TX Holdings, Inc.
Form 10-Q
July 28, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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	(I.R.S. Employer Identification No.)

Incorporation
or

Organization)

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 NO

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 NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, an emerging growth company. See the definitions of "large accelerated filer, "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

On July 28, 2017, there were 48,053,084 shares of the registrant’s common stock outstanding.

TX HOLDINGS, INC.

FORM 10-Q

FOR QUARTERLY PERIOD ENDED JUNE 30, 2017

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FORWARD-LOOKING STATEMENTS

This report contains “forward looking statements,” that is statements regarding future, not past, events. Forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," "estimate," "forecast" or "target." All statements that are not statements of historical fact are “forward looking statements.”

For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include:

- cyclical economic conditions affecting the coal mining industry and competitive pressures and changes affecting the coal mining industry, including demand for coal;
- general economic conditions, including those affecting the domestic and global coal mining industry generally;
- changes in environmental laws and regulations promulgated by the Environmental Protection Agency and similar state agencies or their interpretation and enforcement as they affect the mining industry and, in particular, the coal mining industry;
- our ability to generate cash from operations, obtain funding on favorable terms and manage our liquidity needs;
- challenges arising from acquisitions or our development and marketing of new products;
- 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
- factors that are described in the Risk Factor section of our Annual Report on Form 10-K for the year ended September 30, 2016, and this report.

These and other uncertainties may cause our actual results to be materially different from those expressed in 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 do not ordinarily make projections of our future operating results and do not undertake 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.

Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 expressly state that the safe harbor for forwarding looking statements does not apply to companies that issue “penny stocks.” Because we may from time to time be considered an issuer of penny stock, the safe harbor for forward looking statements under such statutory provisions may not be applicable to us at certain times.

We obtained certain statistical data, market data and other industry data and forecasts used in this Form 10-Q from publicly available information. While we believe that such data is reliable, we have not independently verified the data, and we do not make any representation as to the accuracy of the information.

PART 1-FINANCIAL INFORMATION

Item 1-Financial Statements

TX HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

June 30, 2017 and September 30, 2016

	Unaudited June 30, 2017	**September 30, 2016**
ASSETS		
Current assets:		
Cash and cash equivalents	$3,689	$3,062
Accounts receivable, net of allowance for doubtful accounts of $50,603 at June 30, 2017 and $113,643 at September 30, 2016	556,439	235,402
Inventory	1,566,197	1,806,018
Commission advances	32,703	68,718
Note receivable-current	10,000	10,000
Other current assets	181	136
Total current assets	2,169,209	2,123,336
Inventory, non-current	300,000	300,000
Property and equipment, net	49,432	56,779
Note receivable, less current portion	19,983	19,983
Other	500	500
Total Assets	$2,539,124	$2,500,598
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accrued liabilities	$862,872	$831,053
Accounts payable	886,900	625,087
Advances from officer	99,087	198,637
Bank-Term Loan	614,870	662,112
Total current liabilities	2,463,729	2,316,889
Note payable to officer	2,000,000	2,000,000
Total Liabilities	4,463,729	4,316,889
Commitments and contingencies		

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, 48,053,084 shares issued and outstanding at June 30, 2017 and September 30, 2016	9,293,810	9,293,810
Additional paid-in capital	4,321,329	4,321,329
Accumulated deficit	(15,539,744)	(15,431,430)
Total stockholders' deficit	(1,924,605)	(1,816,291)
Total Liabilities and Stockholders' Deficit	$2,539,124	$2,500,598

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

TX HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months and Nine Months Ended June 30, 2017 and June 30, 2016

	Unaudited THREE MONTHS ENDED		**NINE MONTHS ENDED**	
	June 30, 2017	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Revenue	$852,926	$381,529	$2,273,245	$1,728,707
Cost of goods sold	(657,126)	(306,289)	(1,858,902)	(1,244,746)
Gross profit	195,800	75,240	414,343	483,961
Operating expenses, except items shown separately below	106,689	105,210	308,525	359,508
Commission expense	51,903	21,879	108,259	85,251
Professional fees	4,789	5,000	12,409	46,421
Bad Debt Expense	(10,000)	-	(9,095)	1,926
Depreciation expense	2,449	2,449	7,347	7,347
Total operating expenses	155,830	134,538	427,445	500,453
Income (loss) from operations	39,970	(59,298)	(13,102)	(16,492)
Other income and (expense):				
Other income	-	6,102	-	6,102
Interest expense	(33,568)	(31,373)	(95,212)	(94,650)
Total other income and (expense), net	(33,568)	(25,271)	(95,212)	(88,548)
Net income (loss)	$6,402	$(84,569)	$(108,314)	$(105,040)
Net income/(loss) per common share Basic and Diluted	$0.00	$0.00	$0.00	$0.00
Weighted average of common shares outstanding- Basic and Diluted	48,053,084	48,053,084	48,053,084	48,053,084

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

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TX HOLDINGS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
For the Nine Months Ended June 30, 2017

	Unaudited						
					Additional		
	Preferred Stock		Common Stock		Paid in	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance at September 30, 2016	-	$ -	48,053,084	$9,293,810	$4,321,329	$(15,431,430)	$(1,816,291)
Net loss	-	-	-	-	-	(108,314)	(108,314)
Balance at June 30, 2017	-	$ -	48,053,084	$9,293,810	$4,321,329	$(15,539,744)	$(1,924,605)

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

TX HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended June 30, 2017 and 2016

