TX Holdings, Inc.
Form 10-K
December 15, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2017

OR

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

For the transition period from __________ to __________

Commission File No. 000-32335

TX HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Georgia	
(State or Other Jurisdiction of Incorporation or Organization)	**58-2558702** (I.R.S. Employer Identification No.)
12080 Virginia Blvd.,	**(606) 928-1131** (Registrant's Telephone Number, Including Area Code)

Ashland,
KY 41102

(Address of
Principal
Executive
Offices and
Zip Code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act: **None**

Securities registered pursuant to Section 12(g) of the Securities Exchange Act: **Common Stock, no par value per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act. Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

The aggregate market value of the voting common equity held by non-affiliates based upon the average bid and asked prices for the Common Stock on March 31, 2017, the last business day of the registrant's most recently completed second fiscal quarter as reported on the OTC Markets Group, Inc.'s OTCPINK was approximately $583,260.

As of December 15, 2017, the number of shares of the registrant's common stock outstanding was 48,053,084.

DOCUMENTS INCORPORATED BY REFERENCE

None

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 this Annual Report on Form 10-K for the year ended September 30, 2017.

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-K 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.

FORM 10-K

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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PART I

ITEM 1. BUSINESS

Introduction

TX Holdings, Inc., a Georgia corporation ("TX Holdings," the "Company," “we,” “our,” or “us”), is a supplier and distributor of drill bits, related tools and other mining supplies and rail products directly and through other suppliers to United States’ coal mining companies and operators for use in their extraction and transportation processes.

Our products are supplied to us by certain manufacturers and suppliers and warehoused and distributed from the Company’s principal business location in Ashland, Kentucky.

We were incorporated in the State of Georgia on May 15, 2000.

Our web site address is www.txholdings.com. Information contained on our web site is not part of this Annual Report on Form 10-K or our other filings with the Securities and Exchange Commission (“SEC”).

Recent Financing Activities

Since November 2011, Mr. Shrewsbury, our CEO, has provided financing to us that, in addition to a bank term loan, we have relied upon to fund and expand our business operations. On February 25, 2014, Mr. Shrewsbury agreed to consolidate and restructure this indebtedness and we issued in exchange for such indebtedness a Consolidated Secured Promissory Note (the “Consolidated Note”) in the principal amount of $2,000,000. 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 secured by the death benefit proceeds of a $2 million key man term life insurance policy purchased by the Company on the life of Mr. Shrewsbury which has been assigned to Mr. Shrewsbury. In addition, in consideration of Mr. Shrewsbury agreeing to consolidate the indebtedness, the Company granted to Mr. Shrewsbury options to purchase an aggregate of 500,000 shares of common stock pursuant to the terms of a Non-Qualified Stock Option Agreement, issued February 25, 2014. The options were 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, merger, or sale of all or substantially all of the assets. The options were exercisable for a period of three years commencing April 1, 2014 and expired on March 31, 2017.

As of September 30, 2017, Mr. Shrewsbury had advanced to the Company an additional $33,987 which is not interest bearing and is repayable upon demand.

During fiscal 2015 and through December 3, 2015, we maintained a $750,000 line of credit with a bank. On December 3, 2015, we refinanced the line of credit with a new term loan from the bank in the amount of $711,376 and utilized the proceeds of the new loan to repay the line of credit. The new loan is for a term of five years and matures on December 3, 2020. During the term of the loan, we have agreed to make equal monthly repayments of principal and interest of $6,967 commencing January 3, 2016 and 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. Interest under the new 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 our inventory and accounts receivable and is guaranteed by our CEO.

The Consolidated Note and advances due to Mr. Shrewsbury are subordinate to the Company’s bank indebtedness.

Our Business

Background

Mining and Rail Supplies

We supply and distribute rail products including rail, switches, ties and related products, and drill bits, augurs, related tools and mining supplies to U.S. coal mine operators and distributors primarily located in Ohio, Pennsylvania, Kentucky and West Virginia.

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 had 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.

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The U.S. Energy Information Administration (EIA) reported in its *Short-Term Energy Outlook* (STEO) released October 11, 2017, that it expects the share of U.S. total utility-scale electricity generation from natural gas to fall from 34% in 2016 to about 31% in 2017 as a result of higher natural gas prices and increased electricity generation from renewables and coal. In 2018, natural gas's generation share is expected to rise to 32%. Coal's forecast generation share rose from 30% last year to 31% in 2017 and is expected to stay at that level in 2018.

Coal production for the first nine months of 2017 was 591 MMst, 62 MMst (12%) higher than in the same period in 2016. Coal production is expected to increase by 8% in 2017 and by less than 1% in 2018.

Coal exports for the first seven months of 2017 totaled 51 MMst, which was 62% higher than in the same period of 2016. EIA expects growth in coal exports to slow, with exports for all of 2017 forecast at 75 MMst, 15 MMst (24%) higher than 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 three most recent quarters.

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.

Recent Development

In November 2014, and with a view to diversifying our business, we acquired The Bag Rack, LLC. The acquired company had developed a new product, "The Bag Rack," a device that enables bags with handles to be stored efficiently in a car preventing the bags from tipping over and causing spillage. Having experienced no sales to-date and no prospect of sales in the near future, the Company, in the current year, has written-off Bag Rack's full inventory in the amount of $144,726

Principal Products

Drilling Products

We distribute and sell drill steel mining products for use in the coal mining industry, including:

- drill steel, used for drilling holes for bolts supporting mine ceilings;
- drill bit products and accessories, used for hard and soft rock mining operations;
- tungsten carbide drill bits and augurs, and
- related accessories and tools.

Rail Products

We distribute and sell drill steel mining products used by the coal industry in its extraction process, including:

- tee rails, used for railroad tracks for the transportation of coal by coal mine operators;
- steel ties for securing rail;
- switches, and
- related accessories and tools.

Cyclicality

Changes in economic conditions affecting the global and domestic mining industry can occur abruptly and unpredictably, which may have significant effects on our sales. Cyclicality is driven, primarily, by price volatility of coal, as well as product life cycles, competitive pressures and other economic factors affecting the mining industry, such as company consolidations and mergers, bankruptcies, increased regulation of the coal mining or electrical utility industry, and competition affecting demand for coal, and the broader economy, including changes in government monetary or fiscal policies and from market expectations with respect to such policies. Falling prices for coal have in the past, and may in the future, lead to reduced production levels of existing mines, a contraction in the number of existing mines and the closure of less efficient mines, and are likely to lead to a decrease in demand for our mining supplies and rail products. Conversely, rising coal prices typically lead to the expansion of existing mines, opening of new mines or re-opening of less efficient mines. Increased mining activity typically leads to an increase in demand for our mining supplies and rail products.

Seasonality

Our business is subject to moderate seasonality, with the first quarter of our fiscal year (October to December), generally experiencing lower sales than the last three quarters of our fiscal year.

Manufacturers and Suppliers

Our drill steel mining products, drill bits, and related products are manufactured and supplied to us by several manufacturers located overseas. Our rail products are supplied to us by several suppliers located overseas and in the U.S.

Management does not believe that the loss of any of such manufacturers or suppliers would adversely affect the Company’s business and believes that alternative manufacturers and suppliers would be readily available to us.

Distribution and Sales

We sell our mining supplies and rail products primarily through one independent sales agent and, to a limited extent, directly to our customers. Our sales agent is an independent contractor and is compensated on a commission basis. Our sales agent sell our mining supplies to resellers as well as directly to coal mine operators.

Our products are delivered to us and warehoused in our Ashland, Kentucky warehouse facility, from where they are shipped to our customers primarily by road. Shipping costs are normally paid for by the purchaser.

Customers

We distribute and sell our mining supplies and rail products principally to certain coal mining companies located in Ohio, Pennsylvania, Kentucky and West Virginia and certain distributors. Our customers include both large and small mining companies and operators. During the year ended September 30, 2017, one customer accounted for approximately 30% of our revenues (9% in 2016), and accounted for 52% of our accounts receivable as of the year end, one customer accounted for approximately 11% of our revenues (23% in 2016), one customer accounted for approximately 7% of our revenues (8% in 2016), one customer accounted for approximately 6% of our revenues (13% in 2016) and accounted for 10% of our accounts receivable as of the year end (29% as of the year ended September 30, 2016), and one customer accounted for 17% of our accounts receivable as of the year end. The loss of any one or more of our major customers or if our inability to collect on outstanding accounts receivable from one or more of these customers could have a material adverse effect on our business and financial condition. We continue to seek to increase our customer base and reduce our reliance on a limited number of customers.

Competitive Business Conditions

We compete with large and small manufacturers and suppliers of drill bits and other cutting tools and related products to the U.S. coal mining industry. We compete with several manufacturers and distributors of mine rail and related products. Many of our competitors are large manufacturers or distributors or divisions of large companies, however, our industry remains relatively fragmented with several hundred fabricators and toolmakers. Many of these competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition, and more established relationships in the industry than we have. We believe we compete on the basis of the reliability, quality and performance of our products, competitive pricing, prompt delivery and good customer service and support.

Patents and Proprietary Rights

In connection with our mining and rail supplies business, we rely on a combination of common law trademark, service mark, copyright and trade secret law to establish and protect our proprietary rights and promote our reputation and the growth of our business. We do not own any patents with regard to our rail or mining products that would prevent or inhibit our competitors from using our products or entering our market, although we may seek such protection in the future.

We do not require our employees, consultants and independent contractors to enter into agreements containing non-disclosure, non-competition and non-solicitation restrictions and covenants, accordingly, we rely only upon common law protections to prevent misappropriation of our proprietary rights or to deter independent third-party development of products similar to the products we distribute and sell.

Governmental Regulation

We are unaware of and do not anticipate having to expend significant resources to comply with any governmental regulation of the distribution of mining supplies and rail products. We are subject to the laws and regulations of those jurisdictions in which we sell our products, which are generally applicable to business operations, such as business licensing requirements, income taxes and payroll taxes. In general, the development and operation of our business is not subject to special regulatory and/or supervisory requirements. We do not believe our current business is subject to any environmental or similar laws. However, we may become subject to product liability claims related to the products we distribute and sell.

In connection with our prior oil and gas business operations, we were subject to various federal, state and local laws and regulations governing the protection of the environment. In particular, our exploration, development and production operations, our activities in connection with storage and transportation of oil and other hydrocarbons and our use of facilities for treating, processing or otherwise handling hydrocarbons and related wastes may be subject to regulation under these and similar state legislation.

If it is subsequently determined that we failed to comply with these laws and regulations we may be subject to the assessment of administrative, civil and criminal fines, penalties or other liability, or the imposition of injunctive relief that could have a material adverse impact on us and our financial condition.

Insurance

We maintain general liability insurance and auto coverage liability insurance in the amount of $1,000,000 to cover certain liabilities associated with the distribution of our mining supplies and rail products.

We purchased a $2 million key man term life insurance policy on the life of our CEO (William Shrewsbury) that has been assigned to Mr. Shrewsbury as security for a loan he has made to us. In addition, we purchased a $500,000 key man term life insurance policy on the life of our CFO (Jose Fuentes) that has been assigned to Mr. Fuentes to cover prior years' accrued but unpaid compensation.

Our prior oil and gas operations were subject to all the risks inherent in the exploration for, and development and production of, oil and gas including blowouts, fires and other casualties. We did not maintain insurance coverage related to such activities. Losses could arise from uninsured risks.

Research and Development Expenditure

No research and development cost was incurred in 2017 or 2016.

Employees

As of September 30, 2017, we employed three full-time employees and two part-time employees. None of our employees is a party to a collective bargaining agreement and we believe our relationship with our employees is good. Also, we employ certain consultants and independent contractors on a regular basis to assist in the marketing and sale of our products. Our sales agents are compensated on a commission basis.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), are filed with the "SEC". We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements, and other information with or to the SEC. Such reports and other information filed by us with the SEC are available free of charge via our website at www.txholdings.com when such reports are available on the SEC's website. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents of these websites are not incorporated into this report. Further, references to the URLs for these websites are intended to be inactive textual references only.

Principal Executive Offices

Our principal executive offices are located at 12080 Virginia Blvd, Ashland, Kentucky 41102. Our principal telephone number at such location is (606) 928-1131.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below and other information contained in this filing before deciding to invest in our common stock. The risks described below are not the only ones facing our company. 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 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 of your investment.

Risks Related to Our Operations

We have a limited operating history in our current business and our success is subject to substantial risks inherent in the establishment of a new business. We can give no assurance we will be profitable in the future.

