fees for audit services totaled \$20,514 in 2014 and \$121,314 in 2013, 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 reports on Form 8-K. The Company also paid \$16,381 in 2013 for tax preparation.

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

(a) Financial Statements

The following financial statements are included herewith:

| | |
|---|----------------|
| <u>Report of Independent Certified Public Accountants</u> | Page 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-14 |

(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

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K W C O, PC

Certified Public Accountants
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Odessa, Texas 79762

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Houston, Texas 77069

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Acacia Diversified Holdings, Inc.
Ocala, Florida

We have audited the accompanying consolidated balance sheets of Acacia Diversified Holdings, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, stockholders' 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, 2014 and 2013, 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 10 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 10. 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
May 20, 2015

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ACACIA DIVERSIFIED HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|--|--------------|--------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ - | \$ 1,452 |
| Accounts receivable | 212,786 | 89,918 |
| Employee accounts receivable | - | 939 |
| Prepaid expenses | 24,613 | - |
| Inventory, stated at lower of average cost or market | 67,646 | - |
| Total Current Assets | 305,045 | 92,309 |
| Property and Equipment, net of accumulated depreciation of \$181,078 and \$81,414 in 2014 and 2013, respectively | 686,728 | 685,274 |
| Other assets | 12,341 | 7,341 |
| Total Assets | \$ 1,004,114 | \$ 784,924 |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) | | |
| Current Liabilities | | |
| Cash overdraft | \$ 3,466 | \$ 3,405 |
| Accounts payable | 170,282 | 253,082 |
| Accrued liabilities | 532,775 | 217,271 |
| Shareholder payable | 35,365 | 102,677 |
| Note payable, current portion | 167,996 | 102,661 |
| Total Current Liabilities | 909,884 | 679,096 |
| Noncurrent Liabilities | | |
| Related party payables, subsidiary acquisition | 244,105 | 361,291 |
| Notes payable, less current portion | 207,612 | 149,971 |
| Total Liabilities | 1,361,601 | 1,190,358 |
| Commitments and contingencies | - | - |
| Stockholders' (Deficit) | | |
| Common stock, \$0.001 par value, 150,000,000 shares authorized; 12,735,406 and 12,496,809 shares issued and outstanding in 2014 and 2013, respectively | 12,735 | 12,497 |
| Additional paid-in capital | 11,975,724 | 11,776,365 |
| Retained deficit | (12,345,946) | (12,194,296) |
| Total Stockholders' (Deficit) | (357,487) | (405,434) |
| Total Liabilities & Stockholders' (Deficit) | \$ 1,004,114 | \$ 784,924 |

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

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ACACIA DIVERSIFIED HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|---|--------------|------------|
| Revenues | \$ 1,412,998 | \$ 147,878 |
| Cost of revenues, including depreciation of \$91,409 and \$41,673, respectively | (826,286) | (232,132) |
| Gross profit (loss) | 586,712 | (84,254) |
| Costs and expenses | | |
| Employee compensation | 451,348 | 263,126 |
| General and administrative | 289,391 | 309,670 |
| Depreciation | 8,411 | 11,091 |
| Total costs and expenses | 749,150 | 583,887 |
| Operating income (loss) before other income (expense) and income taxes | (162,438) | (668,141) |
| Other income (expense) | | |
| Gain on sale of assets | 41,323 | - |
| Other income | - | 10,035 |
| Interest (expense) | (30,535) | (25,202) |
| Total other income (expense) | 10,788 | (15,167) |
| Loss before income taxes | (151,650) | (683,308) |
| Income taxes | - | - |
| Net income (loss) | (151,650) | (683,308) |
| Basic and diluted loss per share | | |
| Loss per share | \$ (0.01) | \$ (0.06) |
| Weighted average number of common shares outstanding | 12,638,577 | 12,004,281 |

