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TX Holdings, Inc.  
Form 10KSB/A  
March 20, 2008

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
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FORM 10-KSB/A

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended September 30, 2006

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. 0-32335

TX HOLDINGS, INC. (formerly R Wireless, Inc.)  
(Name of small business issuer in its charter)

Georgia 58-2558702  
(State or Other Jurisdiction (I.R.S. Employer Identification No.)  
of Incorporation or Organization)

1701 North Judge Ely Blvd. #6420  
Abilene, Texas 79601  
(Address of Principal)

(682) 286 3116  
(Registrant's Telephone Number, Including Area Code)

Securities Registered Under Section 12(b) of the Act:

None

Securities Registered Under Section 12(g) of the Act:

Common Stock  
(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 past 90 days.  
Yes [ ] No [X]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. [ ]

The Registrant's did not have revenues for the fiscal year ended September 30,

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2006.

Indicate by check mark whether the registered is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [x]

The aggregate market value of the Common Stock held by non-affiliates, based on the average closing bid and asked price of the Common Stock on March 20, 2007 was \$7,122,880

There are approximately 13,966,431 shares of common voting stock of the Registrant held by non-affiliates. On March 20, 2007 the average bid and asked price was \$ 0.51

As of March 20, 2007, there were 27,002,558 shares of common stock outstanding.

### Forward-Looking Statements and Cautionary Words

This annual report on Form 10-KSB ("Annual Report") for the period ending September 30, 2006 ("fiscal year 2006"), contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995 and as such may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such forward-looking statements speak only as of the date of this Form 10-KSB or the amendment thereto in which they appear, as the case may be. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. In addition, particular attention is called to cautionary words such as "may," "will," "expect," "anticipate," "estimate" and "intend" where they appear herein. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors" that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

### Disclosure Regarding Forward-Looking Statements

Included in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this Form 10-KSB which address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements.

As used in this Annual Report, the terms "we", "us", and "our" mean TX Holdings, Inc.

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### Glossary of Terms

We are engaged in the business of exploring for and producing oil and natural gas. Oil and gas exploration is a specialized industry. Many of the terms used

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to describe our business are unique to the oil and gas industry. The following glossary clarifies certain of these terms that may be encountered while reading this report:

"Bbl" means barrel or barrels, used in this annual report to refer to crude oil or other liquid hydrocarbons.

"Bcf" means billion cubic feet, used in this annual report in reference to gaseous hydrocarbons.

"BcfE" means billions of cubic feet of gas equivalent, determined using the ratio of six thousand cubic feet of gas to one barrel of oil, condensate or gas liquids.

"Farmout" involves an entity's assignment of all or a part of its interest in or lease of a property in exchange for consideration such as a royalty.

"Gross" oil or gas well or "gross" acre is a well or acre in which we have a working interest.

"MBbl" means thousand barrels, used in this annual report to refer to crude oil or other liquid hydrocarbons.

"Mcf" means thousand cubic feet, used in this annual report to refer to gaseous hydrocarbons.

"McfE" means thousands of cubic feet of gas equivalent, determined using the ratio of six thousand cubic feet of gas to one barrel of oil, condensate or gas liquids.

"MMcf" means million cubic feet, used in this annual report to refer to gaseous hydrocarbons.

"Net" oil and gas wells or "net" acres are determined by multiplying.

"Oil and gas lease" or "Lease" means an agreement between a mineral owner, the lessor, and a lessee which conveys the right to the lessee to explore for and produce oil and gas from the leased lands. Oil and gas leases usually have a primary term during which the lessee must establish production of oil and or gas. If production is established within the primary term, the term of the lease generally continues in effect so long as production occurs on the lease. Leases generally provide for a royalty to be paid to the lessor from the gross proceeds from the sale of production.

"Prospect" means a location where both geological and economical conditions favor drilling a well.

"Proved oil and gas reserves" are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Reservoirs are considered proved if economic recovery by production is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and (B) the immediately adjoining portions not yet drilled, but which can reasonably be judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

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"Proved developed oil and gas reserves" are those proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas reserves expected to be obtained through the application of fluid injection or other improved secondary or tertiary recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed recovery program has confirmed through production response that increased recovery will be achieved.

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"Proved undeveloped oil and gas reserves" are those proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units are claimed only where it can be demonstrated with reasonable certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves attributable to any acreage do not include production for which an application of fluid injection or other improved recovery technique is required or contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

"Royalty interest" is a right to oil, gas, or other minerals that are not burdened by the costs to develop or operate the related property.

"Working interest" is an interest in an oil and gas property that is burdened with the costs of development and operation of the property.

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### FORM 10-KSB FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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### PART I

#### Item 1 Description of Business

##### Overview of Business

TX Holdings, Inc. ("TX Holdings" or the "Company"), formerly named R Wireless, Inc. ("RWLS") and, prior to that, named HOM Corporation ("HOM"), is a Georgia corporation incorporated on May 4, 2000. On December 5, 2004 the Company began to structure itself into an oil and gas production and exploration company. The Company acquired oil and gas leases and began development of oil and gas field operations as of April 11, 2006. (For a discussion of current oil and gas activities see sections "Recent Developments"; "Background for Oil and Gas Business Activities" and "Current Oil and Gas Activities")

##### History and Corporate Structure

Previously TX Holdings acted as a holding company whose operations were conducted through two wholly-owned operating subsidiaries, Direct Lending Inc. ("Direct"), a Georgia corporation, and Homes By Owners, Inc. ("Homes"), a Georgia corporation. Direct was a licensed mortgage broker working with various financial institutions and underwriters. Homes published and distributed a monthly magazine, HOMES BY OWNERS, listing residential properties in the Augusta, Georgia/Aiken, South Carolina metropolitan area for sale by their owners and containing other advertising material. Homes also listed homes for sale on its website, [www.homesbyowners.net](http://www.homesbyowners.net).

Direct, incorporated January 9, 1997, was acquired by Apple Homes, Inc., ("Apple") a publicly traded company, on October 1, 1998. The stock of Direct was distributed pro rata to the stockholders of Apple who were of record on March 1, 1999. Homes was incorporated December 6, 1999 as a subsidiary of Direct. Effective July 5, 2000, the Company, which had been created with a minimal initial investment, effected a reorganization with Direct and Homes. Direct shareholders became shareholders of the Company and Direct and Homes became wholly owned subsidiaries of the Company.