We are in the business of distributing and selling mining supplies and rail products to U.S. coal mining companies and operators and were a development stage company until March 31, 2012. We have encountered unforeseen costs, expenses, problems, difficulties and delays frequently associated with new ventures, and these costs, expenses, problems, difficulties and delays may continue.

We have incurred losses for fiscal 2017 and 2016, and there is no assurance we will be successful in the future. We anticipate our operating expenses will increase if and as our business expands or if we pursue additional business opportunities we will need to generate revenues sufficient to meet all of our expenses to achieve profitability and obtain additional financing to fund such expenses. However, such financing may not be available to us or may be available upon terms that are not acceptable to us.

We incurred a net loss in fiscal years 2017 and 2016 and a net income for 2013 and 2014 fiscal years. Prior to fiscal 2013, we had a history of net losses. We can provide no assurance we will be profitable in the future. If we fail to achieve profitability, we may need to reduce or eventually cease our operations.

We had net losses of $124,506 in 2017 and $678,719 in 2016. At September 30, 2017 and 2016, we had accumulated deficits of $15,555,936 and $15,431,430, respectively. Based on current expectations, we may need to obtain additional financing to expand our mining and mining rail supplies distribution business. Also, we 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 chief executive officer through notes and advances and from a bank term loan that our chief executive officer guaranteed. 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 strategies, which may affect our overall business results of operations and financial condition. Also, under our new loan agreement with a bank, we may not incur additional indebtedness without the bank’s consent.

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 advances due to our CEO if he demands repayment of the outstanding advances.

As of September 30, 2017, we have incurred debt due to Mr. Shrewsbury, our CEO, in the form of a note and advances in the aggregate amount of $2,033,987 of which $2,000,000 is covered by a note due in February 24, 2024, and advances, which are due on demand, of $33,987. We have outstanding accounts payable of $654,773 and other accrued liabilities of $907,944, which includes $359,726 accrued interest on the note due to our CEO. Also, as of September 30, 2017, we owed $606,005 on a bank term loan. Under the term loan, we are required 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. The term loan is secured by our inventory and accounts receivable and guaranteed by our CEO. Also, under the term loan, without the consent of the bank, we are not permitted to incur any indebtedness other than trade debt incurred in the ordinary course. We are subject to the risks associated with substantial indebtedness, including insufficient funds to repay the outstanding loans when they become due and advances if our chief executive officer demands their repayment.

There may be some doubts about our ability to continue as a going concern and, if we are unable to continue our business, our shares may have little or no value.

Our independent registered public accounting firm's report on our financial statements included in our annual report on Form 10-K for the years ended September 30, 2017 and 2016, contains an explanatory paragraph wherein they expressed an opinion that there is substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments to reflect the possible future effects on recoverability and classification of assets or the amounts and classification of liabilities that might occur if we are unable to continue in business as a going concern. Accordingly, careful consideration of such opinions should be given in determining whether to continue or become our stockholder.

We depend on a small number of customers for a substantial portion of our revenues. The loss of one or more of these customers, or our inability to collect outstanding receivables from such customers could have a material adverse effect on our financial results.

Our customers include both large and small mining companies and operators. During the year ended September 30, 2017, one customer accounted for approximately 30% of our revenues (9% in 2016) and accounted for 52% of our accounts receivable as of the year end, one customer accounted for approximately 11% of our revenues (23% in 2016), one customer accounted for approximately 7% of our revenues (8% in 2016), one customers accounted for approximately 6% of our revenues (13% in 2016) and accounted for 10% of our accounts receivable as of the year end (29% as of the year ended September 30, 2016), and one customer accounted for 17% of our accounts receivable as of the year end. The loss of any one or more of our major customers or our inability to collect on outstanding accounts receivable from one or more of these customers could have a material adverse effect on our business and financial condition. We continue to seek to increase our customer base and reduce our reliance on a limited number of customers. Although we are seeking to diversify our customer base and reduce our reliance upon sales to a small number of large mine operators, we expect sales to such customers to continue to constitute a significant portion of our revenues in the near term.

Exchange rate fluctuations could cause a decline in our financial condition and results of operations.

We import most of our mining supplies products from overseas. Fluctuations in exchange rates on foreign currencies could adversely affect our results in the event that our imported products sales prices cannot be increased to offset a potential exchange fluctuation negative impact. From time to time, as and when we determine it is appropriate and advisable to do so, we will seek to mitigate the effect of exchange rate fluctuations through the use of derivative financial instruments. We cannot assure that we will continue this practice or be successful in these efforts.

We are implementing a growth strategy which, if successful, will place significant demands on us and subject us to numerous risks.

Growing businesses often have difficulty managing their growth. If our growth strategy is successful, significant demands will be placed on our management, accounting, financial, information and other systems and on our business. We will have to expand our management and recruit and employ experienced executives and key employees capable of providing the necessary support. In addition, to manage our anticipated growth we will need to continue to improve our financial, accounting, information and other systems in order to effectively manage our growth and, in doing so, could incur substantial additional expenses that could harm our financial results. We cannot assure you that our management will be able to manage our growth effectively or successfully, or that our financial, accounting, information or other systems will be able to successfully accommodate our external and internal growth. Our failure to meet these challenges could materially impair our business.

We may undertake acquisitions which pose risks to our business.

As part of our growth strategy, we have and may in the future acquire or enter into joint venture arrangements with, form strategic alliances with, invest in, or acquire complementary businesses. Any such acquisition, investment, strategic alliance or related effort will be accompanied by the risks commonly encountered in such transactions. These risks may include:

- Difficulty of identifying appropriate acquisition candidates;
- Paying more than the acquired company is worth;
- Difficulty in assimilating the operations of the new business;
- Costs associated with the development and integration of the operations of the new entity;

Existing business may be disrupted;
Entering markets in which we have little or no experience;
Accounting for acquisitions could require us to amortize substantial intangible assets (goodwill), adversely affecting our results of operations;
Inability to retain the management and key personnel of the acquired business;
Inability to maintain uniform standards, controls, policies and procedures; or
Customer attrition with respect to customers acquired through the acquisition.

We cannot assure you that we would successfully overcome these risks or any other problems associated with any acquisition, investment, strategic alliances, or related efforts. Also, if we use our common stock in connection with an acquisition, your percentage ownership in us will be reduced and you may experience additional dilution.

Our business may be impacted by political events, war, terrorism, public health issues, natural disasters and other circumstances that are not within our control.

War, terrorism, geopolitical uncertainties, public health issues, and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on us, our suppliers, and manufacturing vendors. Our business operations are subject to interruption by natural disasters, fire, power shortages, nuclear power plant accidents, terrorist attacks, and other hostile acts, labor disputes, public health issues, and other events beyond our control. Such events could decrease demand for our products, make it difficult or impossible for us to make and deliver products to our customers, or to receive products from our manufacturers and suppliers, and create delays and inefficiencies in our supply chain. If major public health issues, including pandemics, arise, we could be adversely affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products, and disruptions in the operations of our manufacturing vendors and suppliers. In the event of a natural disaster, we could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume operations.

Increased IT security threats and sophisticated computer crime pose a risk to our systems, networks, products and services.

We rely on information technology ("IT") systems and networks in connection with our business activities, and we collect and store sensitive data. IT security threats and sophisticated computer crime, including advanced persistent threats such as attempts to gain unauthorized access to our systems, are increasing in sophistication and frequency. These threats pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. As we grow, we may experience attempts from hackers and other third parties to gain unauthorized access to our IT systems and networks. Any such attacks could have a material adverse effect on our financial condition, results of operations or liquidity. While we actively manage IT risks within our control, we can provide no assurance that our actions will be successful in eliminating or mitigating risks to our systems, networks and data. A failure of or breach in IT security could expose us and our customers and suppliers to risks of misuse of information or systems, the compromise of confidential information, manipulation and destruction of data and operations disruptions. Any of these events in turn could adversely affect our reputation, competitive position, business and results of operations. In addition, such breaches in security could result in litigation, regulatory action and potential liability, as well as the costs and operational consequences of implementing further data protection measures.

<u>Risks Related to Our Company</u>

Investor confidence in the price of our stock may be adversely affected if we are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

As an SEC registrant, we are subject to the rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, which require us to include in our annual report on Form 10-K our management's report on, and assessment of the effectiveness of, our internal control over financial reporting ("management's report"). If we fail to achieve and maintain the adequacy of our internal control over financial reporting, there is a risk that we will not comply with all of the requirements imposed by Section 404. Moreover, effective internal control over financial reporting, particularly that relating to revenue recognition, is necessary for us to produce reliable financial reports and is important in helping to prevent financial fraud. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss in investor confidence in the reliability of our financial statements, which ultimately could harm our business and could negatively impact the market price of our common stock. Investor confidence and the price of our common stock may be adversely affected if we are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

In order to comply with public reporting requirements, we must continue to strengthen our financial systems and controls, and failure to do so could adversely affect our ability to provide timely and accurate financial statements.

Refinement of our internal controls and procedures will be required as we manage future growth successfully and operate effectively as a public company. Such refinement of our internal controls, as well as compliance with the Sarbanes-Oxley Act of 2002 and related requirements, will be costly and will place a significant burden on management. We cannot assure you that measures already taken, or any future measures, will enable us to provide accurate and timely financial reports, particularly if we are unable to hire additional personnel in our accounting and financial department, or if we lose personnel in this area. Any failure to improve our internal controls or other problems with our financial systems or internal controls could result in delays or inaccuracies in reporting financial information, or non-compliance with SEC reporting and other regulatory requirements, any of which could adversely affect our business and stock price.

Current shareholdings may be diluted if we make future equity issuances or if outstanding warrants or options are exercised for shares of our common stock.

"Dilution" refers to the reduction in the voting effect and proportionate ownership interest of a given number of shares of common stock as the total number of shares increases. Our issuance of additional stock, convertible preferred stock and convertible debt may result in dilution to the interests of shareholders and may also result in the reduction of your stock price. The sale of a substantial number of shares into the market, or even the perception that sales could occur, could depress the price of the common stock. Also, the exercise of warrants and options may result in additional dilution.

As of September 30, 2017, an aggregate of 50,000 shares of common stock are issuable upon exercise of outstanding warrants. The holders of outstanding warrants (and other convertible securities or derivatives, if any are subsequently issued) have the opportunity to profit from a rise in the market price of our common stock, if any, without assuming the risk of ownership, with a resulting dilution in the interests of other shareholders. We may find it more difficult to raise additional equity capital if it should be needed for our business while the options, warrants and convertible securities are outstanding. At any time at which the holders of the options, warrants or convertible securities might be expected to exercise or convert them, we would probably be able to obtain additional capital on terms more favorable than that provided by those securities.

Certain provisions of our charter and bylaws may discourage mergers and other transactions.

Certain provisions of our certificate of incorporation and bylaws may make it more difficult for someone to acquire control of us. These provisions may make it more difficult for stockholders to take certain corporate actions and could delay or prevent someone from acquiring our business. These provisions could limit the price that certain investors might be willing to pay for shares of our common stock. The ability to issue “blank check” preferred stock is a traditional anti-takeover measure. This provision may be beneficial to our management and the board of directors in a hostile tender offer, and may have an adverse impact on stockholders who may want to participate in such tender offer, or who may want to replace some or all of the members of the board of directors.

Our board of directors may issue additional shares of preferred stock without stockholder approval.

Our certificate of incorporation authorizes the issuance of up to 1,000,000 shares of preferred stock. Accordingly, our board of directors may, without shareholder approval, issue one or more new series of preferred stock with rights which could adversely affect the voting power or other rights of the holders of outstanding shares of common stock. In addition, the issuance of shares of preferred stock may have the effect of rendering more difficult or discouraging, an acquisition or change of control of TX Holdings. Although we do not have any current plans to issue any shares of preferred stock, we may do so in the future.

We depend on key personnel and an independent sales agent.

Our success depends on the contributions of our key management personnel, including Mr. William “Buck” Shrewsbury, Chairman and Chief Executive Officer, and Mr. Jose Fuentes, our Chief Financial Officer. If we lose the services of any of such personnel we could be delayed in or precluded from achieving our business objectives.

In addition, the loss of our independent sales agent could temporarily jeopardize our relations with our customers. Our agreements with such sales agent is terminable upon 30 days’ notice. Any loss of a sales agent would jeopardize the stability of our infrastructure and our ability to provide the service levels our customers expect.

The loss of any of our key officers or our sales agent could impair our ability to successfully execute our business strategy.

We may need to attract and retain additional skilled personnel to develop our business and attract customers.