	(Unaudited) June 30, 2017	June 30, 2016
Cash flows provided/(used) in operating activities:		
Net loss	$(108,314)	$(105,040)
Adjustments to reconcile loss to net cash used in operating activities:		
Depreciation expense	7,347	7,347
Bad debt expense	(62,135)	1,926
Changes in operating assets and liabilities:		
Accounts receivable	(258,902)	170,834
Inventory	239,821	(15,432)
Commission advances	36,015	(516)
Other current assets	(45)	1,538
Accrued liabilities	7,819	61,399
Accounts payable	261,813	(275,004)
Other assets	-	-
Stockholder/officers advances for operations	24,000	18,000
Net cash provided/(used) in operating activities	147,419	(134,948)
Cash flows provided/(used) in investing activities:		
Net cash provided/(used) in investing activities	-	-
Cash flows provided/(used) in financing activities:		
Payment on Term Loan	(47,242)	(29,487)
Proceeds from bank line of credit	-	-
Repayment of bank line of credit	-	(1,073)
Proceeds from stockholder/officer advances	111,150	170,100
Repayment of stockholder/officer advances	(210,700)	(65,300)
Net cash provided/(used) in financing activities	(146,792)	74,240
Increase/(decrease) in cash and cash equivalents	627	(60,708)
Cash and cash equivalents at beginning of period	3,062	61,564
Cash and cash equivalents at end of period	$3,689	$856

<u>Supplemental Disclosure of Cash Flow Information</u>

Cash paid during the year for interest	$16,752	$94,650

<u>Suppemental Schedule of Non-Cash investing and Financing Activities</u>

Payments of line of credit through issuance of note payable	-	$711,376

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

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TX HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1- BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES

INTERIM FINANCIAL STATEMENTS

Basis of Presentation

The accompanying interim unaudited consolidated financial statements and footnotes of TX Holdings, Inc., and its subsidiaries (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 consolidated 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, 2016, included herein was derived from audited consolidated financial statements as of that date, but does not include all disclosures including notes required by GAAP.

These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2016. The accompanying unaudited consolidated 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, 2017.

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, rail, rail ties, and rail material directly and through other suppliers to United States' coal mining companies for use in their production and transportation processes. The products are supplied to the Company by various manufacturers and suppliers. The products are warehoused and distributed from the Company's principal business location in Ashland, Kentucky or shipped directly to its customers.

In addition, on November 21, 2014, and with a view to diversifying its business, the Company acquired all of the membership interest in The Bag Rack, LLC. The acquired company has developed a new product, "The Bag Rack."

The Bag Rack is a unique device that enables bags with handles to be stored in the trunk of a car preventing the bags from tipping over and causing spillage. The Company has not generated any revenue from the sale of the new product but continues to explore opportunities for the marketing and distribution of the product. See Note 2.

The Company was incorporated in the State of Georgia on May 15, 2000.

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 consolidated statements of operations. See Note 6.

Going Concern Considerations

The unaudited consolidated 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 consolidated financial statements included in the Company's annual report on Form 10-K for the year ended September 30, 2016, contains an explanatory paragraph wherein it expressed an opinion that there is substantial doubt about our ability to continue as a going concern.

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, from November 2012 to December 2015, a secured bank line of credit in connection with the development and expansion of its business. On December 3, 2015, the Company entered into a new loan agreement with Town Square Bank under which it obtained a term loan in the amount of $711,376. The Company utilized proceeds of the new loan to repay its line of credit. The loan is for a term of five years and matures on December 3, 2020.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated 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 consolidated 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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant inter-company transactions and balances have been eliminated in consolidation.

NOTE 2 –ACQUISITIONS

On November 21, 2014, the Company acquired 100% ownership of The Bag Rack, LLC, a Kentucky limited liability company, from the Company's CEO (who prior to the acquisition, owned 50% of the membership interest in the acquired company) and the remaining membership interests from an unrelated third party. The acquired company had been recently established and was in the process of initiating the development and distribution of "The Bag Rack", a unique patent pending device which enables bags with handles to be stored in the trunk of a car neatly and preventing content spillage. The transaction was completed with the Company paying a purchase price of $500.

The Bag Rack, LLC acquired all rights to the product shortly prior to its acquisition by the Company. Since its formation and at the date of acquisition, the acquired company held no assets or liabilities other than rights to the product which were valued at $500 as they pertained to a new unproven product. In addition, the Company agreed to pay 20% of the net profit for each product sold to a customer by The Bag Rack LLC to the former pending patent holder and 20% of the net income, after payment to the former pending patent holder, to each of the two former members of The Bag Rack, LLC. The payments to the former pending patent holder and prior members of The Bag Rack, LLC will be in perpetuity.

NOTE 3 – STOCKHOLDERS' DEFICIT

Potentially Dilutive Options and Warrants

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 was 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 immediately exercisable, and expire two years after the date of issuance. The initial tranche of 50,000 warrants were issuable effective July 1, 2012. As of June 30, 2017, an aggregate of 100,000 warrants were issuable to Mr. Chafin, and 300,000 of the previously issuable warrants have expired under the terms of the agreement. The warrants were not included in the calculation of diluted earnings per share since their inclusion will be anti-dilutive.

On February 25, 2014, the Company issued 500,000 common stock purchase options to Mr. Shrewsbury. Commencing April 1, 2014, the options became exercisable at a price of $.0924 per share, the fair market value of the Company's shares of Common Stock on the date authorized by the Board of Directors, February 21, 2014. The options expired on March 31, 2017. The options were not included in the calculation of diluted earnings per share since their inclusion would be anti-dilutive.

NOTE 4 – RELATED PARTY TRANSACTIONS

Advances from Stockholder and Officer

As of June 30, 2017, and September 30, 2016, Mr. Shrewsbury had outstanding advances owed from the Company of $99,087 and $198,637, respectively. The advances bear no interest and are due on demand.

