TX Holdings, Inc.
Form 10-Q
July 30, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

|_| 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 |_|

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 |_| NO |X|

Transitional Small Business Disclosure Format (check one): YES |_| NO |X|

As of July 29, 2010 there were 53, 041,897 shares of common stock outstanding.

TX Holdings, Inc.
Form 10-Q
For the Quarter Ended June 30, 2010

Table of Contents

PART 1-FINANCIAL INFORMATION

TX Holdings, Inc.
A CORPORATION IN THE DEVELOPMENT STAGE
Balance Sheets

June 30, 2010 and September 30, 2009

		Unaudited June 30, 2010		Audited September 30 2009
ASSETS				
Current assets:				
Cash and cash equivalents	$	1,204	$	6,58
Accounts Receivable-(Net of Allowance for Doubtful Accounts)		_		_
Total current assets		1,204		6,58
Proved oil and gas properties undeveloped-successful efforts, net		779,998		771,75
Performance Bond		50,000		50,00
Prepaid Expenses		2,000		_
Total Assets	$	833,202	$	828,34
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Notes payable to a stockholder	$	289,997	$	289,99
Accounts payable and accrued liabilities		914,296		755,28
Accounts payable-related party		158,308		158,30
Advances from stockholder/officer		42,347		49,24
Convertible debt to stockholder/officer		1,199,886		1,199,88
Total Current Liabilities		2,604,834		2,452,72
Asset Retirement Obligation		86,455		86,45
Total Liabilities		2,691,289		2,539,17
Stockholders' deficit				
Preferred stock: no par value, 1,000,000 shares authorized no shares outstanding as of June 30, 2010 and September 30,2009		_		_
Common stock:no par value, 250,000,000 shares authorized, 53,041,897 and 47,636,897 shares issued and outstanding at June 30, 2010 and September 30, 2009, respectively		10,558,437		10,216,05
Additional paid-in capital		1,379,409		1,379,40
Accumulated deficit		(1,803,507)		(1,803,50
Losses accumulated in the development stage		(11,992,426)		(11,502,79
Total stockholders' deficit		(1,858,087)		(1,710,83
Total liabilities and stockholders' deficit	$	833,202	$	828,34

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

UNAUDITED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended June 30, 2010 and 2009 and for the Period Fr
Inception of the Development Stage, October 1, 2004 to June 30, 2010

	THREE MONTHS ENDED		Nine Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Oil Sales	$ 7,509	$ 6,455	$ 14,507	$ 6,90
Operating expenses, except items shown separately below	62,517	42,929	165,325	116,32
Stock-based compensation	–	–	239,885	224,00
Professional fees	520	1,000	520	87,78
Impairment Expense				
Lease expense	–	–		–
Depreciation expense	1,081	–	2,470	–
Advertising expense	–	–		–
Total Operating Expenses	64,118	43,929	408,200	428,10
Loss from operations	(56,609)	(37,474)	(393,693)	(421,20
Other income and (expense):				
Legal settlement	–	–		–
Other income	–	–	125	
Loss on Write-off of leases and equipment	–	–		–
Forbearance agreement costs	–	–		–
Interest expense	(31,761)	(32,602)	(96,065)	(94,91
Total other income and (expenses), net	(31,761)	(32,602)	(95,940)	(94,91
Net loss	$ (88,370)	$ (70,076)	$ (489,633)	$ (516,12
Net loss per common share basic and diluted	$ -	–	$ (0.01)	$ (0.0
Weighted average number of common shares outstanding-basic and diluted	52,986,952	47,286,897	50,264,760	45,562,29

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

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
For the Period from Development Stage , October 1, 2004 to June 30, 201

	Preferred Stock		Common Stock		Additional	
	Shares	Amount	Shares	Amount	Paid-In Capital	Accumulated Deficit
Balance at September 30, 2004		$	15,793,651	$1,532,111	-	$(1,912,397)
Inception of the development stage on October 1, 2004			-	-	-	
Common stock issued for professional services			450,000	40,000	-	
Common stock issued for prepaid services			100,000	10,000	-	
Common stock issued to settle accounts payable			361,942	36,194	-	
Warrants issued under forbearence agreement			-	-	211,098	
Net income (loss)			-	-	-	108,890
Balance at September 30, 2005		$	16,705,593	1,618,305	211,098	$(1,803,507)

The accompanying notes are an integral part of the financial statements

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
For the Period from Development Stage , October 1, 2004 to June

	Preferred Stock		Common Stock		Additional	
	Shares	Amount	Shares	Amount	Paid-in Capital	Accum Def
Balance at September 30, 2005	-	$ -	16,705,593	$ 1,618,305	211,098	$(1,8
Common stock issued for professional services	-	-	4,649,300	2,318,295	-	
Common stock issued for cash	-	-	4,633,324	1,164,997	-	

Common stock issued upon exercise of warrants	-	-	294,341	2,943	-	
Common stock surrendered	-	-	(500,000)	-	-	
Warrants issued for services	-	-	-	-	376,605	
Preferrd stock issued to the Company's chief executive officer/stockholder	1,000	1,018,000	-	-	-	
Net income (loss)	-	-	-	-	-	
Balance at September 30, 2006	1,000	$ 1,018,000	25,782,558	$ 5,104,541	$ 587,703	$(1,8

The accompanying notes are an integral part of the financial statements

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
For the period from development Stage, October 1, 2004 to Jun

