TX Holdings, Inc.
Form 10-Q
April 28, 2014

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 000-32335

TX HOLDINGS, INC.
(Exact Name of Registrant 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	(606) 928-1131
(Address of principal executive offices and zip code)	(Registrant's telephone number, including area code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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. See definition of "large accelerated filer, "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer o Non-accelerated filer o

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

On April 28, 2014, there were 48,053,084 shares of the registrant’s common stock outstanding.

TX HOLDINGS, INC. Form 10-Q
FOR THE QUARTER ENDED March 31, 2014

TABLE OF CONTENTS

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this report contains forward-looking statements which provide our current expectations or forecasts of future events. Forward-looking statements in this report include, without limitation:

- information concerning possible or assumed future results of operations, trends in financial results and business plans, including those related to earnings, earnings growth, revenue and revenue growth;
- statements about the level of our costs and operating expenses relative to our revenues, and about the expected composition of our revenues;
- statements about expected future sales trends for our products;
- statements about our future capital requirements and the sufficiency of our cash, cash equivalents, and available bank borrowings to meet these requirements;
- other statements about our plans, objectives, expectations and intentions; and
- other statements that are not historical fact.

Forward-looking statements generally can be identified by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “intends, “plans,” “should,” “seeks,” “pro forma,” “anticipates,” “estimates,” “continues,” or other va thereof (including their use in the negative), or by discussions of strategies, plans or intentions. Such statements include but are not limited to statements under Part I, Item 1A - Risk Factors of our Form 10-K for the year ended September 30, 2013, Part I, Item 1A – Risk Factors of this report, Part I, Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations in this report, and elsewhere in this report. A number of factors could cause results to differ materially from those anticipated by such forward-looking statements. The absence of these words does not necessarily mean that a statement is not forward-looking. Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons, including factors described in Part I, Item 1A - Risk Factors of our Form 10-K for the year ended September 30, 2013, and Part I, Item 1A – Risk Factors of this report. You should carefully consider the factors described in Part I, Item 1A - Risk Factors of our Form 10-K for the year ended September 30, 2013, and Part I, Item 1A – Risk Factors of this report, in evaluating our forward-looking statements.

You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this report, or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in the reports we file from time to time with the Securities and Exchange Commission (“SEC”).

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

TX HOLDINGS, INC.
BALANCE SHEETS
March 31, 2014 and September 30, 2013

	Unaudited March 31, 2014	September 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$578	$175,028
Accounts receivable, net of allowance for doubtful accounts of $13,993	752,946	425,930
Inventory	2,328,034	1,849,987
Commission advances	-	3,546
Notes receivable-current	10,000	10,000
Other current assets	26,466	23,275
Total current assets	3,118,024	2,487,766
Property and equipment, net	31,454	43,387
Notes receivable, less current portion	24,514	27,380
Other	-	200
Total Assets	$3,173,992	$2,558,733
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accrued liabilities	$603,946	$889,885
Accounts payable	1,296,369	692,180
Advances from stockholder/officer	77,687	499,583
Bank- line of credit	248,500	248,500
Total current liabilities	2,226,502	2,330,148
Notes payable to a stockholder	2,000,000	1,351,997
Total Liabilities	4,226,502	3,682,145
Stockholders' deficit:		
Preferred stock: no par value, 1,000,000 shares authorized no shares outstanding	-	-
Common stock: no par value, 250,000,000 shares authorized, and 48,053,084 shares issued and outstanding at March 31, 2014 and September 30, 2013	9,293,810	9,293,810
Additional paid-in capital	4,304,280	4,304,280
Accumulated deficit	(14,650,600)	(14,721,502)
Total stockholders' deficit	(1,052,510)	(1,123,412)
Total Liabilities and Stockholders' Deficit	$3,173,992	$2,558,733

The accompanying notes are an integral part of the financial statements

TX HOLDINGS, INC.
STATEMENTS OF OPERATIONS
For the Three and Six Months Ended March 31, 2014 and 2013
Unaudited

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Revenue	$1,206,567	$954,074	$2,104,447	$1,730,321
Cost of goods sold	807,452	681,709	1,477,861	1,273,757
Gross profit	399,115	272,365	626,586	456,564
Operating expenses, except items shown separately below	121,290	75,460	229,611	208,743
Commission expense	162,822	96,986	270,315	168,765
Professional fees	53,000	47,971	112,227	87,309
Depreciation expense	2,240	4,445	4,740	8,890
Total operating expenses	339,352	224,862	616,893	473,707
Income (loss) from operations	59,763	47,503	9,693	(17,143)
Other income and (expense):				
Gain on extinguishment of debt	-	-	93,167	-
Gain on sale of property and equipment	10,807	-	10,807	500
Interest expense	(19,315)	(22,759)	(42,765)	(45,680)
Total other income and (expense), net	(8,508)	(22,759)	61,209	(45,180)
Income (loss) before provision for income taxes	$51,255	$24,744	$70,902	$(62,323)
Provision for income taxes	21,015	-	29,070	-
Utilization of net operating loss carry forward	(21,015)	-	(29,070)	-
Net income/(loss)	$51,255	$24,744	$70,902	$(62,323)
Income/(loss) per common share Basic and diluted	$-	$-	$-	$-
Weighted average of common shares outstanding- Basic and diluted	48,053,084	48,053,084	48,053,084	47,731,655

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

5

TX HOLDINGS, INC.
STATEMENT OF CHANGES IN STOCKHOLDER'S DEFICIT
For the Six Months Ended March 31, 2014
Unaudited

	Preferred Stock		Common Stock		Additional Paid in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance at September 30, 2013	-	$-	48,053,084	$9,293,810	$4,304,280	$(14,721,502)	$(1,123,412)
Net Income	-	-	-	-	-	70,902	70,902
Balance at March 31, 2014	-	$-	48,053,084	$9,293,810	$4,304,280	$(14,650,600)	$(1,052,510)

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

TX HOLDINGS, INC.
STATEMENTS OF CASH FLOWS
For the Six Months Ended March 31, 2014 and 2013

	Unaudited March 31, 2014	Unaudited March 31, 2013
Cash flows used by operating activities:		
Net income/(loss)	$70,902	$(62,323)
Adjustments to reconcile net income/(loss) to net cash used in operating activities:		
Depreciation expense	4,740	8,890
Loss on settlement of accounts payable	-	10,116
Gain on sale of property and equipment	(10,807)	(500)
Gain on extinguishment of debt	(93,167)	-
Other assets	200	-
Changes in operating assets and liabilities:		
Commission advances	3,546	(7,551)
Deposits	-	50,000
Inventory	(478,047)	(740,924)
Other current assets	(3,191)	24,572
Accounts receivable	(327,016)	(150,195)
Notes receivable	2,866	-
Accrued liabilities	69,385	57,993
Accounts payable	604,189	374,530
Stockholder advances for operations	12,000	12,000
Net cash used in operating activities	(144,400)	(423,392)
Cash flows provided (used) in investing activities:		
Purchase of equipment	-	(13,144)
Proceeds received on sale of equipment	18,000	500
Net cash provided (used) in investing activities	18,000	(12,644)
Cash flows provided (used) in financing activities:		
Proceeds from line of credit	-	248,500
Proceeds from stockholder/officer advances	6,950	281,501
Repayments of stockholders advances	(55,000)	(74,000)
Net cash provided (used) in financing activities	(48,050)	456,001
Increase/(decrease) in cash and cash equivalents	(174,450)	19,965
Cash and cash equivalents at beginning of period	175,028	3,135
Cash and cash equivalents at end of period	$578	$23,100
Non-cash investing and financing activities:		
Accrued Interest exchanged for notes payable to a stockholder	$262,157	-
Advances from stockholder exchanged for notes payable to stockholder	$385,846	-

