

Acacia Diversified Holdings, Inc.
Form 10-Q
May 07, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

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

For the transition period from _____ to _____

Commission file number: 001-14088

Acacia Diversified Holdings, Inc.

(Exact name of small business issuer as specified in its charter)

Texas

(State or other jurisdiction of incorporation or organization)

75-2095676

(IRS Employer Identification No.)

13575 58th St. North #138 Clearwater, FL

(Address of principal executive offices)

33760

(Zip Code)

(727) 678-4420

(Registrant's telephone number)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of May 1, 2018 is
18,083,000 common shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACACIA DIVERSIFIED HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

| | March 31, 2018 (UNAUDITED) | December 31, 2017 (AUDITED) |
|---|----------------------------------|--------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 26,470 | \$28,417 |
| Accounts receivable, net of allowance for doubtful accounts of \$17,450 in 2018 and 2017 | 1,550 | 22,820 |
| Inventories | 54,462 | 57,257 |
| Prepaid expenses and other current assets | 10,721 | 11,034 |
| Total Current Assets | 93,203 | 119,528 |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$191,206 and \$172,783 in 2018 and 2017, respectively | 466,994 | 483,931 |
| DEPOSITS | 3,341 | 3,341 |
| TOTAL ASSETS | \$ 563,538 | \$606,800 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITY: | | |
| Accounts payable and accrued expenses | \$ 481,858 | \$452,710 |
| Notes payable to related party | 630,400 | 558,400 |
| Payable to related parties | 82,916 | 81,058 |
| Total Current Liability | 1,195,174 | 1,092,168 |
| Total Liabilities | 1,195,174 | 1,092,168 |
| Commitments and contingencies | - | - |
| STOCKHOLDERS' DEFICIT | | |
| Common stock, \$0.001 par value; 150,000,000 shares authorized; 18,093,000 and 17,539,982 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively | 18,093 | 17,540 |
| Additional paid-in capital | 4,737,007 | 4,451,038 |
| Accumulated deficit | (5,386,736) | (4,953,946) |
| Total Stockholders' Deficit | (631,636) | (485,368) |

| | | |
|---|------------|------------|
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 563,538 | \$ 606,800 |
|---|------------|------------|

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

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ACACIA DIVERSIFIED HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017
(UNAUDITED)

| | March 31, 2018 | March 31, 2017 |
|--|-------------------|-------------------|
| REVENUE | \$91,914 | \$147,646 |
| COSTS OF GOODS SOLD | | |
| Costs of goods sold | 31,970 | 76,737 |
| Depreciation expense | 17,806 | 18,004 |
| | 49,776 | 94,741 |
| GROSS PROFIT | 42,138 | 52,905 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Employee compensation expenses | 142,369 | 128,460 |
| General and administrative expenses | 320,416 | 384,095 |
| Depreciation expense | 616 | 1,711 |
| | 463,401 | 514,266 |
| LOSS FROM OPERATIONS | (421,263) | (461,361) |
| OTHER INCOME (EXPENSE) | | |
| Interest expense | (11,527) | (234,150) |
| Other income | - | 1,000 |
| TOTAL OTHER EXPENSE | (11,527) | (233,150) |
| NET LOSS BEFORE INCOME TAXES | \$(432,790) | \$(694,511) |
| Income taxes | - | - |
| NET LOSS | \$(432,790) | \$(694,511) |
| NET LOSS PER COMMON SHARE, BASIC AND DILUTED | \$(0.02) | \$(0.04) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED | 17,818,766 | 17,086,228 |

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
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017
(UNAUDITED)

| | March 31, 2018 | March 31, 2017 |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(432,790) | \$(694,511) |
| Adjustments to reconcile net loss to net cash and cash equivalents used by operating activities: | | |
| Depreciation | 18,422 | 19,715 |
| Common stock issued for services | 254,870 | 224,299 |
| Common stock issued from employee stock plan | 14,003 | 11,733 |
| Common stock issued for interest expense | - | 208,400 |
| Amortization of debt discount | - | 20,950 |
| (Increase) decrease in: | | |
| Accounts receivable | 21,270 | 2,190 |
| Inventories | 2,795 | 3,019 |
| Prepaid expenses and other current assets | 312 | 48,770 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 29,151 | (195,615) |
| Payable to related parties | 25,506 | 41,763 |
| Net cash used by operating activities | (66,461) | (309,287) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment | (1,486) | (4,045) |
| Payment to related party for leasehold improvement | (6,000) | |
| Net cash used by investing activities | (7,486) | (4,045) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from convertible note payable | - | 85,000 |
| Proceeds from note payable to related party | 72,000 | 300,000 |
| Net cash provided by financing activities | 72,000 | 385,000 |
| Net change in cash and cash equivalents | (1,947) | 71,668 |
| Cash and cash equivalents, beginning of the year | 28,417 | 43,878 |
| Cash and cash equivalents, end of the year | \$26,470 | \$115,546 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$- | \$- |
| Cash paid for income taxes | \$- | \$- |
| NON-CASH FINANCING AND INVESTING ACTIVITIES: | | |
| Common stock issued for deferred offering cost | \$- | \$240,900 |
| Common stock issued to related party for leasehold improvement | \$17,649 | \$- |