On December 12, 2002, MA&N, LLC ("MA&N") acquired control of the Company through purchase of 4,647,626 shares of common stock representing 51% of the Company's 9,112,992 outstanding shares of common stock and causing the majority of the directors of the Company, including the current CEO of the Company, Mark

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Neuhaus, and his wife, Nicole B. Neuhaus, to be persons associated with MA&N. The name of the Company was changed from HOM Corporation to R Wireless, Inc. effective as of January 22, 2003. The specified consideration from MA&N for this purchase was (a) causing the provision of Internet Service Provider, or ISP, wireless service from not less than 5 nodes, (b) provision of consulting services on financial and management matters to the Company for at least two years, (c) arranging for personnel to manage the Company, (d) development of a business plan by MA&N to acquire additional business operations in the ISP wireless business and the subsequent administration of such plan, and (e) funding the accounting and legal costs associated with compliance to United States Securities and Exchange Commission regulations. MA&N fully furnished the required financial payments and was deemed to satisfy the specified consideration. Furthermore, the following changes were implemented: CUSIP number was changed to 74976E 10 4 as of February 4, 2003, and the trading symbol was changed to RWLS as of February 19, 2003.

In early 2003 the Company contemplated business opportunities in the wireless fidelity business, more commonly known as Wi-Fi industry (the term is used generically when referring to any type of 802.11 network, such as 802.11b, 802.11a, or dual-band). Due to the competitive nature of the Wi-Fi business, resulting from numerous entries of large companies with significant research and development capabilities, the Company was not able to establish itself in this industry. Various acquisitions were considered, some of which required extensive due diligence and research, but none of these was completed.

On December 5, 2004, the Company announced plans to change business direction based on recent global political and economic developments that drastically increased the price of energy. The restricted supply of oil and gas from OPEC member countries and other exporters led to a surge in energy prices. These trends opened new opportunities for local companies in the oil and gas sector, and the Company decided to pursue this opportunity. In connection with this decision, the Company effected its name change to "TX Holdings, Inc." on September 1, 2005.

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Management believes the new name reflects the new business direction of the Company, specifically the acquisition of producing oil and gas properties. Furthermore, the following changes were implemented: CUSIP number changed to 873 11R 101 as of September 6, 2005, and the trading symbol changed to TXHG as of September 19, 2005.

On September 4, 2003, the Company signed an agreement with Jim Evans ("Evans"), sole owner of Freedom Homes, Inc. ("Old Freedom"), established in Wrens, Georgia and currently based in Augusta, Georgia, a manufactured housing dealer. The agreement was for the acquisition of Old Freedom by Homes in exchange for stock of Homes that gave Evans 70%, and left TX Holdings with 25%, of the outstanding common stock of Homes. Robert W Wilson ("Wilson") the President and Chief Executive Officer of the Company prior to the acquisition of control by MA&N, received 5% of the outstanding common stock of Homes for services in connection with the transaction and otherwise. (SEE EXHIBIT 2.3). The transaction was subject to a condition subsequent that a financing for Homes of \$500,000 be completed by March 5, 2004, which subsequently was extended to April 5, 2004 (SEE EXHIBIT 2.5). The condition subsequent was not fulfilled, and consequently the shares of Old Freedom were returned to Evans, and the shares of Homes held by Evans were returned to the Company. As a result, TX Holdings owned 95% of the outstanding common stock of Homes and Wilson owned 5%.

Effective March 25, 2005, Evans (again the owner of all the outstanding common stock of Old Freedom), Old Freedom, TX Holdings (the owner of 95% of the

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outstanding common stock of Homes), Homes and Robert Wilson ("Wilson", the owner of 5% of the outstanding common stock of Homes) executed an Agreement to Merge that provided for the merger of Old Freedom into Homes (with Homes taking the name Freedom Homes, Inc. following the effectiveness of the merger, after which it is referred to as "New Freedom". (SEE EXHIBIT 10.4)). As a result of the merger, Evans would own 4,100,000 shares (63.1%), TX Holdings would own 2,100,000 shares (32.3%), and Wilson would own 300,000 shares (4.6%), of the outstanding common stock of New Freedom. That agreement contemplated that an additional 500,000 shares of New Freedom common stock would be issued in a private placement at \$1.00 a share for a total of \$500,000 (which has not been accomplished but which TX Holdings, New Freedom and Old Freedom agreed to use their best efforts to accomplish). TX Holdings, New Freedom, Evans and Old Freedom also undertook to use their respective best efforts to cause at least 50% (and possibly all) of the 2,100,000 shares of common stock of New Freedom that TX Holdings held to be spun off to its shareholders (which then could not be legally done in view of the financial situation of the Company). In implementation of the Agreement to Merge, Freedom and Old Freedom entered into an Agreement and Plan of Merger dated as of May 12, 2005, which became effective May 26, 2005 as a statutory merger under Georgia law and is designed to qualify as a tax-free reorganization for Federal and Georgia tax purposes. Although Homes was the surviving corporation the resulting corporation, is named Freedom Homes, Inc.

### Recent Developments

In February 2006 TX Holdings entered into a Memorandum of Understanding to acquire Oil and Gas Leases located in Texas. The negotiations and due diligence under the Memorandum of Understanding were concluded on November 1, 2006 resulting in TX Holdings acquiring a turn-key prospect known as Contract Area #1 located in the counties of Callahan and Eastland, Texas. On August 1, 2006 TX Holdings acquired the Williams Lease, located in Callahan County, Texas. On April 11, 2006 TX Holdings acquired the Parks Lease, located in Callahan County, Texas.

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

On March 28, 2006 TX Holdings appointed Douglas C. Hewitt to its Board of Directors. Mr. Hewitt has in excess of twenty years in the oil and gas business and more than eighteen years in the organizing and building of energy and technology businesses. Mr. Hewitt is currently an operator and owner of an independent oil and gas production and exploration company.

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On March 28, 2006 TX Holdings appointed Michael A. Cederstrom as the interim Chief Financial Officer of TX Holdings while TX Holdings completes its reorganization as an exploration and production company. Mr. Cederstrom has served as the Chief Financial Officer for several oil and gas companies over the past 10 years. Once oil and gas production has been instituted a new Chief Financial Officer will be sought.

On August 2, 2006 TX Holdings appointed W.A. ("Bill") Alexander as the Chief Operating Officer. Mr. Alexander is a licensed Petroleum Engineer with over 30 years of experience. Mr. Alexander is experienced in all areas of exploration

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and production of oil and gas fields.