In the future, we may need to attract, train, motivate and retain additional highly skilled managerial and sales personnel. Competition for such personnel with appropriate qualifications and skills is intense. Locating candidates with the appropriate qualifications, particularly in the desired geographic location, can be costly and difficult. We may not be able to hire the necessary personnel to implement our business strategy, or we may need to provide higher compensation to such personnel than we currently anticipate. If we fail to attract and retain sufficient numbers of qualified employees or sales agents, our ability to provide the necessary products may be limited and, as a result, we may be unable to attract customers and grow our business.

There is a limited market for our shares.

Our shares of common stock are quoted on the OTC Markets Group, Inc.'s Pink marketplace. As a result, relatively small trades in our stock could have disproportionate effect on our stock price. In addition, many institutional investors, which account for significant trading activity, are restricted from investing in stocks that trade below specified prices, have less than specified market capitalizations, or have less than specified trading volume. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. A limited trading volume may limit the ability of our shareholders to resell their shares at times and in such amounts as they may desire. No assurance can be given that an active market will develop for our common stock or, if it develops, that it will continue.

We have never declared or paid cash dividends on our common stock.

We have never declared or paid a cash dividend on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, results of operations, contractual restrictions or covenants in our bank indebtedness, capital requirements, business prospects and other factors that our board of directors considers relevant. Accordingly, investors will only see a return on their investment if the value of our securities appreciates.

Our directors and named executive officers own a substantial percentage of our common stock.

As of September 30, 2017, our directors and executive officers beneficially owned approximately 24.14% of our shares of common stock. Our directors and executive officers are entitled to cast an aggregate of approximately 11,599,317 votes on matters submitted to our stockholders for a vote or approximately 24.14% of the total number of votes entitled to be cast at a meeting of our stockholders. These stockholders, if they acted together, could exert substantial control over matters requiring approval by our stockholders. These matters would include the election of directors and the approval of mergers or other business combination transactions. This concentration of ownership may discourage or prevent someone from acquiring our business.

Future sales of our common stock by our existing stockholders may cause our stock price to fall.

The market price of our common stock could decline as a result of sales by our existing stockholders of shares of common stock in the market or the perception that these sales could occur. These sales might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate and thus inhibit our ability to raise additional capital when it is needed.

Our common stock is subject to the SEC's penny stock regulations.

Our common stock is subject to the SEC's "penny stock" rules. These regulations define a "penny stock" to be any equity security that has a market price (as defined) of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, these rules require the delivery, prior to the transaction, of a disclosure schedule prepared by the SEC relating to the penny stock market. The broker-dealer also must disclose the commissions payable to the broker-dealer and the sales person, current quotations for the securities, information on the limited market in penny stocks and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. In addition, the broker-dealer must obtain a written statement from the customer that such disclosure information was provided and must retain such acknowledgment for at least three years. Further, monthly statements must be sent disclosing current price information for the penny stock held in the account. The penny stock rules also require that broker-dealers engaging in a transaction in a penny stock make a special suitability determination for the purchaser and receive the purchaser's written consent to the transaction prior to the purchase. The foregoing rules may materially and adversely affect the market for, and liquidity of, our common stock, including the ability of broker-dealers to sell our common stock, the ability of holders of our shares to obtain accurate price quotations and may therefore impede the ability of holders of our common stock to sell such securities in the secondary market.

FINRA sales practice requirements may also limit a shareholder's ability to buy and sell our stock.

In addition to the penny stock rules promulgated by the SEC, FINRA rules require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit the ability to buy and sell our stock and have an adverse effect on the market for our shares.

As an issuer of "penny stock," the protection provided by federal securities laws related to forward looking statements does not apply to us.

Although federal securities laws provide a safe harbor for forward-looking statements made by a public company that files reports under the federal securities laws, this safe harbor is not available to issuers of "penny stock." As a result, we may not have the benefit of this safe harbor protection in the event of any legal action based upon a claim that the material provided by us contained a material misstatement of fact or was misleading in any material respect because of our failure to include any statements necessary to make the statements not misleading. Such an action could hurt our financial condition.

Our stock price is volatile.

The stock market from time to time experiences significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These broad market fluctuations may cause the market price of our common stock to drop. In addition, the market price of our common stock is highly volatile. Factors that may cause the market price of our common stock to drop include:

- fluctuations in our results of operations;
- timing and announcements of new customer orders, new products, or those of our competitors;
- any acquisitions that we make or joint venture arrangements we enter into with third parties;
- changes in stock market analyst recommendations regarding our common stock;
- failure of our results of operations to meet the expectations of stock market analysts and investors;
- increases in the number of outstanding shares of our common stock resulting from sales of new shares, or the exercise of warrants, stock options or convertible securities;

- reluctance of any market maker to make a market in our common stock;
- changes in investors’ perception of the United States’ coal mining industry and related supply businesses; and
- general stock market conditions.

Risks Related to Our Industry

Our business is materially impacted by cyclical economic conditions affecting the U.S. and global mining industry.

Changes in economic conditions affecting the domestic and global mining industry can occur abruptly and unpredictably, which may have significant effects on our sales. Cyclicality is driven, primarily, by price volatility of coal, as well as product life cycles, competitive pressures and other economic factors affecting the U.S. mining industry, such as company consolidations and mergers, bankruptcies, increased regulation of the U.S. coal mining or electrical utility industry, and competition affecting demand for coal, and the broader economy, including changes in government monetary or fiscal policies and from market expectations with respect to such policies. Falling prices for coal have in the past, and may in the future, lead to reduced production levels of existing mines, a contraction in the number of existing mines and the closure of less efficient mines, and are likely to lead to a decrease in demand for our mining supplies and rail products. Conversely, rising coal prices typically lead to the expansion of existing mines, opening of new mines or re-opening of less efficient mines. Increased mining activity typically leads to an increase in demand for our mining supplies and rail products. In addition to declining orders for our products and services, adverse economic conditions for our customers may make it more difficult for us to collect accounts receivable in a timely manner, or at all, which may adversely affect our working capital. As a result of this cyclicality in the global mining industry, we have experienced significant fluctuations in our business, results of operations and financial condition, and we expect our business to continue to be subject to these fluctuations in the future.

We are largely dependent on the continued demand for coal, which is subject to economic and climate related risks

Many of our customers supply coal for the generation of electricity and/or steel production. Demand for steel is affected by the global level of economic activity and economic growth. The pursuit of the most cost effective form of electricity generation continues to take place throughout the world and coal-fired electricity generation faces intense price competition from other fuel sources, particularly natural gas. In addition, coal combustion generates significant greenhouse gas emissions and governmental and private sector goals and mandates to reduce greenhouse gas emissions may increasingly affect the mix of electricity generation sources. Further developments in connection with legislation, regulations, international agreements or other limits on greenhouse gas emissions and other environmental impacts or costs from coal combustion, both in the United States and in other countries, could diminish demand for coal as a fuel for electricity generation. If lower greenhouse gas emitting forms of electricity generation, such as nuclear, solar, natural gas or wind power, become more prevalent or cost effective, or diminished economic activity reduces demand for steel, demand for coal will decline. Reduced demand for coal would result in reduced demand for our products and adversely affect our business, financial condition and results of operations.

Environmental regulations impacting the mining industry may adversely affect demand for our products.

Our customers' operations are subject to or affected by a wide array of regulations in the U.S., including those directly impacting coal mining activities and those indirectly affecting their businesses, such as applicable environmental laws. In addition, new environmental legislation or administrative regulations relating to coal mining or affecting demand for mined supplies, or more stringent interpretations of existing laws and regulations, may require our customers to significantly change or curtail their operations. The high cost of compliance with environmental regulations may discourage our customers from expanding existing coal mines or developing new mines and may also cause customers to limit or even discontinue their mining operations. As a result of these factors, demand for the mining equipment and rail products we distribute could be adversely affected by environmental regulations directly or indirectly impacting the coal mining industry. Any reduction in demand for our products as a result of environmental regulations is likely to have an adverse effect on our business, financial condition or results of operations.

Demand for our products may be adversely impacted by regulations related to mine safety.

Our principal customers are surface and underground coal mining companies. The coal mining industry has encountered increased scrutiny as it relates to safety regulations, primarily due to recent high profile mining accidents. New legislation or regulations relating to mine safety standards and the increased cost of compliance with such standards may induce customers to discontinue or limit their mining operations and may discourage companies from developing new mines, which in turn could diminish demand for our products.

We may face competition from manufacturers and other distributors of mining supplies and rail products.

The market for our mining supplies is highly fragmented and we face competition from other companies offering products they manufacture or distribute that are competitive with our products. We also face potential competition from other companies that manufacture and sell rail products. Business in general is highly competitive, and we compete with both large manufacturers and smaller companies that manufacture and/or distribute drill bits and related products to the coal industry, in some instances in accordance with customer requirements and specifications. Some of our competitors have more capital, longer operating and market histories, greater manufacturing capabilities, and greater resources than we have, and may offer a broader range of products and at lower prices than we offer.

Liability claims may occur if our products are defective.

Any failure by our engineered metalwork products and tools could expose us to claims for negligence, breach of contract, personal injury, wrongful death, and products liability. Any such claims could be costly to defend and divert management time and resources. In addition, we cannot make assurances that we will have appropriate insurance available to us in the future at commercially reasonable rates to cover such claims. Currently, we maintain general liability insurance in the amount of $1,000,000. Such coverage may not be adequate to cover any claim that may be made against us. Claims brought against us that are not covered by insurance or that result in recoveries in excess of our insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

Our future operating results may be affected by fluctuations in the prices and availability of raw materials.

The raw materials used in the manufacture of our products include ore for our steel products and carbide for our drilling bit products**.** Our manufacturing vendors are supplied with a significant portion of their raw materials from sources outside the U.S. The raw materials industry as a whole is highly cyclical and at times pricing and supply can be volatile due to a number of factors beyond our control, including natural disasters, general economic and political conditions, labor costs, competition, import duties, tariffs and currency exchange rate fluctuations. This volatility can significantly affect our suppliers' raw material costs. In an environment of increasing raw material prices, competitive conditions can affect how much of the price increases in raw materials that we can recover in the form of higher sales prices for our products. To the extent our manufacturer vendors pass on the cost of such increases and we are unable to pass on any raw material price increases to our customers, our profitability would be adversely affected. Furthermore, restrictions on the supply of tungsten and other raw materials could adversely affect our operating results. If the prices for such raw materials increase or our manufacturing vendors are unable to secure adequate supplies of raw materials on favorable terms, our profitability could be impaired.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Disclosure in response to this item is not required of a smaller reporting company.

ITEM 2. PROPERTIES

Our principal executive offices and other facilities consist of approximately 4,800 square feet of office and warehouse space and certain land located at 12080 Virginia Blvd, Ashland, Kentucky, which we lease from Mr. Shrewsbury, our CEO, and Mrs. Shrewsbury pursuant to the terms of a lease we entered into with them on November 19, 2012, for a monthly lease payment of $2,000. The lease had a two year term starting October 1, 2012 and ending August 31, 2014. On September 1, 2016, the parties agreed to extend the lease for an additional 24 month period upon the same terms and conditions. As of September 30, 2017, the Company had accrued but unpaid lease payments due to Mr. and Mrs. Shrewsbury in the amount of $60,000; accordingly, the Company may be deemed to be in default under the terms of the lease agreement with Mr. and Mrs. Shrewsbury. However, the Company has not received a notice of default or termination under the lease agreement as of the date of the filing of this report. The Company believes that such office, warehouse and land space will be sufficient for its current needs.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is quoted on the OTC Market Group, Inc.'s Pink marketplace under the symbol "TXHG."

The following table provides the high and low bid prices of our common stock for each quarterly period during the two most recent fiscal years as regularly quoted by the OTC Markets Group, Inc.'s Pink marketplace. The quotations set forth below reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

Quarter Ended	**High $**	**Low $**
September 30, 2017	0.012	0.008
June, 30, 2017	0.020	0.008
March, 31, 2017	0.025	0.006
December 31, 2016	0.010	0.003
September 30, 2015	0.009	0.005
June, 30, 2015	0.01	0.008
March, 31, 2015	0.017	0.008
December 31, 2014	0.014	0.011

As of September 30, 2017, there were approximately 655 holders of record of our shares of common stock.

Dividends

We have never declared or paid a cash dividend on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, results of operations, contractual restrictions and covenants included under our bank indebtedness, capital requirements, business prospects and other factors that our board of directors considers relevant.

Equity Compensation Plan Information

The following table details the number of securities to be issued and the exercise prices of the options and warrants as of September 30, 2017.