Accounts payable exchanged for common stock	-	$49,884

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

7

TX HOLDINGS, INC.
NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1- BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES

INTERIM FINANCIAL STATEMENTS

The accompanying interim unaudited financial statements and footnotes of TX Holdings, Inc. (the "Company"), have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. 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 GAAP have been condensed or omitted pursuant to such rules and regulations.

The balance sheet as of September 30, 2013, included herein was derived from audited financial statements as of that date, but does not include all disclosures including notes required by GAAP.

These financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company's 2013 Annual Report on Form 10-K. The accompanying unaudited financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results for any subsequent quarter or the entire year ending September 30, 2014.

Conformity with GAAP requires the use of estimates and judgments that affect the reported amounts in the financial statements and accompanying notes. These estimates form the basis for judgments we make about the carrying values of our assets and liabilities, which are not readily apparent from other sources. We base our estimates and judgments on historical information and on various other assumptions that we believe are reasonable under the circumstances. GAAP requires us to make estimates and judgments in several areas, including, but not limited to, those related to revenue recognition, collectability of accounts receivable, contingent liabilities, fair value of share-based awards, fair value of financial instruments, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, and income taxes. These estimates are based on management's knowledge about current events and expectations about actions we may undertake in the future. Actual results could differ materially from those estimates.

OVERVIEW OF BUSINESS

The Company is in the business of supplying, distributing and selling drill bits, related tools, and other mining supplies and rail material to the United States' ("U.S.") coal mining industry for use in their production and transportation processes. The products are supplied to the Company by certain manufacturers and suppliers and warehoused and distributed from the Company's principal business location in Ashland, Kentucky.

The Company was incorporated in the State of Georgia on May 15, 2000, under the name HOM Corporation. On January 22, 2003, the Company changed its name to R Wireless, Inc., and, on July 27, 2005, changed its name to TX Holdings, Inc.

8

Prior to expanding into its current business and commencing in 2004, the Company focused its business on oil and gas exploration and production and, in February and April 2006, acquired certain oil and gas leases and began development of a plan for oil and gas producing operations.

In November 2006, the Company entered into a Purchase and Sale Agreement with Masada Oil & Gas, Inc. (“Masada) to acquire a 75% working interest in the Parks lease located in the Callahan County, Texas. The Parks lease covered 320 acres and had 22 wells which were considered 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 recorded asset retirement obligation by $27,969 for the release of the liability for Contract Area 1 and the increase in the liability for the Parks lease.

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 six month period. Mr. Hewitt resigned as a director on July 27, 2007. Subsequently, the Company and Hewitt mutually agreed to terminate the Strategic Alliance Agreement and negotiate the participation in individual projects. As one of the projects, the Company acquired an 8% interest on the Perth Lease which was relinquished as part of a legal settlement in May, 2012. On September 30, 2011 and September 30, 2010, the Company recorded impairment losses on the Perth lease of $50,000 and $302,560 respectively.

On May 30, 2012, the Company sold 100% of its interest in the Parks lease, the Company’s sole remaining oil and gas lease interest, for $80,000 and received as consideration a down payment of $40,000 and a note for the balance of $40,000. The note is secured by future Park’s lease production. As of March 31, 2014, the note has a remaining outstanding balance of $34,514.

REVENUE RECOGNITION

The Company recognizes revenue from direct sales of our products to our customers, including shipping fees. Title passes to the customer (usually upon shipment or delivery, depending upon the terms of the sales order) when persuasive evidence of an arrangement exists; when sales amounts are fixed or determinable; and when collectability is reasonably assured. The Company expenses shipping and handling costs as incurred which are included in cost of goods sold on the statements of operations.

GOING CONCERN CONSIDERATIONS

The unaudited financial statements included in this report have been prepared assuming that the Company will continue as a going concern and, accordingly, do not include any adjustments that might result from the outcome of this uncertainty. Our independent registered public accounting firm’s report on the financial statements included in our annual report on Form 10-K for the year ended September 30, 2013, contains an explanatory paragraph wherein it expressed an opinion that there is substantial doubt about our ability to continue as a going concern. Accordingly, careful consideration of such opinion should be given in determining whether to continue or become our stockholder.

Prior to the fiscal year ended September 30, 2013 the Company had not produced sufficient cash to fund its operations and had incurred net losses. Since the commencement of its mining and rail products distribution business, the Company has relied substantially upon financing provided by Mr. Shrewsbury, the Company's CEO and, since November 2012, a secured bank line of credit in connection with the development and expansion of its business.

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 or the implications of associated bankruptcy costs if the Company is unable to continue as a going concern.

NOTE 2 – STOCKHOLDERS' DEFICIT

On November 9, 2012, 1,500,000 shares of common stock were issued by the Company as payment for a legal fee obligation arising from the May 18, 2012, legal settlement with the Company's prior CEO and several other co-defendants. The Company recognized a loss on settlement of accounts payable of $10,116.

POTENTIALLY DILUTIVE OPTIONS AND WARRANTS

On December 10, 2011, the Company authorized the issuance of an aggregate of 1,300,000 common stock purchase warrants to officers and directors which were not included in the three or six months ended March 31, 2014 calculation of diluted earnings (loss) per common share. The warrants were exercisable for a two year period that ended on December 30, 2013.

On May 16, 2012, the Board of Directors authorized the issuance of an aggregate of 400,000 common stock purchase warrants to a sales agent, Mr. Tom Chafin. Over a period of four years, Mr. Chafin is expected to receive 50,000 warrants every six months, for an aggregate of 400,000 warrants. The warrants are exercisable at a price of $0.10 per share, become exercisable upon issuance, and expire two years after the date of issuance. The initial tranche of 50,000 warrants were issuable effective July 1, 2012. On each of January 1, 2013, July 1, 2013, and January 1, 2014 an additional 50,000 warrants were issuable to Mr. Chafin pursuant to the agreement. The warrants were included in the calculation of diluted earnings per share.

