TX Holdings, Inc.
Form 10-Q
May 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

____

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

For the transition period from _____to _____

Commission File No. 0-32335

TX HOLDINGS, INC.

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

GEORGIA 58-2558702

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification. No.)

12080 Virginia Blvd.

Ashland, KY 41102

(Principal Address of Issuer)

(606) 928-1131

Issuer's telephone number

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 issuer was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. Smaller reporting company x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES o NO x

Transitional Small Business Disclosure Format (check one): YES o NO x

As of May 15, 2012 there were 53,271,897 shares of common stock outstanding.

TX Holdings, Inc.

Form 10-Q

For the Quarter Ended March 31, 2012

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TX Holdings, Inc.

Condensed Balance Sheets

March 31, 2012 and September 30, 2011

	Unaudited March 31, 2012	Audited September 30, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 29,041	$ 3,019
Accounts Receivable	297,898	-
Finished Goods Inventory	744,783	-
Commission advances	63,787	-
Total current assets	1,135,509	3,019
Unproved oil and gas properties-successful efforts, net	148,835	133,714
Deposits	100,200	50,000
Total Assets	$ 1,384,544	$ 186,733

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Notes payable to a stockholder	$ 289,997	$ 289,997
Accounts payable and accrued liabilities	1,476,327	1,106,223
Advances from stockholder/officer	1,182,280	170,697
Convertible debt to stockholder/officer	1,199,886	1,199,886
Total current liabilities	4,148,490	2,766,803
Asset retirement obligation	23,012	23,012
Total Liabilities	4,171,502	2,789,815
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock: no par value, 1,000,000 shares authorized no shares outstanding as of March 31, 2012 and September 30, 2011		
Common stock: no par value, 250,000,000 shares authorized, 53,271,897 shares issued and outstanding at March 31, 2012 and September 31, 2011	10,566,487	10,566,487
Additional paid-in capital	1,406,449	1,379,409
Accumulated deficit	(14,759,894)	(14,548,978)
Total stockholders' deficit	(2,786,958)	(2,603,082)
Total liabilities and stockholders' deficit	$ 1,384,544	$ 186,733

See accompanying notes to the consolidated financial statements.

TX HOLDINGS, INC.

UNAUDITED STATEMENTS OF OPERATIONS

For the Three and Six Months Ended March 31, 2012 and 2011

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Revenue	$ 916,579	$9086	$ 1,025,516	$9245
Cost of Goods Sold	719,856	-	813,753	-
Gross Profit	196723	9,086	214,763	9,245
Operating expenses, except items shown separately below:	87,446	55,667	206,713	98,241
Professional fees	59,286	-	115,715	-
Commission expense	74,198	-	74,198	-
Stock-Based Compensation	27,040	-	27,040	-
Depreciation expense	2,731	1,235	3,879	2,123
Total Operating Expenses	250,701	56,902	427,545	100,364
Loss from operations	(53,978)	(47,816)	(212,782)	(9,119)
Other income and (expense):				
Gain on extinguishment of debt	62,719	-	62,719	-
Other income	125	-	3,763	-
Interest expense	(32,043)	(31,517)	(64,616)	(64,207)
Total other income and (expenses), net	30,801	(31,517)	1,866	(64,207)
Net Income (Loss)	$ (23,177)	$ (79,333)	$ (210,916)	$ (155,326)
Net loss per common share-basic	$ -	$ -	$ -	$ -
Weighted average number of common shares outstanding-Basic	53,271,897	53,041,897	53,271,897	53,041,897

See accompanying notes to the consolidated financial statements.

TX HOLDINGS, INC.

UNAUDITED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT

For the Six Months Ended March 31, 2012

	Preferred Stock		Common Stock		Additional Paid in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance at September 30, 2011	-	-	53,271,897	10,566,487	$ 1,379,409	$ (14,548,978)	$ (2,603,082)
Accounting for warrants issued to an officer and the Board	-	-	-	-	27,040	-	27,040
Net Loss	-	-	-	-	-	(210,916)	(210,916)
Balance at March 31, 2012	-	-	53,271,897	10,566,487	$ 1,406,449	$ (14,759,894)	$ (2,786,958)

See accompanying notes to the consolidated financial statements.

