TX Holdings, Inc.
Form 10-Q
August 12, 2011

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, 2011

o 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 August 12, 2011 there were 53,271,897 shares of common stock outstanding.

TX Holdings, Inc.
Form 10-Q
For the Quarter Ended June 30, 2011

Table of Contents

PART 1-FINANCIAL INFORMATION

Item 1	Condensed Financial Statements	
	Unaudited Balance Sheet as of June 30, 2011 and Audited Balance Sheet as of September 30, 2010	3
	Unaudited Statements of Operations for the Three and Nine Months Ended June 30, 2011 and 2010, and for the Period From Inception of the Development Stage, October 1, 2004 to June 30, 2011	4
	Unaudited Statements of Changes in Stockholders' Deficit for the Period From Inception of the Development Stage, October 1, 2004 to June 30, 2011	5
	Unaudited Statements of Cash Flows for the Nine Months Ended June 30, 2011 and 2010, and for the Period From Inception of the Development Stage, October 1, 2004, to June 30, 2011	12
	Notes to Unaudited Financial Statements	13
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 4	Controls and Procedures	18

PART II-OTHER INFORMATION

Item 1	Legal Proceedings	20
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 3	Defaults upon Senior Securities	20
Item 5	Other Information	20
Item 6	Exhibits	21
	SIGNATURES	22

TX Holdings, Inc.
A CORPORATION IN THE DEVELOPMENT STAGE
Balance Sheets
June 30, 2011 and September 30, 2010

	Unaudited June 30, 2011	Audited September 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$3,757	$5,848
Accounts Receivable-(Net of Allowance for Doubtful Accounts)	_	_
Total current assets	3,757	5,848
Unproved oil and gas properties-successful efforts, net	184,862	188,702
Other	50,000	50,000
Total Assets	$238,619	$244,550
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable to a stockholder	$289,997	$289,997
Accounts payable and accrued liabilities	1,181,131	1,003,737
Accounts payable-related party	158,308	158,308
Advances from stockholder/officer	125,697	51,397
Convertible debt to stockholder/officer	1,199,886	1,199,886
Total current liabilities	2,955,019	2,703,325
Asset Retirement Obligation	23,012	50,981
Total Liabilities	2,978,031	2,754,306
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock: no par value, 1,000,000 shares authorized no shares outstanding as of June 30, 2011 and September 30, 2010	_	_
Common stock:no par value, 250,000,000 shares authorized, 53,271,897 and 53,041,897 shares issued and outstanding at June 30, 2011 and September 30, 2010, respectively	10,566,487	10,558,437
Additional paid-in capital	1,379,409	1,379,409
Accumulated deficit	(1,803,507)	(1,803,507)
Losses accumulated in the development stage	(12,881,801)	(12,644,095)
Total stockholders' deficit	(2,739,412)	(2,509,756)
Total liabilities and stockholders' deficit	$238,619	$244,550

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

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
UNAUDITED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended June 30, 2011 and 2010 and for the Period From Inception of the Development Stage, October 1, 2004 to June 30, 2011

	THREE MONTHS ENDED		NINE MONTHS ENDED		Inception of the Development Stage to
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011
Revenue	$9,864	$7,509	$19,109	$14,507	$55,573
Operating expenses, except items shown separately below	40,626	62,517	138,868	165,325	2,436,354
Stock-based compensation	8,050	_	8,050	239,885	7,460,439
Professional fees	10,000	520	10,000	520	1,193,016
Impairment Expense		_		_	686,648
Lease expense	_	_		_	17,392
Loss on write-off of leases and equipment		_		_	263,383
Depreciation expense	1,148	1,081	3,271	2,470	9,968
Advertising expense	_	_	_	_	83,265
Total Operating Expenses	59,824	64,118	160,189	408,200	12,150,465
Loss from operations	(49,960)	(56,609)	(141,080)	(393,693)	(12,094,892)
Other income and (expense):					
Legal settlement	_	_			204,000
Other income	_	_		125	838
Forbearance agreement costs	_	_			(211,098)
Interest expense	(32,420)	(31,761)	(96,626)	(96,065)	(780,649)
Total other income and (expenses), net	(32,420)	(31,761)	(96,626)	(95,940)	(786,909)
Net loss	$(82,380)	$(88,370)	$(237,706)	$(489,633)	$(12,881,801)
Net loss per common share basic and diluted	$ _	$ _	$_	$(0.01)	
Weighted average number of common shares outstanding-basic and diluted	53,102,556	52,986,952	53,062,117	50,264,760	