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accu De
	Shares	Amount	Shares	Amount		
Balance at September 30, 2006	1,000	$1,018,000	25,782,558	$ 5,104,541	$ 587,703	$ (1,
Common stock issued for professional services	-	-	3,475,555	2,501,222	-	
Contribution by stockholder	-	-	-	-	53,325	
Warrants issued for service	-	-	-	-	159,381	
Common stock issued upon exercise of warrants	-	-	355,821	75,461	-	
Common stock issued in settle- ment of notes payable and and interest	-	-	833,333	546,666	-	
Common stock issued in settle- of accounts payable	-	-	1,437,088	215,114	-	
Net loss	-	-	-	-	-	
Balance at September 30, 2007	1,000	$1,018,000	31,884,355	$ 8,443,004	$ 800,409	$ (1,

The accompanying notes are an integral part of the financial statements

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
For the period from development Stage, October 1, 2004 to June 30, 2

	Preferred Stock		Common Stock		Additional Paid-In	Accumu
	Shares	Amount	Shares	Amount	Capital	Defi
Balance at September 30, 2007	1,000	$ 1,018,000	31,884,355	$ 8,443,004	$ 800,409	$(1,803
Common stock issued in exchange of preferred stock	-1,000	-1,018,000	10,715,789	1,018,000	-	
Common stock issued for professional services	-	-	450,680	128,440	-	
Common stock issued for cash	-	-	780,000	73,000	-	
Common stock issued in settlement of legal claim	-	-	175,000	31,500	-	
Contribution by stockholder	-	-	-	-	10,643	
Common stock returned to treasury	-	-	-300,000	-	-	
Accrued salary contributed by officer/stockholder	-	-	-	-	125,000	
Accounting for employee stock warrants	-	-	-	-	190,000	
Accounting for options issued to a consultant	-	-	-	-	19,000	
Net loss	-	-	-	-	-	
Balance at September 30, 2008	-	$ -	43,705,824	$9,693,944	$1,145,052	$(1,803

The accompanying notes are an integral part of the financial statements

8

TX HOLDINGS INC.
A CORPORATION IN THE DEVELOPMENT STAGE
STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
For the Period from Inception of the Development Stage, October 1, 2004,

	Preferred Stock		Common Stock		Additional Paid in	Accumulat
	Shares	Amount	Shares	Amount	Capital	Deficit
Balance at September 30, 2008	_	_	43,705,824	$9,693,944	$ 1,145,052	$ (1,803,5

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Deficit
Common stock issued in Payment for Shareholders'advances	_	_	2,581,073	258,108	_	_
Common stock issued for professional services	_	_	2,450,000	244,000	_	_
Common stock sold to private investors	_	_	200,000	20,000	_	_
Common stock returned to treasury	_	_	(1,300,000)	_	_	_
Shareholders' advances previously reported as Additional Paid in Capital	_	_	_	_	(10,643)	_
Imputed salary contributed by officer/stockholder	_	_	_	_	125,000	_
Accounting for employee stock warrant	_	_	_	_	120,000	_
Net Loss	_	_	_	_	_	_
Balance at September 30, 2009	_	_	47,636,897	$10,216,052	$ 1,379,409	$ (1,803,5

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

TX HOLDINGS INC.
A CORPORATION IN THE DEVELOPMENT STAGE
UNAUDITED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
For the Period from Inception of the Development Stage, October 1, 2004, t

	Preferred Stock		Common Stock		Additional Paid in	Accumulated
	Shares	Amount	Shares	Amount	Capital	Deficit
Balance at September 30, 2009	_	_	47,636,897	$ 10,216,052	$ 1,379,409	$ (1,803,507)
Common stock issued for professional services	_	_	3,355,000	239,885	_	_
Common stock sold to private investors	_	_	2,050,000	102,500	_	_

Net Loss	_	_	_	_	_	_
Balance at June 30, 2010	_	_	53,041,897	$ 10,558,437	$ 1,379,409	$ (1,803,507)

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

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
UNAUDITED STATEMENTS OF CASH FLOWS
For the Nine Months Ended June 30, 2010 and 2009 and for the Period From
Inception of the Development Stage, October 1, 2004, to June 30, 2010

	Nine Months Ended	
	June 30, 2010	June 30, 2009
Cash flows used by operating activities:		
Net loss	$ (489,633)	$ (516,120
Adjustments to reconcile net loss to net cash used in operating activities:		
Warrants issued for forbearance agreement	_	_
Loss on disposal of equipment	_	_
Impairment of unproved oil and gas properties		
Depreciation expense	2,470	_
Bad Debt Expense	_	1,729
Common and preferred stock issued for services	239,885	224,000
Warrants issued to employees and a consultant	_	_
Warrants issued for services	_	_
Common stock issued to settle accounts payable	_	_
Common stock issued in payment of interest expense	_	_
Common stock issued by an officer/stockholder to satisfy expenses of the Company and increase stockholder advances	_	_
Common stock issued in settlement of legal claim	_	_
Accrued salary contributed by stockholder/former officer	_	_
Changes in operating assets and liabilities:		
Accrued stock-based compensation reversal resulting from legal claim settlement	_	_
Prepaid expenses and other assets	(2,000)	_
Accounts receivable	_	(448
Accounts payable and accrued liabilities	159,009	213,261
Net cash used by operating activities	(90,269)	(77,578

Cash flows used in investing activities:

Deposits paid for oil and gas property acquisitions	_	_
Property and equipment additions	(10,715)	(58,057
Net cash used in investing activities	(10,715)	(58,057
Cash flows provided by financing activities:		
Proceeds from stockholder/officer contribution	_	_
Repayment of note payable to a bank	_	_
Proceeds from note payable to stockholder	_	_
Proceeds from sale of common stock	102,500	10,000
Proceeds from exercise of warrants	_	_
Proceeds from stockholder/officer advances	_	128,814
Payment of stockholder advances	(6,900)	_
Net cash provided by financing activities	95,600	138,814
Increase (Decrease) in cash and cash equivalents	(5,384)	3,179
Cash and cash equivalents at beginning of period	6,588	3,558
Cash and cash equivalents at end of period	$ 1,204	$ 6,737
Non-cash investing and financing activities:		
Common stock issued in payment of Shareholders' advances	$ -	$ 258,108
Shareholders' advances converted to notes payable from stockholder	$ -	$ 119,997

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

11

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
NOTES TO UNAUDITED CONDENSED 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 2009 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, 2010.