TX HOLDINGS, INC.

UNAUDITED STATEMENTS OF CASH FLOW

For the Six Months Ended March 31, 2012 and 2011

	SIX MONTHS ENDED 3/31/2012	3/31/2011
Cash flows used by operating activities:		
Net loss	$ (210,916)	$ (155,326)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	3,879	2,123
Gain on extinguishment of debt	(62,719)	-
Commission advances	(63,787)	-
Deposits	(50,200)	-
Accounting for warrants issued to an officer and the Board	27,040	
Accounts Receivable	(297,898)	-
Inventories	(744,783)	-
Accounts Payable and accrued liabilities	432,823	119,109
Net cash used in operating activities	(966,561)	(34,094)
Cash flows used in investing activities:		
Purchase of Fixed Assets	(19,000)	(27,400)
Net cash used in investing activities	(19,000)	(27,400)
Cash flows provided by financing activities:		
Proceeds from stockholder/officer advances	1,011,583	56,300
Payments of stockholders advances	–	–
Net cash provided by financing activities	1,011,583	56,300
Increase (Decrease) in cash and cash equivalents	26,022	(5,194)
Cash and cash equivalents at beginning of period	3,019	5,848

Cash and Cash Equivalents at end of period	$	29,041	$	654
Non-cash investing and financing activities:				
Increase in property and equipment from recognition of asset retirement obligation	$	-	$	(27,969)

S*ee accompanying notes to the consolidated financial statements.*

TX HOLDINGS, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1- BACKGROUND AND CRITICAL ACCOUNTING POLICIES

INTERIM FINANCIAL STATEMENTS

The accompanying interim unaudited financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly present such information. All such adjustments are of a normal recurring nature. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”), have been condensed or omitted pursuant to such rules and regulations.

These financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company’s 2011 Annual Report. The results of operations for interim periods are not necessarily indicative of the results for any subsequent quarter or the entire year ending September 30, 2012.

CAUTIONARY NOTE TO U.S. INVESTORS

THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION PERMITS OIL AND GAS COMPANIES, IN THEIR FILINGS WITH THE SEC, TO DISCLOSE ONLY PROVED RESERVES THAT A COMPANY HAS DEMONSTRATED BY ACTUAL PRODUCTION OR CONCLUSIVE FORMATION TESTS TO BE ECONOMICALLY AND LEGALLY PRODUCIBLE UNDER EXISTING ECONOMIC AND OPERATING CONDITIONS. WE USE CERTAIN TERMS HEREIN, SUCH AS "PROBABLE", "POSSIBLE", "RECOVERABLE",AND “RISKED," AMONG OTHERS, THAT THE SEC'S GUIDELINES STRICTLY PROHIBIT US FROM INCLUDING IN FILINGS WITH THE SEC. READERS ARE URGED TO CAREFULLY REVIEW AND CONSIDER THE VARIOUS DISCLOSURES MADE BY US WHICH ATTEMPT TO ADVISE INTERESTED PARTIES OF THE ADDITIONAL FACTORS WHICH MAY AFFECT OUR BUSINESS

OVERVIEW OF BUSINESS

TX Holdings, Inc. ("TX Holdings" or the "Company"), formerly named R Wireless, Inc. ("RWLS") and HOM Corporation ("HOM"), is a Georgia corporation incorporated on May 4, 2000. In December 2004 the Company began to structure itself into an oil and gas exploration and production company. The Company acquired oil and gas leases and began development of a plan for oil and gas producing operations in April 2006.

