

ACACIA AUTOMOTIVE INC
Form 10-Q
November 16, 2009

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 September 30, 2009

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

Commission file number: 1-14088

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

Texas
(State or other jurisdiction of incorporation or
organization)

75-2095676
(IRS Employer Identification No.)

3512 E. Silver Springs Blvd. - #243 Ocala, FL
(Address of principal executive offices)

34470
(Zip Code)

(352) 502-4333
(Registrant's telephone number)

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

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

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

Large accelerated
filer

Accelerated

filer r
Non-accelerated
filer r
Reporting Company x

Smaller

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of September 30, 2009: 12,062,524.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ACACIA AUTOMOTIVE, INC.
BALANCE SHEETS

	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)
ASSETS		
Current Assets		
Cash	\$ 12,554	\$ 5,586
Certificate of Deposit (Restricted)	151,157	157,255
Accounts receivable	542,275	236,524
Due from Stockholder	17,192	-
Inventory repurchases	-	-
Deposits and prepaid expense	5,566	3,481
Total Current Assets	728,744	402,846
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$79,699 and \$52,103, for 2009 and 2008 respectively	190,842	172,346
OTHER ASSETS		
Goodwill	427,929	427,929
Customer list and Non-Compete Agreement, net of amortization of \$350,509 and \$255,850, for 2009 and 2008 respectively	290,625	385,284
Total Other Assets	718,554	813,213
Total Assets	\$ 1,638,140	\$ 1,388,405
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Cash overdraft	\$ 69,539	\$ 42,893
Accounts payable	571,830	277,561
Accrued liabilities	368,506	404,374
Line of credit	254,000	275,000
Capital lease obligations, current portion	12,288	14,619
Due to Stockholder	-	-
Total Current Liabilities	1,276,163	1,014,447
NONCURRENT LIABILITIES		
Capital lease obligations, less current portion	73,067	16,900
Total Liabilities	1,349,230	1,031,347
Stockholders' Equity		
Common Stock, \$0.001 par value, 150,000,000 shares authorized; 12,062,524 shares issued and outstanding, respectively	12,062	12,062
Paid-In-Capital	11,143,712	11,095,181
Retained Deficit	(10,866,864)	(10,750,185)
Total Stockholders' Equity	288,910	357,058
Total Liabilities and Stockholders' Equity	\$ 1,638,140	\$ 1,388,405

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

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ACACIA AUTOMOTIVE, INC.

STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
REVENUES	\$ 371,166	\$ 387,343	\$ 1,169,182	909,400
OPERATING EXPENSES				
Cost of fees earned	126,313	44,629	334,929	193,220
Employee Compensation	73,676	502,191	266,952	1,454,606
General And				
Administrative Expenses	233,393	210,739	535,754	652,075
Depreciation and amortization	22,834	53,051	132,617	165,521
Operating Loss	(85,050)	(423,267)	(101,070)	(1,556,022)
Interest Income	434	667	1,653	3,515
Interest Expense	(2,858)	(3,330)	(14,624)	(9,380)
Gain (loss) on disposal of asset	872	958	(2,638)	(13,625)
Net Loss Before Income Taxes	(86,602)	(424,972)	(116,679)	(1,575,512)
Income Tax Expense	-	-	-	-
NET LOSS	\$ (86,602)	\$ (424,972)	\$ (116,679)	\$ (1,575,512)
BASIC AND FULLY DILUTED				
LOSS PER SHARE				
Loss Per Share	\$ (0.01)	\$ (0.04)	\$ (0.01)	\$ (0.13)
Weighted Average Number				
Of Common Share Outstanding	12,017,524	11,997,524	12,017,524	11,997,524