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
MARCH 31, 2018
(UNAUDITED)

NOTE 1 – THE COMPANY

Acacia Diversified Holdings, Inc. (“Acacia” or the “Company”) has three wholly-owned subsidiaries, MariJ Pharmaceuticals, Inc. (“MariJ Pharma”), Canna-Cures Research & Development Center, Inc. (“Canna-Cures”), and Euforia Medical of Tennessee, Inc. (“EMT”), a company incorporated in the state of Tennessee.

The Company’s primary source revenue is from the extraction of medicinal cannabis oil, from a non-psychoactive cannabis plant. All extraction services are currently limited to the State of Colorado. The Company will open its retail store in Tennessee this year. Revenue generated from retail sale is not expected to be material to the Company based on current operating model.

NOTE 2 – GOING CONCERN

The Company has not generated profit to date. The Company expects to continue to incur operating losses as it proceeds with its extraction and research and development activities and continues to navigate through the regulatory process. The Company expects general and administrative costs to increase, as the Company adds personnel and other administrative expenses associated with its current efforts. 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 continues to seek working capital but there can be no assurance that the Company will be successful in its efforts to raise capital, or if it were successful in raising capital, that it would be successful in meeting its business plans. These factors raise substantial doubt as to the ability of the Company to continue as a going concern. Management’s plans include securing additional extraction contracts and opening a retail store in Tennessee, attempting to start new businesses outside of Colorado, finding additional operational businesses to buy, and attempting to raise funds from the public through an equity offering of the Company’s common stock. Management intends to make every effort to identify and develop all these sources of funds, but there can be no assurance that Management’s plans will be successful.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred losses for all periods presented and has a substantial accumulated deficit. As of March 31, 2018, these factors, among others, raise substantial doubt about the Company’s ability to continue as a going concern.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and reflect all adjustments, which consist solely of normal recurring adjustments, needed to fairly present the financial results for these periods. The consolidated financial statements and notes thereto are presented as prescribed by Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted. The accompanying consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2017 and notes thereto in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the Securities and Exchange

Commission on April 2, 2018. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the entire fiscal year. In the opinion of management, all adjustments have been made, which consist only of normal recurring adjustments necessary for a fair statement of (a) the results of operations for the three-month periods ended March 31, 2018 and 2017, (b) the financial position at March 31, 2018 and (c) cash flows for the three-month periods ended March 31, 2018 and 2017.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Acacia Diversified Holdings, Inc. and its wholly-owned subsidiaries, MariJ Pharmaceuticals, Inc, Canna-Cures Research & Development Center, Inc., and Euforia Medical of Tennessee, Inc. All significant intercompany accounts and transactions are eliminated in consolidation.

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ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(UNAUDITED)

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The actual results may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

REVENUE RECOGNITION

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which replaces numerous requirements in U.S. GAAP, including industry specific requirements, and provides a single revenue recognition model for recognizing revenue from contracts with customers. The Company adopted this standard effective January 1, 2018.

The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. The Company's revenues from extraction activities and from retail sales are recognized at a point in time.

The ASU requires the use of a new five-step model to recognize revenue from customer contracts. The five-step model requires that the Company (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocate the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) the Company satisfies the performance obligation. The application of the five-step model to the revenue streams compared to the prior guidance did not result in significant changes in the way the Company records its revenues.

The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application to accumulated deficit. Additionally, incremental footnote disclosures are required to present the 2018 revenues under the prior standard. Under the modified retrospective method, an entity may also elect to apply the standard to either (i) all contracts as of January 1, 2018, or (ii) only to contracts that are not completed as of January 1, 2018. The Company elected to adopt this guidance using the modified retrospective method at January 1, 2018 which did not result in an adjustment to accumulated deficit. Additionally, upon adoption, the Company evaluated its revenue recognition policy for all revenue streams within the scope of the ASU under previous standards and using the five-step model under the new guidance and confirmed that there were no differences in the pattern of revenue recognition.