On December 10, 2011 the Board of directors approved the expansion of the Company’s business to include the retail and wholesale of mining supplies. In support of the mining supplies business, TX Holdings signed contracts with two companies which will procure sales on behalf of the Company and earn a commission based on the gross profit generated by the sales. TX Holdings’ Chairman, William Shrewsbury, has committed to finance the new business expansion with his personal loan, up to the amount of $1,000,000. The new venture financing will be secured by a lien on the Company’s assets.

The Company continues to be actively engaged in the development of crude oil and natural gas in the counties of Callahan and Eastland, Texas. In November 2006, the Company entered into a Purchase and Sale Agreement with Masada Oil & Gas, Inc. ("Masada"). Masada has previously served as the operator on the Park’s Lease in which TX Holdings currently holds a 100% working interest in the counties of Callahan and Eastland, Texas.

The Parks lease covers 320 acres in which the company previously owned a 75% working interest and Masada owned the remaining 25%. The land owners of this lease have a 12.5% royalty interest in the production. TX Holdings is the lease operator of the lease and there are currently 22 wells which may be capable of minimal production rates. (2 to 3 bbls per day). On January 28, 2011, the company purchased from Masada Oil the remaining 25% working

TX HOLDINGS, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1- BACKGROUND AND CRITICAL ACCOUNTING POLICIES- CONT'D

OVERVIEW OF BUSINESS-CONT'D

interest and thereby increasing the Company working interest on the Parks lease to 100%. In addition to the 25% working interest, the Company purchased 2 acres of land and a 1,400 square foot storage building on the property. In

consideration for the purchase, the Company paid $10,400 cash, relinquished an 8.5% working interest on the Contract Area 1 (non-producing) lease with a book Value of $0 and, assumed a $17,000 liability previously owed by the 25% prior lease owner. The Company also adjusted the ARO by $27,969 for the release of the liability for Contract Area 1 and the increase in the liability for the Parks lease.

The Company has an estimated 8% working interest on the Perth lease which is currently under litigation. On September 30, 2011 and 2010, the Company recorded an impairment loss of $50,000 and $302,560 respectively.

The Company owned a 100% working interest and was the operator of the 843 acre Williams Lease. An on-going dispute with the land owner of the lease has prevented the Company from operating or reporting any production on this lease. On September 30, 2009, the Company elected to cease operation of the Williams lease resulting in impairment of the lease. The Company recorded an impairment loss of $68,222 for the year ended September 30, 2009 related to this lease.

The Company plans to continue using a combination of debt and equity financing to acquire additional fields and to develop those fields. Currently, management cannot provide any assurance regarding the successful development of acquired oil and gas fields, the completion of additional acquisitions or the continued ability to raise funds, however, it is using its best efforts to complete field work on the fields acquired, acquire additional fields and finance.

After the recent business expansion into wholesale and retail of mining supplies, the Company has generated enough revenue to no longer be considered a development stage Company. To enter into the retail and wholesale of mining supplies, TX Holdings signed contracts with two companies which will procure sales on behalf of the Company and earn a commission based on the gross profit generated by the sales.

REVENUE RECOGNITION

The Company recognizes revenue from sales at the time the products are shipped and the customers are invoiced. The Company extends unsecured credit to its customers for amounts invoiced. Invoices are due on terms ranging from Due upon Receipt to a net-30 day basis depending on each customer’s credit history and business volume. On some sales, Shipping and handling costs are billed to customers. The Company expenses shipping and handling costs as incurred which are included in cost of sales on the statement of operations.

GOING CONCERN CONSIDERATIONS

The Company, with its prior subsidiaries, has suffered recurring losses while devoting substantially all of its efforts to raising capital and identifying and pursuing advantageous businesses opportunities. Management currently believes that its best opportunities lie in the oil and gas industry and the wholesale and retail of mining supplies. The Company's total liabilities exceed its total assets and the Company's liquidity has depended excessively on raising new capital. TX Holdings’ Chairman, William Shrewsbury, has committed to finance the new business expansion with his personal loan, up to the amount of $1,000,000. The new venture financing will be secured by a lien on the Company’s assets.