Notes Payable to a Stockholder and Officer

On February 25, 2014, the Company and Mr. Shrewsbury consolidated an aggregate of $2,000,000 of indebtedness due to Mr. Shrewsbury, including principal due under a Revolving Demand Note ("Revolving Note") in the amount of $1,062,000 and accrued but unpaid interest as of January 31, 2014 of $168,905; principal due under a 10% Promissory Note ("10% Note") in the amount of $289,997 and accrued but unpaid interest as of January 31, 2014 of $93,252; and $385,846 of non-interest bearing advances outstanding as of January 31, 2014. The Company issued in exchange a

Consolidated Secured Promissory Note ("Consolidated Note") in the principal amount of $2,000,000. 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 related 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. Payment of the Consolidated Note is to be secured or otherwise payable by the Company out of the death benefit proceeds of key man life insurance of $2 million that has been purchased by the Company on the life of Mr. Shrewsbury. The terms of the debt consolidation and restructuring were unanimously approved by disinterested members of the Board of Directors of the Company.

Lease Agreement with Stockholder and Officer

In November 2012, the Company entered into a lease agreement with William Shrewsbury and Peggy Shrewsbury to lease to the Company real estate and warehouse space to store the Company's inventory. The initial lease had a two-year term starting October 1, 2012 and ending August 31, 2014. On September 1, 2014 the lease was extended for an additional two years and on September 1, 2016, further extended for an additional two years. The lease rental is $2,000 per month payable the first of each month. As of June 30, 2017, since the beginning of the lease, the Company has made lease payments in the amount of $84,000 and has an outstanding payable to Mr. Shrewsbury of $54,000.

Freight Charges Paid to Company Controlled by Officer and Stockholder

The Company utilizes the services of a trucking company owned and controlled by Mr. Shrewsbury, our Chief Executive Officer, to transport certain of the Company's products to its customers. During the three months and nine months ended June 30, 2017 and 2016, such trucking company was paid $17,143 and $10,591 and $37,887 and $39,002, respectively, for these trucking services.

Commissions Paid to Company Controlled by Officer and Stockholder

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 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 three months and nine months ended June 30, 2017 and 2016, the Company paid commissions of $3,390 and $1,534 and $7,456 and $7,507, respectively.

NOTE 5 – BANK LOAN

In November 2012, the Company obtained a $250,000 line of credit from a bank and, on August 26, 2014, increased the line of credit to $750,000 and extended the term of the line of credit. The line of credit was secured by a priority security interest in the Company's inventory and accounts receivable and matured on November 7, 2015. On December 3, 2015, the Company entered into a new fixed term loan agreement with the bank of $711,376 the proceeds of which were used to repay its line of credit. The loan is for a term of five years and matures on December 3, 2020. As of June 30, 2017, the loan balance was $614,870.

During the term of the loan, the Company has agreed to make equal monthly repayments of principal and interest of $6,967 commencing January 3, 2016, and to make a final payment on December 3, 2020, of the outstanding balance of the interest and principal then due, estimated to be approximately $391,896. Early repayment of the loan will not affect the monthly repayment amount, unless otherwise agreed to by the bank.

An event of default under the loan will occur upon the occurrence of any of the following events:

the Company fails to make any payment when due;
the Company fails to comply with any term, obligation, covenant or condition in the loan documents or any other agreement between the bank and the Company:
the Company defaults under any loan, extension of credit, security agreement, purchase or sales agreement or other agreement with any creditor that materially affects the Company's property or its ability to repay the note or perform its obligations under the note or related documents;
a warranty, representation or statement made to the bank under the loan document is or becomes materially false or misleading;
the dissolution or termination of the Company's existence, or its insolvency, the appointment of a receiver for any part of its property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against the Company;
the commencement of foreclosure or forfeiture proceedings by any creditor or any governmental agency against any collateral securing the loan;
any of the preceding events occurs with respect to any loan guarantor;
a 25% or more change in the ownership of the Company's common stock;
a material adverse change in the Company's financial condition, or the bank believes the prospect of payment or performance of the loan is impaired; or
the bank in good faith believes itself insecure.

The loan agreements contain certain affirmative covenants, including an obligation to: notify the bank of a material adverse change in the Company's financial condition and of any threatened litigation or claim or other proceeding which could materially affect the Company's financial condition; maintain certain liability insurance in amounts acceptable to the bank; maintain qualified executive and management personnel; comply with applicable environmental laws and perform environmental studies required by the bank; and certify annually to the bank compliance with the representations and warranties in the bank loan documents. The loan agreements contain certain other customary covenants and conditions.

In addition, the loan agreements contain certain negative covenants, including that the Company will not, without the bank's consent:

- incur any indebtedness other than to the bank or for trade debt incurred in the ordinary course;
- sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of its assets, except for permitted liens;
- sell its accounts receivable, except to the bank;
- engage in business activities substantially different from the Company's current activities;
- cease operations, liquidate, merge, transfer, acquire or consolidate with another entity, change the Company's name, dissolve, or sell the inventory or accounts receivable secured under the loan;
- pay any dividend other than in stock;
- lend money, invest or advance money or assets to another person or entity;
- purchase, create or acquire an interest in any other entity;
- incur any obligation as a surety or guarantor other than in the ordinary course; or
- enter into any agreement containing any provision which would be violated or breached by the performance of the Company's obligations under the loan agreements.

Interest under the loan is variable and is based upon the Wall Street Journal Prime rate, currently 4.25% per annum. In the event of a default, interest under the loan may be increased by 2%. The line of credit is secured by a priority security interest in the Company's inventory and accounts receivable and has been guaranteed by our CEO. Also, all obligations due from the Company to Mr. Shrewsbury are subordinate to the bank's indebtedness, including under the Consolidated Note and any advances due to Mr. Shrewsbury.