STOCK BASED COMPENSATION

The Company accounts for stock-based compensation under Accounting Standards Codification 718 - Compensation-Stock Compensation ("ASC 718"). ASC 718 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 and recognized over the period during which an employee is required to provide services (requisite service period). 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 during the three months ended March 31, 2018 and 2017.

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ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(UNAUDITED)

The Company accounts for stock based awards based on the fair market value of the instrument using a 10-day volume weighted adjusted price (VWAP) and accounts for stock options issued using the Black-Scholes option pricing model and utilizing certain assumptions including the followings:

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 Company accounts for stock-based compensation issued to non-employees and consultants in accordance with the provisions of Accounting Standards Codification 505-50, Equity – Based Payments to Non-Employees. Measurement of share-based payment transactions with non-employees is based on the fair value of whichever is more reliably measurable: (a) the goods or services received; or (b) the equity instruments issued. The value of the common stock is measured at the earlier of (i) the date at which a firm commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete.

During the three months ended March 31, 2018, the board of directors approved issuances of the Company's restricted common stock to consultants and non-employee directors for services rendered:

- 1,200 shares to a consultant for services rendered, valued at \$1,420.
- 15,000 shares to the Company's SEC counsel for services rendered, valued at \$10,650.
- 500,000 shares to a consultant as initial payment on a consulting contract, valued at \$242,800.

The Company valued these shares at fair value on commitment dates and recorded stock based compensation expense of \$254,870 for the three months ended March 31, 2018

In addition, the Company issued 36,018 shares to a company owned by an independent director for leasehold improvements at the Tennessee store, valued at \$17,649 on commitment date. The Company reduced related party payable when the shares were issued.

FAIR VALUE ESTIMATES – The Company measures assets and liabilities it acquires at fair value in accordance with Accounting Standards Codification 820 – Fair Value Measurement (“ASC 820”). The objective of ASC 820 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted

accounting principles, and expands disclosures about fair value measurements. 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.

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ACACIA DIVERSIFIED HOLDINGS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2018
 (UNAUDITED)

NOTE 4 – RELATED PARTY TRANSACTIONS

Notes Payable to Related Party

The Company entered into the following promissory notes payable to its CEO during the year ended December 31, 2017 and during the three months ended March 31, 2018:

| Note Date | Note Amount | Accrued Interest | Total |
|---|-------------|------------------|-----------|
| January 2017 (1) | \$300,000 | \$16,504 | \$316,504 |
| June 2017 (2) | 105,000 | 2,048 | 107,048 |
| June 2017 (3) | 130,050 | 2,564 | 132,614 |
| | \$535,050 | \$21,116 | 556,166 |
| Expenses owed to related party | | | 2,234 |
| Principle of note payable to related party after consolidation at December 31, 2017 | | | \$558,400 |
| March 2018 (4) | \$72,000 | - | 72,000 |
| Principle balance of notes payable to related party at March 31, 2018 | | | \$630,400 |

(1) In January 2017, the Company entered into a note agreement in the amount of \$300,000 with the Company's CEO. The note bears interest at a rate of 8% per annum and specifies no due date. The Company accrued interest of \$16,504 through September 25, 2017. Concurrently, the board of directors also approved issuance of 100,000 shares of the Company's common stock as additional interest. These shares were accounted for as debt issuance costs, valued at \$182,000. The costs were expensed at the commitment date of the note as interest expense since the note is a short term capital advance with no stated term. This note was convertible into the shares of the Company's common stock at \$0.50/share and the note holder did not exercise the conversion option.

(2) In June 2017, the Company entered into a note agreement in the amount of \$105,000 with the Company's CEO for short term working capital advance. The note bears interest at a rate of 8% per annum and specifies no due date. The Company accrued interest and recorded interest expense of \$2,048 through September 25, 2017. This note was convertible into the shares of the Company's common stock at \$0.50/share and the note holder did not exercise the conversion option.

(3) In June 2017, the Company received a short term working capital advance of \$130,050 from its CEO. The advance bears interest at a rate of 8% per annum and specifies no due date. The Company accrued interest and recorded interest expense of \$2,564 through September 25, 2017.

On September 25, 2017, the board of directors approved the Company to enter into a consolidated note payable agreement with the Company's CEO to consolidate the above notes and advances received from its CEO, including accrued interests on these notes. Interest expense on this note from September 25, 2017 to December 31, 2017 in the amount of \$11,872 and for the three months ended March 31, 2018 in the amount of \$11,015 are included in accrued expenses in Note 5. This note is secured by all of the Company's assets.

(4) In March 31, 2018, the Company entered into three separate unsecured promissory note agreements with its CEO and his spouse, in the amounts of \$12,000, \$40,000 and \$20,000, totaled \$72,000. Each of these promissory notes bears interest at a rate of 8% per annum. The principle balance and accrued interest is due 60 days from the date of the note.