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.

The Company is engaged in the exploration, development, and acquisition of crude oil and natural gas in the counties of Callahan and Eastland, Texas. The Company is also pursuing acquisitions in Ohio, Pennsylvania, West Virginia and Wyoming. 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 two leases in which TX Holdings currently holds interest in the counties of Callahan and Eastland, Texas. TX Holding's leases and the related working interests are as follows:

a. Contract Area # 1, 8.5% Working Interest;
b. Park's Lease, 75% Working Interest;

The Contract Area #1 leases include a total of 247 acres and a total of 36 wells. D-Bar Leasing is the operator of record for all 36. The lease has eighteen wells capable of production although production of the wells is minimal (from 3 to 5 bbls per day). The Company believes it may be able to achieve higher production rates through the development of an effective water flood program. The water flood program involves the injection of water into the field through injection wells to force the oil to the production wells and thereby increase the production rate.

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

OVERVIEW OF BUSINESS-CONT'D

The Parks lease covers 320 acres in which the company owns a 75% working interest and Masada owns the remaining 25%. The land owners of this lease have a 12.5% royalty interest in the production. TX Holdings Inc is the lease operator of the lease and there are currently 22 wells with minimal production rates (2 to 3 bbls per day).

The Company owned a 100% working interest and was the operator of the 843 acre Williams Lease. Due to an on-going dispute with the land owner of the lease which 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 operations.

HISTORY AND CORPORATE STRUCTURE

TX Holdings formerly acted as a holding company whose operations were conducted through two wholly-owned operating subsidiaries, Direct Lending Inc. and Homes By Owners, Inc. The Company ceased its former operations in September 2004. In December 2004, as a result of the Company's research, the Company announced that it would pursue acquisition of producing oil and gas properties operations in the oil and gas industry. In connection with this decision, the Company effected its name change to "TX Holdings, Inc." on September 1, 2005. October 1, 2004 was the beginning day for the first quarter of the determination to pursue operations in the oil and gas industry. The CUSIP number changed to 873 11R 101 as of September 6, 2005, and the trading symbol changed to TXHG as of September 19, 2005.

In April 2006 TX Holdings acquired a 75% working interest in the Parks Lease located in Callahan County, Texas. In February 2006 TX Holdings entered into a Memorandum of Understanding with Masada Oil and Gas Inc. and subsequently acquired an 8% working interest in an oil and gas lease known as Contract Area #1 located in Texas.

On March 28, 2006, TX Holdings appointed to its Board of Directors, Bobby Fellers, who has worked in the oil and gas business for more than thirty years. Mr. Fellers has assisted TX Holdings in the acquisition of the above referenced leases and owns a ninety two percent working interest position in the Contract Area #1 lease and a twenty-five percent working interest in the Parks Lease. In addition Mr. Fellers is the sole owner of Masada Oil & Gas Inc a Texas corporation, which is the current operator of record of certain wells in Contract Area #1 in which TX Holdings has an 8% working interest.

On or about May 7, 2007, the Company entered into a Strategic Alliance Agreement with Hewitt Energy Group, LLC ("Hewitt"), a company owned by Douglas C. Hewitt, a Director of TX Holdings, Inc. at the time of the transaction. The Strategic Alliance Agreement provided that TX Holdings, Inc. would acquire a 50% working interest in eight projects in Kansas and Oklahoma. The purchase and development of all of the prospects were estimated at approximately $15,000,000 in cash and stock to be paid over a 6 month period. Mr. Hewitt resigned as a director on July, 27, 2007 The Company and Mr. Hewitt mutually agreed to terminate the Strategic Alliance

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

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

HISTORY AND CORPORATE STRUCTURE-CONT'D

Agreement and to negotiate the participation in individual projects. During 2007, the Company's former Chief Executive Officer claimed that he transferred stock on behalf of the Company with a market value of $352, 560 to Hewitt 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.

From July through September 2006 the Company raised $1,240,000 in a Private Placement offering. The funds raised were used to purchase interests in three oil and gas fields located in Texas as described above. Development of the fields began on November 1, 2006, by way of cleaning up the fields and preparing the wells located in the fields for testing required by the State of Texas. The testing of wells located in the Williams Field was completed as of April 30, 2008. In November 2007, the Company began work on the Parks Lease.

The Company has experienced substantial costs for engineering and other professional services during 2005 through 2010 in making the attempt to transition to an oil and gas exploration and production company from its current development stage status.

GOING CONCERN CONSIDERATIONS

Since it ceased its former business operations, the Company has devoted its efforts to research, product development, and securing financing and has not earned significant revenue from its planned principal operations. Accordingly, the financial statements are presented in accordance with FASB Accounting Standards Codification ("ASC") Topic 915 Development Stage Entities (formerly) Statement of Financial Accounting Standards (SFAS) No.7, Accounting and Reporting by Development-Stage Enterprises.