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

4

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
For the Period from Development Stage through June 30, 2011

	Preferred Stock Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Losses Accumulated in the Develop-ment Stage	Total
Balance at September 30, 2004	-	$ -	15,793,651	$ 1,532,111	$ -	$ (1,912,397)	$ -	$ (380,286)
Inception of the development stage on October 1, 2004	-	-	-	-	-	-	-	-
Common stock issued for professional services	-	-	450,000	40,000	-	-	-	40,000
Common stock issued for prepaid services	-	-	100,000	10,000	-	-	-	10,000
Common stock issued to settle accounts payable	-	-	361,942	36,194	-	-	-	36,194
Warrants issued under forbearence agreement	-	-	-	-	211,098	-	-	211,098
Net income (loss)	-	-	-	-	-	108,890	(449,790)	(340,900)
Balance at September 30, 2005	-	$ -	16,705,593	$ 1,618,305	$ 211,098	$ (1,803,507)	$ (449,790)	$ (423,894)

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

	Preferred Stock		Common Stock		Additional		Losses Accumulated in the	
	Shares	Amount	Shares	Amount	Paid-In Capital	Accumulated Deficit	Develop-ment Stage	Total
Balance at September 30, 2005	-	$-	16,705,593	$1,618,305	$211,098	$(1,803,507)	$(449,790)	$(423,894)
Common stock issued for professional services	-	-	4,649,300	2,318,295	-	-	-	2,318,295
Common stock issued for cash	-	-	4,633,324	1,164,997	-	-	-	1,164,997
Common stock issued upon exercise of warrants	-	-	294,341	2,944	-	-	-	2,944
Common stock surrendered	-	-	(500,000)	-	-	-	-	-
Warrants issued for services	-	-	-	-	376,605	-	-	376,605
Preferrd stock issued to the Company's chief executive officer/stockholder	1,000	1,018,000	-	-	-	-	-	1,018,000
Net income (loss)	-	-	-	-	-	-	(5,015,719)	(5,015,719)
Balance at September 30, 2006	1,000	$1,018,000	25,782,558	$5,104,541	$587,703	$(1,803,507)	$(5,465,509)	$(558,772)

The accompanying notes are an integral part of the financial statements

6

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT

	Preferred Stock Shares	Preferred Stock Amount	Common Stock	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Losses Accumulated in the Development Stage	Total
Balance at September 30, 2006	1,000	$ 1,018,000	25,782,558	$ 5,104,541	$ 587,703	$ (1,803,507)	$ (5,465,509)	$ (558,772)
Common stock issued for professional services	-	-	3,475,555	2,501,222	-	-	-	2,501,222
Contribution by stockholder	-	-	-	-	53,325	-	-	53,325
Warrants issued for service	-	-	-	-	159,381	-	-	159,381
Common stock issued upon exercise of warrants	-	-	355,821	75,461	-	-	-	75,461
Common stock issued in settle- ment of notes payable and and interest	-	-	833,333	546,666	-	-	-	546,666
Common stock issued in settle- of accounts payable	-	-	1,437,088	215,114	-	-	-	215,114
Net loss	-	-	-	-	-	-	(4,085,033)	(4,085,033)
Balance at June 30, 2007	1,000	$ 1,018,000	31,884,355	$ 8,443,004	$ 800,409	$ (1,803,507)	$ (9,550,542)	$ (1,092,636)