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

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ACACIA DIVERSIFIED HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT)
YEARS ENDED DECEMBER 31, 2014 AND 2013

| | Common Stock | | Additional | Retained | Total |
|--|--------------|-----------|--------------------|-----------------|--------------|
| | Shares | Par Value | Paid-in Capital | Deficit | |
| Balance December 31, 2012 | 11,562,524 | \$ 11,562 | \$ 11,553,491 | \$ (11,510,988) | \$ 54,065 |
| Stock options and warrants issued for compensation | - | - | 2,831 | - | 2,831 |
| Stock issued for compensation and services | 34,285 | 35 | 23,136 | - | 23,136 |
| Stock issued for payment of expenses and equipment | 900,000 | 900 | 196,907 | - | 197,807 |
| Net Loss | - | - | - | (683,308) | (683,308) |
| Balance December 31, 2013 | 12,496,809 | \$ 12,497 | \$ 11,776,365 | \$ (12,194,296) | \$ (405,434) |
| Stock issued to settle subsidiary debt | 108,597 | 108 | 108,489 | - | 108,597 |
| Stock issued for consulting services | 130,000 | 130 | 90,870 | - | 91,000 |
| Net Loss | | | | (151,650) | (151,650) |
| Balance December 31, 2014 | 12,735,406 | \$ 12,735 | \$ 11,975,724 | \$ (12,345,946) | \$ (357,487) |

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

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ACACIA DIVERSIFIED HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|--|--------------|--------------|
| Cash flows from operating activities | | |
| Net (loss) | \$ (151,650) | \$ (683,308) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 99,819 | 52,765 |
| Common stock, stock options, and stock warrants issued for services and compensation | 91,000 | 26,002 |
| (Gain) on sale of assets | (41,323) | - |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (122,868) | (82,418) |
| Employee accounts receivable | 939 | (939) |
| Deposits and prepaid expenses | (29,613) | 1,766 |
| Inventory | (67,646) | - |
| Accounts payable | (82,800) | 206,114 |
| Accrued liabilities | 315,504 | 168,227 |
| Shareholder payable | (67,312) | 98,407 |
| Net cash flow (used in) operating activities | (55,950) | (213,384) |
| Cash flows provided by (used in) investing activities | | |
| Proceeds from sale of assets | 47,984 | - |
| Purchase of equipment/leasehold improvements | (107,935) | - |
| Net cash flow provided by (used in) investing activities | (59,951) | - |
| Cash flows from financing activities | | |
| Cash overdrafts | 61 | 3,405 |
| Net note borrowings/payments | 122,977 | (36,493) |
| Capital lease payments | - | (9,234) |
| Related party payable | (8,589) | 67,898 |
| Net cash flow provided by financing activities | 114,449 | 25,576 |
| Net increase (decrease) in cash and cash equivalents | (1,452) | (187,808) |
| Cash, beginning of year | 1,452 | 189,260 |
| Cash, end of year | \$ - | \$ 1,452 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during period for: | | |
| Interest | \$ 30,535 | \$ 25,216 |
| Income tax | \$ - | \$ - |
| | 2014 | 2013 |
| Non-cash investing and financing activities | | |
| Utility deposit | \$ - | \$ (5,000) |
| Property and equipment | - | (712,300) |
| Related party payable | (108,597) | 293,393 |
| Notes payable | - | 226,100 |
| Common stock | 108 | 900 |
| Additional paid-in capital | 108,489 | 196,907 |
| | \$ - | \$ - |

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

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ACACIA DIVERSIFIED HOLDINGS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2014 AND 2013

NOTE 1 - THE COMPANY

Acacia Diversified Holdings, Inc., a Texas corporation (“Acacia” or the “Company”), on July 10, 2013 acquired assets that are utilized in the manufacture of citrus peel byproducts. The Company began manufacturing operations in December of 2013 in Fort Pierce, Florida.

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 two wholly-owned subsidiaries, Citrus Extracts, Inc. (CEI) and Acacia Transport Services, Inc. (ATS). All significant intercompany accounts and transactions 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.

INVENTORIES – Inventories are stated at the lower of cost or market. Cost is determined using the average cost method. All inventories reported by the Company are finished goods inventories. We segregate inventories into our two discernible product lines of organic and non-organic products.

Inventories at December 31 consisted of the following:

| | 2014 | 2013 |
|--------------------------|-----------|------|
| Organic Inventories | \$ 34,761 | \$ - |
| Non- Organic Inventories | 32,885 | - |
| | \$ 67,646 | \$ - |

REVENUE RECOGNITION – Revenue is recognized on the sale of products when they are delivered to the customers.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE – Allowance for uncollectible accounts receivable is estimated based on the aging of the accounts receivable and management estimate of uncollectible amounts. For the years ended December 31, 2014 and 2013 there were no bad debts.