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. The Company's total liabilities exceed its total assets and the Company's liquidity has depended excessively on raising new capital.

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.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions and calculated estimates that affect (a) certain reported amounts of assets and liabilities, (b) disclosure of contingent assets and liabilities at the date of the financial statements, and (c) the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include recoverability of long-lived and deferred tax assets, measurement of stock based compensation, and the asset retirement obligation on oil and gas properties. The Company bases its estimates on historical experience and various other common assumptions that management believes to be reasonable under the circumstances. Changes in estimates are recorded in the period in which they become known. Actual results could differ from those estimates.

ACCOUNTS RECEIVABLE AND PROVISION FOR BAD DEBTS

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. The estimate is based on management's assessment of the collectability of customer accounts and includes consideration for credit worthiness and financial condition of those customers. The Company reviews historical experience with customers, the general economic environment and the aging of receivables to determine the adequacy of the allowance. The Company records an allowance to reduce receivables to the amount that can be reasonably expected to be collectible. The allowance for doubtful accounts was $1,729 and $1,729 as of June 30, 2010 and September 30, 2009, respectively

PROPERTY AND EQUIPMENT

The Company uses the successful efforts method of accounting for oil and gas producing activities. Under this method, acquisition costs for proved and unproved properties are capitalized when incurred. Exploration costs, including geological and geophysical costs, costs of carrying and retaining unproved properties, and exploratory dry hole drilling costs, are all expensed. Development costs, including the costs to drill and equip development wells, and successful exploratory drilling costs to locate proved reserves are capitalized. Exploratory drilling costs are capitalized when incurred pending the determination of whether a well has found proved reserves. A determination of whether a well has found proved reserves is made shortly after drilling is completed. The determination is based on a process that relies on interpretations of available geological, geophysical, and engineering data. If a well is determined to be successful, the capitalized drilling costs will be reclassified as part of the cost of the well. If a well is determined to be unsuccessful, the capitalized drilling costs will be charged to expense in the period in which the determination is made. If an exploratory well requires a major capital expenditure before production can begin, the cost of drilling the exploratory well will continue to be carried as an asset pending determination of whether proved reserves have been found only as long as: i) the well has found a sufficient quantity of reserves to justify its completion as a producing well if the required capital expenditure is made and ii) drilling of the additional exploratory wells is under way or firmly planned for the near future. If drilling in the area is not under way or firmly planned, or if the well has not found a commercially producible quantity of reserves, the exploratory well is assumed to be impaired, and its costs are charged to expense.

In the absence of a determination as to whether the reserves that have been found can be classified as proved, the costs of drilling such an exploratory well are not carried as an asset for more than one year following completion of drilling. If, after that year has passed, a determination that proved reserves exist cannot be made, the well is assumed to be impaired, and its costs are charged to expense. Its costs can, however, continue to be capitalized if sufficient quantities of reserves are discovered in the well to justify its completion as a producing well and sufficient progress is made in assessing the reserves and the well's economic and operating feasibility.

The impairment of unamortized capital costs is measured at a lease level and is reduced to fair value if it is determined that the sum of expected future net cash flows is less than the net book value. The Company determines if impairment has occurred through either adverse changes or as a result of the annual review of all fields. Development costs of proved oil and gas properties, including estimated dismantlement, restoration and abandonment costs, and acquisition costs, are depreciated and depleted on a field basis by the units-of-production method using proved developed and proved reserves, respectively. The costs of unproved oil and gas properties are generally combined and impaired over a period that is based on the average holding period for such properties and the Company's experience of successful drilling.

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

PROPERTY AND EQUIPMENT-CONT'D

Other property and equipment are stated at their historical cost. Major renewals and betterments are capitalized, while maintenance and repairs that do not materially improve or extend the useful lives of the assets are charged to expense as incurred. Costs relating to the initial design and implementation of the Internet web page have been capitalized while the costs of web page maintenance are expensed as incurred. Assets are depreciated over their estimated useful lives using the straight-line method. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

ASSET RETIREMENT OBLIGATION

The Company follows ASC Topic 410, "Accounting for Asset Retirement Obligations", which requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs will be capitalized as part of the carrying amount of the long-lived asset. The carrying value of a property associated with the capitalization of an asset retirement cost is included in unproved oil and gas property in the accompanying balance sheets. The Company's asset retirement obligation consists of costs related to the plugging of wells and removal of facilities and equipment on its oil and gas properties.

REVENUE RECOGNITION

Currently the Company has limited revenue from oil and gas operations. Once the Company begins to receive higher revenue from oil and gas operations it will be recognized upon the delivery of the oil or gas to the purchaser of the oil or gas.

POTENTIALLY DILUTIVE OPTIONS AND WARRANTS

At June 30, 2010 the Company has outstanding 1,000,000 warrants which were not included in the calculation of diluted net loss per share since their inclusion would be anti-dilutive. These warrants have an exercise price of $0.28 per share and expire in September 2011.

INCOME TAXES

Income taxes are estimated for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the financial reporting basis and income tax basis of assets and liabilities. Deferred tax assets and liabilities represent future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Deferred taxes may also be recognized for operating losses that are available to offset future taxable income. Deferred taxes are adjusted for changes in tax laws and tax rates when those changes are enacted.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which temporary differences become

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

INCOME TAXES-CONT'D

deductible. Management considers the reversal of any deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

FINANCIAL INSTRUMENTS

The Company includes fair value information in the notes to the financial statements when the fair value of its financial instruments is different from the book value. When the book value approximates fair value, no additional disclosure is made, which is the case for financial instruments outstanding as of June 30, 2010 and September 30, 2009. The Company assumes the book value of those financial instruments that are classified as current approximates fair value because of the short maturity of these instruments. For non-current financial instruments, the Company uses quoted market prices or, to the extent that there are no quoted market prices, market prices for similar instruments.