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ACACIA DIVERSIFIED HOLDINGS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2018
 (UNAUDITED)

Payable to Related Parties

Payable to related parties consisted of the followings at March 31, 2018 and December 31, 2017:

| | March 31, 2018 | December 31, 2017 |
|---|----------------------|-------------------------|
| Short term loan from related entity (1) | \$61,500 | \$41,994 |
| Storage and corporate housing and auto allowances owed to CEO (2) | 16,000 | 10,000 |
| Amount owed to a director (3) | 5,416 | 29,064 |
| | \$82,916 | \$81,058 |

(1) In 2017, the Company received a working capital advance of \$74,348 from a related entity. These advances are non-interest bearing and were intended as short term capital advances. The remaining balances have been included in payable to related parties on the consolidated balance sheet as current liabilities at March 31, 2018 and December 31, 2017.

(2) On May 1, 2016, the Company entered into an employment agreement with its CEO. The term of the employment is through December 31, 2019. The agreement provides for a monthly storage and corporate housing allowance of \$1,000 for a property owned by the CEO and a monthly automobile allowance of \$1,000. During the three months ended March 31, 2018 and 2017, expenses related to the housing and automobile allowances totaled \$6,000 and \$6,000, respectively. At March 31, 2018 and December 31, 2017, \$16,000 and \$10,000 remained owed to the Company's CEO.

(3) During the year ended December 31, 2017, a director of the Company incurred time and expenses related to improving the retail space located in Tennessee. These costs have been recorded as leasehold improvements in the Company's consolidated balance sheets. At December 31, 2017, the Company owed this director \$29,064, of which \$17,648 was paid in February 2018 through issuance of 36,018 shares of the Company's common stock to the director and \$6,000 was paid to the director.

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the followings at March 31, 2018 and December 31, 2017:

| | March 31, 2018 | December 31, 2017 |
|---|-------------------|----------------------|
| Accounts payable to vendors | \$27,333 | \$95,444 |
| Payroll taxes payable | 29,082 | 24,727 |
| Accrued salaries and bonuses | 402,556 | 320,667 |
| Accrued interest on note payable to related party | 22,887 | 11,872 |
| | \$481,858 | \$452,710 |

NOTE 6 – INVENTORIES

The Company's inventories consisted of the followings at March 31, 2018 and December 31, 2017:

| | March 31, 2018 | December 31, 2017 |
|----------------|----------------------|----------------------|
| Raw materials | \$46,880 | \$46,880 |
| Finished goods | 7,582 | 10,377 |
| | \$54,462 | \$57,257 |

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ACACIA DIVERSIFIED HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(UNAUDITED)

NOTE 7 – STOCKHOLDERS’ DEFICIT

Common Stock

The Company has been authorized to issue 150,000,000 shares of common stock, \$.001 par value. Each share of issued and outstanding common stock shall entitle the holder thereof to fully participate in all shareholder meetings, to cast one vote on each matter with respect to which shareholders have the right to vote, and to share ratably in all dividends and other distributions declared and paid with respect to common stock, as well as in the net assets of the corporation upon liquidation or dissolution.

During the three months ended March 31, 2018, the Company issued 553,018 shares of its restricted common stock as follows:

1. 2,000 shares to a consultant for services rendered, valued at \$1,420.
2. 15,000 shares to the Company's SEC counsel for services rendered, valued at \$10,650.
3. 36,018 shares to a company owned by an independent director for leasehold improvements at the Tennessee retail store, valued at \$17,649.
4. 500,000 shares to a consultant as initial payment on a consulting contract, valued at \$242,800.

Warrants and Options

At March 31, 2018, 65,000 options were outstanding and there were no warrants outstanding. The Company did not issue any common stock purchase warrants or options during the three months ended March 31, 2018 and 2017.

Restricted Stock Awards to Key Employees

In March 2017, the board of directors approved issuance of 100,000 shares of the Company’s restricted common stock to each of its three key employees. As of the date of the issuance of the financial statements, only two key employees accepted the award. The award for the employees are subject to a four or five-year vesting requirements, i.e. the requisite service period. The shares are issued as the vesting restriction lapses. The Company valued these shares at fair value on commitment date which is the date on which the employee accepted the award and recorded stock based compensation expense over the requisite service period. Stock based compensation expense for these awards for the three months ended March 31, 2018 and 2017 was \$14,003 and \$11,733, respectively.