Plan Category	**Number of securities to be issued upon exercise of outstanding warrants and rights (1)** (a)	**Weighted-average exercise price of outstanding options, warrants and rights** (b)	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)** (c)
Equity compensation plans approved by security holders	0	0	0
Equity compensation plans not approved by security holders	50,000	$ 0.10	0
Total	50,000	$ 0.10	0

(1) On May 16, 2012, the Board of Directors authorized the grant of an aggregate of 400,000 common stock purchase warrants to a sales agent over a period of four years. The agent 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 issuable. The initial tranche of 50,000 warrants were issuable effective July 1, 2012. As of September 30, 2017, 50,000 warrants are exercisable and 350,000 warrants have expired

Unregistered Sales of Equity Securities

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. The warrants are issuable over a four year period in equal tranches of 50,000. The first tranche was issued on July 1, 2012, followed by additional tranches every six months thereafter with the last tranche to be issued on January 1, 2016. As of September 30, 2017, 50,000 warrants issuable to the sales agent are exercisable and 350,000 warrants have expired. 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 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 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.

Purchases of Equity Securities

We did not purchase any of our equity securities during the year ended September 30, 2017.

ITEM 6. SELECTED FINANCIAL DATA

Disclosure in response to this item is not required of a smaller reporting company.

ITEM 7. 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, consolidated financial statements and financial notes, and the 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., and its subsidiaries.*

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 generally accepted accounting principles in the United States (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, intangible assets, 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 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 our financial statements for the years ended September 30, 2017 and September 30, 2016, contains an explanatory paragraph 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 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. Our coal mining customers are primarily located in Ohio, Pennsylvania, Kentucky and West Virginia.

We purchase mining supplies from several manufacturers and rail products 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 one independent sales agent who are compensated on a commission basis.

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 had 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) reported in its *Short-Term Energy Outlook* (STEO) released October 11, 2017, that it expects the share of U.S. total utility-scale electricity generation from natural gas to fall from 34% in 2016 to about 31% in 2017 as a result of higher natural gas prices and increased electricity generation from renewables and coal. In 2018, natural gas's generation share is expected to rise to 32%. Coal's forecast generation share rose from 30% last year to 31% in 2017 and is expected to stay at that level in 2018.

Coal production for the first nine months of 2017 was 591 MMst, 62 MMst (12%) higher than in the same period in 2016. Coal production is expected to increase by 8% in 2017 and by less than 1% in 2018.

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 three most recent fiscal quarters.

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.

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

Our revenues for the year ended September 30, 2017, were $3,006,599 as compared to $2,128,278 for 2016.

Gross profit in the year increased by 163% when compared to 2016

We had a net loss of $124,506 in fiscal 2017 compared to a net loss of $678,719 in 2016. The year ended September 30, 2017, is the third fiscal year in which we have reported a net loss after two previously profitable years. The current year loss is a direct result of lower sales during the first fiscal quarter of 2017 due to an operational decline in the U.S. coal mining industry. Also, we wrote off an aggregate of $144,726 in inventory in connection with the discontinuance of our Bag Rack operations which was offset by the reversal of an inventory reserve we recorded in the prior year.

Liquidity and Capital Resources

At September 30, 2017, we had cash and cash equivalents of $40,345 compared to cash and cash equivalents of $3,062 at September 30, 2016 an increase of $37,283.

Net cash provided in operating activities was $258,040 during the year ended September 30, 2017, comparing favorably to net cash used in operating activities of $82,165 in 2016.

There was no cash flow from investing activities for either 2017 or 2016.

Cash used in financing activities during the current year was $220,757 as compared to cash provided in financing activities of $23,663 in 2016. The current year cash used in financing activities resulted from stockholder's net advances repayment of $164,650 and a repayment of our term loan of $56,107. During 2016, cash provided by stockholder's net advances was $74,000 and cash repayment of our term loan was $50,337.

Mr. William Shrewsbury, our Chairman and CEO, has provided financing in the form of a consolidated promissory note in the amount of $2,000,000 ("Consolidated Note") on which we have accrued interest of $359,726, and 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 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 September 30, 2017, Mr. Shrewsbury had also provided non-interest-bearing advances to us of $33,987.

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 accounts 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 new loan is for a term of five years and matures on December 3, 2020. Interest under the new loan is variable and is based upon the Wall Street Journal Prime rate, currently 4.25 % per annum.

Our indebtedness to Mr. Shrewsbury is subordinated to the new bank loan. During the current year, we repaid $56,107 leaving an outstanding balance of $606,005 under the new loan.

Our success is dependent upon our ability to increase sales of our rail products and mining supplies, of which there can be no assurance.

We were incorporated in the State of Georgia in May, 2000.

Results of Operations

Year Ended September 30, 2017 Compared with Year Ended September 30, 2016

Revenues from Operations

Revenues for 2017 and 2016 were $3,006,599 and $2,128,278, respectively, an increase for 2017 of $878,321 or approximately 41.3%. The increase in revenue in 2017 resulted from higher sales as U.S. coal mine operators began ramping-up operations and opening new, or re-opening previously closed, mines to meet the higher demand for coal during the last three fiscal quarters of 2017.

Cost of Goods Sold

During 2017, cost of goods sold was $2,273,214 as compared to cost of goods sold of $1,849,289 for 2016, an increase of $423,925 or 22.9%. The increase in cost of goods is solely related to the increase in sales over the prior year. Cost of goods sold as a percentage of sales decreased from 86.9% in 2016 to 75.69% in 2017 as a result of the inventory reserve recorded in 2016.

Gross Profit

Gross profit for 2017 was $733,385, an increase of $454,395 or 162.9% when compared to 2016. The higher gross profit is the result of higher revenue during 2017 from higher sales due to increase in production in the coal industry and a $275,000 reserve for inventory obsolescence recorded in 2016.

Operating Expenses

The Company incurred operating expenses of $742,941 in 2017, as compared to $837,209 during 2016, a decrease of $94,268 or approximately 11.3%. As a percentage of revenue, operating expenses decreased from 39.3% in 2016 to 24.7% in 2017. The decrease is attributed to the impact of our fixed operating expenses while generating higher revenue during 2017.

The following table details the components of operating expenses, as well as the dollar and percentage changes for the year end periods.

	Twelve Months Ended			
	9/30/2017	**9/30/2016**	**$ Change**	**% Change**
Operating Expense				
Commission expense	$149,884	$101,627	$48,257	47.5
Professional fees	16,739	62,788	(46,049)	(73.3)
Bad debt expense	6,936	169,958	(163,022)	(95.9)
Depreciation expense	9,799	9,796	3	0.0
Other operating expense	559,583	493,040	66,543	13.5
Total	$742,941	$837,209	$(94,268)	(11.3)

Commission expense for the year ended September 30, 2017 was $149,884 compared to $101,627 for the same period in 2016, an increase of $48,257 or 47.5%. The higher commission, during the year ended September 30, 2017, is a direct result of the increased sales resulting from operational increase in the domestic coal mining industry. As a percentage of revenue, commission expense increased from 4.8% in 2016 to 5.0% in 2017.

Professional fees decreased $46,049 or 73.3% for the year ended September 30, 2017, as compared to the prior year. The lower expenses were the result of lower legal expenses of $32,416 and lower advertising expense of $13,633. During 2016, the Company incurred additional advertising expenses in connection with the acquisition of The Bag Rack business.

Bad debt expense decreased $163,022 or 95.9% for the twelve months ended September 30, 2017, as compared to the prior year. Bad debt reserve recorded for three customers and an advance to a supplier write-off in 2016 accounted for the expense decrease.

Depreciation expenses increased $3 in 2017 as compared to 2016.

For the year ended September 30, 2017, other operating expenses were $559,583, an increase of $66,543 or 13.5% from the $493.040 incurred during 2016. The higher operating expenses resulted from the write-off of the Bag Rack inventory ($144,726) partially offset by lower compensation ($60,658) and lower Board fees ($24,000). The Bag rack inventory write-off results from management decision to exit the business as product sales did not materialize.

Loss from Operations

For 2017, we had a loss from operations of $9,556 as compared to a loss of $558,220 in 2016. The decrease of $548,664 resulted from a reserve for inventory obsolescence of $275,000 and an increase in bad debt reserve of $156,315 recorded in 2016 and, higher profit from higher sales in 2017.

Other Income and (Expense)

Other expense was $114,190 in 2017 as compared to $120,499 in 2016, a decrease of $5,549. The decrease resulted from lower interest expense associated with the term loan of $3,179 and higher scrap sales of $2,370 than in 2016.

Net Loss.

During 2017 the Company had a net loss of $124,506 compared to a net loss of $678,719 for 2016, representing a net loss decrease of $554,213. The decrease resulted from an inventory reserve of $275,000 and a bad reserve of $156,315 recorded in 2016. Higher sales resulting in higher profits during the current year account for the remaining loss reduction.

Net Loss Per Common Share

Net earnings per share (basic and diluted) as a result of the net loss remains a negative $0.00 in 2017, compared to a negative $0.01in the prior year.

Net Operating Loss Carry Forward for Tax Purposes

As of September 30, 2017, the Company had tax net operating loss carry forwards totaling approximately $8,110,000, which expire in 2018 through 2036. Approximately $1,200,000 of such net operating losses were incurred prior to December 12, 2002 at which date MA&N acquired 51% of the Company and are consequently subject to certain limitation described in Section 382 of the Internal Revenue Code. The Company estimates that, due to the limitations and expiration dates, only $424,000 of the net operating losses incurred prior to December 12, 2002 will be available to offset future taxable income.

There can be no assurance that these deferred tax assets will ever be used. A deferred tax asset can be used only if there is future taxable income, of which there can be no assurance.

Liquidity and Capital Resources

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

	Twelve Months Ended	
Liquidity and capital resources	**9/30/2017**	**9/30/2016**
Net cash provided /(used) in operating activities	$258,040	$(82,165)
Net cash provided/(used) in investing activities	_	_
Net cash provided/(used) in financing activities	(220,757)	23,663
Net increase/(decrease) in cash equivalents	**$37,283**	**$(58,502)**

At September 30, 2017, the Company had cash and cash equivalents of $40,345 compared to cash and cash equivalents of $3,062 at September 30, 2016 an increase of $37,283. The increase in cash is the direct result of the net cash provided in operating activities of $258,040 partially offset by a net repayment of officer advances of $164,650 and a $56,107 repayment of our term loan.

Cash Flows Used in Operating Activities

Cash provided in operating activities during 2017 was $258,040 as compared to cash used in operating activities of $82,165 during 2016.

During the year ended September 30, 2017, the Company incurred a net loss of $124,506.

A decrease in inventory (current and non-current) of $415,668, decrease in commission advances of $46,070 and an increase in accrued liabilities of $46,891 during 2017 were offset by an increase in accounts receivable of $116,094 and a reversal of of the allowance for doubtful accounts of $113,643. The decrease in inventory is associated with management's decision to reduce inventory levels of the mine related products and the Bag Rack Inventory write-off of $144,726.

Accounts receivable increased by $116,094 compared to a decrease of $179,683 during 2016. The receivable increase is the result of a 29.2% increase in sales over the prior year.

Accrued liabilities as of September 30, 2017, increased by $46,891, accrued interest on a loan due to Mr. Shrewsbury account for the current year increase.

Accounts payable decreased $29,686 in 2017 compared to a $321,489 increase in the prior year. The decrease is the result of lower purchases of inventory and higher payments of vendors' outstanding payables.

Cash Flows Used in Investing Activities

There were no investing activities during 2017 or 2016.

On May 30, 2012, the Company sold 100% of the interest in an Oil and Gas lease for $80,000. The Company received a down payment of $40,000 and a note for the balance of $40,000. The note is secured by future lease production. During the current year, the Company wrote-off the balance of $29,983 which was deemed uncollectible.

Cash Flows Provided/(used) in Financing Activities

During 2017, cash used in financing activities was $220,757 as compared to cash provided in financing activities of $23,663 during 2016. During 2017, the Company repaid $56,107 on the outstanding term loan and repaid stockholder/officer’s net advances of $164,650. In 2016 the Company repaid $50,337 on the term loan and received net advances from our CEO of $74,000.

The Company primary sources of financing during 2017 was the cash generated from its operations, as compared to 2016 where the primary source was the advances received from our CEO.