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. Depreciation expense for the years ended December 31, 2014 and 2013 totaled \$99,819 and \$52,765, respectively.

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ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

CONCENTRATION OF CREDIT RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS - The Company has maintained cash balances at financial institutions which have 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 in 2014 included amounts due to vendors and service providers that were assumed by the Company's Citrus Extracts subsidiary under the terms of the asset purchase agreement of July 2013 in which it acquired certain assets and liabilities of Red Phoenix Extracts.

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, 2014 and 2013, was as follows:

| | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|------------------------------|---|---|--|----------|
| Year Ended December 31, 2014 | | | | |
| 2014 Stock Options | \$ - | \$ - | \$ - | \$ - |
| Year Ended December 31, 2013 | | | | |
| 2013 Stock Options | \$ - | \$ 2,831 | \$ - | \$ 2,831 |

Options were valued using the Black-Scholes model.

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ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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, 2014 and 2013.

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.

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, 2014 and 2013 amounted to \$1,244 and \$10,014, 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.

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, and indemnifications associated with the Company's actions generally have no dollar limitations and currently cannot be quantified.

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ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

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 2014 and 2013. 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 2014 and 2013, as no options were exercised. During the years ended December 31, 2014 and 2013, respectively, the Company issued no stock awards to employees and issued no stock options or warrants in 2014 or 2013.

The Black-Sholes model assumptions in previous calculations included:

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 year ended December 31, 2013 was \$2,831. There is no future amortization of the fair value of options.

Stock Options

| | 2014 | | 2013 | |
|--------------------------------------|---------------------|---------------------------------------|---------------------|---------------------------------------|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding at beginning of the year | 90,000 | \$ 0.34 | 90,000 | \$ 0.34 |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Forfeited or cancelled | - | - | - | - |

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| | | | | | |
|----------------------------|--------|----|------|--------|---------|
| Outstanding at end of year | 90,000 | \$ | 0.34 | 90,000 | 0.34 |
| Exercisable | 90,000 | \$ | 0.34 | 90,000 | \$ 0.34 |

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ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

Stock Warrants

The outstanding exercisable stock purchase warrants was 1,326,250 for the years ended December 31, 2014 and 2013, with a weighted average exercise price of \$2.64. The following summarizes the warrant activity in 2014 and 2013.

| | 2014 | | 2013 | |
|--------------------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding at beginning of the year | 1,326,250 | \$ 2.64 | 1,356,250 | \$ 2.64 |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Forfeited or cancelled | - | - | - | - |
| Expired | - | - | - | - |
| Outstanding at end of year | 1,326,250 | 2.64 | 1,326,250 | 2.64 |
| Exercisable | 1,326,250 | \$ 2.64 | 1,326,250 | \$ 2.64 |

IMPAIRMENT OF LONG-LIVED ASSETS – In accordance with ASC Topic360-10-05, “Impairment or Disposal of Long-Lived Assets”, the Company evaluates the carrying value of property, plant and equipment and definite-lived assets whenever a change in circumstances indicates that the carrying value may not be recoverable from the undiscounted future cash flows from operations. If an impairment exists, the net book values are reduced to fair values as warranted.

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 Acacia Automotive, Inc. 2007 Stock Incentive Plan. Additionally, 15,000 common share purchase options were granted to each eligible director for each year of elected annual service to the Company, as well as other options for services on committees of the board of directors or for acting as chairs thereof. 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. That suspension of director compensation has not yet been terminated. As such, the Company did not issue any common stock purchase options in 2014 and 2013.

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.

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ACACIA DIVERSIFIED HOLDINGS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2014 AND 2013

NOTE 4 - EQUIPMENT AND VEHICLES - (Continued)

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, 2014 and 2013:

| | 2014 | 2013 |
|-------------------------------|------------|------------|
| Vehicles | \$ 98,309 | \$ 10,500 |
| Computer equipment | 37,463 | 37,463 |
| Furniture & fixtures | 10,286 | 6,251 |
| Other equipment & software | 721,748 | 712,474 |
| Total property and equipment | 867,806 | 766,688 |
| Less accumulated depreciation | (181,078) | (81,414) |
| Net property and equipment | \$ 686,728 | \$ 685,274 |