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

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ACACIA AUTOMOTIVE, INC.
STATEMENT OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2009	2008
Cash Flow From Operating Activities		
Net Loss	\$ (116,679)	\$ (1,575,512)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation	132,617	165,521
Loss on disposal of asset	2,638	13,625
Write-down of software	-	(25,000)
Stock options and warrants issued for services	48,531	964,314
Changes in Operating Assets and Liabilities		
Inventory	-	(10,160)
Accounts Receivable	(305,751)	53,686
Employee Receivables	-	294
Deposits and Prepaid Expense	(2,085)	28,862
Accounts Payable	320,915	17,200
Accrued Liabilities	17,968	219,950
Due to/from Stockholder	(17,192)	(28,787)
Net Cash Flow Provided by (Used) in Operating Activities	80,962	(176,007)
Cash Flow Provided (Used) by Investing Activities		
Restricted CD interest earned (withdrawn)	6,098	-
Proceeds from sale of equipment	33,077	27,261
Purchase of equipment	(92,169)	(21,360)
Net Cash Flow Provided (Used) by Investing Activities	(52,994)	5,901
Cash Flow Provided by (Used) from Financing Activities		
Borrowings and repayments on line of credit	(21,000)	70,100
Sale of Common Stock	-	130,000
Cash Flow Provided by (Used) from Financing Activities	(21,000)	200,100
Change in Cash	6,968	29,994
Cash at Beginning of Period	5,586	203,077
Cash at End of Period	\$ 12,554	\$ 233,071
Supplemental Cash Flow Disclosures		
Cash paid during year for:		
Interest	\$ 14,624	\$ 9,380
Non-Cash Investing and Financing Activities		
Additional paid-in capital	\$ 48,531	\$ 964,314
Legal fees payable	(930)	-
Accounts payable	-	802,929
Officer salaries payable	(11,214)	(926,409)
Directors fees payable	(36,387)	(37,905)
	\$ -	\$ -

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

ACACIA AUTOMOTIVE, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION

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

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

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

Historically, the Company had issued warrants in exchange for the conversion of certain preferred stock, for certain non-compete agreements, and with the purchase of Common shares of stock in conjunction with certain of its debt and equity financings. The Company has also issued options to purchase Common stock to directors, employees, and certain others providing services to the Company. The Company records each of the securities issued on a fair value basis up to the amount of the proceeds received. The Company estimates the fair value of the options and warrants using the Black-Scholes option-pricing model. The Black-Scholes model is dependent on a number of variables and estimates including: interest rates, dividend yield, volatility and the expected term of the warrants. The estimates are based on market interest rates at the date of issuance, our past history for declaring dividends as well as the expectation of future dividends, the Company’s estimated stock price volatility, and the contractual term of the options and warrants. The value ascribed to the options issued under the Company’s Stock Option Program and warrants issued connection with debt offerings is considered a cost of capital and amortized to interest expense over the term of the debt.

CONSOLIDATION – The Company owns 100% of the voting stock of Acacia Augusta Vehicle Auction, Inc. The consolidated financial statements include the accounts of the Company and Acacia Augusta Vehicle Auction, Inc. dba / Augusta Auto Auction, Inc. The Company also owns 100% of the voting stock of Acacia Chattanooga Vehicle Auction, Inc. Following December 26, 2009, the Company’s consolidated financial statements will include the accounts of the Company, Acacia Augusta Vehicle Auction, Inc., and Acacia Chattanooga Vehicle Auction, Inc. All significant intercompany accounts and transactions are eliminated in consolidation. (See Note 3 – Subsequent Events)

NOTE 2 – GOING CONCERN CONSIDERATIONS

The Company neither has sufficient cash on hand nor is it generating sufficient revenues to cover its operating overhead. These facts raise doubt as to the Company’s ability to continue as a going concern. The Company has been operating over the past year based on the proceeds from the sale of Common stock in private offerings, loans from its officers/directors, and revenues from its auction operating unit. There is no guarantee that such officers/directors will continue to provide operating funds for the Company. In order to pursue its goals and commitments, the Company will be required to obtain significant funding to meet its projected minimum expenditure requirements. Management’s plans include raising funds from the public through a private placement stock offering or securing debt financing, acquiring additional auto auction operations that will provide profitability and liquidity, and attempting to increase the

revenues from its current auction operations. Management intends to make every effort to identify and develop sources of funds, but there is no assurance that Management's plans will be successful.

NOTE 3 – SUBSEQUENT EVENTS - BUSINESS COMBINATION

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

On August 31, 2009, the Company executed documents to purchase certain assets of Chattanooga Auto Auction Limited Liability Company through its wholly-owned subsidiary Acacia Chattanooga Vehicle Auction, Inc., which will operate the auction from a leased facility in Chattanooga, Tennessee. The transfer of assets will occur on December 26, 2009, as the Company simultaneously commences operations at that location and will be accounted for under the purchase method of accounting. The results of operations for the Acacia Chattanooga Auto Auction, Inc. business will be included in financial statements after that date. That auction will also do business under the tradename Chattanooga Auto Auction, Inc.