In November 2012, we obtained a $250,000 line of credit from a bank. On August 26, 2014, the bank increased the Company’s existing bank line of credit from $250,000 to $750,000 and extended the term of the loan. The loan which was refinanced in December 2015 was secured by a priority security interest in the Company’s inventory and accounts receivable and matured on November 7, 2015. Interest on the loan was payable monthly and was calculated on the basis of a variable index. As of September 30, 2015, the Company had borrowed $712,449 under the loan. The rate of interest under the loan was 3.25% per annum. Principal, interest and collection costs under the loan were guaranteed by Mr. Shrewsbury. On December 3, 2015, we obtained a new term loan from the bank in the amount of $711,376. We utilized the proceeds of the new loan to repay the line of credit. The new loan is for a term of five years and matures on December 3, 2020. During the term of the loan we have agreed to make equal monthly repayments of principal and interest of $6, 967 commencing January 3, 2016 and a final payment on December 3, 2020, of the outstanding balance of the interest and principal then due, estimated to be approximately $391, 896. Interest under the new 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 new loan is secured by a priority security interest in our inventory and accounts receivable and guaranteed by our CEO. As of September 30, 2017 the term loan balance is $606,005.

On February 25, 2014, the Company and Mr. Shrewsbury entered into an agreement to consolidate an aggregate of $2,000,000 of the amounts due to Mr. Shrewsbury and issued in replacement a Secured Consolidated Note (“Consolidated Note”) for such amount. The Consolidated Note bears interest at 5% per annum or prime rate if higher than 5% per annum, principal and interest are repayable ten years from February 25, 2014, and it is subject to customary 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 insurance of $2 million that has been purchased by the Company on the life of Mr. Shrewsbury.

During 2017, the Company received $111,150 in cash advances from Mr. Shrewsbury and repaid $275,800, bringing the total outstanding advance balance to $33,987. Cash advances from Mr. Shrewsbury are repayable upon demand and do not bear interest.

Property and Equipment, net, was $46,980 as of September 30, 2017 compared to $56,779 as of September 30, 2016. Delivery equipment depreciation recorded in the current year accounts for the reduction in Property and Equipment.

As of September 30, 2017, the Company had accrued and unpaid an amount of $416,179 due to Jose Fuentes, CFO, as payment for past services.

Financial Condition and Going Concern Uncertainties

Since inception, except for the six consecutive quarters ended June 30, 2014, we have not generated sufficient cash to fund its operations and has incurred operating losses. During the current year, the Company generated sufficient cash to cover its operating cash needs and repay $164,650 of our CEO advances. Currently, in addition to our operating cash flow, the Company will continue to rely substantially upon financing provided by Mr. Shrewsbury, our CEO, and secured bank indebtedness to fund its operations. In view of these matters, realization of certain assets in the accompanying balance sheet is dependent upon continued operations, which in turn, is dependent on our ability to meet our financial requirements, upon the continued provision of financing by Mr. Shrewsbury and under the Company’s term loan, and the 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, 2017, contains an explanatory paragraph 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 to become our stockholder.

As of September 30, 2017, the Company had cash and cash equivalents of $40,345 as compared to $3,062 as of September 30, 2016. The $37,283 increase in cash resulted from the Company's cash generated from operations partially offset by repayment of the bank term loan of $56,107 and a $164,650 net repayment of officer's advances.

The Company's accounts receivable were $458,203 as of September 30, 2017, as compared to $235,402 as of September 30, 2016, an increase of $222,801 or 94.7%. The increase resulted from a 41% increase in sales in the current year and a $100,000 bad debt reserve recorded in 2016.

Inventory (current and non-current) was $1,690,350 as of September 30, 2017 as compared to $1,806.018 as of September 30, 2016, a decrease of $115,660 or 6.4%. The inventory reduction is the direct result of a $144,726 inventory write-off of the Bag Rack inventory. The Bag Rack's inventory write-off was offset against a $275,000 inventory reserve for obsolescence recorded in the prior year.

During 2017, our stockholders' deficit increased from $15,431,430, in the prior year to $15,555,936, an increase of $124,506 or 0.8%. The net loss for the year ended September 30, 2017 accounts for the increase in stockholders' deficit.

During the year ended September 30, 2017, the Company's net loss was $124,506 compared to a net loss of $678,719 for 2016 representing a loss decrease of $554,213. The decrease can be directly attributed to higher sales of $878,321 during the current period resulting from operational upturn in the coal mining industry, an inventory reserve of $275,000 for inventory obsolescence and, an increase in bad debt reserve of $100,000 recorded in the prior year.

Currently, in addition to funds utilized to purchase inventory, the Company is spending approximately $60,000 per month on operations. Management believes that the Company's cash flows from its operations, the loans and advances provided by Mr. Shrewsbury, and the loan provided by the bank to be sufficient to fund the Company operations for the next 12 months. However, the Company will require additional financing to meet any large capital requirements or to meet its current obligations if its business does not generate sufficient operational cash flow.

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

Bank Loan

Under the terms of a business loan agreement, originally entered into on November 7, 2012, and as amended through August 26, 2014, the Company 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 based upon Wall Street Journal Prime Rate.

On December 3, 2015, we entered into a new loan agreement with Town Square Bank pursuant to 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.

During the term of the loan, we have 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 amounts due under 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 under the note;
- we fail to comply with any term, obligation, covenant or condition in the loan documents or any other agreement between the bank and the Company:
- we default 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 loan or perform its obligation under the loan documents;
- a warranty, representation or statement we made to the bank under the loan document 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 of ours 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 certain 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 certain other customary covenants, terms and conditions.

In addition, the loan agreements contain certain 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 our 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 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.

Advances and Loans from Our Chief Executive Officer

In connection with the expansion of the Company's business, Mr. Shrewsbury, our Chairman and CEO, 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 pursuant to which an aggregate of $2,000,000 in indebtedness due to Mr. Shrewsbury was consolidated and restructured and issued in exchange for such 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 insurance 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. As of September 30, 2017, accrued interest on the note was $359,726

An event of default will occur under the Consolidated Note upon:

- the Company's failure to pay when due any principal or interest under the Consolidated Note;
- the 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 the indebtedness, the Company granted to Mr. Shrewsbury options to purchase an aggregate of 500,000 shares of the Company's common stock issued February 25, 2014. The options became exercisable on April 1, 2014, and expired on March 31, 2017. The options were 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.

As of September 30, 2017, Mr. Shrewsbury had advanced an aggregate of $33,987 to the Company. The advances do not bear interest and are repayable upon demand. At September 30, 2017, the Company also has a payable of $60,000 to Mr. Shrewsbury for warehouse storage rental.

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

RECENTLY ISSUED ACCOUNTING STANDARDS

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 require 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 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosure in response to this item is not required of a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated balance sheets as of September 30, 2017 and 2016 and the related consolidated statements of operations, consolidated changes in stockholders’ deficit and consolidated cash flows for the years then ended have been audited by Turner, Stone and Company, LLP. Turner, Stone and Company, LLP is an independent registered public accounting firm. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to Regulation S-K as promulgated by the Securities and Exchange Commission and are included herein pursuant to Part II, Item 8 of this Form 10-K. The financial statements have been prepared assuming the Company will continue as a going concern.

TX HOLDINGS, INC.

CONSOLIDATED FINANCIAL STATEMENTS - TABLE OF CONTENTS
For the Years Ended September 30, 2017 and 2016

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

TX Holdings, Inc.

Ashland, Kentucky

We have audited the accompanying consolidated balance sheets of TX Holdings, Inc. (the "Company") at September 30, 2017 and 2016 and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TX Holdings, Inc. as of September 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has not generated sufficient cash to fund its operations and continues to rely substantially upon financing provided by a stockholder, both of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that may result from the outcome of these uncertainties.

/s/ Turner, Stone & Company, L.L.P.

Dallas, Texas

December 15, 2017

PART 1-FINANCIAL INFORMATION
Item 1-Financial Statements
TX HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
September 30, 2017 and 2016

	September 30, 2017	September 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$40,345	$3,062
Accounts receivable, net of allowance for doubtful accounts of $ 0 at September 30, 2017 and $113,643 at September 30, 2016	458,203	235,402
Inventory	1,690,350	1,806,018
Commission advances	22,648	68,718
Note receivable-current	–	10,000
Other current assets	2,886	136
Total current assets	2,214,432	2,123,336
Inventory, non-current	–	300,000
Property and equipment, net	46,980	56,779
Note receivable, less current portion	–	19,983
Other	500	500
Total Assets	$2,261,912	$2,500,598
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accrued liabilities	$548,218	$571,327
Accounts payable	654,773	625,087
Accrued interest	359,726	259,726
Advances from officer	33,987	198,637
Bank-Term Loan	606,005	662,112
Total current liabilities	2,202,709	2,316,889
Note payable to officer	2,000,000	2,000,000
Total Liabilities	4,202,709	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 September 30, 2017 and September 30, 2016	9,293,810	9,293,810
Additional paid-in capital	4,321,329	4,321,329
Accumulated deficit	(15,555,936)	(15,431,430)

Total stockholders' deficit	(1,940,797)	(1,816,291)
Total Liabilities and Stockholders' Deficit	$2,261,912	$2,500,598

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

TX HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended September 30, 2017 and 2016

	September 30, 2017	**September 30, 2016**
Revenue	$3,006,599	$2,128,278
Cost of goods sold	(2,273,214)	(1,849,289)
Gross profit	733,385	278,989
Operating expenses, except items shown separately below	559,583	493,040
Commission expense	149,884	101,627
Professional fees	16,739	62,788
Bad Debt Expense	6,936	169,958
Depreciation expense	9,799	9,796
Total operating expenses	742,941	837,209
Loss from operations	(9,556)	(558,220)
Other income and (expense):		
Other income	11,038	8,668
Interest expense	(125,988)	(129,167)
Total other income and (expense), net	(114,950)	(120,499)
Net loss	$(124,506)	$(678,719)
Net loss per common share Basic and Diluted	$0.00	$(0.01)
Weighted average of common shares outstanding- Basic and Diluted	48,053,084	48,053,084

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

TX HOLDINGS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
For the Years Ended September 30, 2017 and 2016

	Unaudited Preferred Stock		**Common Stock**		**Additional Paid in**	**Accumulated**	
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Deficit**	**Total**
Balance at September 30,2015	–	$ –	48,053,084	$9,293,810	$4,321,329	$(14,752,711)	$(1,137,572)
Net loss						(678,719)	(678,719)
Balance at September 30, 2016	–	$ –	48,053,084	$9,293,810	$4,321,329	$(15,431,430)	$(1,816,291)
Net loss	–	–	–	–	–	(124,506)	(124,506)
Balance at September 30, 2017	–	$ –	48,053,084	$9,293,810	$4,321,329	$(15,555,936)	$(1,940,797)

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

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TX HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2017 and 2016

	September 30, 2017	**September 30, 2016**
Cash flows provided/(used) in operating activities:		
Net loss	$(124,506)	$(678,719)
Adjustments to reconcile loss to net cash used in operating activities:		
Depreciation expense	9,799	9,796
Bad debt expense	6,936	169,958
Write-off of note receivable	29,983	26,000
Changes in operating assets and liabilities:		
Accounts receivable, net	(229,737)	179,683
Inventory	415,668	417,019
Commission advances	46,070	(20,380)
Other current assets	(2,750)	1,538
Accrued liabilities	46,891	110,429
Accounts payable	29,686	(321,489)
Stockholder/officers advances for operations	30,000	24,000
Net cash provided/(used) in operating activities	258,040	(82,165)
Cash flows provided/(used) in investing activities:		
Net cash provided/(used) in investing activities	–	–
Cash flows provided/(used) in financing activities:		
Repayment of bank term loan	(56,107)	(50,337)
Proceeds from stockholder/officer advances	111,150	187,200
Repayment of stockholder/officer advances	(275,800)	(113,200)
Net cash provided/(used) in financing activities	(220,757)	23,663
Increase/(decrease) in cash and cash equivalents	37,283	(58,502)
Cash and cash equivalents at beginning of period	3,062	61,564
Cash and cash equivalents at end of period	$40,345	$3,062
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the year for interest	$25,988	$129,167
<u>Suppemental Schedule of Non-Cash investing and Financing Activities</u>		
Repayment of line of credit through issuance of bank term loan	$–	$711,376

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

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TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

BUSINESS

TX Holdings, Inc., a Georgia corporation (the "Company"), is in the business of supplying, distributing and selling drill bits, related tools, and other mining supplies and rail products to United States' coal mining companies and operators for use in their extraction and transportation processes. 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.

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

Rail and Mining Supplies Distribution Business

Commencing in December 2011, the Company expanded and began focusing its business on the distribution of rail material and mining supplies consumed by the United States' coal mining industry in its production and transportation processes. This includes rail and its various components and mining supplies, such as steel and tungsten carbide miner bits and augurs and related tools and material.

In connection with the Company's business expansion, Mr. Shrewsbury, our Chairman and CEO, has provided us with financing in the form of loans and advances and has guaranteed our bank term loan.