RECLASSIFICATIONS

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on reported net loss or accumulated deficit.

ROUNDING

Throughout our financial statements and footnotes, amounts have been rounded to the nearest dollar. Consequently, the addition and subtraction totals of some columns and category presentations may have differences of a dollar due to this rounding.

BASIC NET LOSS PER COMMON SHARE

Net loss per share is computed based on current accounting guidance requiring companies to report both basic net loss per common share, which is computed using the weighted average number of common shares outstanding during the period, and diluted net loss per common share, which is computed using the weighted average number of common shares outstanding and the weighted average dilutive potential common shares outstanding using the treasury stock method. However, for all periods presented, diluted net loss per share is the same as basic net loss per share as the inclusion of weighted average shares of common stock issuable upon the exercise of stock options and warrants and conversion of convertible preferred stock would be anti-dilutive.

RECENTLY ISSUED ACCOUNTING STANDARDS

On December 31, 2008, the SEC published the final rules and interpretations updating its oil and gas reporting requirements. Many of the revisions are updates to definitions in the existing oil and gas rules to make them consistent with the petroleum recourse management system, which is a widely accepted standard for the management of petroleum resources that was developed by several industry organizations. Key revisions include changes to the pricing used to estimate reserves utilizing a 12-month average price rather than a single day spot price which eliminates the ability to utilize subsequent prices to the end of a reporting period when the full cost ceiling was exceeded and subsequent pricing exceeds pricing at the end of a reporting period, the ability to include nontraditional resources in reserves, the use of new technology for determining reserves, and permitting disclosure of probable and possible reserves. The SEC will require companies to comply with the amended disclosure

17

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

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

RECENTLY ISSUED ACCOUNTING STANDARDS, CONT'D

requirements for registration statements filed after January 1, 2010, and for annual reports on Form 10-K for fiscal years ending on or after December 15, 2009. Early adoption is not permitted. The Company is currently assessing the impact that the adoption will have on the Company's disclosures, operating results, financial position and cash flows.

In June 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 168, "The FASB Accounting Standards Codification TM and the

Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162" ("SFAS 168"). The FASB Accounting Standards Codification TM, ("Codification" or "ASC") became the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative.

Following SFAS 168, the FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates (ASUs). The FASB will not consider ASUs as authoritative in their own right; rather, these updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. SFAS No. 168 is incorporated in ASC Topic 105, Generally Accepted Accounting Principles. The Company adopted SFAS No. 168 for the fiscal year-ended September 30, 2009, and the Company will provide reference to both the Codification topic reference and the previously authoritative references related to Codification topics and subtopics, as appropriate.

In May 2009, the FASB issued ASC Topic 855, Subsequent Events (formerly SFAS No. 165, Subsequent Events) which establishes general standards for the evaluation, recognition and disclosure of events and transactions that occur after the balance sheet date. Although there is new terminology, the standard is based on the same principles as those that currently exist in the auditing standards. The standard, which includes a new required disclosure of the date through which management has evaluated subsequent events, is effective for interim and annual periods ending after June 15, 2009. The adoption of ASC 855 did not have a material effect on the Company's financial statements.

In September 2006, the FASB issued ASC Topic 820 Fair Value Measurments and Disclosures (formerly SFAS No. 157, Fair Value Measurements) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC Topic 820 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement was effective for and adopted by the Company beginning the first quarter of fiscal 2008. Its adoption had no significant impact on our financial statements.

In June 2006, the FASB issued accounting guidance for uncertainty in income taxes which is included in ASC Topic 740 Income Taxes (formerly Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement No. 109. ASC Topic 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements ASC Topic 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement classification, accounting for interest and penalties and accounting in interim periods and disclosure.

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

RECENTLY ISSUED ACCOUNTING STANDARDS, CONT'D

The provisions of the accounting guidance are effective for fiscal years beginning after December 15, 2006. This statement was effective for and adopted by the Company beginning the first quarter of fiscal 2008. Its adoption had no significant impact on the Company's financial condition or results of operations.

Effective October 1, 2008, the Company adopted certain aspects of ASC Topic 825. Financial Instruments (formerly SFAS 159, "The Fair Value Option for Financial Assets & Financial Liabilities - including an amendment of SFAS No. 115.").The accounting guidance created a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities on a contract by contract basis, with changes in fair values recognized in earnings as these changes occur. The adoption of ASC Topic 825 has no significant impact on the Company's financial condition or results of operations.

In December 2007, the FASB issued ASC Topic 805, Business Combinations (formerly SFAS 141R, "Business Combinations,") ASC Topic 805 changes how a reporting enterprise will account for the acquisition of a business. ASC 805 will apply prospectively to business combinations with an acquisition date on or after November 1, 2009 The adoption of ASC Topic 805 is not expected to have a material impact on the Company's financial condition or results of operations, however future acquisitions would be accounted for under the guidance.

During the nine months ended June 30, 2010, there were several new accounting pronouncements issued by the FASB the most recent of which was Accounting Standards Update 2010-19, Foreign Currency Issues: Multiple Foreign Currency Exchange Rates. Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company's financial statements.