NOTE 6 – NEW ACCOUNTING PRONOUNCEMENT

In May 2014, the FASB issued ASU No.2014-09, *Revenue from Contracts with Customers* (Topic 606). This standard provides a single set of guidelines for revenue recognition to be used across all industries and requires additional disclosures. It is effective for annual and interim reporting periods beginning after December 15, 2017. This standard permits early adoption, but not before December 15, 2016, and permits the use of either a retrospective or cumulative effect transition method. We are currently evaluating the potential impact of this standard on our financial position and results of operations, as well as our selected transition method. Based on our preliminary assessment, we believe the new standard will not have a material impact on our financial position and results of operations, as we do not expect to change the manner or timing of recognizing revenue on a majority of our revenue transactions. We recognize revenue on sales to customers and distributors upon satisfaction of our performance obligations when the goods are shipped. For consignment sales, we recognize revenue when the goods are pulled from consignment inventory.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) The standard requires all leases that have a term of over 12 months to be recognized on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). This standard will be effective for our interim and annual periods beginning January 1, 2019, and must be applied on a modified retrospective basis to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. We are currently evaluating the timing of adoption and the potential impact of this standard on our financial position, but we do not expect it to have a material impact on our results of operations.

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 consolidated financial statements and notes thereto and schedules appearing elsewhere in this report. When we refer to the "Company" "TX Holdings," "we," "our" or "us," we mean TX Holdings, Inc., and its subsidiary.

The discussion and analysis contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is based upon our consolidated financial statements which have been prepared in accordance with GAAP. The preparation of these consolidated 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 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 MD&A are 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 consolidated financial statements included in our Annual Report Form 10-K for the year ended September 30, 2016, contained an explanatory paragraph in which 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 the Risk Factors section in our Form 10-K for the year ended September 30, 2016, and in this report.

Business and Operational Overview

We are in the business of supplying, distributing and selling drill bits, related tools, and other mining supplies, rail and rail material directly and through other suppliers to United States' coal mining companies for use in their production and transportation processes. Our coal mining customers are primarily located in Ohio, Pennsylvania, Kentucky and West Virginia. Our principal executive offices and warehousing facility is located in Ashland, Kentucky.

Recent Developments in U.S. Coal Industry

Due to declining U.S. coal production and bankruptcies and restructurings among certain U.S. coal companies, we experienced a reduction in demand for our mining and rail products during fiscal 2015 and 2016 and the first quarter of fiscal 2017. The demand for, and production of, coal has been adversely affected by several factors, including increased environmental regulation in the U.S., declining coal consumption in the electric power sector, increased competition from natural gas, and a strong U.S. dollar.

The U.S. Energy Information Administration (EIA) has reported in its *Short-Term Energy Outlook* (STEO) released July 11, 2017, that U.S. coal production in 2016 declined by 19%, the lowest level of coal production since 1978.

The EIA reported that, in 2017, growth in coal-fired electricity generation and exports is expected to lead to an increase of 8% in total U.S. coal production. In 2018, total coal production is expected to remain relatively unchanged. Electric power sector coal consumption is forecast to increase 1%, mostly because of rising natural gas prices. Coal exports for the first quarter of 2017 were 58% higher than in the same quarter of 2016. The trend continued in April 2017, with exports 58% higher than in April 2016. The EIA expects growth in coal exports to slow in coming months, with exports for all of 2017 forecast to be 19% above the 2016 level. As discussed below, we believe we are beginning to see the impact of such increased production in increased sales of our mining and rail products, particularly in the current fiscal quarter.

Low natural gas prices, warmer-than-normal temperatures during the 2015-16 winter that reduced electricity demand, the retirements of some coal-fired generators, and lower international coal demand had contributed to declining U.S. coal production. As a result, several major U.S. coal producers sought protection under bankruptcy laws or engaged in restructurings of their businesses and operations, and certain plants closed or were or are being sold or operations curtailed.

Continued distress in the U.S. coal mining industry will materially affect the demand for our products.

The EIAestimates the delivered coal price averaged $2.11 per million BTUs (MMBtu) in 2016, 5% lower than the 2015 price. Coal prices are forecast to increase in 2017 and in 2018 to $2.15 per MMBtu and $2.21 per MMBtu, respectively.

Our Business

We purchase mining supplies such as drill bits, augurs and related products from domestic as well as overseas manufacturers and rail material such as tee rail, switches, ties and other rail products from several suppliers of such products and distribute and sell such products to U.S. coal mining companies and other suppliers. Our products are either shipped to our warehouse in Ashland, Kentucky, for distribution to our customers or shipped directly to our customers, including products we import once they have been received by us at a port and cleared customs. Our products are transported primarily by ground transportation to our customers. Shipping costs are born by our customers.

We distribute and sell our products through an independent sales agent who is compensated on a commission basis.

We were incorporated in the State of Georgia in 2000.

Results of Operations

Revenues for the three months ended June 30, 2017 were $852,926 as compared to $381,529 for the same period in 2016, an increase of approximately 123.6%. Revenues during the nine months ended June 30, 2017, were $2,273,245 compared to $1,728,707 in the same period in 2016, an increase of 31.5%.

During the three months ended June 30, 2017, we had net income of $6,402 as compared to a net loss of $84,569 for the same period in 2016. Gross profit in the current quarter increased by 160.2% when compared to the same period in 2016.

Our net loss for the nine months ended June 30, 2017, was $108,314 compared to a net loss of $105,040in 2016, an increased net loss of 3.1%.

Liquidity and Capital Resources

At June 30, 2017, cash and cash equivalents were $3,689 compared to $3,062 at September 30, 2016.

Net cash provided in operating activities was $147,419 during the nine months ended June 30, 2017. Net cash used in operating activities during the same nine-month period in 2016 was $134,948.

There was no cash flow from investing activities for either of the nine-month period ended June 30, 2017, or 2016.

During the nine months ended June 30, 2017, net cash used in financing activities was $146,792 due to a net advance repayment of $99,550 to our CEO, William Shrewsbury and, a term loan payment of $47,242.