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 a Revolving Demand Note ("Revolving Note") in the principal 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 a 10% Promissory Note (“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. The Company 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 related thereto. In addition, in consideration of Mr. Shrewsbury agreeing to consolidate and restructure the foregoing 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 were exercisable for a period of three years commencing April 1, 2014. The options were 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, merger, or sale of all or substantially all of the assets. The options expired on March 31, 2017.

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 insurance of $2 million that has been 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 of the Georgia Corporation Code. Mr. Shrewsbury has also advanced the Company an additional $33,987 at September 30, 2017, which is not interest bearing. The notes and advances due to Mr. Shrewsbury are subordinate to the Company’s bank indebtedness.

FINANCIAL CONDITION AND GOING CONCERN CONSIDERATIONS

Although the Company was profitable during fiscal 2014 and 2013, the Company has not generated sufficient cash during succeeding years to fund its operations and relies substantially upon financing provided by Mr. Shrewsbury, the Company’s Chief Executive Officer, and a term loan that is guaranteed by Mr. Shrewsbury.

TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES-Continued

FINANCIAL CONDITION AND GOING CONCERN CONSIDERATIONS-Continued

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 availability of financing from Mr. Shrewsbury and under the Company's bank line of credit, and the 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 years ended September 30, 2017, and 2016 contains an explanatory paragraph wherein they state that the Company has incurred significant losses from operations since inception and has a stockholders' deficit, both of which raise substantial doubt about the Company's ability to continue as a going concern. The Company will continue its on-going efforts to increase our customer base and seek lower cost suppliers to generate future operating profits.

Accordingly, you should give careful consideration to our auditor's opinion and these matters in determining whether to become or continue to be our stockholder.

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 implement successfully its business plan and to become financially viable. The financial statements do not include adjustments relating to the recoverability of recorded assets nor the implications of associated bankruptcy costs should the Company be unable to continue as a going concern.

The financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and U. S. generally accepted accounting principles.

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions and calculated estimates that affect (a) certain reported amounts of assets and liabilities, (b) disclosure of contingent assets and liabilities at the date of the financial statements, and (c) the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include recoverability of long-lived and deferred tax assets, and measurement of stock based compensation. The Company bases its estimates on historical

experience and various other common assumptions that management believes to be reasonable under the circumstances. Changes in estimates are recorded in the period in which they become known. Actual results could differ from those estimates.

CASH AND CASH FLOWS

For purposes of the statements of cash flows, cash includes demand deposits, time deposits, certificates of deposit and short-term liquid investments in government securities with original maturities of three months or less when purchased. The Company maintains deposits in two financial institutions. The Federal Deposit Insurance Corporation provides coverage up to $250,000 per depositor, per bank. At September 30, 2017, none of the Company’s cash was in excess of federally insured limits. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risks from these deposits.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company’s practice is to record an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. The estimate is based on management’s assessment of the collectability of customer accounts and includes consideration for credit worthiness and financial condition of those customers. The Company reviews historical experience with its customers, the general economic environment and the aging of receivables to determine the adequacy of the allowance. The Company records an allowance to reduce receivables to the amount that can be reasonably expected to be collectible. The allowance for doubtful accounts is $0 at September 30, 2017 and $113,643 for 2016.

TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES-Continued

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS-Continued

The Company wrote-off two uncollectable customer's accounts in the amount of $1,115 and also wrote-off a note receivable in the amount of $29,983 during the current year. The note receivable had been issued in connection with the sale of an oil lease previously owned by the Company. During fiscal year 2016, the Company wrote-off two uncollectable customers' accounts in the amount of $43,957 and increased the allowance for doubtful accounts by $100,000.

INVENTORY

The Company's inventory consists of mine and rail inventory. Inventory is stated at the lower of cost (first-in, first-out) or net realizable value. During the prior year, the Company had reclassified rail inventory in the amount of $300,000 from current to non-current, as it anticipated the inventory will not be sold in the subsequent year and recorded a $275,000 reserve for inventory obsolescence.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less depreciation. Major renewals and betterments are capitalized, while maintenance and repairs that do not materially improve or extend the useful lives of the assets are charged to expense as incurred. A depreciable life of three (3) years and five (5) years are assigned to delivery trucks and equipment, respectively. Assets are depreciated over their estimated useful lives using the straight-line method. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets (Note 2).

REVENUE RECOGNITION

The Company recognizes revenue from direct sales of our products to our customers, including shipping fees, when title passes to the customer, which usually occurs 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 sales on the consolidated statements of operations.

STOCK BASED COMPENSATION

The Company accounts for share-based expense and activity in accordance with Financial Accounting Standard Board (FASB) ASC Topic 718 which establishes accounting for equity instruments exchanged for services. Under this provision share-based compensation costs are measured at the grant date, based on the calculated fair value of the award, and are recognized as an expense over employee's requisite service period, generally the vesting period of the equity grant.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, expected option term, expected volatility of the stock over the option's expected term, risk-free interest rate over the option's expected term and the expected annual dividend yield. The Company believes that the valuation technique and approach utilized to develop the underlying assumptions are appropriate in calculating the fair value of the stock options granted (Note 5).

TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES-Continued

POTENTIALLY DILUTIVE OPTIONS AND WARRANTS-Continued

At September 30, 2017, the Company has outstanding 50,000 warrants which were not included in the twelve months ended September 30, 2017 calculation of diluted net loss per share since their inclusion will be antidilutive. Similarly, at September 30, 2016, the Company had 150,000 warrants and 500,000 options which were also not included in the 2016 calculation of diluted net loss per share since their inclusion will be antidilutive. The 500,000 options had been issued to an officer and expired in the current year, the 150,000 warrants were issued to a sales agent of which 50,000 warrants remain exercisable as of September 30, 2017.

INCOME TAXES

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

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

In assessing the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which temporary differences become deductible. Management considers the reversal of any deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

FINANCIAL INSTRUMENTS

The Company includes fair value information in the notes to the financial statements when the fair value of its financial instruments is different from the book value. When the book value approximates fair value, no additional disclosure is made, which is the case for financial instruments outstanding as of September 30, 2017 and 2016. The book value of those financial instruments that are classified as current assets or liabilities approximates fair value because of the short maturity of these instruments. For non-current financial instruments, the Company uses quoted market prices or, to the extent that there are no quoted market prices, market prices for similar instruments.

FAIR VALUE MEASUREMENT

ASC Topic 820, Fair Value Measurement, defines fair value, establishes a framework for measuring fair value in accordance with

U. S. generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the customer's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

BASIC NET INCOME (LOSS) PER COMMON SHARE

Net income or loss per share is computed based on current accounting guidance requiring companies to report both basic net income or loss per common share, which is computed using the weighted average number of common shares outstanding during the period, and diluted net income per common share, which is computed using the weighted average number of common shares outstanding and the weighted average dilutive potential common shares outstanding using the treasury stock method.

TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES-Continued

BASIC NET INCOME (LOSS) PER COMMON SHARE-Continued

The following table summarizes securities unissued at each of the periods presented which were not included in the calculation of diluted net earnings per share in 2017 and 2016.

	2017	**2016**
Options and warrants issued as compensation	50,000	650,000
Total	50,000	650,000

RECENTLY ISSUED ACCOUNTING STANDARDS

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 require 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 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.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30, 2017 and 2016:

	2017	2016
Delivery truck/trailer	$69,164	$69,164
Other warehouse equipment	38,144	38,144
Less- accumulated depreciation	(60,328)	(50,529)
	$46,980	$56,779

Depreciation expense of $9,799 and $9,796 were recognized during the years ended September 30, 2017 and 2016, respectively.

TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – ACQUISITION

In November 2014, and with a view to diversifying our business, we acquired The Bag Rack, LLC. The acquired company had developed a new product, “The Bag Rack,” a device that enables bags with handles to be stored efficiently in a car preventing the bags from tipping over and causing spillage. Having experienced no sales to-date and no prospective of sales in the near future, the Company, in the current year, has written-off Bag Rack’s full inventory in the amount of $144,726

NOTE 4 - INCOME TAXES

The tax effects of temporary differences that give rise to deferred taxes are as follows at September 30, 2017 and 2016:

	2017	**2016**
Deferred tax assets:		
Net operating losses	$2,497,000	$2,339,000
Accrued expenses	155,000	170,000
Valuation allowance	(2,652,000)	(2,509,000)
Total deferred tax assets	-	-
Deferred tax liabilities:		
Basis of property and equipment	-	-
Net deferred tax asset	$-	$-

Net operating losses after December 12, 2002 through September 30, 2017 were approximately $8,110,000. The Company has total net operating losses available to the Company to offset future taxable income of approximately $7,334,000. Following is a reconciliation of the tax benefit at the federal statutory rate to the amount reported in the statement of operations:

	2017 Amount	**Percent**	**2016 Amount**	**Percent**
Income tax expense at federal statutory rate	$(57.000)	(34%)	$(134,000)	(34%)
Change in estimate	(101,000)	-	-	-
Non-deductible expenses	15,000	-	(3,000)	(2%)
Increase in valuation allowance	143,000	34%	72,000	36%
Provision for income taxes, net	$-	-%	$-	-%

TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - INCOME TAXES-Continued

The Company's valuation allowance attributable to its deferred tax assets increased by $42,000 and $137,000 during the years ended September 30, 2017 and 2016.

The Company has tax net operating loss carry forwards totaling approximately $8,110,000, expiring in 2018 through 2036. Approximately $1,200,000 of net operating losses was incurred prior to December 12, 2002 at which date MA&N acquired 51% of the Company and are consequently subject to certain limitation described in section 382 of the Internal Revenue Code. The Company estimates that, due to the limitations and expiration dates, only $424,000 of the net operating losses incurred prior to December 12, 2002 will be available to offset future taxable income.

NOTE 5 - STOCKHOLDERS' DEFICIT

PREFERRED STOCK

The Company is authorized to issue up to 1,000,000 shares of preferred stock, no par value. As of September 30, 2017 and 2016, there were no preferred shares issued and outstanding.

COMMON STOCK

Of the 250,000,000 shares of common stock, no par value, authorized for issuance by the Company, 48,053,084 shares were issued and outstanding as of September 30, 2017 and 2016.

STOCK WARRANTS AND OPTIONS

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, over a period of four years. The agent is entitled to receive 50,000 warrants every six months for an aggregate of 400,000 warrants. The issuance are exercisable at a price of $0.10 per share, become exercisable upon issuance, and expire two years after the date issuable, the first tranche of 50,000 warrants were issuable effective July 1, 2012, and additional tranches of 50,000 were issuable every six months thereafter. As of September 30, 2017 there were 50,000 warrants issuable and exercisable and 350,000 warrants had expired. The warrants were not included in the calculation of diluted net earnings per share in 2017 and 2016 since their inclusion would 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 of 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 for the year ended September 30, 2017 or 2016 since their inclusion would be anti-dilutive.

The fair value of the equity based awards issued during the year ended September 30, 2016 was estimated using the Black-Scholes option pricing model. Expected volatility was based on the Company’s historical volatility for its common stock and adjusted to reflect the thinly traded nature of the market for its securities. The risk-free rate was determined using the U. S. Treasury yield in effect at the issuance date based on the term of the equity award. The expected life was based on the contractual term of the award. The Company has never declared or paid cash dividends and has no plans to do so in the foreseeable future.

TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - STOCKHOLDERS' DEFICIT-Continued

STOCK WARRANTS AND OPTIONS-Continued

The following assumptions were utilized for awards issued during the years ended September 30, 2016. There were no stock options or warrants awarded during fiscal year 2017.

	September 30, 2017	September 30, 2016
Expected life (in years)	–	2 to 3
Expected volatility	–	75%
Risk-free interest rate	–	0.39% to 2%
Expected dividend rate	–	0

Following is a summary of outstanding stock warrants and options at September 30, 2017 and 2016 and activity during the years then ended:

	Number of Shares	Exercise Price	Weighted Average Price
Warrants/Options at September 30, 2015	700,000	$0.092-0.10	$ 0.095
New Issue	50,000	0.10	0.100
Forfeited	(100,000)	0.1	0.100
Warrants/Options at September 30, 2016	650,000	$0.092-0.10	$ 0.095
New Issue	0	-	-
Forfeited	(600,000)	0.092-0.10	0.093
Warrants/Options at September 30, 2017	50,000	$0.10	$ 0.100

A summary of outstanding warrants and options at September 30, 2017, follows:

Expiration Date	Number of Shares	Exercise Price	Remaining Life (Years)
January 1, 2018	50,000	$ 0.10	0.25

TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – LEGAL PROCEEDINGS

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

NOTE 7– RELATED PARTY TRANSACTIONS

ADVANCES FROM STOCKHOLDER AND OFFICER

As of September 30, 2017 and 2016, Mr. Shrewsbury had advanced an aggregate of $33,987 and $198,637, respectively, to the Company. The advances do not bear interest and are repayable upon demand. The advances are subordinate to the Company's bank indebtedness.