### Background for Oil and Gas Business Activities

Since August 2005 oil prices have exceeded \$50.00 per barrel. On March 19, 2007 the closing price for a barrel of oil was \$56.59. At these prices, secondary recovery, or the recovery accomplished by injecting gas or water into a reservoir to replace produced fluids and thus maintain or increase the reservoir pressure, becomes financially viable. The current corporate direction is to acquire through purchase, merger and option, fields with proven reserves and excellent development prospects. Concurrently, the Company is exploring options for the acquisition of operational expertise and equipment.

This strategy is contingent upon the Company's ability to obtain sufficient capital to fund the high start up costs of testing, analyzing, acquiring capital equipment and lease acquisition. On May 11, 2006 the Company announced that it had entered into a private placement agreement with Brill Securities, Inc. Pursuant to the private placement agreement the Company completed the sale of 4,133,324 units during the 3rd quarter of 2006 at a price of \$0.30 per unit, for a total of \$1,240,000, which after commission and expenses resulted in net proceeds of approximately \$1,180,000. Each unit includes one share of common stock and a warrant to purchase an additional share at a price of \$0.50 per share. This infusion of capital allowed the Company to pursue its strategy of acquiring oil and gas producing properties.

On September 1, 2005 TX Holdings announced an agreement whereby W.D. Von Gonten & Co., of Houston, Texas will advise the Company on economics and future value projections of prospective wells and producing properties. An essential component of Von Gonten's service offerings is the provision of certified reserve reports.

In December 2006 Von Gonten requested additional well data on the wells owned by TX Holdings in order to evaluate the wells. Until this information can be provided and evaluated Von Gonten is unable to evaluate any proven reserves.

### Current Oil and Gas Activities

We are actively engaged in the exploration, development, and acquisition of crude oil and natural gas in the counties of Callahan and Eastland, Texas. In November 2006 we entered into a Purchase Sale Agreement with Masada Oil & Gas, Inc. ("Masada") Masada has served as the operating contractor in two of the leases that TX Holdings currently holds in the counties of Callahan and Eastland, Texas. The leases and the current working interest of TX Holdings in each lease are as follows:

- a. Contract Area # 1, 60% Working Interest;
- b. Park's Lease, 75% Working Interest;
- c. Williams Lease, 89% Working Interest.

Currently Tx Holdings is not producing any of its wells. The Company is applying for its Operator's License in Texas. The company is currently refurbishing the William's Lease by repairing electrical lines, flow lines, and testing well integrity. Upon the completion of the well integrity testing and approval by the Texas Railroad Commission, the company will receive its permit to produce the wells. Upon obtaining the Operator's License, TX Holdings will begin production. Once the wells are in production with sufficient production data the information required by Von Gonten to complete its evaluation of the reserves will be provided and a reserve report produced.

(For a discussion of leases see section "Oil and Gas Leases" under Item 2: Description of property).

#### Principal Products or Services and Markets

The principal markets for our crude oil and natural gas will be refining companies, pipeline companies, utility companies and private industry end users. The point of delivery of our crude oil is at tank batteries located at or near well sites on the leases. We believe that our customers will be based in the State of Texas and in the industries discussed above. Currently, the Wells the Company owns are only capable of producing oil. Sufficient quantities of natural gas are not produced at this time to warrant the cost of installing a collection system.

Although we anticipate that any crude oil and natural gas that we produce will be sold to customers in the State of Texas, no assurance can be given that such sales will occur, or that if they do, that we will receive a price that is sufficient to make our operations profitable.

#### Distribution Methods of Products or Services

Crude oil will be stored in tanks at well site located on our leases, until the purchaser takes delivery of the crude oil by tanker truck. TX Holdings has not entered into any contracts for the sale of its crude as of March 20, 2007.

#### Competitive Business Conditions

Our oil and gas exploration activities in Texas are undertaken in a highly competitive and speculative business environment. In seeking any other suitable oil and gas properties for acquisition, we will be competing with a number of other companies located in Texas and elsewhere, including large oil and gas companies and other independent operators, many with greater financial resources.

Although, our management generally does not foresee difficulties in procuring logging of wells, cementing and well treatment services in the area of our operations, several factors, including increased competition in the area, may limit the availability of logging equipment, cementing and well treatment services. If such an event occurs, it will have a significant adverse impact on the profitability of our operations.

The prices of our products are controlled by the world oil market; thus, competitive pricing behavior in this regard is considered unlikely; however, competition in the oil and gas exploration industry exists in the form of competition to acquire the most promising acreage blocks and obtaining the most favorable prices for completion of wells and drilling costs.

#### Dependence on One or a Few Major Customers

We will be dependent on local purchasers of hydrocarbons to purchase our products in the areas where our properties are located. The loss of one or more of our primary purchasers may have a substantial adverse impact on our sales and on our ability to operate profitably.

#### Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements or Labor Contracts

Royalty agreements relating to oil and gas production are fairly standardized in the industry. However, the percentage and amount of royalties paid by producers, vary from lease to lease. (See Description of Business - "Current Business" in this Annual Report.)

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### Governmental Approval and Regulation

The production and sale of oil and gas are subject to regulation by federal, state and local authorities. None of the products that we expect to offer require governmental approval, although permits are required for the drilling of oil and gas wells. Additionally, testing of well integrity is required on a routine basis.

When and if we begin to sell natural gas we will be affected by intrastate and interstate gas transportation regulation. Beginning in 1985, the Federal Energy Regulatory Commission ("FERC"), which sets the rates and charges for the transportation and sale of natural gas, adopted regulatory changes that have significantly altered the transportation and marketing of natural gas. The stated purpose of FERC's changes is to promote competition among the various sectors of the natural gas industry. In 1995, FERC implemented regulations generally grandfathering all previously approved interstate transportation rates and establishing an indexing system for those rates by which adjustments are made annually based on the rate of inflation, subject to certain conditions and limitations. These regulations may tend to increase the cost of transporting oil and natural gas by pipeline. Every five years, FERC will examine the relationship between the change in the applicable index and the actual cost changes experienced by the industry. We are not able to predict with certainty what effect, if any, these regulations will have on us.

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Texas law requires that we obtain state permits for the drilling of oil and gas wells and to post a bond with the Texas Railroad Commission (the "RRC") to ensure that each well is reclaimed and properly plugged when it is abandoned. The reclamation bond amount is \$50,000 for up to ninety-nine wells. The company is currently arranging for a letter of credit to be issued in the amount of \$50,000 to meet the requirements for the bond.

The state and regulatory burden on the oil and natural gas industry generally increases our cost of doing business and affects our profitability. While we believe we are presently in compliance with all applicable federal, state and local laws, rules and regulations, continued compliance (or failure to comply) and future legislation may have an adverse impact on our present and contemplated business operations. Because such federal and state regulation are amended or reinterpreted frequently, we are unable to predict with certainty the future cost or impact of complying with these laws.