On February 21, 2014, the Board of Directors authorized the issuance of 500,000 common stock purchase options to Mr. Shrewsbury. The options are exercisable at $.0924 commencing April 1, 2014 and expire on March 31, 2017. These options were excluded from the calculation of diluted earnings per share because they are not exercisable until April 1, 2014.

NOTE 3 – RELATED PARTY TRANSACTIONS

ADVANCES FROM STOCKHOLDER/OFFICER

As of March 31, 2014, Mr. Shrewsbury had an outstanding advance to the Company of $77,687. The advance bears no interest and is due on demand.

NOTES PAYABLE TO A STOCKHOLDER AND OFFICER

On February 25, 2014, the Company and Mr. Shrewsbury entered into an agreement to consolidate certain indebtedness due to Mr. Shrewsbury in the aggregate amount of $2,000,000, including the principal due under the Revolving Note in the amount of $1,062,000 and accrued but unpaid interest due thereunder as of January 31, 2014 in the amount of $168, 905, the principal due under the 10% Note in the amount of $289,997 and accrued but unpaid interest due thereunder as of January 31, 2014 in the amount of $93,252; and $385,846 of non-interest bearing advances previously made by Mr. Shrewsbury and outstanding as of January 31, 2014, and issued in exchange and in replacement therefor a Consolidated Secured Promissory Note (the “Consolidated Note”) in the principal amount of $2,000,000. Upon issuance of the Consolidated Note, the Revolving Note and 10% Note were cancelled and Mr. Shrewsbury agreed to waive any prior defaults under the terms of such notes and to release the Company from any claims thereto. The Consolidated Note bears interest at the rate of 5% per annum or prime rate if higher than 5% per annum, is repayable in full ten years from the date of issuance and is subject to certain events of default. The Consolidated Note is to be secured or otherwise payable by the Company out of the death benefit proceeds of key man insurance to be purchased by the Company on the life of Mr. Shrewsbury. The terms and conditions of the foregoing debt consolidation and restructuring were submitted to and unanimously approved by the disinterested members of the Board of Directors of the Company who are also “qualified directors” within the definition set forth in Section 14-2-862 0f the Georgia Corporation Code.

CONVERTIBLE DEBT ISSUED TO STOCKHOLDER AND FORMER OFFICER

In September 2007, Mark Neuhaus, the former Chairman of the Board of Directors and former Chief Executive Officer of the Company, caused the Company to issue to him a convertible promissory note in the amount of $1,199,886 (the "Neuhaus Note") bearing interest at 8% per annum and due and payable within two years for payments in cash and common stock purportedly made on behalf of the Company by Mr. Neuhaus through that date. The conversion price was $0.28 per common share (the market price of the Company's common stock on the date of the note) which would have automatically converted on the two-year anniversary of the note if not paid in full by the Company. The conversion price was subject to anti-dilution adjustments.

On November 17, 2009 the Company filed a legal claim in the Eleventh Judicial Circuit Court in and for Miami-Dade County, Florida against Mark Neuhaus, the Company's prior CEO, Michael Cederstrom, the Company's prior CFO, Dexter & Dexter, Hewitt Energy Group, LLC, Douglas Hewitt, Mercantile Ascendancy, Inc., Thomas Collins, Global Investment Holdings, LLC, Brian Vollmer, MA & N, LLC, and Nicole Bloom Neuhaus (the "Neuhaus Litigation"). The Company asserted, among other things, that the Neuhaus Note was not supported by consideration and that it was not properly authorized under Georgia law.

During the first half of calendar 2012, the Company retained new legal counsel to represent the Company on current litigation against the defendants listed above. Also, the Company filed a separate but related claim in the United States District Court for the District of Utah against Michael Cederstrom, Dexter and Dexter, and certain other defendants.

On May 18, 2012, the Company reached a settlement with Mark Neuhaus with regard to the Neuhaus Litigation. Pursuant to a settlement agreement among the parties, the Company and Mark Neuhaus agreed to settle the Neuhaus litigation, Mr. Neuhaus returned to the Company 6,718,813 shares previously issued to him, Mr. Neuhaus released all claims against the Company related to the Neuhaus Note, including accrued interest along with any other liability owed to him. Mr. Neuhaus was permitted to retain 2,500,000 shares of the Company owned by him. The Company agreed that it would, within ten days of the effective date of the agreement, take steps to lift the restrictions on the transferability or public resale of such shares. The returned shares were canceled by the Company. In return, the Company paid Mr. Neuhaus $100,000. The settlement agreement provided for mutual general releases between the parties, except for claims the Company has or might have against Dexter and Dexter Attorneys At Law, P.C., and Michael Cederstrom. Also, the Company agreed to execute, exchange and deliver mutual general releases with Hewitt Energy Group, LLC, Douglas C. Hewitt, MA&N, LLC, and Nicole Bloom Neuhaus. Currently, the Company is pursuing certain claims in litigation against Dexter and Dexter and Michael Cederstrom. In response to the litigation, Cederstrom and Dexter have asserted a counterclaim alleging the Company owes attorney's fees in the amount of $63,538.

The Company accounted for the settlement as a "multiple element" transaction consisting of a debt extinguishment element and a stock repurchase element. The $100,000 cash payment was apportioned based on the relative fair value of the debt and repurchased shares. The difference between the cash portion for the debt extinguishment was credited to "additional paid-in capital" pursuant to ASC 470-50-40-2. The difference between the stated value of the repurchased shares and the cash portion paid to repurchase the shares was credited to "additional paid-in capital" pursuant to ASC 505-30-30-9.

LEASE AGREEMENT WITH STOCKHOLDER AND OFFICER

On November 2012, the Company entered into a lease agreement with William Shrewsbury and Peggy Shrewsbury whereby Mr. Shrewsbury and Mrs. Shrewsbury agreed to lease to the Company real estate and some warehouse space to store the Company’s inventory. The lease has a two year term starting October 1, 2012 and ending August 31, 2014. The lease rental is $2,000 per month payable the first of each month. As of March 31, 2014, the Company has accrued lease payments in the amount of $36,000 included in the advances from stockholder/officer.

11

COMMISSIONS PAID TO COMPANY CONTROLLED BY OFFICER/SHAREHOLDER

In connection with the transportation and delivery of certain of the Company's products, the Company utilizes the services of a national transportation company. The chief executive officer and a principal stockholder of the Company owns and controls a company that is an agent of such transportation company. Such controlled company places orders for such transportation services on behalf of the Company and is paid a commission for such transportation services. During the six months ended March 31, 2014 the amount of such commission was $6,033. The Company believes such commission rates charged are consistent with industry-wide charges for similar services and do not adversely affect the Company's transportation costs.

NOTE 4 – BANK-LINE OF CREDIT

On November 7, 2012, the Company obtained a loan in the amount of $250,000 from a bank. The loan is secured by a priority security interest in the Company's inventory and matures on November 7, 2014. Interest on the loan is payable monthly and is calculated on the basis of an independent variable indexed rate which is currently 3.250% per annum. The loan is guaranteed as to principal and interest, and all collection costs and legal fees by Mr. Shrewsbury. All notes and other indebtedness due to Mr. Shrewsbury by the Company are subordinated to the bank loan including with regard to the Company's inventory and assets.