PARK'S LEASE

In November 2006, the Company entered into a Purchase and Sale Agreement with Masada Oil & Gas, Inc. ("Masada"). Mr. Bobby S. Feller, a former director, is the owner of Masada and a member of the Company's board. The Parks lease purchased from Masada covered 320 acres in which the company previously owned a 75% working interest and Masada owned the remaining 25%.On January 28, 2011, TX Holdings, Inc. entered into an agreement with Masada Oil & Gas Inc. to acquire the remaining 25% working interest in the Park's lease. As part of the agreement, the Company also acquired a storage building and approximately two acres of land. In return, the Company agreed to relinquish an 8.5% working interest which it had in a different lease, pay the sum of $10,400 and, assume the current 25% lease owners' liability in the amount of $17,000. On May 30, 2012, the Company sold 100% of the interest in the Parks lease for $80,000. The Company received a down payment of $40,000 and a note for the balance of $40,000. The note is secured by Park's lease future production. On March 25, 2014, the storage building was sold for $18,000. The note receivable balance of $29,983 was written-off as of September 30, 2017, as the amount was deemed uncollectible.

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 a Revolving Demand Note (“Revolving Note”) in the principal 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 a 10% Promissory Note (“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. The Company issued a Consolidated Secured Promissory Note (the “Consolidated Note”) in the principal amount of $2,000,000 to reflect the consolidated indebtedness. 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 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 has been secured by the Company by the death benefit proceeds of a $2 million key man term life insurance policy purchased by the Company on the life of Mr. Shrewsbury and that has been assigned to 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.

For the year ended September 30, 2017 and 2016, interest expense of $125,988 and $129,167, respectively, in the accompanying statements of operations, relates to the Consolidated Note and the term loan arrangement. Interest on the Consolidated Note payable for the amount of $359,726 and $259,726 has been accrued as of September 30, 2017 and 2016, respectively.

TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – RELATED PARTY TRANSACTIONS-Continued

LEASE AGREEMENT WITH STOCKHOLDER AND OFFICER

We lease approximately 4,800 square feet of office and warehouse space and certain land located at 12080 Virginia Blvd, Ashland, Kentucky, from Mr. Shrewsbury, our CEO, and Mrs. Shrewsbury pursuant to the terms of a lease we entered into with them on November 19, 2012, for a monthly lease payment of $2,000. The lease had a two year term starting October 1, 2012 and ending August 31, 2014. The lease was subsequently extended for an additional two years and on September 1, 2016, the parties agreed to extend the lease for an additional 24 month period upon the same terms and conditions. As of September 30, 2017, the Company had accrued but unpaid lease payments due to Mr. and Mrs. Shrewsbury in the amount of $60,000; accordingly, the Company may be deemed to be in default under the terms of the lease agreement with Mr. and Mrs. Shrewsbury. However, the Company has not received a notice of default or termination under the lease agreement as of the date of the filing of this report. The Company believes that such office, warehouse and land space will be sufficient for its current needs.

FREIGHT PAID TO COMPANY CONTROLLED BY OFFICER/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 years ended September 30, 2017 and 2016, such trucking company was paid $57,773 and $51,078, respectively, for such trucking services, which were included in our cost of sales amount.

COMMISSIONS PAID TO COMPANY CONTROLLED BY OFFICER/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 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 years ended September 30, 2017 and 2016 the amounts of such commission were $9,640 and $8,669, respectively, which are included in our commission expense amount.

ACCRUED OFFICER'S SALARY

As of September 30, 2017 and 2016, the Company had accrued and unpaid amounts of $416,179 and $460,410, respectively, due to Jose Fuentes, CFO as payment for past services, which are included in our accrued liabilities amount.

ADVANCES FROM STOCKHOLDER AND OFFICER

Included in the financial statements as of September 30, 2017 and 2016 are advances from stockholder and officer of $33,987 and $198,637, respectively.

	September 2017	**September 2016**
Beginning Balance	$ 198,637	$ 124,637
Proceeds from Stockholder/Officer advances	111,150	187,200
Repayment of stockholder/officer advances	(275,800)	(113,200)
Ending Balance	$ 33,987	$ 198,637

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TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - NON CASH INVESTING AND FINANCING ACTIVITIES

Following is an analysis of non-cash investing and financing activities during the years ended September 30, 2017 and 2016:

	2017	2016
Repayment of line of credit through issuance of bank term loan	$ –	711,376

NOTE 9 – BANK LOAN

In November 2012, the Company obtained a $250,000 line of credit from a bank. On August 26, 2014, the bank increased the Company's existing bank line of credit from $250,000 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 loan agreement with the 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. As of September 30, 2017, the loan balance was $606,005.

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 amounts due under 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 under the loan;
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 obligation 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
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.

TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – BANK LOAN- Continued

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 claims 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.

TX HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – CONCENTRATION OF RISKS

Significant Customers

At September 30, 2017 and 2016, the Company had the following customer concentration:

	Percentage of Sales (1)		**Percentage of Accounts Receivable trade, net**	
	September 30, 2017	**September 30, 2016**	**September 30, 2017**	**September 30, 2016**
Customer A	30	9	52	*
Customer B	11	23	*	22
Customer C	7	7	*	17
Customer D	6	13	10	29
Customer E	*	*	17	*
Customer F	*	11	*	20
Customer G	*	13	*	*
Customer H	*	*	*	6

*Represent less than 5%

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with accountants on accounting and financial disclosure.

ITEM 9A. 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 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 Section 13(a) or 15(d) of 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.

Management’s Report on Internal Control Over Financial Reporting

Management of TX Holdings is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934, as amended.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. The Company's internal controls over financial reporting include those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles;
- provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company ; and
- provide reasonable assurance regarding prevention of timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also, the assessment of the effectiveness of internal control over financial reporting was made as of a specific date. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer, the Company's management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on criteria for effective internal control over financial reporting described in the 2013 "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, the Company's management has concluded that, as of September 30, 2017, the Company's internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company's registered independent public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered independent

public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15 (f) under the Exchange Act) during the period covered by the Report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth our current executive officers and directors:

Name	***Age***	***Title***
William L. Shrewsbury	73	Chairman of the Board, Chief Executive Officer, and Director
Jose Fuentes	70	Chief Financial Officer and Director
Martin Lipper	83	Director

Biographical information with respect to our current executive officers and directors is set forth below. There are no family relationships between any executive officer or director and any other executive officer or director.

William "Buck" Shrewsbury, Chairman and CEO. Mr. Shrewsbury has been a director and our Chairman and CEO since December 24, 2007. Since 1988, Mr. Shrewsbury has been the President and owner of Lee's Services and Storage, LLC, a trucking agency and, the President and owner of Buck's Truck Inc., a trucking company. Prior to 1988, Mr. Shrewsbury served as the IT manager with a large steel mill for 19 years. Mr. Shrewsbury attended the University of Kentucky 1962 -1965 with a major in Civil Engineering.

Martin Lipper, Director. Mr. Lipper became a director on December 24, 2007. Mr. Lipper was a former Managing Director of Greenstone Holdings Group LLC from 2010 to 2017. From November 2006 to March 2009, Mr. Lipper served as Senior Vice President and Research Director of Baron Group U.S.A. Mr. Lipper also serves as a director of Polydex Pharmaceutical, Inc., a publicly traded chemical manufacturing company for the drug industry. Mr. Lipper began his career on Wall Street as a securities analyst. He joined the Bank of New York and was the senior bank insurance and finance analyst. Subsequently, he became co-director of research at Eastman Dillon Union Securities and later Purcell Graham. In 1973, Mr. Lipper became V.P. and treasurer of APF Electronics. Mr. Lipper is a Korean War Veteran who graduated from N.Y.U. in 1958 with a Bachelor of Science degree in Finance and Economics.

Jose Fuentes, Chief Financial Officer and Director. Mr. Fuentes has been Chief Financial Officer since May 12, 2008, adirector of the Company since October 1, 2017. Commencing in 2006 and through 2007, Mr. Fuentes was our VP of Finance. Mr. Fuentes has over thirty-five years of financial related experience including the energy sector. The majority of his early career, after leaving public accounting, was spent at Atlantic Richfield Co., where he held several progressively responsible financial roles including his most recent position as Vice President of Finance, Planning and Control for Arco Indonesia. From there, Mr. Fuentes served as Vice President of Finance and CFO at PJM Interconnection, LLC. Mr. Fuentes received a Bachelor of Science degree in accounting from Saint John's University in New York and is a Certified Public Accountant.

All directors were appointed by the board of directors as a result of vacancies on the board. They hold office until the next annual meeting of shareholders and until their successors have been duly elected and qualified or until their earlier resignation, removal or death. Directors are elected at the annual meetings to serve for one-year terms. Any non-employee director of the Company is reimbursed for expenses incurred for attendance at meetings of the board and any committee of the board of directors although no such committee has been established.

Each officer is appointed by the board of directors and holds his office at the pleasure and discretion of the board of directors or until his earlier resignation, removal or death.

There are no material proceedings to which any director, officer or affiliate of the Company, any owner of record or beneficially of more than five percent of any class of voting securities of the Company, or any associate of any such director, officer, affiliate of the Company or security holder is a party adverse to the Company or has a material interest adverse to the Company.

Audit, Nominating, Compensation and Other Board Committees

The board of directors of the Company has not established an audit, nominating, compensation or other board committee although it may do so in the future. Also, the Company has not appointed an “audit committee financial expert” although it may do so in the future.

The Board of Directors

The board oversees our business affairs and monitors the performance of management. During the year ended September 30, 2017, the board held no board meeting.

Stockholders wishing to communicate with any non-employee director may do so by writing to our Chief Executive Officer, TX Holdings, Inc., PO Box 1425, Ashland Kentucky 41102. Our CEO will forward the communication as directed by the stockholder.

Independence of Directors

Our shares of common stock are quoted on the OTC Markets Group, Inc.’s Pink marketplace. As such we are not subject to certain corporate governance requirements applicable to companies listed on a national securities exchange. For purposes of determining the “independence” of our directors, we have adopted the definition in the NYSE American Company Guide. We have determined that we have one director that is “independent” within the meaning set forth in the NYSE American’s Company Guide. Mr. Shrewsbury is our CEO and Chairman. For a company of our size and management resources, we believe that the CEO is in the best position to focus the independent directors’ attention on the issues of greatest importance to the Company and its stockholders and we believe that splitting the roles of CEO and Chairman may have the consequence of making our management and governance processes less effective than they are today through duplication of the lines of accountability and responsibility for matters. Periodically, our board of directors intends to review such policy.

Risk Assessment and Management

Our senior management is responsible for overseeing, assessing and managing our exposure to risk on a day-to-day basis, including the creation of appropriate management programs and policies. We do not maintain a separate committee of our board responsible for managing and overseeing our exposure to risk. Our board is responsible for overseeing management in the execution of this responsibility and for assessing our approach to risk management. Our board exercises this responsibility at its periodic board meetings. Our board's role in risk management is consistent with our leadership structure, with our CEO having responsibility for assessing and managing our risk exposure and the board providing oversight in connection with those efforts.

Section 16(a) Beneficial Ownership Compliance and Reporting

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than ten percent of our common stock, to file reports of ownership and changes in ownership of our common stock with the SEC. Officers, directors, and greater-than-ten-percent stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file.

Based solely upon our review of Forms 3, 4 and 5 submitted to us pursuant to Rule 16a-3 under the Exchange Act, we believe that except as set forth below, all such forms required to be filed were timely filed by our executive officers, directors, and security holders required to file the forms during the fiscal year ended September 30, 2017.