### Research and Development

During 2005 and 2006 we did not incur any research and development expenditures.

### Intellectual Property

None.

### Environmental Compliance

We are subject to various federal, state and local laws and regulations governing the protection of the environment, such as the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), and the Federal Water Pollution Control Act of 1972, as amended (the "Clean Water Act"), which affect our operations and costs. 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

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legislation. These laws and regulations:

- o restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling and production activities;
- o limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas; and
- o impose substantial liabilities for pollution resulting from our operations.

Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal fines and penalties or the imposition of injunctive relief. Changes in environmental laws and regulations occur regularly, and any changes that result in more stringent and costly waste handling, storage, transport, disposal or cleanup requirements could materially adversely affect our operations and financial position, as well as those in the oil and natural gas industry in general. While we believe that we are in substantial compliance with current applicable environmental laws and regulations and that continued compliance with existing requirements would not have a material adverse impact on us, there is no assurance that this trend will continue in the future.

As with the industry generally, compliance with existing regulations increases our overall cost of business. The areas affected include:

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- o unit production expenses primarily related to the control and limitation of air emissions and the disposal of produced water;
- o capital costs to drill exploration and development wells primarily related to the management and disposal of drilling fluids and other oil and natural gas exploration wastes; and
- o capital costs to construct, maintain and upgrade equipment and facilities.

CERCLA, also known as "Superfund," imposes liability for response costs and damages to natural resources, without regard to fault or the legality of the original act, on some classes of persons that contributed to the release of a "hazardous substance" into the environment. These persons include the "owner" or "operator" of a disposal site and entities that disposed or arranged for the disposal of the hazardous substances found at the site. CERCLA also authorizes the Environmental Protection Agency ("EPA") and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. In the course of our ordinary operations, we may generate waste that may fall within CERCLA's definition of a "hazardous substance." We may be jointly and severally liable under CERCLA or comparable state statutes for all or part of the costs required to clean up sites at which these wastes have been disposed.

We currently lease properties that for many years have been used for the exploration and production of oil and natural gas. Although we and our predecessors have used operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed or released on, under or from the properties owned or leased by us or on, under or

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from other locations where these wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose actions with respect to the treatment and disposal or release of hydrocarbons or other wastes were not under our control. These properties and wastes disposed on these properties may be subject to CERCLA and analogous state laws. Under these laws, we could be required:

- o to remove or remediate previously disposed wastes, including wastes disposed or released by prior owners or operators;
- o to clean up contaminated property, including contaminated groundwater; or to perform remedial operations to prevent future contamination.
- o to clean up contaminated property, including contaminated groundwater; or to perform remedial operations to prevent future contamination.

At this time, we do not believe that we are associated with any Superfund site and we have not been notified of any claim, liability or damages under CERCLA.

The Resource Conservation and Recovery Act ("RCRA") is the principal federal statute governing the treatment, storage and disposal of hazardous wastes. RCRA imposes stringent operating requirements and liability for failure to meet such requirements on a person who is either a "generator" or "transporter" of hazardous waste or an "owner" or "operator" of a hazardous waste treatment, storage or disposal facility. At present, RCRA includes a statutory exemption that allows most oil and natural gas exploration and production waste to be classified as non-hazardous waste. A similar exemption is contained in many of the state counterparts to RCRA. As a result, we are not required to comply with a substantial portion of RCRA's requirements because our operations generate minimal quantities of hazardous wastes. At various times in the past, proposals have been made to amend RCRA to rescind the exemption that excludes oil and natural gas exploration and production wastes from regulation as hazardous waste. Repeal or modification of the exemption by administrative, legislative or judicial process, or modification of similar exemptions in applicable state statutes, would increase the volume of hazardous waste we are required to manage and dispose of and would cause us to incur increased operating expenses.

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The Clean Water Act imposes restrictions and controls on the discharge of produced waters and other wastes into navigable waters. Permits must be obtained to discharge pollutants into state and federal waters and to conduct construction activities in waters and wetlands. The Clean Water Act requires us to construct a fresh water containment barrier between the surface of each drilling site and the underlying water table. This involves the insertion of a seven-inch diameter steel casing into each well, with cement on the outside of the casing. The cost of compliance with this environmental regulation is approximately \$10,000 per well. Certain state regulations and the general permits issued under the Federal National Pollutant Discharge Elimination System program prohibit the discharge of produced waters and sand, drilling fluids, drill cuttings and certain other substances related to the oil and natural gas industry into certain coastal and offshore waters. Further, the EPA has adopted regulations requiring certain oil and natural gas exploration and production facilities to obtain permits for storm water discharges. Costs may be associated with the treatment of wastewater or developing and implementing storm water pollution prevention plans.

The Clean Water Act and comparable state statutes provide for civil, criminal and administrative penalties for unauthorized discharges for oil and other pollutants and impose liability on parties responsible for those discharges for the costs of cleaning up any environmental damage caused by the release and for

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natural resource damages resulting from the release. We believe that our operations comply in all material respects with the requirements of the Clean Water Act and state statutes enacted to control water pollution.

Our operations are also subject to laws and regulations requiring removal and cleanup of environmental damages under certain circumstances. Laws and regulations protecting the environment have generally become more stringent in recent years, and may in certain circumstances impose "strict liability," rendering a corporation liable for environmental damages without regard to negligence or fault on the part of such corporation. Such laws and regulations may expose us to liability for the conduct of operations or conditions caused by others, or for acts which may have been in compliance with all applicable laws at the time such acts were performed. The modification of existing laws or regulations or the adoption of new laws or regulations relating to environmental matters could have a material adverse effect on our operations.

In addition, our existing and proposed operations could result in liability for fires, blowouts, oil spills, discharge of hazardous materials into surface and subsurface aquifers and other environmental damage, any one of which could result in personal injury, loss of life, property damage or destruction or suspension of operations. We have an Emergency Action and Environmental Response Policy Program in place. This program details the appropriate response to any emergency that management believes to be possible in our area of operations. We believe we are presently in compliance with all applicable federal and state environmental laws, rules and regulations; however, continued compliance (or failure to comply) and future legislation may have an adverse impact on our present and contemplated business operations.

The foregoing is only a brief summary of some of the existing environmental laws, rules and regulations to which our business operations are subject, and there are many others, the effects of which could have an adverse impact on our business. Future legislation in this area will no doubt be enacted and revisions will be made in current laws. No assurance can be given as to what effect these present and future laws, rules and regulations will have on our current future operations.