TX HOLDINGS, INC.
NOTES TO UNAUDITED FINANCIAL STATEMENTS

GOING CONCERN CONSIDERATIONS-CONT'D

These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements have been prepared on a going concern basis, which contemplates continuing operations and realization of assets and liquidation of liabilities in the ordinary course of business. The Company's ability to continue as a going concern is dependent upon its ability to raise sufficient capital and to implement a successful business plan to generate profits sufficient to become financially viable. The financial statements do not include adjustments relating to the recoverability of recorded assets nor the implications of associated bankruptcy costs should the Company be unable to continue as a going concern.

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NOTE 2 - NOTES PAYABLE TO A STOCKHOLDER AND CONVERTIBLE DEBT TO OFFICER/

STOCKHOLDER

Mark Neuhaus, the former Chairman of the Board of Directors and former Chief Executive Officer of the Company caused the Company in September 2007 to issue to him a convertible promissory note in the amount of $1,199,886 bearing interest at 8% per annum and due and payable within two years for payments in cash and common stock made on behalf of the Company through that date. The conversion price is $0.28 per common share (the market price of the Company's common stock on the date of the note) which will automatically convert on the two-year anniversary of the note if not paid in full by the Company. The conversion price is subject to adjustments for anti-dilution. The Company disputed that the note was not supported by consideration or that it was properly authorized under Georgia law and on November 11, 2008 the Company entered into a settlement agreement with Mr. Neuhaus and his wife which included provisions cancelling the indebtedness represented by the note contingent on the closing of a third party transaction within 90 days of November 11, 2008. The Company was not

successful in finalizing the transaction with the third party within the stipulated period resulting in the cancellation of the settlement agreement between the Company and Mark Neuhaus and his wife.

NOTE 3 – STOCKHOLDERS' EQUITY

In June 2011 the Company issued 230,000 shares of common stock for web designing services valued at $8,050.

POTENTIALLY DILUTIVE OPTIONS AND WARRANTS

At March 31, 2012, the Company has outstanding 1,300,000 warrants which were not included in the calculation of diluted net loss per share since their inclusion would be anti-dilutive.

NOTE 4 – RELATED PARTY TRANSACTIONS

As of March 31, 2012, the Company has an outstanding note payable to Mr. Shrewsbury, the Company's Chairman and CEO, for the amount of $289,997, the note bears a 10% interest and is payable on demand. Interest has been accrued on the notes payables at rates ranging from 8% to 10%.

Included in the financial statements at March 31, 2012 are advances from stockholder/officer of $1,182,280.

In the three months ended March 31, 2012 interest expense of $32,043, in the accompanying statement of operations, relates to the promissory notes.

TX HOLDINGS, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 4 – RELATED PARTY TRANSACTIONS-CON'TD

In June 2007, the Company entered into a strategic alliance agreement with Hewitt Energy Group, LLC ("Hewitt Energy") to identify reserves and prospects, and to establish production from the projects mutually owned or contemplated to be jointly owned by the entities in states of Texas, Kansas and Oklahoma. Hewitt Energy is controlled by a former member of the Company's board of directors. During 2007, the Company's former

Chief Executive Officer, who is a major stockholder, claimed that he transferred stock on behalf of the Company with a market value of $352,560 to Hewitt Energy Group, LLC to acquire an interest in the Perth field in Kansas. There is currently a dispute as to the extent of the Company's performance under the leases and agreement with Hewitt Energy.