NOTE 5 -- RECENTLY ISSUED ACCOUNTING STANDARDS

During the six months ended March 31, 2014 and through April 22, 2014, several new accounting pronouncements were issued by the Financial Standards Board (FASB). 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.

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

Introduction

You should read the following summary together with the more detailed information and financial statements and notes thereto and schedules appearing elsewhere in this report. Throughout this report when we refer to the "Company," "TX Holdings," "we," "our" or "us," we mean TX Holdings, Inc.

This discussion and analysis of our financial condition and results of operations is based upon our financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our critical accounting policies and estimates, including those related to revenue recognition and contingencies. We base our estimates on historical experience, where available, and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Except for historical information, the statements and other information contained in this Management's Discussion and Analysis is forward-looking. Our actual results could differ materially from the results discussed in the forward-looking statements, which include certain risks and uncertainties.

Our independent registered public accounting firm's report on the financial statements included in our Annual Report Form 10-K for the year ended September 30, 2013, contains an explanatory paragraph wherein they expressed an opinion that there is substantial doubt about our ability to continue as a going concern. Accordingly, careful consideration of such opinion should be given in determining whether to continue or become our stockholder.

Please refer to and carefully consider the factors described in Part I, Item 1A - Risk Factors of our Form 10-K for the year ended September 30, 2013, and Part I, Item 1A – Risk Factors in this report.

Overview

We were incorporated in the State of Georgia in 2000 under the name HOM Corporation. On January 22, 2003, we changed our name to R Wireless, Inc., and, on July 27, 2005, we changed our name to TX Holdings, Inc. We ceased to be a "development stage company" for financial reporting purposes on March 31, 2012.

In December 2011, the Company expanded and began focusing its business on the distribution of rail material and mining supplies consumed by the U.S. coal mining industry in the production and transportation processes, which includes rail and its various components and mining supplies including steel and tungsten miner bits and related tools and material.

We purchase mining supplies from several manufacturers and rail material from several suppliers of such products. The products are shipped to our warehouse in Ashland, Kentucky and then distributed to our customers. Our products are transported primarily by road to our customers. Shipping costs are born by our customers.

We distribute and sell our products through two independent sales agents who are compensated on a commission basis.

Revenue for the six months ended March 31, 2014, was $2,104,447 as compared to $1,730,321 for the same period in 2013, an increase of approximately 22%.

13

During the six months ended March 31, 2014, we had net income of $70,902 as compared to a net loss of $62,323 for the same period in 2013. The quarter ended March 31, 2014, is the fifth consecutive quarter in which the Company has reported net income and reflects the Company's increased sales activities, its ability to control or obtain reductions in its product costs, and control operating and other expenses.

At March 31, 2014, cash and cash equivalents were $578 compared to $175,028 at September 30, 2013.

Net cash used in operating activities was $144,400 during the six months ended March 31, 2014. Net cash used in operating activities during the same six month period in 2013 was $423,392.

Cash flow provided by investing activities for the six months ended March 31, 2014 was $18,000 as compared to cash flow used in investing activities of $12,644 during the same period in 2013.

During the six months ended March 31, 2014, net cash used in financing activities was $48,050 due to the Company's reduction of a stockholder's advance by $55,000.

Mr. William Shrewsbury, the Company's Chairman and CEO, has provided financing in the form of demand notes and advances. Effective February 25, 2014, the Company and Mr. Shrewsbury agreed to restructure the principal and interest under such demand notes and certain advances due as of January 31, 2014, and the Company issued in exchange there for a single Consolidated Secured Promissory Note in the principal amount of $2,000,000 ("Consolidated Note"), the principal and interest thereunder is due ten years from the date of issuance, bears interest at the rate of 5% per annum or prime rate if higher than 5% per annum, and is subject to certain events of default. The Consolidated Note is to be secured or otherwise payable by the Company out of the death benefit proceeds of key man insurance on the life of Mr. Shrewsbury to be purchased by the Company. As of March 31, 2014 Mr. Shrewsbury had also provided non-interest bearing advances to the Company of $77,687.

On November, 2012, the Company obtained a bank line of credit in the amount of $250,000 that is secured by a lien on the Company's inventor and guaranteed by Mr. Shrewsbury, of which $248,500 had been drawn upon as of March 31, 2014.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2014 Compared To Three Months Ended March 31, 2013

Revenues from Operations

Revenue for the three months ended March 31, 2014 was $1,206,567 as compared to $954,074 for the same period in 2013, an increase of $252,493 or a 26.5%. In December 2011, we began expanding our business to include the distribution of rail material and mining supplies consumed by the U.S. coal mining industry. The increase in revenue is attributable to increased sales of rail and mining supplies to existing customers and the expansion of its product and customer base..

Cost of Goods Sold

During the quarter ended March 31, 2014, the Company's cost of goods sold was $807,452 as compared to cost of goods sold of $681,709 for the quarter ended March 31, 2013, an increase of $125,743 or 18.5 %. The increase in cost of goods sold resulted from an increase in sales of mine and rail products over the same period the prior year.

Gross Profit

Gross profit for the period ended March 31, 2014 increased as a percentage of revenue from 28.5% to 33.1% when compared to the same period the prior year. The increase in margin is a direct result from higher profit product mix sold during the current quarter.

Operating Expenses

Operating expenses for the three months ended March 31, 2014 were $339,352 as compared to $224,862 for the three months ended March 31, 2013, an increase of $114,490 or 50.9%.

The table below details the components of operating expense, as well as the dollar and percentage changes for the three-month periods.

	Three Months Ended			
	3/31/2014	3/31/2013	$ Change	%Change
Operating Expense				
Commission Expense	$162,822	$96,986	$65,836	67.9
Professional fees	53,000	47,971	$5,029	10.5
Depreciation expense	2,240	4,445	$(2,205)	(49.6)
Other operating expense	121,290	75,460	$45,830	60.7
Total	$339,352	$224,862	$114,490	50.9

Commission expense for the three months ended March 31, 2014 was $162,822 compared to $96,986 for the same period in 2013, an increase of $65,836 or 67.9%. The higher commission is a direct result of the increased sales during the current period.

Professional fees increased $5,029 or 10.5% during the three months ended March 31, 2014, as compared to the same period in 2013. The higher legal expenses are associated to a lawsuit filed by the Company against our prior CFO, Michael Cederstrom, and the law firm of Dexter and Dexter (see Part II, Item I- Legal Proceeding).

Depreciation expenses decreased $2,205 or 49.6% during the quarter ended March 31, 2014, as compared to the same period in 2013. In September 2012, the Company purchased a brazing machine to be used in the newly entered rail and mining supplies business. No depreciation was taken on the brazing machine during the quarter ended March 31, 2014, as the Company out-sourced the work and is no longer operating the brazing machine. During the current quarter, the Company sold a building previously used to store equipment related to its prior oil and gas business. The $2,205 lower depreciation expense is directly related to the sale of the building and, no depreciation of the brazing machine taken during the current quarter.