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

Forward-Looking Information

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

General

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

Wholesale automotive markets remain suppressed throughout the entire U.S. as compared to previous year's levels, although not so much as the retail markets. While lower volumes of vehicles are generally available to the wholesale markets as compared to the prior year, the constrictions are not sufficient to preclude profitability, especially at auctions. During previous periods of economic downturns and recession, the automotive auction industry has traditionally fared well compared to many other industries.

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

Operating Results of the Auction

With the acquisition of the Augusta Auto Auction on July 10, 2007, we commenced operations, ceased being a shell company, and conducted our first weekly auction on July 11, 2007. Our only operations in 2007 and 2008 were those operations, and those operations remain our only operations as of the close of the third quarter of 2009. On August 31, 2009, the Company executed agreements to acquire the assets of Chattanooga Auto Auction, limited Liability Company. From September 1 until December 26, 2009, the Company will manage the operations of the auction under a separate Management Agreement, and the assets and ownership of the auction will transfer on December 26, 2009. Details of the transaction are contained in an 8-K filed on September 16, 2009. With the acquisition of Chattanooga Auto Auction, the Company will have two operating units in 2010, and continues to seek other acquisition candidates. (See Note 3 to Financial Statements)

Three months ended September 30, 2009

The Auction earned an operating profit of \$77,698 for the three months ended September 30, 2009. Of that profit, \$19,784 represented non-cash expenses for amortization and depreciation, and interest expense of \$2,078, resulting in a positive cash flow for the period. The third quarter of 2009 saw a substantial increase in the number of vehicles entered at our Augusta Auto Auction operation versus the prior year, but more notable was a similar increase in the number of units sold. While the auction sold more vehicles during the period, total revenues were off 4.17%. Comments in the 10-Q for Q2 2009 indicated that more than \$78,000 in charges were taken in Q2 2008 as a result of uncollected receivables associated with problems with the Vemark software that was discontinued and replaced with the ASI software the following quarter. While those charges were recovered in Q3 of 2008 and may appear to indicate higher revenues in that quarter, they were not actually part of the operating revenues for that period. Thus, by comparison, there appears to be a decline in quarter-over-quarter revenues in the two periods when in fact there was a gain in operating revenues. Accounting for the recovered receivables adding to the Q3 2008 revenue, the Company actually had an adjusted net operating increase in revenues in Q3 2009 of approximately \$80,000 versus the previous year. The Company also attributes some variations to a lower average selling price of units with attendant lower sale fees during the period, partially because it instituted a weekly public auction of lesser-priced vehicles, as well as the use of some fee-based promotional considerations to increase activity during the current economic downturn.

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The chart below indicates a comparison of units entered and sold, conversion rates, and total revenues generated in Q3 2009 versus the same period in 2008 without adjusting for the recoveries made in Q3 of 2008 as noted above. Also shown is comparison of actual buyer and seller fee revenues for the period.

	2009	
Units Entered vs. Q3 2008	+61.5	%
Units Sold vs. Q3 2008	+32.0	%
Conversion Rate Q3 2008	57.60	%
Conversion Rate Q3 2009	47.10	%
Change in Total Revenues vs. Q3 2008 (Including Q3 2008 Recovery of Previous Charges)	-4.17	%
Change in Actual Buyers and Sellers Fee Revenues vs. Q3 2008	+32.0	%

The third quarter reflected a lower conversion rate than in the same period of 2008, but the Company anticipated this as the typical result of a higher number of units entered for sale and a weaker general economy, as well as factoring in a lower conversion rate for vehicles offered at its weekly public auctions implemented earlier this year. Considering the generally-weakening economic conditions, reduced productivity at automotive manufacturers, tightening credit and higher consumer interest rates, and other negative pressures affecting trade in general, the Company considers any increase in units entered and sold for the period to be noteworthy, and such a substantial increase to be exceptional.