NOTE 8 – SUBSEQUENT EVENTS

In April 2018, the Company entered into two separate unsecured promissory note agreements with its CEO and his spouse, in the amounts of \$10,000, and \$32,000, totaled \$42,000. Each of these promissory notes bears interest at a rate of 8% per annum. The principle balance and accrued interest is due 60 days from the date of the note.

NOTE 9 – RECENT ACCOUNTING PRONOUNCEMENTS

Except as noted in our Form 10-K, the Company’s management does not believe that recent codified pronouncements by the Financial Accounting Standards Board (“FASB”) (including its EITF), the AICPA or the Securities and Exchange

Commission will have a material impact on the Company's current or future consolidated financial statements.

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

Forward-Looking Information

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains forward-looking statements within the meaning of the Private Litigation Reform Act of 1995 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", "should", "could", "predicts", "potential", "proposed", or "continue" or the negative of those terms. These statements are only predictions. In evaluating these statements, you should consider various factors which may cause our actual results to differ materially from any forward-looking statements. Although we believe that the exceptions reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements 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-Q and from time to time in the Company's Securities and Exchange Commission filings and reports. In addition, general economic and market conditions and growth rates could affect such statements. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

General

These unaudited interim consolidated financial statements should be read in conjunction with the annual financial statements for the Company most recently completed fiscal year ended December 31, 2017. These unaudited interim consolidated financial statements do not include all disclosures required in annual financial statements, but rather are prepared in accordance with recommendations for interim financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). These unaudited interim consolidated financial statements have been prepared using the same accounting policies and methods as those used by the Company in the annual audited financial statements for the year ended December 31, 2017.

Discussion on the Company's Operations and Recent Event

MariJ Pharmaceuticals, Inc. ("MariJ Pharma")

MariJ Pharma engages in the extraction and processing of very high quality, high-CBD/low-THC content medical grade cannabis oils from medical hemp plants. MariJ Pharma specializes in utilizing organic strains of the hemp plant, setting itself apart from the general producers of non-organic products. In addition, MariJ Pharma has the technical expertise and capability to process and formulate the oils and to employ them in its compounding operations. MariJ Pharma will seek to become engaged as owner or co-owner of a grow facility such as to produce its own plants for processing. The Company intends to acquire, through its MariJ Pharma subsidiary, portions or complete ownership of licenses and grow operations in one or more states and seeks to cultivate, organically extract and process its medicinal cannabis crops year around in indoor facilities. The acquisition of these licenses is anticipated to provide the Company with the opportunity to compound medicinal products using mixtures of high cannabinoid profile oils that have very little hallucinogenic properties but have significantly improved medicinal properties. This GeoTraking Technology is designed to provide a full-channel patient care tracking system that is fully compliant under today's strict HIPAA regulations that require privacy and security of the patient's information. Beginning with RFID labeling and tracking of every single seed employed in the grow program and continuing

through the sale of medicinal products in a sophisticated retail Point of Sale delivery system.

MariJ Pharma's revenues are anticipated to be generated primarily from several activities, including but not limited to the following:

- Cannabis oil extraction and processing. MariJ Pharma has a unique mobile cannabis oil processing and extraction unit designed into a heavy-duty trucks. That unit has already begun performing extractions and processing of medical hemp oils at various sites and is currently developing additional contracts for services.
- a. unit designed into a heavy-duty trucks. That unit has already begun performing extractions and processing of medical hemp oils at various sites and is currently developing additional contracts for services.
 - b. Wholesale sale of raw and processed medical cannabis oils.
- Compounding and manufacturing. MariJ Pharma has begun construction of a mobile laboratory and testing unit, also on a heavy-duty truck chassis, intended to address the growing demand for these services in the medical cannabis industry.
- c. also on a heavy-duty truck chassis, intended to address the growing demand for these services in the medical cannabis industry.
 - d. Licensing and support of the Company's GeoTraking Technology systems
 - e. Processing and compounding services for medical grade cannabis oils

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On September 28, 2016, MariJ Pharmaceuticals, Inc. received an Organic Certification under the U.S. National Organic Program (7 CFR Part 205) for its proprietary CO2 mobile cannabis oil extraction process and handling from OneCert, Inc., the issuing authority for that certification. As such, MariJ is now authorized to process directly for certified organic farms and is able to produce certified organic cannabis oils.

The Company is preparing to seek additional investments and financing to pay the costs of building its second mobile oil extraction and processing unit, to finance final construction of its mobile compounding and manufacturing unit for the same industry, and to complete the roll-out of its GeoTraking Technology system. There can be no assurance the Company will be successful in its plans to generate the required capital.