During the three months ended March 31, 2014, other operating expenses of $121,290 increased by $45,830 or 60.7% from the $75,460 for the same period in 2013. The higher other operating expenses resulted from higher compensation, $17,579; higher insurance expense, $21,403 and higher travel related expenses, $ 8,088.

Income from operations

Income from operations for the quarter ended March 31, 2014, was $59,763 compared to income from operations of $47,503 during the same period in 2013, an increase of $12,260 or 25.8%. The income increase resulted from higher gross profit of $126,750 as a result of higher sales and lower supplier costs partially offset by higher operating expenses of $114,490.

Other expense

Other expense for the quarter ended March 31 2014, was $8,508 as compared to other expense of $22,759 for the quarter ended March 31, 2013, a decrease of $14,251. The decrease resulted from a gain on disposal of asset of $10,807 and lower interest expense of $3,444 recorded in the current period.

Net Income or Loss

For the quarter ended March 31, 2014, net income was $51,255 compared to net income of $24,744 for the quarter ended March 31, 2013, an increase of $26,511 or 107.14%. The increase resulted from higher gross profit of $126,750 generated by increased sales of mining and rail supplies, offset by higher operating expenses of $114,490 resulting in an increase in income from operations of $12,260. In addition to the favorable increase in income from operations, the Company recorded a $10,807 gain on the sale of a storage building and realized a reduction in interest expense of $3,444.

The interest reduction resulted from the consolidation of preexisting loans to a new $2,000,000 loan at a lower interest rate. A tax provision of $21,015 on pre-tax income of $51,255 generated during the quarter ended March 31, 2014, was fully offset by the utilization of tax credits resulting from operating losses recorded in prior periods.

Net earnings per common share

The net income of $51,255 for the quarter ended March 31, 2014, as well as the net income of $24,744 for the quarter ended March 31, 2013, when divided by the number of common shares outstanding of 48,053,084 basic and diluted shares in both years resulted in a negligible earnings per share of less than $0.01 for both periods.

Six Months Ended March 31, 2014 Compared To Six Months Ended March 31, 2013

Revenues from Operations

Revenue for the six months ended March 31, 2014 was $2,104,447 as compared to $1,730,321 for the same period in 2013, an increase of $374,126 or a 21.6%. In December 2011, we began expanding our business to include the distribution of rail material and mining supplies consumed by the U.S. coal mining industry. The increase in revenue is attributable to increased sales of rail and mining supplies to existing customers and the expansion of its product and customer base.

Cost of Goods Sold

During the six months ended March 31, 2014, the Company’s cost of goods sold was $1,477,861 as compared to cost of goods sold of $1,273,757 for the six months ended March 31, 2013, an increase of $204,104 or 16.0 %. The increase in cost of goods sold resulted from higher sales volumes during the six-months ended March 31, 2014.

Gross Profit

Gross profit for the six months ended March 31, 2014 increased as a percentage of revenue from 26.4% to 29.8% when compared to the same period the prior year. The increase in margin is a direct result of introducing new lower product cost supplier and higher profit product mix sold during the current six months period.

Operating Expenses

Operating expenses for the six months ended March 31, 2014 were $616,893 as compared to $473,707 for the six months ended March 31, 2013 an increase of $143,186 or 30.2%.

The table below details the components of operating expense, as well as the dollar and percentage changes for the six-month periods.

	Six Months Ended			
	3/31/2014	3/31/2013	$ Change	%Change
Operating Expense				
Commission Expense	$270,315	$168,765	$101,550	60.2
Professional fees	112,227	87,309	24,918	28.5
Depreciation expense	4,740	8,890	(4,150)	(46.7)
Other operating expense	229,611	208,743	20,868	10.0
Total	$616,893	$473,707	$143,186	30.2

Commission expense for the six months ended March 31, 2014 was $270,315 compared to $168,765 for the same period in 2013, an increase of $101,550 or 60.2%. The higher commission is a direct result of the increased sales during the current period.

Professional fees increased $24,918 or 28.5% during the six months ended March 31, 2014, as compared to the same period in 2013 as a result of higher legal expenses associated with a lawsuit filed by the Company against our prior CFO, Michael Cederstrom, and the law firm of Dexter and Dexter (see Part II, Item I- Legal Proceeding). During the six months ended March 31, 2014, the Company incurred advertising expenses of $1,543, having no similar expense for the same period the prior year.

Depreciation expenses decreased $4,150 or 46.7% during the six months ended March 31, 2014, as compared to the same period in 2013. In September 2012, the Company purchased a brazing machine to be used in the newly entered rail and mining supplies business. No depreciation was taken on the brazing machine during the six months ended March 31, 2014, as the Company out-sourced the work and is no longer operating the brazing machine. The $4,150 lower depreciation expense during the six months ended March 31, 2014 as compared to the same six-months in the prior year resulted from the depreciation of the brazing machine taken during the six months ended March 31, 2013, and no depreciation taken on a building sold during the current quarter.

During the six months ended March 31, 2014, other operating expenses of $229,611 increased by $20,868 or 10.0% from the $208,743 for the same period in 2013. The higher other operating expenses resulted from higher insurance expense of $10,397 and higher travel expenses of $13,039 during the current period.

Income (loss) from Operations

Income from operations for the six months ended March 31, 2014, was $9,693 compared to a loss from operations of $17,143 during the same period in 2013, an increase of $26,836. The increase in income from operations resulted from higher gross profit of $170,022 as a result of higher sales and lower supplier costs partially offset by higher operating expenses due to higher commission expense of $101,550 and higher legal fees of $26,875.

Other Income and Expense

Other income for the six-months ended March 31, 2014, was $61,209 as compared to other expense of $45,180 for the six months ended March 31, 2013, an increase of $106,389. The increase resulted from a reversal on December 31, 2013, of a $93,167 prior period recorded debt. The debt had been disputed by the Company and was deemed not payable by the Company. The sale of a storage building by the Company during the current period contributed an additional favorable variance of $10,807 and a decrease in interest expense of $ 2,915.

Net Income or Loss

For the six months ended March 31, 2014, net income was $70,902 compared to a net loss of $62,323 for the six months ended March 31, 2013, an increase of $133,225. The increase resulted from higher gross profit of $170,022 generated by increased sales of mining and rail supplies. Operating expenses increased $143,186 and partially offset the favorable gross profit; the increase in operating expense was directly related to the increase in commission expense of $101,550, due to higher sales, and higher legal and insurance expense of $26,875 and $10,397 respectively during the current six-month period. A reversal of a $93,167 prior period disputed debt which the Company deemed not payable and a $10,807 gain on the sale of a storage building contributed to the favorable net income variance in the current six-months period. A tax provision of $29,070 on pre-tax income of $70,902 generated during the six-months period ended March 31, 2014, was fully offset by the utilization of tax credits resulting from operating losses recorded in prior periods.