Nine months ended September 30, 2009

The Auction earned an operating profit of \$297,000 for the nine months ended September 30, 2009. Of that profit, \$126,000 represented non-cash expenses for amortization and depreciation, and interest expense of \$12,000, resulting in a substantial positive cash flow for the period. Revenues for the first nine months of 2009 were \$1,168,582, compared to \$907,497 in the same period of 2008, indicating an increase of 28.7% year-over-year. By reference, the auction generated \$645,712 in revenues in the first nine months of 2007, six of those months being prior to its acquisition by the Company in July of that year.

With respect to our Augusta operations in 2009, our total employee compensation is averaging approximately \$111,700 per quarter and other general and administrative expenses are averaging approximately \$128,000 per quarter. Cost of sales, absent charges for and wages included above, are approximately \$50,000 per quarter and depreciation and amortization is about \$42,100 per quarter leaving an average operating profit, assuming average revenues, of about \$99,000 per quarter. Our interest expense at our Augusta operation is about \$4,000 per quarter. The auction experienced additional expenses in towing to our premises and then and arranging on our lot over 100 inoperative units consigned as trade-ins from the Cash for Clunkers program at the end of the quarter, but will not receive the benefit of revenues from sales of those units to offset those expenses until they are offered and sold in the fourth quarter of the year.

	2009	
Units Entered vs. Nine Months 2008	+49.9	%
Units Sold vs. Nine Months 2008	+28.7	%
Conversion Rate Nine Months 2008	57.55	%
Conversion Rate Nine Months 2009	49.41	%
Change in Total Revenues Nine Months 2009 vs. 2008 - Including Q3 2008 Recovery of Q2 Charges	+28.8	%
Change in Actual Buyers and Sellers Fee Revenues vs. Nine Months 2008	+20.3	%

The conversion rate, while declining during the comparative periods, is also consistent with a national trend believed by management to be related to a slowing economy in the United States. We do believe that the current economic environment could inhibit our present growth based upon (i) the negative influences of higher consumer automotive interest rates, tighter credit, and higher gasoline prices on the automotive industry, (ii) the unwillingness of consumers to spend as freely on major purchases in an uncertain economy, and (iii) the other wide-ranging negative impacts of a

troubled general economy. In addition, it is not uncommon for conversion rates to decline as volumes increase.

Discussion Regarding the Parent Company's Operating Results

Three months ended September 30, 2009

The auction's Q3 profit was the significant contributing component in reducing the consolidated Q3 net loss to the parent company of \$86,602, compared to a net loss of \$424,972 in Q3 of 2008. The Q3 consolidated financial results also include \$32,354 in non-cash charges for the issuance of Common stock as grants or options for employee or outside director compensation, for warrants, and \$3,050 in additional depreciation and amortization by the parent company for a consolidated total of \$22,834 in that category.

Nine months ended September 30, 2009

Our revenues for the first nine months of 2009 were \$1,169,182, or approximately 28.8% greater than the same period in 2008. This increase in revenue is attributable to an increase in the number of units sold and the attendant greater fees. The second quarter was bolstered by an infusion of additional sales and fee revenues from a special offering of units for a vehicle manufacturer and from a liquidation sale for the United States Bankruptcy Court in disposing of the automotive assets of a bankrupt local auto dealer. Other sales and revenues in the period were up substantially as well, in part because the Company's Augusta Auto Auction unit also implemented a weekly public auction in 2009, further adding to the units entered and sold and the fee revenues from that additional volume. It had offered several public auto auctions in Q3 and Q4 of 2008 in preparation for the weekly rollout of those services in 2009.

We incur expenses at the corporate level in addition to those incurred at our operations at the Augusta auction. Total corporate expenses for the period were \$413,696, including (approximately) legal and accounting fees of \$57,000, office rental costs of approximately \$7,900, non-cash amortized warrant and option expenses of \$48,500, executive compensation of \$186,000, other wages of \$5,000. The corporation also incurred amortization and depreciation expenses of \$6,300, interest expense of \$2,400, and other G&A expense for the period was approximately \$100,000. For the nine months ended September 30, 2009 we incurred a consolidated loss of \$116,679 versus a loss of \$1,575,512 for the same period in 2008. The Company generated a cash flow from operating activities of approximately \$81,000 and a total net cash flow of approximately \$7,000 during the period.