Mr. William Shrewsbury, our Chairman and CEO, is providing financing to us in the form of a Consolidated Secured Promissory Note of $2,000,000 ("Consolidated Note") and periodic advances. The principal and interest under the Consolidated Note is due February 24, 2024.The principal 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 us out of the death benefit proceeds of key man insurance of $2 million that has been purchased by us on the life of Mr. Shrewsbury. As of June 30, 2017, Mr. Shrewsbury had also provided non-interest-bearing advances to us of $99,087.

In November, 2012, we obtained a bank line of credit of $250,000 which was subsequently increased to $750,000. The line of credit was secured by a lien on our inventory and account receivable and guaranteed by Mr. Shrewsbury. On December 3, 2015, we entered into a new loan agreement with a bank under which we obtained a term loan in the amount of $711,376. We utilized proceeds of the new loan to repay our line of credit. The loan is for a term of five years and matures on December 3, 2020. As of June 30, 2017, the loan balance was $614,870.

RESULTS OF OPERATIONS

Results of Operations – For the three months ended June 30, 2017, versus the three months ended June 30, 2016

Revenues from Operations

Revenue for the three months ended June 30, 2017, was $852,926 as compared to $381,529 for the same period in 2016, an increase of $471,397 or 123.6%. The increase in revenue is attributable to higher sales during the current period due to increased or renewed operations at previously downsized or shut-down coal mines as the coal industry experiences increased demand, a more favorable regulatory environment, and due to relatively higher natural gas prices.

Cost of Goods Sold

During the quarter ended June 30, 2017, our cost of goods sold was $657,126 as compared to cost of goods sold of $306,289 for the quarter ended June 30, 2016, an increase of $350,837 or 114.5%. The higher cost of goods sold resulted from an increase in sales during the current period and a $6,963 write-off of damaged inventory. As a percentage of sales, cost of goods sold decreased from 80.3% in 2016 to 77.0% during the current period, the 3.3% decrease is the direct result of higher sales of a product mix with relatively lower unit cost during the current quarter.

Gross Profit

Gross profit for the period ended June 30, 2017, increased as a percentage of revenue to 23.0% from 19.7% for the same period of the prior year. The increase in gross profit resulted from a favorable mix of lower cost rail related products with higher margins sold during the current quarter.

Operating Expenses

Operating expenses for the three months ended June 30, 2017 were $155,830 as compared to $134,538 for the three months ended June 30, 2016, an increase of $21,292 or 15.8%.

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

	Three Months Ended			
	6/30/2017	6/30/2016	$ Change	% Change
Operating Expense				
Commission expense	$51,903	$21,879	$30,024	137.2
Professional fees	4,789	5,000	$(211)	(4.2)
Bad debt expense	(10,000)	0	(10,000)	(100.0)
Depreciation expense	2,449	2,449	$0	0.0
Other operating expense	106,689	105,210	$1,479	(1.4)
Total	$155,830	$134,538	$21,292	15.8

Commission expense for the three months ended June 30, 2017 was $51,903 compared to $21,879 for the same period in 2016, an increase of $30,024 or 137.2%. The higher commission expense is a direct result of the 123.6% increase in sales during the current period.

Professional fees decreased $211 or 4.2% during the three months ended June 30, 2017 as compared to the same period in 2016. The decrease in expense can be attributed to lower legal expenses.

Depreciation expense as of June 30, 2017, similar to the same quarter the prior year, was $2,449.

Bad debt expense for the three-month period ended June 30, 2017 was a credit of $10,000 as compared to zero expense for the same period in 2016. As a result of improved collection of accounts receivable during the current quarterly period, we reduced bad debt reserve by $10,000 as of June 30, 2017.

The $10,000 bad debt credit results from a reduction of the bad debt reserve account as the Company experiences a more favorable receivable collection trend.

During the three months ended June 30, 2017, other operating expenses of $106,689 increased by $1,479 or 1.41% from $105,210 for the same period in 2016. The higher other operating expenses resulted primarily from higher travel related expenses of $12,948, operating supplies of $5,227 and higher contract labor of $1,937. The higher expenses were partially offset by lower payroll of $19,016, due to reductions in payroll rates.

Income/(loss) from operations

Income from operations for the quarter ended June 30, 2017 was $39,970 compared to loss from operations of $59,298 during the same period in 2016.When compared to the loss for the same period in the prior year, the favorable income in the current period is the direct result of increased sales, higher gross profit due to sales of rail products with higher gross margins partially offset by higher operating expenses.

Other income and (expense)

Other income and expense for the three months ended June 30, 2017, reflected a net expense of $33,568 as compared to net expense of $25,271 for the quarter ended June 30, 2016. Higher interest expense of $2,195 in the current period and a $6,102 gain from the sale of scrap in the prior year account for the net increase in expense of $8,297 in the current period.

Net income (loss)

For the quarter ended June 30, 2017, we had net income of $6,402 compared to a net loss of $84,569 for the quarter ended June 30, 2016. The favorable $90,971 variance in the current period resulted from higher sales due to higher increased demand and sales of products with a higher gross margin partially offset by higher operating expenses.

Net income (loss) per common share

The net income of $6,402 for the quarter ended June 30, 2017, as well as the net loss of $84,569 for the quarter ended June 30, 2016, when divided by the number of common shares outstanding of 48,053,084 basic shares in both years resulted in a net income and loss per share of less than $0.01 in both periods.

Results of operations – For the nine months ended June 30, 2017 versus the nine months ended June 30, 2016

Revenues from Operations

Revenue for the nine months ended June 30, 2017 was $2,273,245 as compared to $1,728,707 for the same period in 2016, an increase of $544,538 or 31.5%. The increase in revenue resulted from higher sales demand during the second and current quarterly periods. Due to increases in natural gas prices relative to the price of coal, the reopening of certain previously closed mines and an increase in operations at certain mines where operations had been curtailed, we had an increase in demand for, and sales of, our rail and mining products that commenced in the second fiscal quarter and increased in the current fiscal quarter.