On November 11, 2008, the Company entered into a settlement agreement with Mark Neuhaus and Nicole Neuhaus. The agreement was subject to the Company finalizing a transaction with a third party involving certain oil and gas properties within 90 days of November 11, 2008 ("Third Party Closing"). If the third party transaction closes, the agreement provides for mutual general releases between the Company, Mark Neuhaus and Nicole Neuhaus. In connection with the agreement, seven million shares of the common stock of the Company previously issued to Mark Neuhaus were delivered to the Company to be held pending the Third Party Closing. If the Third Party Closing occurs within the 90 day period, (1) four million five hundred thousand of the deposited shares will be cancelled and returned to authorized but unissued shares of the Company,(2) two million five hundred thousand of the deposited shares will be delivered to Nicole Neuhaus and (3) certain alleged claims of Mark Neuhaus against the Company for compensation and reimbursement for advances in the aggregate amount of $178,862 and a purported indebtedness of the Company to Mark Neuhaus in the amount of $1,320,071,including interest accrued through December 31, 2008 and represented by a convertible note dated as of September 28, 2007 will be cancelled. If the

Third Party Closing does not occur within 90 days of November 11, 2008, the settlement agreement will be void and of no force and effect and the deposited shares will be returned. On February 6, 2009, an amendment to the settlement agreement was signed by all parties. The amendment extends the period of time provided in paragraph 10 of the settlement agreement by an additional 30 days so that the agreement would remain in full force and effect until March 11, 2009. The Company was not successful in finalizing the transaction with the third party within the stipulated period resulting in the cancellation of the settlement agreement between the Company and Mark Neuhaus and Nicole Neuhaus.

On January 28, 2011 TX Holdings, Inc. entered into an agreement with Masada Oil & Gas Inc. to acquire the remaining 25% working interest in the Park's lease which the Company currently owns a 75% working interest.

As part of the agreement, the Company also acquired a storage building and approximately two acres of land. In return, the Company will relinquish an 8.5% working interest which it currently holds in the Contract Area 1 lease, pay the sum of $10,000 and, assume the current 25% lease owners' liability in the amount of $17,000.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion is intended to facilitate an understanding of our business and results of operations and includes forward-looking statements that reflect our plans, estimates and beliefs. It should be read in conjunction with our audited consolidated financial statements and the accompanying notes to the consolidated financial statements included herein. Our actual results could differ materially from those discussed in these forward-looking statements.

For the three months ended March 31, 2012 ,the Company had a loss of $23,177, and has incurred an accumulated deficit of $14,759,894 as of March 31, 2012. As of September 30, 2006, the Company had raised $1,240,000 in equity. The Company has used these funds to purchase or place deposits on three oil and gas fields to begin its operations as an oil and gas exploration and production company. Revenues derived from the planned production and sale of oil will be based on the evaluation and development of fields. If our development plan is successful, it is estimated it will take approximately one year to reach production levels to sufficiently capitalize the Company on an ongoing basis. During this initial ramp up period, the Company believes it will need to continue to raise additional funds to fully develop its fields, purchase equipment and meet general administrative expenses. The Company may seek both debt and equity financing. The Company currently has twenty two wells located on one field located in Texas. Each of the wells will need to be reworked to establish production at a cost of approximately $7,000 to $10,000 per well. Initial production from each well is estimated to be between two to five barrels per day. Once initial production has been established the Company intends to begin a water flood program that injects water into the oil producing zone through injector wells. The water then forces the oil towards the producing well and, if successful, may increase production of each well up to an estimated four to seven barrels per day per well. If the Company is able to produce its wells upon the re-completion the Company revenues will exceed current operating expenses if 40 barrels of oil is produced and the price of oil remains above $55.00 per barrel.

In December 2011, the Company expanded its business to include the retail and wholesale of mining supplies. The Company has contracted with two independent Companies who will provide assistance in carrying–out the new venture sales program. If the new venture sales projections materialize, the Company is optimistic that the new venture will bring a significant profit contribution during the current year.

The Company's success is dependent on if and how quickly it can increase production levels and, how quickly it can grow the new venture to become a positive contributor. The Company plans to use all revenues for general corporate purposes as well as, future expansion of its current oil producing properties and the acquisition of other oil and gas properties. There is no certainty that the Company can achieve profitable levels of production, be successful in the new venture. TX Chairman and CEO, William Shrewsbury, has committed to advance capital in the amount of $1,000,000. During the current quarter ended March 31, 2012 the Company received an additional advance from Mr. Shrewsbury of $534,583.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2012 COMPARED TO THREE MONTHS ENDED MARCH 31, 2011

REVENUES FROM OPERATIONS

Revenues for the three months ended March 31, 2012 and 2011 were $916,579 and $9,086 respectively. During the quarter ended March 31, 2012, the Company entered into a new business venture as a retailer and wholesaler of mining supplies. Revenues from the new venture for the quarter were $913,885. There was limited oil production during the quarter ended March 31, 2012 primarily due to well workover. The Company received its first revenues from oil and gas operations in March 2008.