Net earnings/(loss) per common share

The net income of $70,902 for the quarter ended March 31, 2014, as well as the net loss of $62,323 for the six-months ended March 31, 2013, when divided by the number of basic and diluted weighted common shares outstanding of 48,053,084 as of March 31, 2014 and 47, 731,655 shares as of March 31, 2013 result in a negligible earnings/(loss) per share of less than $0.01 for both periods.

LIQUIDITY AND CAPITAL RESOURCES

The following table presents a summary of our net cash provided by (used in) operating, investing and financing activities:

	Six Months Ended	
	3/31/2014	3/31/2013
Cash used in operating activities	$ (144,400)	$ (423,392)
Cash provided/(used) in investing activities	18,000	(12,644)
Cash provided/(used) in financing activities	(48,050)	456,001
Net Increase (decrease) in cash	$ (174,450)	$ 19,965

At March 31, 2014, we had cash and cash equivalents of $578 as compared to $175,028 September 30, 2013, a decrease of $278,992 or 65.9%. The decrease in cash is associated with the Company's objective of increasing inventory by $478,047 from September 30, 2013 levels in anticipation of higher sales demand and to increase its product portfolio.

Cash Used in Operating Activities

Cash used in operating activities for the six months ended March 31, 2014, was $144,400 compared to $423,392 in 2013, a decrease of $278,992 or 65.9%.

The decrease in cash used in operating activities reflected the continued effort by the Company to increase the finished goods inventory by $478,047 from the prior year-end levels to meet projected increases in sales demand and an increase in accounts receivable of $327,016 resulting from increased sales. The use of cash by operating activities was partially offset by an increase in accounts payable of $604,189.

A $93,617 legal service debt write-off recorded on December 31, 2013, accounts for the reported gain on extinguishment of debt. The gain from the reversal of the debt was recorded on a disputed debt the Company deems no longer payable.

The $478,047 inventory increase for the six months ended March 31, 2014, represents a decrease of $262,877 from the increase reported in the same period in the prior year. The increase in both periods can be attributed to higher inventory levels and new inventory products to meet anticipated increased customer demand.

Accounts receivable as of March 31, 2014 increased $327,016 as compared to an increase of $150,195 as of March 31, 2013. The higher increase in the current period is the result of increased sales during the period ended March 31, 2014 of $2,104,447 as compared to sales of $1,730,321 for the same period the prior year. Due to the continued expansion of the Company's wholesale and retail rail and mining supplies business, sales have increased quarterly resulting in proportionately increased accounts receivable.

Accrued liabilities decreased during the six months ended March 31, 2014, by $285,939 as compared to an increase of $57,993 during the six months ended March 31, 2013. The decrease in liabilities of $343,932 between the two periods resulted from recorded interest accrued in prior period of $262,157 reclassified as a component of the Consalidated Secured Promissory note of $2,000,000 issued to Mr. Shrewsbury on February 25, 2014. The $93,167 write-off, during the current period, of a legal debt which the Company deemed no longer payable account for the remaining accrued liabilities decrease between the two periods.

During the six months ended March 31, 2014, accounts payable increased by $604,189, an increase of $229,659, when compared to the increase of $374,530 during the same period the prior year. The increases for the six months ended March 31, 2014 and 2013 are directly related to the inventory increases of $478,047 and $740,924 during the respective six months as the Company continued to increase inventory to meet anticipated customer demand.

Cash Provided/ (Used) in Investing Activities

Cash provided from investing activities due to the sale of a storage building was $18,000 during the six months ended March 31, 2014, compared to cash used in investing activities of $12,644 in the six months ended March 31, 2013. Delivery equipment purchased during the six months ended March 31, 2013 account for the cash used in investing activities during that period.

Cash Provided/Used by Financing Activities

During the six months ended March 31, 2014, cash used in financing activities was $48,050 compared to cash provided by financing activities of $456,001 during the same period in 2013. During such periods, the Company repaid stockholder/officer advances of $55,000 and $74,000, respectively, and received stockholder advances of $6,950 and $281,501, respectively. Also, the Company financed its operation during the six-months period ended March 31, 2013, by drawing-down $248,500 from its bank credit line.

On November 7, 2012, the Company obtained a line of credit in the amount of $250,000 from a bank. The line is secured by a priority security interest in the Company's inventory and matures on November 17, 2014. Interest on the loan is payable monthly and is calculated on the basis of a variable index. As of March 31, 2014, the Company had borrowed $248,500 under the line of credit and the current rate of interest under the line is 3.25% per annum.

On February 25, 2014 the Company and Mr. Shrewsbury entered into an agreement to consolidate an aggregate of $2,000,000 of amounts due under the Revolving Promissory Demand Note issued to Mr. Shrewsbury on or about April 30, 2012, the $289,997 Promissory Note issued to Mr. Shrewsbury on or about February 27, 2009, accrued but unpaid interest of $262,157 as of January 31, 2014, under such notes and, advances by Mr. Shrewsbury in the amount of $385,846. The consolidated note bears interest at 5% per annum or prime rate if higher than 5% per annum, the note is repayable ten years from February 25, 2014 and is subject to customary events of default. The note is to be secured or otherwise payable by the Company out of the death benefit proceeds of key man insurance on the life of Mr. Shrewsbury. During the six months ended March 31, 2014, the Company repaid $55,000 of advances due to Mr. Shrewsbury bringing the total outstanding advance balance to $77,687. Cash advances from Mr. Shrewsbury are repayable upon demand and do not bear interest.

Financial Condition and Going Concern Uncertainties

Except for the five consecutive quarters ended March 31, 2014, since inception, the Company has not generated sufficient cash to fund its operations and has incurred operating losses. Currently, the Company relies substantially upon financing provided by Mr. Shrewsbury, the Company’s Chief Executive Officer, and a secured bank line of credit in connection with the development and expansion of its business. In view of these matters, realization of certain assets in the accompanying balance sheet is dependent upon continued operations which, in turn, is dependent upon our ability to meet our financial requirements, upon the continued provision of financing from Mr. Shrewsbury and under the Company’s bank line of credit, and the continued success of our future operations.

Our independent registered public accounting firm's report on the financial statements included in our Annual Report on Form 10-K for the year ended September 30, 2013, contained an explanatory paragraph wherein they expressed an opinion that there is a substantial doubt about our ability to continue as a going concern. Accordingly, careful consideration of such opinion should be given in determining whether to continue or to become our stockholder.

As of March 31, 2014, the Company had cash and cash equivalents of $578 as compared to $175,028 as of September 30, 2013. The decrease in cash as of March 31, 2014, results from the continued effort by the Company to increase the finished goods inventory from the prior year-end levels to meet projected increases in sales demand and the repayment of cash advances made by the Company to Mr. Shrewsbury (our Chairman and CEO).