Cost of Goods Sold

During the nine months ended June 30, 2017, our cost of goods sold was $1,858,902 as compared to cost of goods sold of $1,244,746 for the nine months ended June 30, 2016, an increase of $614,156 or 49.3%. The higher cost of goods sold resulted from higher sales during the second and current quarterly periods. As a percentage of sales, cost of goods sold increased from 72.0% in 2016 to 81.8% during the current period, an increase of approximately 9.8% as a result of sales of our products at lower prices due to competitive pressures in the mining supplies business and higher sales of a product mix with relatively higher unit cost during the current nine-month period.

Gross Profit

Gross profit for the period ended June 30, 2017, decreased as a percentage of revenue to 18.2% from 28.0% for the same period of the prior year, or approximately 9.8%. The decrease in gross profit resulted from sales of lower gross margin products during the current nine-month period.

Operating Expenses

Operating expenses for the nine months ended June 30, 2017 were $427,445 as compared to $500,453 for the nine months ended June 30, 2016, a decrease of $73,008 or 14.6%.

The following table details the components of operating expenses as well as the dollar and percentage changes for the comparative nine-month periods.

	Nine Monrths Ended			
	6/30/2017	**6/30/2016**	**$ Change**	**% Change**
Operating Expense				
Commission expense	$108,259	$85,251	$23,008	27.0
Professional fees	12,409	46,421	$(34,012)	(73.3)
Bad debt expense	(9,095)	1,926	(11,021)	(572.2)
Depreciation expense	7,347	7,347	$0	0.0
Other operating expense	308,525	359,508	$(50,983)	(14.2)
Total	$427,445	$500,453	$(73,008)	(14.6)

Commission expense for the nine months ended June 30, 2017, was $108,259 compared to $85,251 for the same period in 2016, an increase of $23,008 or 27.0%. The higher commission expense is a direct result of a 31.5% increase in the current period sales due to higher sales demand.

Professional fees decreased $34,012 or 73.3% during the nine months ended June 30, 2017, as compared to the same period in 2016. The decrease in expense can be attributed to lower legal expenses of $27,713 and lower advertising expense of $9,983.

Bad debt expense for the nine-month period ended June 30, 2017 was $(9,095) as compared to $1,926 for the same period in 2016, a decrease of $11,021. As a result of improved collection of accounts receivable during the current quarterly period, we reduced bad debt reserve by $10,000 as of June 30, 2017.

Depreciation expense of $7,347 for the nine months ended June 30, 2017, was similar to the same nine-month period the prior year.

During the nine months ended June 30, 2017, other operating expenses of $308,525 decreased by $50,983 or 14.2% from $359,508 for the same period in 2016. The lower other operating expenses resulted primarily from lower payroll expense, $39,100; lower board fees, $16,500 and, lower operating supplies during the current nine month period.

Income (loss) from operations

Loss from operations for the nine months ended June 30, 2017 was $13,012 compared to loss from operations of $16,492 during the same period in 2016. When compared to the loss for the same period in the prior year, the loss in the current period is the direct result of lower sales margins partially offset by lower operating expenses.

Other income and (expense)

Other expense for the nine months ended June 30, 2017, reflected a net expense of $95,212 as compared to net expense of $88,548 for the nine months ended June 30, 2016, an increase of $6,664. The other expense increase is the result of a gain on sale of scrap recorded in the prior period.

Net Income (loss)

For the nine months ended June 30, 2017, we incurred a net loss of $108,314 compared to a net loss of $105,040 for the nine months ended June 30, 2016, an increase of $3,274 due to lower sales margins partially offset by lower operating expenses in the current period.

Net loss per common share

The net loss $108,314 for the nine months ended June 30, 2017, as well as the net loss of $105,040 for the nine months ended June 30, 2016, when divided by the number of common shares outstanding of 48,053,084 basic shares in both periods resulted in a net loss per share of less than $0.01 in both periods.

LIQUIDITY AND CAPITAL RESOURCES

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

	Nine Months Ended	
Liquidity and capital resources	**6/30/2017**	**6/30/2016**
Net cash provided /(used) in operating activities	$147,419	$(134,948)
Net cash provided/(used) in investing activities	-	-
Net cash provided/(used) by financing activities	(146,792)	74,240
Net increase/(decrease) in cash equivalents	**$627**	**$(60,708)**

At June 30, 2017, we had cash and cash equivalents of $3,689 as compared to $3,062 at September 30, 2016, an increase of $627 or 20.5%.

Cash Flows Provided/(Used) in Operating Activities

Net cash provided by operating activities for the nine months ended June 30, 2017, was $147,419 compared to cash used in operations of $134,948 in 2016, an increase of $282,367.

During the nine months ended June 30, 2017, we had a net loss of $108,314 as compared to a net loss of $105,040 for the same period during the prior year.

In the current nine-month period, the Company had non-cash expenses for depreciation of $7,347 and a reduction in the allowance for bad debt of $62,135.

An increase in accounts receivable of $ 258,902 or 110.0% was offset by an increase in accounts payable of $261,813 or 41.9% and a decrease in inventory of $239,281. Commission advances also decreased by $36,015.

Cash Flows Used in Investing Activities

There was no cash flow used in investing activities for the period ended June 30, 2017 or 2016.

Cash Flows Provided/(Used) in Financing Activities

During the nine months ended June 30, 2017, cash used in financing activities was $146,792 compared to cash provided by financing activities of $74,240 during the same period in 2016. During the current nine-month period, the Company made payment on its term loan of $47,242, and made repayments of stockholder net advances of $99,550. For the nine months ended June 30, 2016, the Company received stockholder net advances of $104,800, and made payment on its term loan of $29,487 and on its line of credit of $1,073.