Canna-Cures Research and Development Center, Inc. ("Canna-Cures")

The Company acquired the assets and the business of Canna-Cures Research & Development Center, LLC, a Florida limited liability company, on January 15, 2016. The Company utilizes this subsidiary to engage in research and development activities as well as retail and wholesale distribution of medicinal hemp products and dietary supplements in the state of Colorado, depending upon our ability to comply in each instance with FDA rules and other regulations. Canna-Cures closed its retail operations in 2017 and began to focus its efforts in its development activities in Tennessee.

Eufhoria Medical of Tennessee, Inc. ("EMT")

In addition to our current extraction operations in the State of Colorado, the Company has been invited to be part of the hemp pilot program in Tennessee. This program provides the Company the license to grow, manufacture, and dispense USDA organic hemp oil in Tennessee and represents the first step in moving its operations to the east coast of the United States. The Company plans on participating in this pilot program through this new, wholly-owned subsidiary.

The Company also acquired land in Tennessee and has completed excavation and other cleanup activities to prepare the land for its intended use.

EMT will seek to align itself with institutions of higher learning in working to develop new products and to identify and develop additional uses for its medical cannabis products. It is anticipated that EMT could generate revenues from the following activities:

- 1) EMT will seek to enter into product development projects with institutions of higher learning in efforts to develop new and better strains of medical cannabis related products for dispensing as medications, nutraceuticals, cosmeceuticals, and probably dietary supplements. EMT anticipates participating in state and federal grants in conjunction with one or more universities as a means to defray part of its costs in these efforts.
- 2) Private label packaging services - the Company has obtained a majority of the equipment required to engage in the business of packaging and labeling of medical cannabis oils, oil-infused products, and related items. Retail sales of medical cannabis oils, oil-infused products, and other merchandise through its web-based portal or retail dispensaries planned for that purpose. These activities are dependent in large part upon meeting FDA regulations and criteria relating to the sale and distribution of cannabis-infused products, and the Company is currently in the process of determining the status of those criteria.
- 3) Retail and wholesale sales of cosmeceutical and nutraceutical products and dietary supplements containing its high-quality cannabis oil extracts, subject to compliance with FDA and other regulations.
- 4) Growing high quality cannabis plants and extracting oil for sale or for manufacturing of oil-infused products.
- 5) Growing high quality cannabis plants and extracting oil for sale or for manufacturing of oil-infused products.

The Company will require additional capital to execute these plans and there can be no assurance that the Company will be successful in its plans to generate that capital.

Operating results for the three months ended March 31, 2018 and 2017:

For the three months ended March 31, 2018, the Company generated revenues of \$91,914 from operations, compared to \$147,646 for the three months ended March 31, 2017, a decrease of \$55,732 or 38%. In 2017, revenues were primarily generated from extraction contracts and from retail sales. Revenues from 2018 were primarily from extraction services performed. The decrease in revenues was due to having fewer extraction contracts and more competitive industry condition in the extraction space driving processing pricing down in 2018. Average revenue per pound of processed flower decreased by 40% compared to 2017. The decrease in revenues is also attributable to the closing of the retail store in July 2017. The Company will be making every effort possible to acquire extraction contracts on the east coast going forward where markets are unsaturated.

For the three months ended March 31, 2018, costs of goods sold was \$49,776, compared to \$94,741 for the three months ended March 31, 2017, a decrease of \$44,965, or 47%. The decrease in our costs is primarily related to the completion of fewer extraction services contract during the three months ended March 31, 2018.

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As a result of the changes in revenues and costs of goods sold discussed above, the Company's gross profit decreased from \$52,905, or 36% of revenue for the three months ended March 31, 2017 to \$42,138, or 46% of revenue for the three months ended March 31, 2018.

For the three months ended March 31, 2018, selling, general and administrative expenses were \$463,401, compared to \$514,266 during the three months ended March 31, 2017, a decrease of \$50,865, or 10%. The decrease in these expenses are attributable to (1) a decrease in operating expenses due to the closing of our Colorado retail operation in July 2017, (2) lower stock based compensation expense, and (3) lower legal fees and accounting fees during the current period.

During the three months ended March 31, 2018, the Company incurred interest expense of \$11,527, compared to \$234,150 for the three months ended March 31, 2017, a decrease of 222,623, or 95%. During the current period, interest expense was primarily related to the notes payable to related party. During the three months ended March 31, 2017, the Company issued its restricted common stock to its CEO as additional considerations for entering into a promissory note with the Company. In the prior period, the Company also issued a convertible note to an investor at a discount and incurred cash and non-cash debt issuance costs.

As a result of the changes in revenues, costs and expenses, the Company incurred a net loss of \$432,790 for the three months ended March 31, 2018, compared to a net loss of \$694,511 for the three months ended March 31, 2017, a decrease of \$261,721, or 38%.