EXPENSES

During the quarter ended March 31, 2012 the Company incurred Cost of Goods Sold in the amount of $719,856. The Cost of Goods sold resulted from the sale of mining products since the Company entry into this new venture on December 2011. Operating expenses for the three months ended March 31, 2012 were $250,701 as compared to $56,902 for the three months ended March 31, 2011, an increase of $193,799.The increase in Operating expenses resulted primarily from higher legal fees ($59k), commission expense ($74k), Stock bases compensation ($27k) and payroll expense during the quarter ended March 31, 2012.

NET INCOME/LOSS

For the quarter March 31, 2012, the Company had a Net Loss of $23,177 representing a positive variance of $56,156 when compared to a net loss of $79,333 for the quarter ended March 31, 2011. The favorable variance in the current quarter resulted primarily from a gain on the extinguishment of a debt in the amount of $63K and a reduction in losses from operations of $20K. The favorable variance was partially offset by $27,040 stock compensation from warrants issued to an officer and the Board.

SIX MONTHS ENDED MARCH 31, 2012 COMPARED TO SIX MONTHS ENDED MARCH 31, 2011

REVENUES FROM OPERATIONS

Revenues for the six months ended March 31, 2012 and 2011 were $1,028,516 and $9,245 respectively. During the six months ended March 31, 2012, the Company entered into a new business venture as a retailer and wholesaler of mining supplies. Revenues from the new venture for the quarter were $1,016,927. There was limited oil production during the six months ended March 31, 2012 primarily due to well workover.

EXPENSES

During the six months ended March 31, 2012 the Company incurred Cost of Goods Sold in the amount of $813,753. The Cost of Goods sold resulted from the sale of mining products since the Company entry into this new venture on December 2011. Other Operating expenses for the six months ended March 31, 2012 were $427,545 as compared to $100,364 for the six months ended March 31, 2011, an increase of $327,181.The increase in Operating expenses resulted primarily from higher legal fees ($116k), commission expense ($74k), Well expenses ($37k), payroll expense ($36k) , stock based compensation ($27k) and, Insurance expense ($12k) during the six months ended March 31, 2012.

NET INCOME/LOSS

For the six months ended March 31, 2012, the Company had a Net Loss of $210,916 representing a negative variance of $55.590 when compared to a net loss of $155,326 for the six months ended March 31, 2011. The negative variance in the current period resulted primarily from higher operating expenses as noted above in “Expenses” partially offset by a favorable gross profit on sales of $214,763 and a gain on the extinguishment of a debt in the amount of $63K.

LIQUIDITY

At March 31, 2012 the Company had a cash balance of $29,041. As of September 30, 2011 the Company had a cash balance of $3,019. Property and equipment was $148,835 as of March 31, 2012 compared to $133,714 as of September 30, 2011. The Company has been able to borrow money from William Shrewsbury primarily to resolve the Company's liquidity needs. In January 2011 the Company purchased an additional 25% working interest in the Parks lease. This will allow the Company to increase revenue on the oil wells on the Parks lease. The Company is currently generating greater revenue beginning in the first quarter of 2012 from the sales of mining products, associated with the new venture the Company entered during December 2012. The Company expectations are that the higher oil revenues and sales of mining products will be sufficient to meet all of the Company's liquidity needs.