In November 2012, we obtained a $250,000 line of credit from a bank and, on August 26, 2014, increased the line of credit to $750,000 and extended the term of the line of credit. The line of credit was secured by a priority security interest in the Company’s inventory and accounts receivable and matured on November 7, 2015. On December 3, 2015, we entered into a new fixed term loan agreement with the bank of $711,376 the proceeds of which were used to repay our line of credit. The loan is for a term of five years and matures on December 3, 2020. As of June 30, 2017, the loan balance was $614,870. The current rate of interest under the loan is 4.0% per annum. Principal, interest and collection costs under the loan are guaranteed by Mr. Shrewsbury.

On February 25, 2014, we entered into an agreement with Mr. Shrewsbury to consolidate an aggregate of $2,000,000 of amounts due to Mr. Shrewsbury, including $1.062 million due under a Revolving Promissory Demand Note issued to Mr. Shrewsbury on or about April 30, 2012, $289,997 due under a 10% 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 as of January 31, 2014, and issued in replacement a Consolidated Secured Promissory Note ("Consolidated Note"). The Consolidated Note bears interest at 5% per annum or prime rate if higher than 5% per annum and principal and interest are repayable ten years from February 25, 2014. The Consolidated Note is subject to customary events of default. Payment of the Consolidated Note is to be secured or otherwise payable by us out of the death benefit proceeds of key man insurance of $2 million that has been purchased by us on the life of Mr. Shrewsbury.

During the nine months ended June 30, 2017, we received advances of $111,150 and repaid $210,700 cash advances from Mr. Shrewsbury, bringing the total outstanding advance balance to $99,087. Cash advances from Mr. Shrewsbury are repayable upon demand and do not bear interest.

Financial Condition and Going Concern Uncertainties

Since inception, except for each of the six consecutive quarters ended June 30, 2014, the first three month-period of fiscal 2016 and during the current fiscal quarter, we have not generated sufficient cash to fund our operations and have incurred operating losses. Currently, the Company relies substantially upon financing provided by Mr. Shrewsbury, the Company's Chief Executive Officer, and a secured bank loan guaranteed by Mr. Shrewsbury to finance its business operations. In view of these matters, realization of certain assets in the accompanying balance sheet is dependent upon continued operations which are dependent upon our ability to meet our financial requirements, upon the continued provision of financing from Mr. Shrewsbury and under the Company's bank loan, and the success of our future operations.

Our independent registered public accounting firm's report on the consolidated financial statements included in our Annual Report on Form 10-K for the year ended September 30, 2016, contained an explanatory paragraph in which our auditors 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 June 30, 2017, we had cash and cash equivalents of $3,689 as compared to $3,062 as of September 30, 2016.

Our accounts receivable was $556,439 as of June 30, 2017, as compared to $235,402 as of September 30, 2016, an increase of $321,037 or 136.4%. The higher June 30, 2017 receivable balance is the direct result of a 31.5% increase in the current period sales as compared to 2016.

Inventory (including noncurrent) was $1,866,197 as of June 30, 2017 as compared to $2,106,018 as of September 30, 2016, a decrease of $239,821 or 11.4%. Although the Company has experienced higher overall sales demand for our rail related products during the current fiscal quarter, the demand for mining supplies related products has declined and, as a result, the Company has reduced its mining supplies-related inventory levels to reflect the lower short term industry demand.

Accounts payable for the nine months ended June 30, 2017, was $886,900 as compared to $625,087 as of September 30, 2016, an increase of $261,813 or 41.9%. The increase in accounts payable resulted primarily from current quarter inventory purchases to address the higher sales demand.

During the nine months ended June 30, 2017, our accumulated deficit increased from $15,431,430 to $15,539,744, an increase of $108,314 or 0.70% due to the reported net loss during the nine months ended June 30, 2017.

During the nine months ended June 30, 2017, the Company's net loss was $108,314 compared to a net loss of $105,040 for the comparable period in 2016. The net loss can be directly attributed to lower gross margins primarily in our rail and mining related products. Lower operating expenses during the current nine month period of $73,008 partially offset the loss variance generated by the lower gross margins.

Currently, we are spending in addition to product purchases for resale approximately $40,000-$60,000 per month on operations. Management believes that the Company's available cash, cash flows from operations, loans and advances provided by Mr. Shrewsbury, and the loan provided by the bank to be sufficient to fund the Company's operations during the next 12 months.

We continue to rely substantially upon financings provided by Mr. Shrewsbury and a bank loan to fund our operations. The terms of such financings are discussed below.

Bank Loan

Under the terms of a business loan agreement, originally entered on November 7, 2012, and as amended through August 26, 2014, we obtained a secured revolving line of credit in the amount of $750,000 from Town Square Bank. Interest on the loan was payable monthly in arrears. Interest under the loan was variable and was based upon Wall Street Journal Prime Rate.

On December 3, 2015, we obtained a new term loan from Town Square Bank of $711,376. We used proceeds of the new loan to repay our former line of credit. The loan is for a term of five years and matures on December 3, 2020. As of June 30, 2017, the loan balance was $614,870.

During the term of the loan, we agreed to make equal monthly repayments of principal and interest of $6,967 commencing January 3, 2016, and to make a final payment on December 3, 2020, of the outstanding balance of the interest and principal, estimated to be approximately $391,896. Early repayment of the loan will not affect the monthly repayment amount, unless otherwise agreed to by the bank.

An event of default under the loan will occur upon the occurrence of any of the following events:

- we fail to make any payment when due;
- we fail to comply with any term, obligation, covenant or condition in the loan documents or any other agreement with the bank;
- we default under any loan, extension of credit, security agreement, purchase or sales agreement or other agreement with any creditor that materially affects our property or our ability to repay the note or perform our obligations under the note or related documents;
- a warranty, representation or statement made to the bank under the loan documents is or becomes materially false or misleading;
- the dissolution or termination of our existence, our insolvency, the appointment of a receiver for any part of our property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against us;
- the commencement of foreclosure or forfeiture proceedings by any creditor or any governmental agency against any collateral securing the loan;
- any of the preceding events occurs with respect to any loan guarantor;
- a 25% or more change in the ownership of our common stock;

- a material adverse change in our financial condition, or the bank believes the prospect of payment or performance of the loan is impaired; or
- the bank in good faith believes itself insecure.