Liquidity and Need for Additional Capital

We look for our operations to provide the cash flow and cash return on our investment. Presently, the cash flow from our Augusta operation is sufficient to support those operations in the current manner, although we anticipate having to move to a different, larger location as described below. Nonetheless, our current operations do not provide sufficient cash flow to cover fully our corporate activity, essentially our executive officers, administrative overhead, and overhead that includes the cost of lawyers and accountants required to be publicly held. We have recently entered into a contract to acquire an auction in Chattanooga, Tennessee, being an auction that is larger than the Augusta auction and one whose operations we believe will also generate cash flow.

The Company will ultimately be forced to seek a larger operating facility for its auction operations in the greater Augusta area, since the auction cannot accommodate the anticipated growth at its present location.

The Company's liquidity in 2007 and 2008 was provided through the closing of private placements of common stock in the amounts of \$1,112,500 and \$130,000 respectively, and from the Company's auction operations since July 10, 2007. Presently, the Company's liquidity is supplemented by a \$300,000 line of credit with Wachovia Bank, N.A. Although the Company presently has a certificate of deposit with the same bank of just over \$150,000, this line of credit is used to cover some instances in which payments to dealers selling vehicles through the auction exceeds collected payments for those vehicles. The Company anticipates increasing the size of the available line as its sales volume grows. The bank charges an interest rate on the line of credit equal to prime plus 1.5% on the outstanding daily balance, if any. The line of credit is secured by all of the Company's deposits at the bank.

Frequently, when we hold an auction near the end of a quarter, our receivables and payables will be large compared to prior quarters or as a ratio of receivables or payables to revenues for that quarter and the other quarters. Receivables and payables for a given auction are substantially liquidated within days of the auction process, but appear distorted when occurring close to the end of an accounting period. We held an auction on the last day of the third quarter of this year, resulting in this same situation as identified above.

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

Item 4T. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer who acts as our Chief Financial Officer to allow timely decisions regarding required disclosure. During the 90-day period prior to the date of this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer concluded that the Company's disclosure controls and procedures were effective. Nonetheless, we have identified areas that we are addressing which we believe need to be rectified.

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).

Changes in Internal Control over Financial Reporting

In the course of conducting our audit for the fiscal year 2008, our auditor, Killman, Murrell & Company, P.C. indicated that we have three material weaknesses material weaknesses, although it did not identify to us any report that necessitated restatement: (i) Our reconciliations and account analysis is not performed in a timely manner because we do not have full time financial accounting personnel; (ii) Our sales and accounts receivable software is not integrated with our financial accounting software and our accounting personnel do not perform routine reconciliations of data entered on the sales reporting system to appropriate control accounts in the general ledger system with reconciliations made in the aggregate without individual account scrutiny regardless of materiality; and (iii) we made several adjusting entries relating to the recording of options and the accrual of certain liabilities.

During most of fiscal 2008, the Company had no full time financial accounting personnel. As such many reconciliations and account analysis were not performed in a timely manner. However, contemporaneous to year-end, the Company added a certified public accountant with financial reporting experience to its staff. The Company is also actively seeking a qualified CFO to join its executive team, and feels that these additions will mitigate this issue.

As with many vehicle auction companies of its size, the Company's sales and accounts receivable software is not integrated with its financial accounting software. In 2008, the accounting personnel did not properly perform routine reconciliations of the results of the data entered on the sales reporting system to the appropriate control accounts in the general ledger system. As such, certain reconciliations to the control accounts were made in the aggregate without individual account scrutiny, regardless of materiality. With the addition of the accountant, the Company will require reconciliations of the control accounts with each accounting period close.

The auditors proposed significant adjusting entries to both the subsidiary and parent companies that comprise the consolidated reporting entity. These entries were principally the result of analyzing the Company's recording of options and the accrual of certain liabilities. With the addition of the accountant, the Company will perform this analysis on no less than a quarterly basis.

PART II OTHER INFORMATION

Item 5. Other Information.

None

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SIGNATURES

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

Acacia Automotive, Inc.

Dated: November 16, 2009

By: /s/ Steven L.
Sample
Steven L. Sample
Chief Executive Officer and
Principal Financial Officer