The accompanying notes are an integral part of the financial statements

7

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT

	Preferred Stock Shares	Preferred Stock Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Losses Accumulated in the Develop-ment Stage	Total
Balance at September 30, 2007	1,000	$1,018,000	31,884,355	$8,443,004	$800,409	$(1,803,507)	$(9,550,542)	$(1,092,63
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	-	-	-	128,440
Common stock issued for cash	-	-	780,000	73,000	-	-	-	73,000
Common stock issued in settlement of legal claim	-	-	175,000	31,500	-	-	-	31,500
Contribution by stockholder	-	-	-	-	10,643	-	-	10,643
Common stock returned to treasury	-	-	(300,000)	-	-	-	-	-
Accrued salary contributed by officer/stockholder	-	-	-	-	125,000	-	-	125,000
Accounting for employee stock warrants	-	-	-	-	190,000	-	-	190,000
Accounting for options issued to a consultant	-	-	-	-	19,000	-	-	19,000
Net loss	-	-	-	-	-	-	(676,123)	(676,123
Balance at September 30, 2008	-	$-	43,705,824	$9,693,944	$1,145,052	$(1,803,507)	$(10,226,665)	$(1,191,17

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

	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Losses Accumulated in the Development Stage	Total
	Shares	Amount	Shares	Amount				
Balance at September 30, 2008	_	_	43,705,824	$ 9,693,944	$ 1,145,052	$ (1,803,507)	$ (10,226,665)	$ (1,191,17
Common stock issued in Payment of Shareholders'advances	_	_	2,581,073	258,108	_	_	_	258,108
Common stock issued for professional services	_	_	2,450,000	244,000	_	_	_	244,000
Common stock sold to private investors	_	_	200,000	20,000	_	_	_	20,000
Common stock returned to treasury	_	_	(1,300,000)	_	_	_	_	_
Shareholders' advances previously reported as Additional Paid in Capital	_	_	_	_	(10,643)	_	_	(10,643
Imputed salary contributed by officer/stockholder	_	_	_	_	125,000	_	_	125,000
Accounting for employee stock warrant	_	_	_	_	120,000	_	_	120,000
Net Loss	_	_	_	_	_	_	(1,276,127)	(1,276,12
Balance at September 30, 2009	_	_	47,636,897	$ 10,216,052	$ 1,379,409	$ (1,803,507)	$ (11,502,792)	$ (1,710,83

The accompanying notes are an integral part of the financial statements

TX HOLDINGS INC.
A CORPORATION IN THE DEVELOPMENT STAGE
STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Deficit	Losses Accumulated in the Development Stage	Total
Balance at September 30, 2009	_	_	47,636,897	$ 10,216,052	$ 1,379,409	$(1,803,507)	$ (11,502,792)	$(1,710,838)
Common stock issued for professional services	_	_	3,355,000	239,885	_	_	_	239,885
Common stock sold to private investors	_	_	2,050,000	102,500	_	_	_	102,500
Net Loss	_	_	_	_	_	_	(1,141,303)	(1,141,303)
Balance at September 30, 2010	_	_	53,041,897	$ 10,558,437	$ 1,379,409	$(1,803,507)	$ (12,644,095)	$(2,509,756)

The accompanying notes are an integral part of the financial statements

TX HOLDINGS INC.
A CORPORATION IN THE DEVELOPMENT STAGE
UNAUDITED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
For the Period from the Inception of the Development Stage, October 1, 2004 to June 30, 2011

	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Losses Accumulated in the Development Stage	Total
	Shares	Amount	Shares	Amount				
Balance at September 30, 2010	_	_	53,041,897	$ 10,558,437	$ 1,379,409	$ (1,803,507)	$ (12,644,095)	$ (2,509,756)
Common srock issued for professional services			230,000	8,050				8,050
Net Loss	_	_	_	_	_	_	(237,706)	(237,706)
Balance at June 30, 2011	_	_	53,271,897	$ 10,566,487	$ 1,379,409	$ (1,803,507)	$ (12,881,801)	$ (2,739,412)