### Insurance

Our operations are 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 maintain insurance coverage customary for operations of a similar nature, but losses could arise from uninsured risks or in amounts in excess of existing insurance coverage.

### Former Business of TX Holdings.

#### Business of Freedom Homes, Inc. ("New Freedom")

The principal business of New Freedom is the retailing of manufactured homes, which has been its principal business since the merger of Old Freedom into Homes, which was renamed "Freedom Homes Inc.", the name of Old Freedom, when merger became effective on May 26, 2005 ("Freedom Merger"). Prior to the effective dates of the Freedom Merger, publishing the periodic magazine, FOR SALE BY OWNER, and maintaining the residential sales web site was the only business of Homes. Subsequent to the Freedom Merger, the periodic magazine was discontinued and the web site no longer maintained, although New Freedom has intermittently issued a magazine in support of a local real estate broker.

Since May 26, 2005, the operations of New Freedom have not been consolidated

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with the financial statements of the Company. In 2005 the company sold a 67.7% interest in New Freedom and New Freedom is no longer a subsidiary because it is now controlled by of Jim Evans. Old Freedom began to sell pre-owned manufactured homes in the Augusta, Georgia market in February 2002. In June, 2004, it became a retailer of new homes manufactured by Horton Homes and subsequently has also sold new homes manufactured by Southern Energy Homes and Precision Homes. TX Holdings now owns a 32.3% interest in New Freedom and TX Holdings' management has determined that the investment in New Freedom is worthless.

### Business of Direct Lending, Inc.

Direct Lending, Inc. was a mortgage broker. It located sources of capital willing to grant home mortgage loans to clients of Direct. Direct acted as a broker and was paid a fee only upon the closing of a loan to a customer. These fees were typically in the range of \$2,000 for each loan closed by Direct and are the result of origination fees, and yield spread income.

Sources of capital that provided home mortgage loans to clients of Direct included finance companies, banks and wholesale lenders. When a lending institution indicated an interest in providing a loan to a Direct client, Direct provided the appropriate documents and assisted their client's completion of the documentation and the process to complete the loan. Direct would attend the closing of the loan, providing value by facilitating the entire loan process.

### Sale of the Assets and Business of Direct Lending, Inc.

In Fiscal 2002, in an environment of sharply declining interest rates, residential housing became more affordable to new home buyers as monthly mortgage payments fell and existing homeowners made the decision to refinance their old mortgages with new low rate loans. Direct management increased its personnel, leased additional space and incurred other additional expenses to capture a share of the new growth in the mortgage brokerage business. In October 2002 management decided to sell Direct, and on November 25, 2002, completed the sale of Direct to Stuckey Enterprises, Inc., an unaffiliated entity, ("Stuckey"). The sale included all of the assets of Direct other than its corporate records, but including the name, Direct Lending. TX Holdings assumed the past liabilities of Direct. Mortgage transactions originating prior to October 25, 2002 were for the account of TX Holdings and subsequent transactions were for the account of Stuckey. Stuckey assumed responsibility for the employees and premises and equipment costs from October 25, 2002, thus relieving TX Holdings of these expenses. Stuckey agreed to pay a \$5,000 down payment. In January 2003, the terms of the original agreement were renegotiated, and on January 14, 2003 Stuckey made a payment of \$10,000 as an agreed upon lump sum payment.

### Company Employees and Other Workers

As of March 20, 2007 we had four employees. Mark S. Neuhaus is Chairman of the Board of Directors and President of TX Holdings. On March 28, 2006 Michael A. Cederstrom was appointed the interim Chief Financial Officer of TX Holdings. Mr. Cederstrom works on a part time basis with the understanding that once full scale oil and gas production is achieved a permanent chief financial officer will be named. Mr. Cederstrom also provides legal services through his law firm, Dexter and Dexter. On August 2, 2006 TX Holdings appointed W.A. "Bill" Alexander as the Chief Operating Officer. On February 2, 2007 Jose Fuentes was hired as the Vice President of Finance for the Company. Other specialized functions are provided as necessary through the engagement of independent consulting contractors.

### Risk Factors Relating to the Company's Business

Due to the competitiveness of the oil and gas industry, the lack of acquisitions

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and uncertainty of the present negotiations, and the nature of the Company's business, it encounters many risk factors. Each of these factors, as well as matters set forth elsewhere in this Form 10-KSB, could adversely affect the business, operating results and financial condition of the Company.

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Any investment in our Common Stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below and the other information included in this Annual Report. Although the risks described below are the risks that we believe are material, they are not the only risks relating to our business and our Common Stock. Additional risks and uncertainties, including those that are not yet identified or that we currently believe are immaterial, may also adversely affect our business, financial condition or results of operations. If any of the events described below occur, our business and financial results could be materially and adversely affected. The market price of our Common Stock could decline due to any of these risks, perhaps significantly, and you could lose all or part of your investment.

### General Risks Related To Our Business

Our business may fail if we do not succeed in our efforts to develop and replace oil and gas reserves.

Our future success will depend upon our ability to find, acquire and develop additional economically recoverable oil and gas reserves. Our proved reserves will generally decline as they are produced, except to the extent that we conduct revitalization activities, or acquire properties containing proved reserves, or both. To increase reserves and production, we must continue our development drilling and completion programs, identify and produce previously overlooked or bypassed zones in shut-in wells, acquire additional properties or undertake other replacement activities. Our current strategy is to increase our reserve base, production and cash flow through the development of our existing oil and gas fields and selective acquisitions of other promising properties where we can use new or existing technology. Despite our efforts, our planned revitalization, development and acquisition activities may not result in significant additional reserves, and we may not be able to discover and produce reserves at economical exploration and development costs. If we fail in these efforts, our business may also fail.

Our revenues may be less than expected if our oil and gas reserve estimates are inaccurate.

Oil and gas reserve estimates and the present values attributed to these estimates are based on many engineering and geological characteristics as well as operational assumptions that generally are derived from limited data. Common assumptions include such matters as the anticipated future production from existing and future wells, future development and production costs and the ultimate hydrocarbon recovery percentage. As a result, oil and gas reserve estimates and present value estimates are frequently revised to reflect production data obtained after the date of the original estimate. If reserve estimates are inaccurate, production rates may decline more rapidly than anticipated, and future production revenues may be less than estimated. In addition, significant downward revisions of reserve estimates may hinder our ability to borrow funds in the future, or may hinder other financing arrangements that we may consider.