The future trends of all expenses are expected to be primarily driven by the Company's ability to execute its business plans and the future outcome of its application to obtain operating licenses in other states. As the cannabis industry grows, additional expenses are anticipated to be incurred in complying with various state and federal regulatory requirements. The Company's ability to continue to fund operating expenses will depend on its ability to raise additional capital. There can be no assurance that the Company will be successful in doing so.

Liquidity and Capital Resources

The Company's cash position at March 31, 2018 decreased by \$1,947 to \$26,470, as compared to a balance of \$28,417, as of December 31, 2017. The net decrease in cash for the three months ended March 31, 2018 was attributable to net cash used in operating activities of \$66,461, net cash used in investing activities of \$7,486, offset by net cash provided by financing activities of \$72,000.

As of March 31, 2018, the Company had negative working capital of \$1,101,971 compared to negative working capital of \$972,640, at December 31, 2017, a decrease of \$129,331, attributable primarily to issuance of notes payable to its CEO and increased amounts owed to vendors and accrued expenses.

Net cash used in operating activities of \$66,461 during the three months ended March 31, 2018, was lower compared to the prior period of \$309,287, primarily due to lower net loss in the current period, and a settlement paid to the former CEO in the prior period.

Net cash used in investing activities of \$7,486 for the three months ended March 31, 2018 was slightly higher compared to \$4,045 for the three months ended March 31, 2017. The Company's business plan did not call for significant investment in acquisition of property and equipment in these two periods.

Net cash provided by financing activities of \$72,000 during the three months ended March 31, 2018 decreased by \$313,000 compared to \$385,000 during the three months ended March 31, 2017. In the current period, the Company's plan of operations required a smaller amount financing compared to the prior period.

During the three months ended March 31, 2018, the Company issued shares valued at \$17,649 to settle a related party liability. During the three months ended March 31, 2017, the Company issued 144,000 shares of its common stock as costs directly related to entering into the equity purchase agreement with an investor. These shares were valued at \$240,900.

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As reported in the accompanying consolidated financial statements, for the three months ended March 31, 2018 and 2017, the Company incurred net losses of \$432,790 and \$694,511, respectively. The Company did not produce significant revenues in the periods presented and has sustained operating losses since inception. The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital, obtain licenses to commence operations in states outside of Colorado and achieve a level of profitability. Until recently where the Company obtained working capital from convertible notes financing and equity purchase agreement with an outside investor, the Company has financed its activities principally from working capital advances from related parties and issuing notes payable to its CEO. It intends to finance its future operating activities and its working capital needs largely from proceeds from the sale of equity securities, if any, combined with additional funding from its CEO. The sale of equity and convertible notes financing agreements may result in dilution to stockholders and those securities may have rights senior to those of common shares. If the Company raises additional funds through the issuance of convertible notes or other debt financing, these activities or other debt could contain covenants that would restrict the Company's operations. Any other third-party funding arrangements could require the Company to relinquish valuable rights. The Company will require additional capital beyond its currently anticipated needs. Additional capital, if available, may not be available on reasonable terms or at all.

The Company has not generated significant revenue to date, and will not generate significant revenue in the foreseeable future. The Company expects to continue to incur operating losses as it proceeds with its pursuit of operating licenses in various states. The future trends of all expenses are expected to be primarily driven by the Company's ability to execute its business plans and the future outcome of its application to obtain operating licenses in other states. As the cannabis industry grows, additional expenses are anticipated to be incurred in complying with various regulatory requirements. The Company's ability to continue to fund operating expenses will depend on its ability to raise additional capital. There can be no assurance that the Company will be successful in doing so.

Financial Condition

The Company's total assets at March 31, 2018 and December 31, 2017 were \$563,538 and \$606,800, respectively, a decrease of \$43,262. Total liabilities at March 31, 2018 and December 31, 2017 were \$1,195,174 and \$1,092,168, respectively, an increase of \$103,006. The significant change in the Company's financial condition is attributable to (i) issuance of notes payable to a related party, (ii) increase in working capital advances from related parties, and (iii) increase in accrued expenses, including accrued interest expense on notes payable to related party. As a result of these transactions, the Company's cash position decreased from \$28,417 to \$26,470 during the three months ended March 31, 2018.

Off-Balance Sheet Arrangements

We have made no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a Smaller Reporting Company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2018. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2018, the Company's disclosure controls and procedures were not effective. The controls were determined to be ineffective due to the lack of segregation of duties. In January 2017, the Company hired a part-time financial controller to assist with technical accounting issues and the preparation of the filings. However, until the Company begins generating sufficient revenues, it is unable to remediate the weakness. Despite the existence of material weaknesses, management believes the financial information presented herein is materially correct and fairly presents the financial position and operating results of the three months ended March 31, 2018, in accordance with U.S. GAAP.