The loan agreements contain affirmative covenants, including an obligation to: notify the bank of a material adverse change in our financial condition and of any threatened litigation or claim or other proceeding which could materially affect our financial condition; maintain certain liability insurance in amounts acceptable to the bank; maintain qualified executive and management personnel; comply with applicable environmental laws and perform environmental studies required by the bank; and certify annually to the bank compliance with the representations and warranties in the bank loan documents. The loan agreements contain other customary covenants, terms and conditions.

In addition, the loan agreements contain negative covenants, including that we will not, without the bank's consent:

- incur any indebtedness other than to the bank or for trade debt incurred in the ordinary course;
- sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of its assets, except for permitted liens;
- sell our accounts receivable, except to the bank;
- engage in business activities substantially different from our current activities;
- cease operations, liquidate, merge, transfer, acquire or consolidate with another entity, change our name, dissolve, or sell the inventory or accounts receivable secured under the loan;
- pay any dividend other than in stock;
- lend money, invest or advance money or assets to another person or entity;
- purchase, create or acquire an interest in any other entity;
- incur any obligation as a surety or guarantor other than in the ordinary course; or
- enter into any agreement containing any provision which would be violated or breached by the performance of our obligations under the loan agreements.

Interest under the loan is variable and is based upon the Wall Street Journal Prime rate, currently 4.25% per annum. In the event of a default, interest under the loan may be increased by 2%. The loan is secured by a priority security interest in the Company's inventory and accounts receivable and has been guaranteed by our CEO.

Advances and Loans from Mr. Shrewsbury

Mr. Shrewsbury, our Chairman and CEO, has provided financing to us in the form of demand notes and advances. On February 25, 2014, we entered into a Note Exchange Agreement ("Exchange Agreement") with Mr. Shrewsbury under which an aggregate of $2,000,000 of our indebtedness (including amounts of accrued interest) to Mr. Shrewsbury was consolidated and restructured and we issued in exchange for the indebtedness a Consolidated Secured Promissory Note (the "Consolidated Note) in the principal amount of $2,000,000.

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 life insurance purchased by us 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:

- we fail to pay when due any principal or interest;
- we violate any covenant or agreement contained in the Consolidated Note, the Exchange Agreement, or related transaction documents;
- an assignment for the benefit of creditors by us;
- the application for the appointment of a receiver or liquidator for us or our property;
- the filing of a petition in bankruptcy by or against us;
- the issuance of an attachment or the entry of a judgment against us in excess of $250,000;
- a default by us 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 our assets or a transfer of more than 51% of our equity interests to a person not currently a holder of our equity interests;
- our termination of existence or dissolution;
- 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.

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 our common stock pursuant to the terms of a Non-Qualified Stock Option Agreement, issued February 25, 2014. The options were exercisable commencing April 1, 2014, and for a period of three years thereafter. The options were exercisable at a price of $0.0924 per share subject to 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 expired on March 31, 2017.

As of June 30. 2017, Mr. Shrewsbury had advanced an aggregate of $99,087 to the Company. The advances do not bear interest and are repayable upon demand. As of June 30, 2017, the Company also has a payable of $54,000 to Mr. Shrewsbury for warehouse storage rental.

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 June 30, 2017 and September 30, 2016.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a "smaller reporting company" as defined by Rule 12b-2 under the Exchange Act, and as such, we are 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 Section 13(a) or 15(d) of 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 Section 13(a) or 15(d) of 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 Section 13(a) or 15(d) of 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

The Company is not a party to any material pending legal proceeding.

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 2016 Annual Report on Form 10-K) and other information contained in this Report in deciding whether to invest in our common stock. Additional risks not presently known to us or which we currently consider immaterial may also adversely affect us. If any of the following risks (or the risk factors we disclosed in our 2016 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 loan when it becomes due.

As of June 30, 2017, we have incurred debt due to Mr. Shrewsbury in the form of $2 million Consolidated Note and non-interest bearing advances in the amount of $99,087. We have outstanding accounts payable of $886,900 and other accrued liabilities of $ 862,872, including $431,179 due to our CFO, Jose Fuentes, for services. Also, the Company owes $614,870 under a bank term loan which is secured by the Company’s inventory and accounts receivable and which becomes due on December 3, 2020. 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.

We have a history of net losses and, due to the impact of increased federal regulation of the U.S. coal mining industry, a decrease in the number of coal powered electricity generation plants, a relatively weak U.S. dollar, and other factors affecting the coal mining industry in the U.S., we cannot assure that we will be profitable in the future. Any failure on the part of the Company, due to industry conditions, which will prevent us from achieving profitability may cause us to reduce or eventually cease operations.

We had a net loss of $108,314 for the nine months ended June 30, 2017 and a net loss of $105,040 for the same period in 2016. At June 30, 2017 and September 30, 2016, we had accumulated deficits of $15,539,744 and $15,431,430, 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 revenue is 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 loan 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 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 were issuable over a four-year period in equal tranches of 50,000. On each of July 1, 2012, January 1, 2013, July 1, 2013, January 1, 2014, and July 1, 2014, January 1, 2015, July 1, 2015 and, January 1, 2016, 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. As of June 30, 2017, 300,000 warrants have expired and 100,000 warrants remain issuable. The warrants are issuable 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.

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 Form	Filing Date	Filed/ "Furnished" Herewith
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			X

	(CEO)	
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

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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	**By:** /s/ Jose Fuentes
William L. Shrewsbury	Jose Fuentes
Chief Executive Officer	Chief Financial Officer
(Principal Executive Officer)	(Principal Financial and Accounting Officer)
Dated: July 28, 2017	Dated: July 28, 2017