In addition, any estimates of future net revenues and their present value are based on period ending prices and on cost assumptions that only represent our best estimate. If these estimates of quantities, prices and costs prove inaccurate and we are unsuccessful in expanding our oil and gas reserves base,

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or if oil and gas prices decline or become unstable, we may have to write down the capitalized costs associated with our oil and gas assets. We will also largely rely on reserve estimates when we acquire producing properties. If we overestimate the potential oil and gas reserves of a property to be acquired, or if our subsequent operations on the property are not successful, the acquisition of the property could result in substantial losses.

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.

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We may not be able to compete successfully in acquiring prospective reserves, developing reserves, marketing oil and natural gas, attracting and retaining quality personnel and raising additional capital.

Our ability to acquire additional prospects and to find and develop reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. In addition, there is substantial competition for capital available for investment in the oil and natural gas industry. Our inability to compete successfully in these areas could have a material adverse effect on our business, financial condition or results of operations.

When TX Holdings begins the production of oil and gas, its revenues could be affected by a substantial or extended increase or decline in oil and natural gas prices. The price we receive for future oil and natural gas production will heavily influence our revenue, profitability, access to capital and rate of growth. Oil and natural gas are commodities and their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile and currently oil and natural gas prices are significantly above historic levels. These markets will likely continue to be volatile in the future and current record prices for oil and natural gas may decline in the future. The prices we may receive for any future production, and the levels of this production, depend on numerous factors beyond our control. These factors include the following:

- o changes in global supply and demand for oil and natural gas;
- o actions by the Organization of Petroleum Exporting countries, or OPEC;
- o political conditions, including embargoes, which affect other oil-producing activities;
- o levels of global oil and natural gas exploration and production activity;

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- o levels of global oil and natural gas inventories;
- o weather conditions affecting energy consumption;
- o technological advances affecting energy consumption; and
- o prices and availability of alternative fuels.

Lower oil and natural gas prices may not only decrease our future revenues but also may reduce the amount of oil and natural gas that we can produce economically. A substantial or extended decline in oil or natural gas prices may reduce our earnings, cash flow and working capital.

Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could substantially increase our costs and reduce our profitability.

Oil and natural gas exploration is subject to numerous risks beyond our control; including the risk that drilling will not result in any commercially viable oil or natural gas reserves. Failure to successfully discover oil or natural gas resources in properties in which we have oil and gas leases may materially adversely affect our operations and financial condition.

The total cost of drilling, completing and operating wells will be uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or cancel drilling, including the following:

- o delays imposed by or resulting from compliance with regulatory requirements;
- o pressure or irregularities in geological formations;
- o shortages of or delays in obtaining equipment and qualified personnel;

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- o equipment failures or accidents;
- o adverse weather conditions;
- o reductions in oil and natural gas prices;
- o land title problems; and
- o limitations in the market for oil and natural gas.

Oil and gas operations involve many physical hazards.

Natural hazards, such as excessive underground pressures, may cause costly and dangerous blowouts or make further operations on a particular well financially or physically impractical. Similarly, the testing and completion of oil and gas wells involves a high degree of risk arising from operational failures, such as blowouts, fires, pollution, collapsed casing, loss of equipment and numerous other mechanical and technical problems. Any of these hazards may result in substantial losses to us or liabilities to third parties. These could include claims for bodily injuries, reservoir damage, loss of reserves, environmental damage and other damages to people or property. Any successful claim against us would probably require us to spend large amounts on legal fees and any successful claim may make us liable for substantial damages.

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Our dependence on outside equipment and service providers may hurt our profitability. We need to obtain logging equipment and cementing and well treatment services in the area of our operations. Several factors, including increased competition in the area, may limit their availability. Longer waits and higher prices for equipment and services may reduce our profitability.

The oil and gas industry is highly competitive and there is no assurance that we will be successful in acquiring any further leases.

The oil and gas industry is intensely competitive. We compete with numerous individuals and companies, including major oil and gas companies, which have substantially greater technical, financial and operational resources and staffs. Accordingly, there is a high degree of competition for desirable oil and gas leases, suitable properties for drilling operations and necessary drilling equipment, as well as access to funds. We cannot predict if the necessary funds can be raised. There are also other competitors that have operations in our potential areas of interest and the presence of these competitors could adversely affect our ability to acquire additional leases.

Oil and gas operations are subject to comprehensive regulation which may cause substantial delays or require capital outlays in excess of those anticipated, causing an adverse effect on our Company.

Oil and gas operations are subject to federal, state, and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Oil and gas operations are also subject to federal, state, and local laws and regulations which seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. Various permits from government bodies are required for drilling operations to be conducted; no assurance can be given that such permits will be received. Environmental standards imposed by federal, provincial, or local authorities may be changed and any such changes may have material adverse effects on our activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on us. Additionally, we may be subject to liability for pollution or other environmental damages. To date we have not been required to spend any material amount on compliance with environmental regulations. However, we may be required to do so in future and this may affect our ability to expand or maintain our operations.

### Risks Related To Our Common Stock

The limited trading volume in our common stock may depress our stock price. Our common stock is currently traded on a limited basis on the Pink Sheets ("PS"). The quotation of our common stock on the PS does not assure that a meaningful, consistent and liquid trading market currently exists. We cannot predict whether a more active market for our common stock will develop in the future. In the absence of an active trading market, investors may have difficulty buying and selling our common stock. Market visibility for our common stock may be limited. A lack of visibility of our common stock may have a depressive effect on the market price for our common stock.

The issuance of shares upon exercise of outstanding warrants may cause immediate and substantial dilution of our existing shareholders.

The issuance of shares upon exercise of warrants may result in substantial dilution to the interests of other shareholders since the selling shareholders may sell the full amount issuable on exercise. In addition, such shares would

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increase the number of shares in the "public float" and could depress the market price for our Common Stock.

We have failed to remain current on our reporting requirements. We have been removed from the OTC Bulletin Board limiting the ability of broker-dealers to sell our securities and the ability of shareholders to sell their securities in the secondary market.

On February 19, 2004 the Company was delisted from the OTC Bulletin Board due to failure to file current financial statements with the Securities and Exchange Commission in an acceptable format. The Company's stock trades are reported on Pink Sheets.

Companies trading on the OTCBB, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTCBB. We have failed to remain current on our reporting requirements and have been removed from the OTCBB. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of shareholders to sell their securities in the secondary market.

We have never declared or paid cash dividends on our Common Stock. We currently intend to retain future earnings to finance the operation, development and expansion of our business.

We 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, 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 Common Stock is Subject to the "Penny Stock" Rules of the SEC and the Trading Market in Our Securities is Limited, Which Makes Transactions in Our Stock Cumbersome and May Reduce the Value of an Investment in Our Stock.