As a result of the new venture the Company entered during December 2011, the Company currently requires operating capital of approximately $50,000 per month to meet current obligations. The Company is optimistic that the revenue increase generated by the new venture coupled with higher oil revenue will enable the Company to meet its current obligations. In the past the Company has been able to raise capital from its shareholders/officers through stock-based compensation and advances. The Company’s primary challenge is to generate higher revenue from the new venture and its oil and gas leases.

LEGAL PROCEEDINGS

Management is currently aware of no pending, past or present litigation involving the Company which management believes could have a material adverse effect on the Company.

On November 17, 2009 the Company filed a legal claim in the Miami Circuit Court against several defendants for alleged services and reimbursed expenses paid by the Company. The claim stipulates that the defendants did not perform any services on TX Holdings behalf which would have entitled them to receive compensation or reimbursement of expenses. Management believes that this matter can be resolved and will have no material effect on the Company’s operations.

During the Six months ended March 31, 2012 the Company has retained new legal councel to represent the Company on current litigation against Mark Neuhaus (Prior CEO), Michael Cedestrom (Prior CFO), Dexter & Dexter, Hewitt Energy and Doug Hewitt. The firms of Kluger, Kaplan. Silverman, Katzen & Levine, P.L. will represent TX Holdings in Miami Florida and, the firm of Winder & Counsel will represent the Company in Salt Lake City, Utah.

Except as disclosed above, the Company has no material legal proceedings in which any director, officer or affiliate of the Company, any owner of record or beneficially of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company is a “smaller reporting Company” as defined by Rule 12b-2 of the Exchange Act, and as such, is not required to provide the information required under this Item.

ITEM 4 CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) of the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, under the supervision of the Company’s Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that the Company’s internal control over financial reporting were effective as of March 31, 2012, under the criteria set forth in the Internal Control—Integrated Framework. The determination was made based on improvement to the control environment resulting from enhanced segregation of duties by adding new staff and overall improvement of control processes. The Company will continue to review and implement control processes to mitigate the control weaknesses that are present in a small Company with very few employees

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with management’s evaluation during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

Management is currently aware of no pending, past or present litigation involving the Company which management believes could have a material adverse effect on the Company.

On November 17, 2009 the Company filed a legal claim in the Miami Circuit Court against several defendants for alleged services and reimbursed expenses paid by the Company. The claim stipulates that the defendants did not perform any services on TX Holdings behalf which would have entitled them to receive compensation or reimbursement of expenses. Management believes that this matter can be resolved and will have no material effect on the Company’s operations.

During the Six Months ended March 31, 2012 the Company has retained new legal councel to represent the Company on current litigation against Mark Neuhaus (Prior CEO), Michael Cedestrom (Prior CFO), Dexter & Dexter, Hewitt Energy and Doug Hewitt. The firms of Kluger, Kaplan. Silverman, Katzen & Levine, P.L. will represent TX Holdings in Miami Florida and, the firm of Winder & Counsel will represent the Company in Salt Lake City, Utah.

Except as disclosed above, the Company has no material legal proceedings in which any director, officer or affiliate of the Company, any owner of record or beneficially of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5 OTHER INFORMATION

None.

ITEM 6 EXHIBITS

Exhibit 31.1 Section 302 Certification of Chief Executive Officer

Exhibit 31.2 Section 302 Certification of Chief Financial Officer

Exhibit 32.1 Section 906 Certification of Chief Executive Officer

Exhibit 32.2 Section 906 Certification of Chief Financial Officer

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TX HOLDINGS, INC.

By: /s/ William “Buck” Shrewsbury

Chief Executive Officer

Dated: May 11, 2012

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ William "Buck" Shrewsbury

William "Buck" Shrewsbury: Chairman of the Board of Directors and Chief Executive Officer

May 11, 2012

/s/ Richard (Rick) Novack

Richard (Rick) Novack President and Director

May 11, 2012

/s/ Jose Fuentes

Jose Fuentes Chief Financial Officer

May 11, 2012

/s/ Bobby S. Fellers

Bobby S. Fellers Director

May 11, 2012

/s/ Martin Lipper Director

Martin Lipper

May 11, 2012