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

TX HOLDINGS, INC.
UNAUDITED STATEMENTS OF CASH FLOWS
For the Nine Months Ended June 30, 2011 and 2010 and for the Period From
Inception of the Development Stage, October 1, 2004, to June 30, 2011

	NINE MONTHS ENDED 6/30/2011	NINE MONTHS ENDED 6/30/2010	Inception of Development Stage to 6/30/2011
Cash flows used by operating activities:			
Net loss	$ (237,706)	$ (489,633)	$ (12,881,801)
Adjustments to reconcile net loss to net cash used in operating activities:			
Warrants issued for forbearance agreement	_	_	211,098
Loss on disposal of equipment	_	_	263,383
Impairment of unproved oil and gas properties			686,648
Depreciation expense	3,271	2,470	9,968
Bad Debt Expense	_	_	1,729
Common and preferred stock issued for services	8,050	239,885	6,068,274
Accounting for Warrants issued to employees and a consultant	_	_	329,000
Warrants issued for services	_	_	376,605
Common stock issued to settle accounts payable	_	_	251,308
Common stock issued in payment of interest expense	_	_	196,666
Common stock issued by an officer/stockholder to satisfy expenses of the Company and increase stockholder advances	_	_	616,750
Common stock issued in settlement of legal claim	_	_	31,500
Accrued salary contributed by stockholder/former officer	_	_	250,000
Changes in operating assets and liabilities:			
Accrued stock-based compensation reversal resulting from legal claim settlement	_	_	(231,000)
Prepaid expenses and other assets	_	(2,000)	(49,750)
Accounts receivable	_	_	(1,729)
Accounts payable and accrued liabilities	177,394	159,009	2,086,328
Net cash used in operating activities	(48,991)	(90,269)	(1,785,023)
Cash flows used in investing activities:			
Deposits paid for oil and gas property acquisitions	_	_	(378,000)
Purchase of oil and gas properties	(27,400)	(10,715)	(452,729)
Net cash used in investing activities	(27,400)	(10,715)	(830,729)

Cash flows provided by financing activities:			
Proceeds from stockholder/officer contribution	_	_	10,643
Repayment of note payable to a bank	_	_	(20,598)
Proceeds from note payable to stockholder	_	_	520,000
Proceeds from sale of common stock	_	102,500	1,360,497
Proceeds from exercise of warrants	_	_	78,404
Proceeds from stockholder/officer advances	74,300	_	677,463
Payments of stockholders advances	_	(6,900)	(6,900)
Net cash provided by financing activities	74,300	95,600	2,619,509
Increase (Decrease) in cash and cash equivalents	(2,091)	(5,384)	3,757
Cash and cash equivalents at beginning of period	5,848	6,588	_
Cash and Cash Equivalent at end of period	$ 3,757	$ 1,204	$ 3,757
Non-cash investing and financing activities:			
Common stock issued in payment of Shareholders' advances	_	_	$ 258,107
Shareholders'advances converted to notes payable from stockholder	_	_	$ 119,997
Shareholders' advances previously reported as paid-in capital	_	_	$ (10,643)
Increase in property and equipment from recognition of asset retirement obligation	$ (27,969)	_	$ 23,012

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

TX HOLDINGS, INC.
A CORPORATION IN THE DEVELOPMENT STAGE
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 2010 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, 2011.

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 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 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, 2010, the Company recorded an impairment loss of $302,560.

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

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

OVERVIEW OF BUSINESS-CONT'D

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.

The Company has experienced substantial costs for engineering and other professional services during 2005 through 2011 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 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.

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.

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

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 June 30, 2011, 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.

NOTE 4 – 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, 2011.

As of June 30, 2011, 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 June 30, 2011 are advances from stockholder/officer of $125,697.
In the nine months ended June 30, 2011 interest expense of $93,486, in the accompanying statement of operations, relates to the promissory notes.

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.