The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- o that a broker or dealer approve a person's account for transactions in penny stocks; and
- o that broker or dealer receives from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- o obtain financial information and investment experience objectives of the person; and

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- o make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge

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and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- o sets forth the basis on which the broker or dealer made the suitability determination; and
- o that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our Common Stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

### Brief Operating History - No Assurance of Profitability

The Company has a brief operating history. Although we commenced operations in 1997, original management has been replaced as previous operations have not been profitable. The Wi-Fi business contemplated subsequent to the acquisition of a controlling interest in the Company by MA&N did not materialize. The Company has recently completed the acquisition of its initial oil and gas leases. However, as of March 20, 2007 the Company has not sold any of its oil and gas production. The Company has encountered unforeseen costs, expenses, problems, difficulties and delays frequently associated with new ventures, and these may continue. There is no assurance that the Company's business ventures will be successful or that the Company will be able to produce and acquire sufficient productive wells to meet its goals. The Company anticipates that its operating expenses will increase if and as its business expands, and it will need to generate revenues sufficient to meet all of its expenses to achieve profitability.

### Competition Could Negatively Affect Revenues

The proposed business of the Company is highly competitive. Additional competitors may also enter the market and future competition may intensify. Most of these competitors have substantially greater financial resources than the Company, and they may be able to accept more financial risk than the Company feels is prudent.

### Concentration of Share Ownership Gives Insiders Control

Our management owns a significant amount of the Common Stock, giving them influence or control in corporate transactions and other matters, and their interests could differ from those of other stockholders. Our President, Mark Neuhaus and/or his wife, Nicole B. Neuhaus beneficially controls approximately 28% of the Existing Common Stock and 100% of the Preferred Stock. The Preferred Stock has voting rights that entitle Mr. Neuhaus to effectively control the company. As a result, Mr. Neuhaus is in a position to significantly influence or control the outcome of matters requiring a stockholder vote, including the election of directors, the adoption of any amendment to the Certificate of Incorporation and By-Laws, and the approval of significant corporate

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transactions. This control may delay or prevent a change of control on terms favorable to our other stockholders.

Possibility That No Public Market or Only a Limited Public Market Will Be Established For the Common Stock of TX Holdings

On August 14, 2002, NASD Regulation, Inc. cleared a broker's request for an un-priced quotation on the OTC Bulletin Board for TX Holdings' common stock. Sales have been sporadic and have ranged from \$.05 to \$1.08 a share. See MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

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On February 19, 2004, the Company was delisted from the OTC Bulletin Board due to failure to file current financial statements with the Securities and Exchange Commission in an acceptable format. The Company's stock trades are reported by Pink Sheets.

Limited Access to Qualified Personnel

To be effective, the Company needs persons with the skills necessary to conduct the proposed oil and gas business. The Company is continually trying to attract and retain qualified personnel to conduct the proposed oil and gas business. The Company has lacked the resources to train personnel, so it needs to find persons with the required experience, understanding, ability and effectiveness. The Company's financial position has made this difficult and the inability to attract and retain appropriate personnel may have a materially adverse effect upon the Company and its operations.

Legal and Regulatory Risk

Laws and regulations, including securities laws and regulations, applicable to the Company's business and operations are extensive and complex. As a start up business with limited personnel and funding, the Company has taken actions without being able to fully ascertain their legal effect and potential conflict with applicable law and regulations. The Company believes that this situation often pertains to minimally-funded new businesses which are in a financial position similar to that of the Company. As a result, actions taken by the Company could subject it to regulatory review and challenge, and involve it in legal or administrative proceedings, that could have a material adverse affect on the Company.

Shareholders Voting Control Risk

On May 11, 2006 the Company issued 1,000 shares of preferred stock to Mark Neuhaus. The preferred shares provide super-voting rights to Mark Neuhaus equal to 50% of the common stock voting rights. These super-voting rights provide Mark Neuhaus with control of the Company; This may allow Mr. Neuhaus the ability to act in a manner contrary to the vote of other shareholders and that may be detrimental to other shareholders.

Item 2 Description of Property

The Company has its principal leases in Abilene, Texas. The Company is currently utilizing space of Masada Oil, a company that Bobby Fellers has a beneficial interest in and that currently performs some of our field operations. All research and activities as related to the oil and gas business are being conducted from this office. The company's headquarters are located at 1701 North Judge Ely Blvd., Suite 6420, Abilene, Texas 79601. Our telephone number is 682 - 286 - 3116. In addition we maintain an office in Miami, Florida. The office in Miami is provided by Mark Neuhaus. Management believes that these properties

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will be sufficient for its current and immediately foreseeable administrative needs. The Company does not hold any investments or interests in real estate other than the Oil and Gas Leases it holds for its operational needs. The company currently seeks additional oil and gas leases for operational purposes, which is an essential part of operations of any oil and gas production company.

We are an oil and gas exploration and production company that uses the history of old fields, geophysical exploration and development techniques to identify oil and gas wells that are now considered to be economical feasible based on the current and predicted future price of oil and gas. It is the Company's current plan to re-enter old wells in a confined area and then utilize water flood techniques to produce the wells. Water flood techniques work well on shallow wells to push the oil to the producing wells to facilitate recovery. The leases currently owned by the Company allow the Company to produce to a depth of a depth of 1,000 feet from the surface. It is the Company's intention to initially place these leases into production in the shallow development to produce cash flow for the Company. Once these wells are in production the Company will then consider the opportunity for deeper drilling.

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We are presently developing leases referred to as the Contract Area # 1; Parks Lease; and the Williams Lease. The Contract Area # 1 Lease contains four leases containing a total of 247 acres. The Park's Lease is a single lease containing 320 acres. The Williams Lease contains 4 leases containing a total of approximately 843 acres. All three fields are located in the counties of Callahan and Eastland, Texas.