The Company's accounts receivable were $752,946 as of March 31, 2014, as compared to $425,930 as of September 30, 2013, an increase of $327,016 or 76.8%. Higher receivables as of March 31, 2014 are the direct result of higher sales during the period.

Inventory was $2,328,034 as of March 31, 2014 as compared to $1,849,987 as of the year ended September 30, 2013, an increase of $478,047 or 25.8%. In anticipation of the continued growth of the rail and mining supplies business, the Company has increased inventory levels to meet anticipated higher sales demand.

During the six-months ended March 31, 2014, our stockholders' deficit decreased from $14,721,502 to $14,650,600, a decrease of $70,902 or .5%. The reported net income for the six months ended March 31, 2014 accounts for the decrease in stockholders' deficit.

During the six months ended March 31, 2014, the Company's net income was $70,902 compared to a net loss of $62,323 for the comparable period in 2013. The favorable increase can be directly attributed to a $374,126 increase in sales revenue for the six months ended, March 31, 2014 reflecting the continued expansion of the Company's rail and mining supplies distribution business, management's ability to control product costs and operational expenses. Further, a reversal of a prior period debt contributed $93,167 to net income.

Currently, in addition to funds utilized to purchase inventory, the Company is spending between $100,000 and $120,000 per month on operations. Management believes that the Company's available cash, cash flows from operations, the loans and advances provided by Mr. Shrewsbury and the line of credit provided by the bank to be sufficient to fund the Company operations during the next 12 months.

The Company continues to rely substantially upon financings provided by Mr. Shrewsbury and the bank to fund its operations. The terms of such financings are discussed below.

BANK LOAN

On November 7, 2012, pursuant to the terms of a business loan agreement, the Company obtained a loan in the amount of $250,000 from Home Federal Savings and Loan Association, a federally chartered savings and loans association. Interest on the loan is payable monthly in arrears. Interest under the loan is variable and is based upon Wall Street Journal Prime Rate. An event of default under the loan will occur if the Company fails to make any payment when due under the loan, it fails to comply with any term obligation, covenant or condition in the loan document or any other agreement between the bank and the Company, the Company defaults under any loan or similar agreement, purchase or sales agreement or other agreement with any creditor that materially affects the Company's property or its ability to repay the loan or perform its obligation under the loan documents; the insolvency or occurrence of bankruptcy event; commencement of foreclosure with regard to any property securing the loan; a

25% or more change in the beneficial ownership of the stock of the Company; a material adverse change in the financial condition of the Company; or the bank in good faith believes itself insecure. The loan is secured by the Company's inventory and matures on November 7, 2014. The loan is guaranteed as to principal, interest and all collection costs and legal fees by Mr. Shrewsbury. All notes and other indebtedness due to Mr. Shrewsbury by the Company are subordinated to the bank loan including with regard to the Company's inventory and assets. The loan agreement contains other customary covenants and provisions.

ADVANCES AND LOANS FROM MR. SHREWSBURY

In connection with the expansion of the Company's business, Mr. Shrewsbury, the Company's Chairman and CEO, provided financing to the Company in the form of demand notes and advances. On February 25, 2014, the Company entered into a Note Exchange Agreement ("Exchange Agreement") with Mr. Shrewsbury pursuant to which certain outstanding indebtedness due to Mr. Shrewsbury was consolidated and restructured. Under the terms of the agreement, the Company and Mr. Shrewsbury consolidated the following indebtedness: the principal due under the Revolving Promissory Demand Note issued to Mr. Shrewsbury on April 30, 2012 ("Revolving Note"), in the amount of $1,062,000 and accrued but unpaid interest due thereunder as of January 31, 2014, in the amount of $168,905; the principal due under the 10% Promissory Note issued to Mr. Shrewsbury effective February 27, 2009 (the "10% Note"), in the amount of $289,997 and accrued but unpaid interest due thereunder as of January 31, 2014, in the amount of $93,252; and $385,846 of the non-interest bearing advances previously made by Mr. Shrewsbury and outstanding as of January 31, 2014. The Company issued in exchange and in replacement for such indebtedness a Consolidated Secured Promissory Note (the "Consolidated Note) in the principal amount of $2,000,000. Upon issuance of the Consolidated Note, the Revolving Note and 10% Note were cancelled. Mr. Shrewsbury agreed to waive any prior defaults under the terms of such cancelled notes and to release the Company from any claims related thereto.

The principal and interest under the Consolidated Note is due and payable ten years from the date of issuance and is to be secured by the proceeds of key man insurance to be purchased by the Company on the life of Mr. Shrewsbury. The Consolidated Note bears interest at the rate of 5% per annum except that, if the prime rate reported by the Wall Street Journal ("WSJ Prime Rate") exceeds 5%, then the Consolidated Note will bear interest at the WSJ Prime Rate.

An event of default will occur under the Consolidated Note upon: the failure to pay when due any principal or interest under the Consolidated Note; violation by the Company of any covenant or agreement contained in the Consolidated Note, the Exchange Agreement or related transaction documents; an assignment for the benefit of creditors by the Company; the application for the appointment of a receiver or liquidator for the Company or for property of the Company; the filing of a petition in bankruptcy by or against the Company; the issuance of an attachment or the entry of a judgment against the Company in excess of $250,000; a default by the Company with respect to any other indebtedness or with respect to any installment debt whether or not owing to Mr. Shrewsbury; the sale of all or substantially all of the Company's assets or a transfer of more than 51% of the Company's equity interests to a person not currently a holder of equity interests of the Company; the termination of existence or the dissolution of the Company; the death of Mr. Shrewsbury; or the failure to pay when due any premium under the key man policy required to be purchased on the life of Mr. Shrewsbury under the Exchange Agreement.

In addition, in consideration of Mr. Shrewsbury agreeing to consolidate and restructure the indebtedness, the Company granted to Mr. Shrewsbury options to purchase an aggregate of 500,000 shares of the Company's common stock pursuant to the terms of a Non-Qualified Stock Option Agreement, issued February 25, 2014. The options are exercisable commencing April 1, 2014, and for a period of three years thereafter. The options are exercisable at a price of $0.0924 per share subject to certain anti-dilution adjustments in the event of stock dividends, subdivisions, capital reorganizations, a consolidation or merger, or sale of all or substantially all of our assets.

In addition, as of March 31, 2014, Mr. Shrewsbury had advanced an aggregate of $77,687 to the Company. The advances do not bear interest and are repayable upon demand.

The Consolidated Note and advances are subordinate to the Company's bank indebtedness.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial condition, or results of operations as of March 31, 2014 and September 30, 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Report, the Chief Executive Officer and Chief Financial Officer of the Company (the "Certifying Officers") conducted evaluations of the Company's disclosure controls and procedures. As defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure the information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including the Certifying Officers, to allow timely decisions regarding required disclosure.

Based on this evaluation, the Certifying Officers determined that, as of the end of the period covered by this Report, the Company's disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed by the Company in the Reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding disclosure.