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

NOTE 4 – RELATED PARTY TRANSACTIONS-CON'TD

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 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 $14,685,308 as of June 30, 2011. 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 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. 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, 2011 COMPARED TO THREE MONTHS ENDED JUNE 30, 2010

REVENUES FROM OPERATIONS

Revenues for the three months ended June 30, 2011 and 2010 were $9,864 and $7,509 respectively. During the quarter ended June 30, 2011, the Company realized higher revenue as a result of well workover performed during the prior quarters and additional revenue from the purchase of a 25% working interest in the Parks lease. On December 5, 2004, the Company began to structure itself into an oil and gas production and exploration company. The Company has acquired one oil and gas lease 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, 2011 were $59,824. The current quarter operating expenses represent a positive variance of $4,294 when compared to operating expenses of $64,118 for the quarter ended June 30, 2010. Lower well workover expense in the quarter ended June 30, 2011 amount to a favorable variance of $14,986, as compared with the same quarter the prior year. The favorable variance in the current quarter was partially offset by higher legal fees in the amount of $10,000 rising from on-going litigation.

NET INCOME/LOSS

For the quarter June 30, 2011, the Company had a net loss of $82,380 representing a positive variance of $5,990 when compared to a net loss of $88,370 for the quarter ended June 30, 2010. The favorable variance in the current quarter as noted above in “Total Operating Expenses” resulted primarily from lower well workover expenses.

NINE MONTHS ENDED JUNE 30, 2011 COMPARED TO NINE MONTHS ENDED JUNE 30, 2010

REVENUES FROM OPERATIONS

Revenues for the nine months ended June 30, 2011 and 2010 were $19,109 and $14,507 respectively. On December 5, 2004, the Company began to structure itself into an oil and gas production and exploration company. The Company has acquired an oil and gas lease 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, 2011 were $160,189. The current period operating expenses represent a positive variance of $248,011 when compared to operating expenses of $408,200 for the nine months ended June 30, 2010. Lower stock based compensation in the current nine months period resulting from lower outside consultants and investor relations expenses account for a favorable variance of $231,835 when compared to the same period the prior year. Lower well workover expenses during the period ended June 30, 2011 represent an additional $15,867 favorable expense variance.

NET LOSS

For the nine months ended June 30, 2011, the Company had a net loss of $237,706 representing a favorable variance of $251,928 when compared to a net loss of $489,633 for the nine months ended June 30, 2010. The favorable variance was primarily the result of higher revenue of $4,602 and lower operating expenses amounting to $248,011during the nine months ended June 30, 2011, as compared with the same period the prior year. The lower operating expense during the current period resulted primarily from lower stock-based compensation and lower well workover expenses.

LIQUIDITY

At June 30, 2011 the Company had a cash balance of $3,757. As of September 30, 2010 the Company had a cash balance of $5,848. Property and equipment was $184,862 as of June 30, 2011 compared to $188,702 as of September 30, 2010. The investment in the oil and gas fields has caused the Company a liquidity crisis. 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 production on the oil wells on the Parks lease. While the Company anticipates generating greater revenue beginning in the fourth quarter of 2011 the amount of production will not be sufficient to meet all of the Company's liquidity needs.

The Company currently requires operating capital of approximately $30,000 per month to meet current obligations. At this time the Company has no material revenue and is unable 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 will require the officers of the Company to continue to receive stock-based compensation and the Company will need to borrow or raise sufficient equity capitalization to meet its current obligations. In addition the Company will need to raise approximately $200,000 in working capital to complete the refurbishment and development of the leases it currently owns. If the Company is unable to raise sufficient capital to refurbish and develop its fields, it will need to find working interest partners to assist in the development of its oil and gas leases. The Company’s primary challenge is to generate higher revenue from its oil and gas leases.

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, 2011, 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.

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 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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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: August 12, 2011

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 August 12, 2011	Chairman of the Board of Directors and Chief Executive Officer
/s/ Richard (Rick) Novack Richard (Rick) Novack August 12, 2011	President and Director
/s/ Jose Fuentes Jose Fuentes August 12, 2011	Chief Financial Officer
/s/ Bobby S. Fellers Bobby S. Fellers August 12, 2011	Director
/s/ Martin Lipper Martin Lipper August 12, 2011	Director