Equipment and vehicles acquired by capitalized leases and included in the above summary are set forth as follows at December 31, 2014 and 2013:

| | 2014 | 2013 |
|--------------------------|-----------|-----------|
| Asset Cost | \$ 37,463 | \$ 37,463 |
| Accumulated Depreciation | (34,188) | (28,007) |
| | \$ 3,275 | \$ 9,456 |

NOTE 5 – INCOME TAXES

As of December 31, 2014 and 2013 the Company had net operating loss carryforwards of approximately \$12,939,000 and \$12,833,000 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:

| | 2014 | 2013 |
|--|---------------|---------------|
| Net Operating (Loss) | \$ (151,650) | \$ (683,308) |
| Benefit (expense) for income taxes computed using the statutory rate of 34% | 51,561 | 232,325 |
| Non-deductible expense | (35,360) | (3,576) |
| Change in valuation allowance | (16,201) | (228,749) |
| Provision for income taxes | \$ - | \$ - |

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ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 5 – INCOME TAXES - (Continued)

Significant components of the Company's deferred tax liabilities and assets at December 31, 2014 and 2013 are as follows:

| | 2014 | 2013 |
|----------------------------------|--------------|--------------|
| Tax operating loss carryforwards | \$ 4,399,291 | \$ 4,363,329 |
| Total deferred tax assets | 4,399,291 | 4,363,329 |
| Deferred tax liabilities | | |
| Depreciation | (44,654) | (24,893) |
| Total deferred tax liabilities | (44,654) | (24,893) |
| Net deferred tax assets | 4,354,637 | 4,338,436 |
| Valuation allowance | (4,354,637) | (4,338,436) |
| | \$ - | \$ - |

As of December 31, 2014 open Federal income tax years subject to examination include the tax years ended December 31, 2013 through 2011.

At December 31, 2014, net operating loss (“NOL”) carryforwards expiring through 2034 were as follows

| Expiring December 31, | Amount of NOL Expiring |
|-----------------------|------------------------|
| 2016 | \$ 3,459,000 |
| 2019 | 6,166,000 |
| 2026 | 408,000 |
| 2027 | 693,000 |
| 2028 | 771,000 |
| 2029 | 197,000 |
| 2030 | 32,000 |
| 2031 | 415,000 |
| 2033 | 692,000 |
| 2034 | 106,000 |
| | \$ 12,939,000 |

NOTE 6 - STOCKHOLDERS' EQUITY

Warrants and Options

The Company did not issue any common stock purchase warrants or common stock purchase options in 2014 or 2013.

Common Stock

In 2014 the Company issued 238,597 new restricted shares of its Common stock, and issued 934,285 new shares of its restricted Common stock in 2013. Of those shares issued in 2014, 108,597 shares were issued in cancellation of debt,

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20,000 shares were issued for services related to the company's computer servers and websites, 5,000 shares were issued for legal services, and 105,000 shares were issued to others for miscellaneous services. Of those shares issued in 2013, 900,000 shares were issued in exchange for assets, 20,000 shares were issued to the Company's securities attorney for services, and 14,285 shares were issued for services related to website and logo design.

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ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31, 2014 and 2013:

| | 2014 | 2013 |
|------------------------------|------------|------------|
| Accrued payroll and benefits | \$ 479,006 | \$ 196,406 |
| Accrued expenses - other | 53,769 | 20,865 |
| | \$ 532,775 | \$ 217,271 |

NOTE 8 - OPERATING LEASES

In July of 2013, commensurate with the acquisition of assets, the Company, through its subsidiary, began leasing a facility of approximately 14,525 square feet consisting of two adjoining building units located at 3495 S. U.S. Hwy.1, Bldgs. 12-E and 12-W, Fort Pierce, FL 34982. The Company pays a combined \$4,691 per month for the two leased units to the Fort Pierce State Farmer's Market in Fort Pierce, Florida. The Farmers Market is owned and operated by the State of Florida, and the leases are subject to additional 1-year lease renewals, that being the maximum allowed by the Florida authority operating the facility. The current leases for Buildings 12-W and 12-E became effective February 1 and March 1, 2014, respectively, and will expire on June 30, 2015. The Company leases an apartment in Fort Pierce for \$950 per month and that lease expires February 15, 2015.