Changes in Internal Controls

There were no changes in the Company's internal controls over financial reporting during the period covered by this Report that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except as discussed below, other than ordinary routine litigation incidental to the business, the Company is not a party to any material pending legal proceeding.

On January 17, 2012, the Company filed a lawsuit in the United States District Court for the District of Utah against Michael Cederstrom ("Cederstrom"), the Company's former chief financial officer and corporate counsel, Dexter and Dexter Attorneys at Law ("Dexter"), the law firm that employed Mr. Cederstrom, and certain other parties. Claims against other parties have been resolved through settlement. The Company has asserted claims against Cederstrom that include a claim of fraud in the inducement, breach of fiduciary duty, professional negligence, and negligent misrepresentation by omission or commission. The Company's claims against Dexter are based substantially upon the same theories and on a theory that Dexter is vicariously liable for the acts of Cederstrom and that Dexter failed to adequately supervise Cederstrom. The claims against Dexter and Cederstrom are based upon allegations that, among other things, in connection with the exchange in December 2007 by Mr. Mark Neuhaus ("Neuhaus"), the Company's former Chief Executive Officer, of 10,715,789 shares of common stock for 1,000 shares of preferred stock, Cederstrom failed to disclose to the Company that the preferred shares issued to Neuhaus as compensation for work allegedly performed in 2004 and 2005 were issued without the proper consent of the previous board of directors of the Company and that Neuhaus had not performed services for which the shares of preferred stock were issued. Additionally, the Company claims Cederstrom executed, on behalf of the Company, a $1,199,885. 55 convertible promissory note in favor of Neuhaus that was not authorized. The Company also claims conflict of interest, breach of fiduciary duties, breach of contract and seeks an accounting for the fees paid to Dexter and certain shares issued to Cederstrom by the Company. The Company is seeking damages in an unspecified sum, punitive damages, pre and post judgment interest, attorneys' fees and costs and other relief the court deems just and proper. In response to the litigation, Cederstrom and Dexter have asserted a counterclaim alleging the Company owes attorney's fees in the amount of $63,538.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below (which supplement and reflect changes to certain of the risk factors we disclosed in our 2013 Annual Report on Form 10-K) and other information contained in this Report in deciding whether to invest in our common stock, as well as certain risk factors set forth under Part I, Item 1A –Risk Factors of our 2013 Form 10-K. Additional risks not presently known to us or which we currently consider immaterial may also adversely affect our company. If any of the following risks (or the risk factors we disclose in our 2013 Form 10-K) actually occur, our business, financial condition and operating results could be materially adversely affected. In such case, the trading price of our common stock could decline, and you could lose a part or all your investment.

Risks Related to Our Company and Our Operations

We are dependent on financing provided or guaranteed by our CEO to fund our business and ongoing operations. We have incurred substantial debt which could affect our ability to obtain additional financing and may increase our vulnerability to business downturns. We may be unable to repay our bank line of credit when it becomes due.

As of March 31, 2014, we have incurred debt due to Mr. Shrewsbury in the form of notes and advances in the aggregate amount of $2,077,687. We have outstanding accounts payable of $1,296,369 and other accrued liabilities of

$603,946, including $451,743 due to our CFO, Jose Fuentes, for services. Also, the Company owes $248,500 under a bank line of credit which is secured by the Company's inventory and which becomes due on November 7, 2014. We are subject to the risks associated with substantial indebtedness, including insufficient funds to repay the amounts due to Mr. Fuentes and Mr. Shrewsbury in the event they make a demand for payment; it may be more expensive and difficult to obtain additional financing; and we are more vulnerable to economic downturns.

Although we reported net income for the six months ended March 31, 2014, we have a history of net losses and cannot assure we will be profitable in the future. Any failure on our part to achieve profitability may cause us to reduce or eventually cease operations.

We had net income of $70,902 for the six-months ended March 31, 2014 and a net loss of $62,323 for the same period in 2013. At March 31, 2014 and 2013, we had accumulated deficits of $14,650,600 and $14,721,502, respectively. We may need to obtain additional financing to expand our wholesale and retail mining supplies business. We may also require additional financing to fund ongoing operations if our current sales and revenue growth are insufficient to meet our operating costs. In the past we have been able to raise financing from our CEO through notes and advances and a bank line of credit guaranteed by our CEO. Our inability to obtain necessary capital or financing to fund these needs will adversely affect our ability to fund operations and continue as a going concern. Additional financing may not be available when needed or may not be available on terms acceptable to us. If adequate funds are not available, we may be required to delay, scale back or eliminate one or more of our business strategies, which may affect our overall business results of operations and financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On May 16, 2012, the Board of Directors authorized the issuance of an aggregate 400,000 common stock purchase warrant to a sales agent. The warrants are issuable over a four year period in equal tranches of 50,000. On each of July 1, 2012, January 1, 2013, July 1, 2013 and January 1, 2014, 50,000 warrants were issuable to the sales agent. The warrants are exercisable at a price of $0.10 per share subject to certain anti-dilution adjustments in the event of stock dividends, subdivisions, capital reorganizations, a consolidation or merger, or the sale of all or substantially all of our assets, become exercisable upon the date of issuance and expire two years after the date of such issuance. The warrants were granted in reliance upon the exemption from the registration requirements under the Securities Act set forth in section 4(a)(2) of the Securities Act and/or Rule 506 of Regulation D promulgated thereunder.

On February 25, 2014, the Company issued Non-Qualified Stock Options to purchase an aggregate of 500,000 shares of our common stock to Mr. Shrewsbury. The options became exercisable commencing April 1, 2014, and for a period of three years thereafter. The options are exercisable at a price of $.0924 per share subject to certain anti-dilution adjustments in the event of stock dividends, subdivisions, capital reorganizations, a consolidation or merger, or sale of all or substantially all of our assets. The options were issued in reliance upon the exemption from the registration requirements under the Securities Act set forth in Section 4(a)(2) of the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed or “furnished” herewith:

Exhibit No.	Exhibit Description	Incorporated by Reference From		Filed/ “Furnished” Herewith
		Form	Filing Date	
31.1	Certification by Principal Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CEO)			X
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CFO)			X
32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO)			X
32.2	Certification of Principal Financial Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO)			X
101.INS	XBRL Instance Document **			X
101.SCH	XBRL Taxonomy Extension Schema Document **			X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document **			X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document **			X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document **			X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document **			X

** Users of this data are advised pursuant to Rule 406T of Regulation S-X that this interactive data file is deemed not filed or part of a registration statement or prospectus for the purpose of section 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

TX HOLDINGS, INC.

By: /s/ William L. Shrewsbury William L. Shrewsbury Chief Executive Officer (Principal Executive Officer)	By: /s/ Jose Fuentes Jose Fuentes Chief Financial Officer (Principal Financial and Accounting Officer)
Dated: April 28, 2014	Dated: April 28, 2014

26