Changes in Internal Control Over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the three months ended March 31, 2018, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors

The Company is a Smaller Reporting Company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and is not required to provide the information under this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the three months ended March 31, 2018, the Company issued 553,018 shares of its restricted common stock as follows:

1. 2,000 shares to a consultant for services rendered, valued at \$1,420.
2. 15,000 shares to the Company's SEC counsel for services rendered, valued at \$10,650.
3. 36,018 shares to a company owned by an independent director for leasehold improvements at the Tennessee retail store, valued at \$17,649.
4. 500,000 shares to a consultant as initial payment on a consulting contract, valued at \$242,800.

The shares of our common stock were issued pursuant to an exemption from registration in Section 4(a)(2) of the Securities Act of 1933. These shares of our common stock qualified for exemption under Section 4(a)(2) of the Securities Act of 1933 since the issuance of shares by us did not involve a public offering. The offering was not a "public offering" as defined in Section 4(a)(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of shares to a high number of investors. In addition, these shareholders had necessary investment intent as required by Section 4(a)(2) since they agreed to receive share certificates bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Act. This restriction ensures that these shares would not be immediately redistributed into the market and therefore not be part of a "public offering." All shareholders are "sophisticated investors" and are business acquaintances of our officers and directors. Based on an analysis of the above factors, we believe we have met the requirements to qualify for exemption under section 4(a)(2) of the Securities Act of 1933 for this transaction.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits

Exhibits required by Item 601, Regulation S-K;

| Exhibit Number and Description | Location Reference |
|---|--------------------|
| (3.0) Articles of Incorporation | |
| (3.1) <u>Articles Of Amendment And Restated Articles Of Incorporation of Acacia Diversified Holdings, Inc. dated June 9, 2015</u> | See Exhibit Key |
| (3.2) <u>Restated Bylaws Of Acacia Diversified Holdings, Inc. dated June 29, 2015</u> | See Exhibit Key |
| (9.0) <u>Voting Proxy Agreement between Rick Pertile and Steven L. Sample</u> | See Exhibit Key |
| (10.1) <u>Consolidated Loan Agreement</u> | See Exhibit Key |
| (10.2) <u>Consolidated Promissory Note</u> | See Exhibit Key |
| (10.3) <u>Security Agreement – Acacia Diversified Holdings, Inc.</u> | See Exhibit Key |
| (10.4) <u>Security Agreement -- Marij Agriculture, Inc.</u> | See Exhibit Key |
| (10.5) <u>Security Agreement – Marij Pharmaceuticals, Inc.</u> | See Exhibit Key |
| (10.6) <u>Security Agreement – CannaCures Research & Development Center, Inc.</u> | See Exhibit Key |
| (14.0) <u>Code of Ethics</u> | See Exhibit Key |
| (21.0) <u>List of Subsidiaries</u> | See Exhibit Key |
| (31.1) <u>Certificate of Chief Executive Officer And Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> | Filed herewith |
| (32.1) <u>Certification of Chief Executive Officer And Chief Financial Officer Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> | Filed herewith |
| 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 | |

Exhibit Key

- 3.1 Incorporated by reference herein from the Company’s Form 8-K filed on July 16, 2015.
- 3.2 Incorporated by reference herein from the Company’s Form 8-K filed on July 16, 2015.
- 9.0 Incorporated by reference herein from the Company’s Form 10-K filed on April 2, 2018.
- 10.1 Incorporated by reference herein from the Company’s Form 8-K filed on November 3, 2017.
- 10.2 Incorporated by reference herein from the Company’s Form 8-K filed on November 3, 2017.
- 10.3 Incorporated by reference herein from the Company’s Form 8-K filed on November 3, 2017.
- 10.4 Incorporated by reference herein from the Company’s Form 8-K filed on November 3, 2017.
- 10.5 Incorporated by reference herein from the Company’s Form 8-K filed on November 3, 2017.
- 10.6 Incorporated by reference herein from the Company’s Form 8-K filed on November 3, 2017.
- 14.0 Incorporated by reference herein from the Company’s Form 10-Q filed on November 13, 2017.
- 21.0 Incorporated by reference herein from the Company’s Form 10-Q filed on August 7, 2017.

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SIGNATURES

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

Acacia Diversified
Holdings, Inc.

Date: May 7, 2018 By: /s/ Richard K.
Pertile
Richard K. Pertile
Principal
Executive Officer
Principal
Financial Officer
Principle
Accounting
Officer