SUBSEQUENT EVENTS

In preparing the financial statements, the Company has reviewed, as determined necessary by the Company's management, events that have occurred after June 30, 2010, up until the issuance of the financial statements, which occurred on July 29, 2010.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2010 and September 30, 2009:

	June 30, 2010	September 30 2009
Oil and gas properties ? successful efforts method - unproved	$ 782,468	$ 771,7
Less accumulated depreciation, depletion amortization	(2,470)	_
	$ 779,998	$ 771,7

At June 30, 2010 and September 30, 2009, the Company had proved oil and gas undeveloped properties and, accordingly, with the exception of some equipment, there was no amortization of oil and gas properties recorded during the periods then ended. The Company's unproven oil and gas properties were reviewed for impairment on a field-by-field basis

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NOTE 2 - PROPERTY AND EQUIPMENT-CONT'D

as of June 30, 2010 and September 30, 2009. As a result of the review, the Company recognized an impairment loss of $0 and $(384,088) for the period ended June 30, 2010 and September 30, 2009, respectively.

Substantially all the Company's reserves can only be produced economically through application of improved recovery techniques and are excluded from the proved classification until successful testing by a pilot project, or the operation of an installed program in the reservoir, provide support for the engineering analysis on which the project or program is based.
On November 1, 2006, the Company entered into a purchase and sale agreement (the "Agreement") for a 60% interest in certain oil and gas properties located in Eastland County, Texas. Under the Agreement, the Company was obligated to pay a total of $7,200,000 for equipment, mineral leases, drilling and reworks, and various other categories of costs if all provisions of the agreement are met. The Company has made payments totaling $378,000 to the seller, which reduced the working interest to 8.5%. These payments are included in unproved oil and gas properties - successful efforts on the accompanying balance sheet as of June 30, 2010 and September 30, 2009. Included in unproved oil and gas properties is $352,560 of 2007 additions that were acquired in exchange for shares of the Company's common stock that the Company's former Chief Executive Officer who is a major stockholder of the Company advised he transferred on behalf of the Company. This amount is included in Convertible Debt to Stockholder/Officer. The Company has established a $4,000 Fixed Asset capitalization threshold.

NOTE 3 - NOTES PAYABLE TO A STOCKHOLDER AND CONVERTIBLE DEBT TO OFFICER/ STOCKHOLDER

On February 14, 2007 the Company obtained a $250,000 bridge loan from Rob Hutchings, convertible to common stock at $0.525 per share, the closing price of the Company's common stock at that date. The beneficial conversion feature associated with the debt was valued at $35,000. The note bore interest of 10% per year with the principal due in 60 days. The terms of the loan required that the Company issue 500,000 shares of restricted common stock as security for the loan. On June 29, 2007, Mr. Hutchings elected to convert his note for shares provided as collateral. The sum of $250,000 was applied toward the principal repayment; the beneficial conversion value of $35,000 was charged to interest expense.

The balance in note payable to a stockholder of $289,997 is the principal due on advances from William Shrewsbury. The note bears interest at 10% per year and due on demand. On June 15, 2007, the Company issued William Shrewsbury 333,333 shares of common stock at a market price of $0.77 per share for a total consideration of $256,666. The proceeds were used for a $100,000 reduction of a

$270,000 loan owed to Mr. Shrewsbury and the remaining $156,666 was treated as interest expense. During February 2009, the Company converted the $119,997 advance from shareholder to a note payable, related party.

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

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NOTE 3 - NOTES PAYABLE TO A STOCKHOLDER AND CONVERTIBLE DEBT TO OFFICER/ STOCKHOLDER-CON'TD

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 4 - ASSET RETIREMENT OBLIGATION

In the period in which an asset retirement obligation is incurred or becomes reasonably estimable, the Company recognizes the fair value of the liability if there is a legal obligation to dismantle the asset and reclaim or remediate

the property at the end of its useful life. The Company estimates the timing of the asset retirement based on an economic life determined by reference to similar properties and/or reserve reports. The liability amounts are based on future retirement cost estimates and incorporate many assumptions such as expected economic recoveries of oil and gas, time to abandonment, future inflation rates and the adjusted risk-free rate of interest. When the liability is initially recorded, the Company capitalizes the cost by increasing the related property balances. This initial cost is depreciated or depleted over the useful life of the asset.

The Company has identified potential retirement obligations related to the Parks Lease and Contract Area #1 Lease. These retirement obligations are determined based on estimated costs to comply with abandonment regulations established by the Texas Railroad Commission and the State of Texas. Management has estimated the cost in today's dollars, to comply with these regulations. These estimates have been projected out to the anticipated retirement date 10 years in the future. The anticipated future cost of remediation efforts is $186,650. The anticipated future cost of remediation efforts were discounted back at an assumed interest rate of 10 percent, to arrive at a net present value of the obligation. The asset retirement obligation is $86,455 at June 30, 2010 and

September 30, 2009. The Company has not recorded accretion on the asset retirement obligation due to minimal revenues.

NOTE 5 - INCOME TAXES

Following is an analysis of deferred taxes at June 30, 2010:

Deferred tax assets:	
Net operating losses	$ 1,535,000
Accrued expenses	256,000
Valuation allowance	(1,791,000)
Total deferred tax assets	_
Deferred tax liabilities:	
Basis of property and equipment	_
Net deferred tax asset	$ _

The Company has tax net operating loss carryforwards totaling approximately $4,550,000, expiring in 2018 through 2029. Approximately $1,200,000 of net operating losses were incurred prior to December 12, 2002 at which date MA&N acquired 51% of the Company and are consequently subject to certain limitation described in section 382 of

NOTE 5- INCOME TAXES-CONT'D

the Internal Revenue Code. The Company estimates that, due to the limitations and expiration dates, only $424,000 of the net operating losses incurred prior to December 12, 2002 will be available to offset future taxable income.