The Company also rents administrative space in Ocala, Florida on a month-to-month basis at \$600 per month, and can cancel that obligation at any time.

Rent expense for the years ended December 31, 2014 and 2013 were \$78,968 and \$29,804, respectively.

NOTE 9 - NOTES PAYABLE

The Notes Payable are as follows at December 31, 2014 and 2013:

| | 2014 | 2013 |
|--|-----------|-----------|
| Note Payable to an individual, maturity date | | |
| November 5, 2014 | \$ 50,025 | \$ 50,025 |
| 5.5% Note Payable to a financial institution, payable in monthly installments of \$5,258 including interest, matures June 15, 2017 | 149,971 | 202,607 |
| 7.75% Note Payable to a family group, maturity date August 1, 2017 | 26,336 | - |
| 7.75% Note Payable to an individual's IRA, maturity date August 1, 2017 | 149,276 | - |
| | 375,608 | 252,632 |

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| | | |
|-----------------|------------|------------|
| Current portion | (167,996) | (102,661) |
| | \$ 207,612 | \$ 149,971 |

The future payments of notes payable as of December 31, 2014 are as follows:

| Year Ended December 31, | Amortization |
|----------------------------|--------------|
| 2015 | \$ 167,996 |
| 2016 | 131,027 |
| 2017 | 76,585 |
| | \$ 375,608 |

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ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 9 - NOTES PAYABLE (Continued)

The note payable to an individual is due to the mother of the major shareholder of the Company, and a monthly fee of \$721 is being paid on this note.

The 5.5% note payable is secured by substantially all assets of the Company's Citrus subsidiary and the U.S. Small Business Administration's guaranty.

The 7.75% note payable to an unrelated family group, payable in monthly installments of \$940 including interest, matures on August 1, 2017.

The 7.75% note payable to an unrelated individual's IRA, payable in monthly installments of \$5,327 including, matures on August 1, 2017.

NOTE 10 - GOING CONCERN

As of December 31, 2014, the Company had only limited liquid assets and limited revenues from its new Citrus Extracts, Inc. subsidiary. As such, and without substantially increasing revenue or finding new sources of capital, the Company will find it difficult to continue to meet its obligations as they come due. The Company has been successful in establishing high production levels with its organic and non-organic food grade ingredient citrus products, but has been slower to fully develop a market for its more valuable organic products. There is a lag period between identifying potential customers for the Company's products and actual sale and delivery of those products. Buyers of these products must be identified, contacted, provided with samples for testing, provided with product certifications, and allowed to then see if their clients find a need for our products. If so, then the client may require milling of the products into various sizes, special packaging to their specifications, and allowing time for shipping of the products to their locations. Those processes are often lengthy and drawn out, particularly when relating to the food industry. While the Company's Citrus Extracts subsidiary has sold considerable quantities of its organic and non-organic products, it is anticipated that it may take as long as a year or more to develop selling channels sufficient to insure the sale of its entire annual production of its food grade ingredient products.

As a result, any current inability by the Company to sell and deliver all its finished product inventories without lengthy holding periods will only serve to exacerbate cash flow concerns until the sales pipeline fills. While the inventory supplies, if sold, are quite sufficient to meet the Company's liquidity needs on a consolidated basis, these factors raise some doubt as to the ability of the Company to continue as a going concern. Management's immediate plans to increase liquidity include increasing production, which began at the beginning of 2014, selling all its inventories of products in a reasonable time frame following production, attempting to start new businesses or to find additional operational businesses to buy, and possibly attempting to raise funds from the public through a stock offering. Management intends to make every effort to identify and develop all these sources of funds, but there can be no assurance that Management's plans will be successful.

NOTE 11 - SUBSEQUENT EVENTS

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 May 20, 2015, the date the financial

statements were issued, and determined that there were no other items to disclose.

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SIGNATURES

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

Acacia Diversified Holdings, Inc.

Date: May 20, 2015

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 Steven L. Sample | Director | May 20, 2015 |
| /s/ Dan L. Rigdon Dan L. Rigdon | Director | May 20, 2015 |
| /s/ V. Weldon Hewitt V. Weldon Hewitt | Director | May 20, 2015 |
| /s/ Danny R. Gibbs Danny R. Gibbs | Director | May 20, 2015 |