On June 18, 2015, Mr. Shrewsbury filed a Form 4 that was not filed timely to report an aggregate of four transactions not previously reported. On October 10, 2015, Mr. Shrewsbury filed a Form 4 that was not filed timely to report an aggregate of six transactions not previously reported. All of such reported transactions in our shares would have been eligible for deferred reporting by Mr. Shrewsbury on Form 5 in accordance with Section 16(a) and the rules promulgated thereunder. Mr. Bobby Fellers (Board Member- Resigned October 1, 2017) has not filed an initial report on Form 3 and has not filed a Form 4 or Form 5 to report one transaction

Code of Ethics

The Company has adopted a Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethics has been filed as an exhibit to the Company's Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The following table provides information concerning the compensation of our Chief Executive Officer, Chief Financial Officer and one former "named executive officer" for our last two completed fiscal years:

Name and Principal Position	**Year**	**Salary ($) (1)**	**Bonus ($)**	**Stock Awards ($)**	**Option Awards ($) (2)**	**Non-Equity Incentive Plan Compensation ($)**	**Non-Qualified Deferred Compensation Earnings**	**All Other Compensation ($) (3)**	**Total ($)**
William L. Shrewsbury	2016	$60,000	--	--	$14,971	_	--	$ 24,000	$98,971
CEO and Chairman	2017	–	--	--	--	--	--	$ 24,000	$24,000
Jose Fuentes	2016	104,000	--	--	--	--	--	--	104,000
Chief Financial Officer	2017	104,000	--	--	--	--	--	--	104,000

(1) Represents salaries paid during the years ended September 30, 2017, and 2016. In May 2013, Mr. Shrewsbury commenced receiving a monthly salary of $5,000. Mr. Shrewsbury elected not to receive salary in 2017. Mr. Fuentes receives an annual salary of $104,000.

(2) 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.

(3) Represent lease payments payable pursuant to a lease agreement between the Company and Mr. Shrewsbury and Mrs. Shrewsbury. Management believes that the current rental is below market value for similar warehouse and land space.

The Company does not have an employment agreement with either Mr. Shrewsbury or Mr. Fuentes. The salaries of our officers are recommended by the CEO to the board of directors and subject to their periodic review and approval and are determined on the basis of current market and other conditions and the cash resources available to us. We do not provide any employee benefit programs to our employees other than a periodic grant of options and warrants. The grant of options or warrants to our officers and directors and the terms of such warrants are recommended by the CEO to the board of directors and subject to their review and approval.

Outstanding Equity Awards at Fiscal Year-End

There were no Outstanding Equity Awards at fiscal year-end September 30, 2017

***N*ame**	**Option Awards**				
	Number of securities underlying unexercised options		**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options**	**Option Exercise Price**	**Option Expiration Date**
	Exercisable	**Unexercisable**			
	–	–	–	–	–

Director Compensation

The following table sets forth the compensation paid to our directors who are not also named executive officers during the years ended December 31, 2017, and 2016.

DIRECTOR COMPENSATION

Name and Position	Year	Fees Earned or Paid in Cash $	Options Awards $	All Other Compensation $	Total $
Bobby S. Fellers	2016	0	0	0	0
	2017	0	0	0	0
Martin Lipper	2016	31,500	0	0	31,500
	2017	7,500	0	0	7,500

During fiscal 2017, we paid aggregate compensation of $7,500 to Mr. Lipper ($31,500 for 2016), for attending quarterly meetings at the Company's principal offices related to its business and operations and, on behalf of the board of directors, for oversight of the appointment, compensation, and work of the Company's independent registered public accountant. Mr. Bobby Fellers resigned from the Board on October 1, 2017.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of December 15, 2017, beneficial ownership of our common stock by: (i) each person we know who is the beneficial owner of more than 5% of our common stock, (ii) each of our directors and our named executive officers, and (iii) all of our directors and named executive officers as a group. As of December 15, 2017, 48,053,084 shares of our common stock were issued and outstanding.

Name of Beneficial Owner(1)	**Number of Shares Beneficially Owned (1)**		**Percentage of Common Stock Beneficially Owned**	
William L. Shrewsbury Chairman, CEO and director	10,537,651		21.93	%
Jose Fuentes Chief Financial Officer	500,000		1.04	%
Martin Lipper Director	561,666	(2)	1.17	%
All executive officers and directors as a group (4 persons)	11,599,317	(2)	24.14	%

(1) Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended, and is generally determined by "voting power" and/or "investment power" with respect to securities. Unless otherwise noted, all shares of our common stock listed above are owned of record by each individual named as beneficial owner and such individual has sole voting and dispositive power with respect to the shares owned by each of them. Such person or entity's percentage of ownership is determined by assuming that any options, warrants or convertible securities held by such person or entity that are exercisable or convertible within 60 days from the date hereof have been exercised or converted as the case may be. All addresses, except as noted, are c/o TX Holdings, Inc., 12080 Virginia Boulevard, Ashland, Kentucky 41102.

(2) Includes 175,000 shares owned beneficially and of record by Mr. Lipper's spouse.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, DIRECTOR INDEPENDENCE

Except as set forth below, we have not been a party to any transaction in which the amount involved in the transaction exceeded or will exceed the lesser of $120,000 or one percent of the average of our total assets as at the year-end for the last two completed fiscal years and in which any of our directors, executive officers or beneficial holders of more than 5% of our capital stock, or any immediate family member of, or person sharing the household with, any of these individuals, had or will have a direct or indirect material interest.

Bank Loan Guarantee by Our CEO

Under the terms of a business loan agreement, originally entered into 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 is variable and was based upon Wall Street Journal Prime Rate.

The line of credit was secured by a priority security interest in our inventory and accounts receivable and matured on November 7, 2015. The loan was 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 us were subordinated to the bank loan including with regard to our inventory and assets. The loan agreement contained other customary covenants and provisions, and contained certain events of default.

On December 3, 2015, we entered into a new loan agreement with Town Square 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.

During the term of the loan, we have 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 amounts due under 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 under the loan;

we fail to comply with any term, obligation, covenant or condition in the loan documents or any other agreement between the bank and the Company:

we default 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 loan or perform its obligation under the loan note or related documents;

a warranty, representation or statement we made to the bank under the loan document 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 of ours 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 certain 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 certain other customary covenants and conditions.

In addition, the loan agreements contain certain 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 our 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 3.25% 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.

Loans and Advances from our CEO

Loans – Consolidated Note

On February 25, 2014, the Company entered into a Note Exchange Agreement ("Exchange Agreement") with Mr. Shrewsbury pursuant to which an aggregate of $2,000,000 in certain outstanding indebtedness and interest due to Mr. Shrewsbury was consolidated and the Company issued in exchange for such indebtedness a Consolidated Secured Promissory Note (the "Consolidated Note) in the principal amount of $2,000,000.

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 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. As of September 30, 2017 interest accrued under the Consolidated Note was $359,726.

An event of default will occur under the Consolidated Note upon:

- the Company's failure to pay when due any principal or interest under the Consolidated Note;
- the 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 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 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 expired on March 31, 2017.

Advances

As of September 30, 2017, Mr. Shrewsbury had advanced an aggregate of $33,987 to the Company. The advances do not bear interest and are repayable upon demand. At September 30, 2017, the Company also has a payable of $60,000 to Mr. Shrewsbury for warehouse storage rental.

Mr. Shrewsbury has agreed that the Consolidated Note and advances and other claims due from the Company to Mr. Shrewsbury are subordinate to the Company's bank indebtedness.

Lease Agreement

On November 2012, the Company entered into a lease agreement with Mr. Shrewsbury and Mrs. Shrewsbury, Mr. Shrewsbury's wife, pursuant to which they agreed to lease to the Company certain office space and certain warehouse space and land to store the Company's inventory. The lease commenced on October 1, 2012 had a two year term and the option to extend the lease on the same terms for up to an additional 24 months upon written notice at least 30 days prior to the end of the lease. On September 1, 2014, the parties agreed to extend the lease for an additional two years and on September 1, 2016 the lease was again extended for an additional two years to August 31, 2018. The lease rental is $2,000 per month payable on the first of each month. As of September 30, 2017, the Company had accrued and unpaid lease payments due to Mr. and Mrs. Shrewsbury in the amount of $60,000. Accordingly, our lease with Mr. and Mrs. Shrewsbury may be deemed to be in default. As of the date of this report, we have not received a notice of termination of the lease

Freight Charges

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 years ended September

30, 2017 and 2016, such trucking company was paid $57,773 and $51,078, respectively, for such trucking services. Management believes that the freight charges of such trucking company are at or below market rates for such services.

Commission Charges

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 years ended September 30, 2017 and 2016 the amounts of such commission were $9,640 and $8.669, respectively.

Accrued Officer's salary

As of September 30, 2017, the Company had an accrued and unpaid amount of $416,179 due to Jose Fuentes, CFO as payment for past services, which are included in our accrued liabilities amount. Payment of the accrued salary is to be secured or otherwise payable by the Company out of the death benefit proceeds of key man insurance of $450,000 that has been purchased by the Company on the life of Mr. Fuentes.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Fees

The following table sets forth the aggregate fees billed to the Company by its independent registered public accounting firm, Turner, Stone & Company, L.L.P., for each of the last two fiscal years.

ACCOUNTING FEES AND SERVICES	**2017**	**2016**
Audit fees	$40,611	$40,441
Audit-related fees	-	-
Tax fees	-	-
All other fees	-	-
Total	**$40,611**	**$40,441**

Audit Fees

"Audit fees" represent the aggregate fees billed for professional services for the audit of our annual consolidated financial statements, reviews of our financial statements included in our quarterly reports services that are normally provided in connection with statutory and regulatory filings or engagements.

Audit Related Fees

"Audit-related fees" represent the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under Audit Fees.

Tax Fees

Tax fees represent the aggregate fees billed for professional services rendered by our principal accountants for tax compliance, tax advice, and tax planning.

All other Fees

All other fees represent the aggregate fees billed for products and services reported in the other categories. There were no such fees in either fiscal 2017 or fiscal 2016.

All above audit services and audit-related services were pre-approved by the Board of Directors, which concluded that the provision of such services by Turner Stone was compatible with the maintenance of the firm's independence in the conduct of its audits.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

The following are filed as part of this report commencing on page 27:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as at September 30, 2017 and 2016

Consolidated Statements of Operations for the years ended September 30, 2017 and 2016

Consolidated Statements of Changes in Stockholders' Deficit for the years ended September 30, 2017 and 2016

Consolidated Statements of Cash Flows for the years ended September 30, 2017 and 2016

(b) Exhibits

The following exhibits are filed or "furnished" herewith.

		Incorporated by Reference From		
Exhibit No.	**Exhibit Description**	**Form**	**Filing Date**	**Filed/ "Furnished" Herewith**
3.1	Articles of Incorporation.	10-K	12/3/13	
3.2	Articles of Amendment to Articles of	10-K	12/29/15	

	Incorporation, dated January 17, 2003.		
3.3	Articles of Amendment to Articles of Incorporation, dated July 25, 2005.	10-Q	05/03/2013
3.4	Articles of Amendment to Articles of Incorporation, dated December 24, 2007.	10-Q	05/03/2013
4.1	Form of Common Stock Certificate.	10-K	12/3/13
10.1	Lease Agreement, dated November 19, 2012, by and among registrant and William Shrewsbury and Peggy Shrewsbury.	10-Q	05/03/2013
10.2	Business Loan Agreement and Exhibits, dated August 26, 2014, by and between registrant and Home Federal Savings and Loan Association.	10-Q	04/30/15
10.3	Warehouse Lease	10-K	11/18/14

	Extension, dated September 1, 2014, by and among the Company and William L. Shrewsbury and Peggy Shrewsbury.		
10.4	Consolidated Secured Promissory Note, dated February 25, 2014, issued to William L. Shrewsbury.	8-K	2/28/14
10.5	Non-Qualified Stock Option Agreement, dated February 25, 2014, issued to William L. Shrewsbury.	8-K	2/28/14
10.6	Business Loan Agreement and Exhibits, dated December 3, 2015, by and between registrant and Town Square Bank	10-K	12/29/15
10.7	Warehouse Lease Extension, dated September 1, 2016,by and among registrant and William Shrewsbury	10-K	12/16/16

	and Peggy Shrewsbury			
10.8	Amended and Restated Bylaws			X
14.1	Code of Ethics for Chief Executive Officer and Senior Financial Officer.	10-K	12/29/15	
21	List of Subsidiaries.	10-K	12/29/15	
24.1	Power of Attorney - included on signature page.			

31.1	Certification 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 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 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO)	X
32.2	Certification 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.

ITEM 16. FORM 10-K SUMMARY

The Company has determined not to include a summary of the information required by the Form 10K under this item 16 of the Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.	
Dated: December 15, 2017	**By:**	/s/ William L. Shrewsbury William L. Shrewsbury Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William L. Shrewsbury and Jose Fuentes, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K for the year ended September 30, 2017, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ William L. Shrewsbury William L. Shrewsbury	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	December 15, 2017

/s/ Jose Fuentes	Chief Financial Officer and Director	December 15, 2017
Jose Fuentes	(Principal Financial and Accounting Officer)	
/s/ Martin Lipper		
Martin Lipper	Director	December 15, 2017

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