Net operating losses after December 12, 2002 through June 30, 2010 were approximately $3,350,000. The total net operating losses available to the Company to offset future taxable income is approximately $3,674,000. Following is a reconciliation of the tax benefit at the federal statutory rate to the amount reported in the statement of operations for the nine months ended June 30, 2010 and 2009:

	Nine Months Ended June 30,	
	2010	2009
Benefit for income tax at federal statutory rate	$ 166,000	$ 175,481
Change in valuation allowance	(82,000)	(99,321)
Non-deductible stock-based Compensation	(84,000)	(76,160)
	$ -	$ -

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NOTE 6 - STOCKHOLDERS' EQUITY

PREFERRED STOCK

Mark Neuhaus, former President, CEO and Chairman of the Board, has represented that in May 2006 the Company entered into an employment agreement with him. Mr. Neuhaus claims that the agreement provided that he was to be compensated at the rate of $25,000 per month plus bonus based on oil and gas production. In addition he claims that the employment agreement granted to Mr. Neuhaus 1,000 shares of preferred stock. The preferred stock which Mr. Neuhaus caused to be issued to himself had the following rights and privileges:

1. Super voting rights: The preferred stock has the right to vote on any item of business submitted to the common shareholders for a vote the equivalent number of votes representing 50% of the outstanding common shares then issued by the Company.

2. No other rights: The preferred shares have no other rights, including but not limited to no conversion rights; no dividend rights; and no liquidation priority rights.

During the fiscal year 2006, Mr. Neuhaus waived his salary. However, Mr. Neuhaus obtained a letter from Baron Capital Group, Inc. stating that value of the preferred stock value was no greater than $1,018,000. On December 24, 2007, and in connection with Mr. Neuhaus' resignation, the 1,000 preferred shares were exchanged for 10,715,789 common shares, which exchange assumed that the preferred stock had a value of $1,018,000. Current management of the Company has not seen documentation establishing that an employment agreement existed between Mr. Neuhaus and the Company; that any such agreement was authorized in accordance with Georgia law or that the preferred stock was duly authorized or validly issued in accordance with law.

NOTE 6 - STOCKHOLDERS' EQUITY-CONT'D

COMMON STOCK

During the period September 30, 2009 through June 30, 2010, the Company issued Common stock to raise capital, compensate employees and professionals, and to settle liabilities as follows:

On October 6, 2009, the Company sold 300,000 shares to private investors for cash proceeds of $15,000.

On December 1, 2009, the Company sold 200,000 shares to a private investor for cash proceeds of $10,000.

On December 8, 2009, the Company sold 500,000 shares to a private investor for cash proceeds of $25,000.

On December 8, 2009, the Company issued 2,500,000 shares of restricted common stock for services, The services were valued at $177,500 based on the quoted market price of the Company's common stock on the date of issuance.

On December 10, 2009 the Company sold 100,000 shares to a private investor for cash proceeds of $5,000.

On February 16, 2010 the Company sold 350,000 shares to private investors for cash proceeds of $17,500.

On February 16, 2010, the Company issued 580,000 shares of restricted common stock for services. The services were valued at $41, 760 based on the quoted market price of the Company's stock on the date of issuance.

On March 1, 2010 the Company issued 275,000 shares of restricted common stock for services. The services were valued at $20,625 based on the quoted market price of the Company's stock on the date of issuance.

On March 18, 2010, the Company sold 400,000 shares to a private investor for cash proceeds of $20,000.

On April 26, 2010, the Company sold 200,000 shares to a private investor for cash proceeds of $10,000.

POTENTIALLY DILUTIVE OPTIONS AND WARRANTS

At June 30, 2010, the Company has outstanding 1,000,000 warrants which were not included in the calculation of diluted net loss per share since their inclusion would be anti-dilutive.

Following is a summary of outstanding stock warrants at June 30, 2010

	Number of Shares	Exercise Price	Weighted Avg. Price
Warrants at September 30,2009	2,050,000	$0.28-0.50	$0.39
Issued	_	_	_
Expired	1,050,000	$0.50	$0.50
Warrants at June 30, 2010	1,000,000	$0.28	$0.28

A summary of outstanding warrants at June 30, 2010, follows:

Expiration Date	Number of Shares	Exercise Price	Contractual Remaining Life (Years)
September, 2011	1,000,000	0.28	1.25
	1,000,000		

NOTE 7 - RELATED PARTY TRANSACTIONS

Beginning with the quarter ended March 31, 2008 to the present, the Company recognized crude oil sales from a lease for which the operator is company owned by a stockholder/director of the Company. These sales account for 100% of our oil and gas revenue for the nine months ended June 30, 2010.

As of June 30, 2010, 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.

Included in the financial statements at June 30, 2010 are advances from stockholder/officer of $42,347. Interest has been accrued on these advances at rates ranging from 8% to 10%,. In the quarter ended June 30, 2010 interest expense of $31,162, in the accompanying statement of operations, relates to those advances and the promissory note.

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

NOTE 7 - RELATED PARTY TRANSACTIONS-CON'TD

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.

NOTE 8 - FAIR VALUE MEASUREMENTS

The Company adopted Accounting Standard Codification (ASC) Topic 820 "Fair Value Measurements" on October 1, 2008. ASC Topic 820, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. ASC Topic 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than quoted prices included within Level 1, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

	Asset Fair Value as of June 30, 2010 and 2009		
	Level 1	Level 2	Level 3
Performance Bond	$ -	$ 50,000	$ -

Management has determined that it will not, at this time, adopt fair value accounting for nonfinancial assets or liabilities currently recorded in the financial statements which includes fixed assets and prepaid expenses. Impairment analysis will be made of all assets using fair value measurements.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN 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.

The Company has never earned a profit, and has incurred an accumulated deficit of $13,795,933 as of June 30, 2010. 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 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 in excess of forty nine wells located on the two fields 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. The Company's success is dependent on if and how quickly it can reach these levels of production. 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 or that it will be able to raise additional capital through any means.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2010 COMPARED TO THREE MONTHS ENDED JUNE 30, 2009

REVENUES FROM OPERATIONS

Revenues for the three months ended June 30, 2010 and 2009 were $7,509 and $6,455 respectively. On December 5, 2004, the Company began to structure itself into an oil and gas production and exploration company. The Company has acquired two oil and gas leases in the counties of Eastland and Callahan, Texas and has begun development of oil and gas. The Company received its first revenues from oil and gas operations in March 2008. The Company believes that it will place additional wells into operation during the current fiscal year. Since it ceased its former business operations, the Company has devoted its efforts to research prospective leases and business combinations and secure financing.

EXPENSES FROM CONTINUING OPERATIONS

The Company operating expenses for the three months ended June 30, 2010 were $64,118. The current quarter operating expenses represent a negative variance of $20,189 when compared to operating expenses of $43,929 for the quarter ended June 30, 2009. Well work-over expenses in the current quarter in the amount of $17,825 account for a negative variance of $16,812 when compared to the same quarter the prior year. Higher travel and depreciation expenses in the current quarter account for the remaining negative variance of $3,377.

NET INCOME/LOSS

For the quarter June 30, 2010, the Company had a net loss of $88,370 representing a negative variance of $18,294 when compared to a net loss of $70,076 for the quarter ended June 30, 2009. The negative variance in the current quarter as noted above in "Expenses from Continuing Operations" resulted from higher well work-over, travel and depreciation expenses.

NINE MONTHS ENDED JUNE 30, 2010 COMPARED TO NINE MONTHS ENDED JUNE 30, 2009

REVENUES FROM OPERATIONS

Revenues for the nine months ended June 30, 2010 and 2009 were $14,507 and $6,904 respectively. On December 5, 2004, the Company began to structure itself into an oil and gas production and exploration company. The Company has acquired two oil and gas leases in the counties of Eastland and Callahan, Texas and has begun development of oil and gas. The Company received its first revenues from oil and gas operations in March 2008. The Company believes that it will place additional wells into operation during the current fiscal year. Since it ceased its former business operations, the Company has devoted its efforts to research prospective leases and business combinations and secure financing.

EXPENSES FROM CONTINUING OPERATIONS

The Company operating expenses for the nine months ended June 30, 2010 were $408,200. The current period operating expenses represent a positive variance of $19,909 when compared to operating expenses of $428,109 for the nine months ended June 30, 2009. Higher stock based compensation in the current period, resulting from higher outside consultants and investor relations expenses, account for a negative variance of $15,885 when compared to the same period the prior year. Higher well work-over during the current period account for an additional negative variance of $28,835. The higher stock based compensation and well work-over expenses were more than offset by lower legal fees of $87,783 during the current period.

NET INCOME/LOSS

For the nine months ended June 30, 2010, the Company had a net loss of $489,633 representing a favorable variance of $26,487 when compared to a net loss of $516,120 for the nine months ended June 30, 2009. The favorable variance was primarily the result of higher revenue of $7,603 and lower operating expenses amounting to $19,909 during the nine months ended June 30, 2010, as compared with the same period the prior year. Higher interest expense in the current period account for a negative variance of $1,146.

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 not effective as of June 30, 2010, under the criteria set forth in the Internal Control-Integrated Framework. The determination was made partially due to the small size of the company and a lack of segregation of duties. The Company continues to 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.

TX Holdings had filled an action in Dade County, Florida in District Circuit #11, case number 06-14396CA04 entitled TX Holdings, Inc vs. Darren Bloom. The Company brought an action against Mr. Bloom for breach of contract, damages and for the cancellation of common stock issued to Mr. Bloom pursuant to a three year employment contract. Mr. Bloom resigned from the Company on March 17, 2006, after serving only 9 months. Mr. Bloom owned 2,000,000 shares of TX Holdings common stock. In 2009, The Company reached an agreement with Mr. Bloom whereby he retained 700,000 shares and returned 1,300,000 shares to 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.

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 4 SUBMISSION OF MATTERS TO A VOTE TO SECURITY HOLDERS None.

ITEM 5 OTHER INFORMATION None.

29

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

30

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
William "Buck" Shrewsbury
Chief Executive Officer

Dated: July 29, 2010

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 July 29, 2010	Chairman of the Board of Directors and Chief Executive Officer
/s/ Richard (Rick) Novack ------------------------- Richard (Rick) Novack July 29, 2010	President and Director
/s/ Jose Fuentes ------------------------- Jose Fuentes July 29, 2010	Chief Financial Officer
/s/ Bobby S. Fellers -------------------------	Director

Bobby S. Fellers
July 29, 2010

/s/ Martin Lipper	Director
Martin Lipper July 29, 2010	