### Lease and Royalty Terms

#### Contract Area # 1

Located in the counties of Callahan and Eastland, Texas, this lease includes the development of the field. The Purchase and Sale Contract provides for a total investment of up to \$7,200,000. To reach this purchase price Masada Oil & Gas will need to procure an additional 1186 acres in Callahan County, Texas which is contiguous to the Company's currently owned 247 acres. In addition the Purchase and Sale agreement contemplates that Masada Oil and Gas will perform all of the work on the field to put into production a minimum of 121 wells within 21 months. This production schedule is conditioned upon the Company providing the funds necessary to complete the work on a timely basis and Masada Oil and Gas' ability to acquire the additional acreage. If Masada Oil and Gas is unable to deliver the additional acreage the Purchase and Sale Agreement will be adjusted to reduce the price of the purchase. The Purchase and Sale Contract for this field was not completed until November 2006 and the payments we made towards purchase of the field are presented in the financial statements as a deposit towards the Purchase and Sale Agreement. The ultimate total price is conditioned upon performance and future acquisitions. TX Holdings currently own a 60% working interest in the field and Masada Oil and Gas owns a 40% working interest. The ORRI on each lease varies, thus the net revenue interest the Company will receive from the wells of the respective leases will also vary. The table below sets forth the royalty interest for each lease, the net working interest and the gross acreage of each lease within Contract Area # 1:

| Description                | ORRI   | Working Interest |
|----------------------------|--------|------------------|
| Roy Adams Lease RRC #01470 | 17.97% | 60%              |

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|                                   |        |     |
|-----------------------------------|--------|-----|
| W. Eisenhower Lease RRC# 20398    | 20.00% | 60% |
| Isehower Lease RRC# 21474         | 26.25% | 60% |
| Isehower Estate Lease RRC # 30700 | 20.00% | 60% |

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As of November 25, 2006, there were eighteen oil wells capable of producing on the leases. As of March 20, 2007 these wells are not producing due to the Company waiting to obtain its Operator's License in Texas. The production of the wells is minimal, from 1 to 2 bbls per day. The Company has not completed the development of the water flood program. The water flood will inject water into the field through injection wells. The water will force the oil towards the production wells so that it can be recovered. The Company's wells on this field are considered shallow wells and only produce to a depth of 1000 feet.

### Parks Lease

This lease includes 320 acres in which we have a 75% working interest and a 63% net revenue interest in the oil and gas produced from this field. The land owners of this lease own a 12.5% royalty interest in the production. Masada Oil and Gas owns a 25 % working interest in the lease. The Company purchased this lease from Masada Oil and Gas as part of the purchase of Contract Area 1. The Company's obligation is to pay for the refurbishment of the wells and the infrastructure of the lease. There are currently 30 wells on this lease and none of the wells are currently producing. The lease provides that TX Holdings is limited to production from 1,000 feet and above. The wells on this lease are not currently producing.

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### Williams Lease

This lease contains 843 acres with a working interest of 89% owned by the Company. The lease was acquired through a foreclosure sale on August 1, 2006 for the sum of \$68,221. There are no contingencies or other commitments. The lease carries an ORRI to the land owners of 25%. The Company's net Revenue interest on the wells contained in this lease is 75%. This lease is limited to production from 1,000 feet and above."

### Oil and Gas Reserve Analyses

Currently the leases that have been acquired have not been developed in a way that allows our Petroleum Engineers to assign estimated net proved oil and gas reserves and the present value of estimated cash flows from those reserves. The Company is currently performing work on each lease to provide the required information of logging each well to provide the information to the Petroleum Engineers. The Company currently has no proved reserves on the leases. The leases were acquired during the third and fourth quarter of 2006. However, the Company hopes to establish reserves and commence operations on the leases in 2007.

### Item 3 Legal Proceedings

Management is currently aware of one pending, past or present litigation involving the Company which management does not believe could have a material adverse effect on the Company. Management does not know of any outstanding bankruptcy or receivership issues and is not aware of any securities law violations other than the failure to file timely Form 10-KSB for 2005 and 2006, and timely Forms 10-QSB for the quarterly periods in 2005 and 2006. The Company

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has recently filed Form 10-KSB for fiscal year end 2005. The Forms 10-QSB for the quarterly periods in 2005 have been incorporated in the Form 10-KSB 2005 filing as provided in an agreement between the Company and the SEC.

TX Holdings has filled an action in Dade County, Florida in District Circuit #11, case number 06-14396CA04 entitled TX Holdings, Inc vs. Darren Bloom. The Company has brought an action against Mr. Bloom for breach of contract, damages and for the cancellation of common stock issued to Mr. Bloom pursuant to a three year employment contract. Mr. Bloom resigned from the Company on March 17, 2006 after serving only 9 months. Mr. Bloom currently owns 2,000,000 shares of TX Holdings common stock. Management believes that this matter can be resolved and will have no material effect on the Company operations. (The cancellation of shares, if granted would have a positive effect on Earnings Per Share).

Except as disclosed above, the Company has no material legal proceedings in which any director, officer or affiliate of the Company, any owner of record or beneficially of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company.

### Item 4 Submission of Matters to a Vote of Security Holders

None.

## PART II

### Item 5 Market for Common Equity and Related Stockholder Matters

#### Market Information

The common stock of TX Holdings is currently traded on Pink Sheets, under the symbol TXHG.

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The following table sets forth the high and low bid prices of our Common Stock for the periods indicated. The quotations set forth below reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

|                    | Bid Prices (\$) |      |
|--------------------|-----------------|------|
|                    | High            | Low  |
| Quarter Ended:     |                 |      |
| December 31, 2006  | 0.87            | 0.45 |
| September 30, 2006 | 0.99            | 0.55 |
| June 30, 2006      | 1.07            | 0.33 |
| March 31, 2006     | 0.47            | 0.19 |
| December 30, 2005  | 0.37            | 0.16 |
| September 30, 2005 | 0.55            | 0.05 |
| June 30, 2005      | 0.15            | 0.06 |
| March 31, 2005     | 0.15            | 0.04 |

As of March 20, 2007 there were approximately 184 holders of record of our common stock

On January 21, 2005, the company signed a subscription agreement with Pink

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Sheets LLC for Real Time Inside Quote and Full Level II Quote Montage on [www.pinksheets.com](http://www.pinksheets.com). The service keeps investors up-to-date by providing real time quotes of the Company's common stock. All expenses associated with this service are paid by the Company.

The ability of an individual shareholder to trade his or her shares in a particular state may be subject to various rules and regulations of that state. A number of states require that an issuer's securities be registered in their state or appropriately exempted from registration before the securities are permitted to trade in that state. The Company has no present plans to register its securities in any particular state, although it may take action that will allow it to receive appropriate exemption.

The shares of TX Holdings' common stock are subject to the provisions of Section 15(g) and Rule 15g-9 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), commonly referred to as the "penny stock" rule. The Commission generally defines penny stock to be any equity security that has a market price less than \$5.00 per share, subject to specified exceptions. Section 15(g) sets forth requirements for transactions in penny stocks and Rule 15g-9(d)(1) incorporates the definition of penny stock as that used in Rule 3a51-1 of the Exchange Act. Rule 3a51-1 provides that any equity security is considered to be a penny stock unless that security is registered and traded on a national securities exchange meeting specified criteria set by the Commission; authorized for quotation on The NASDAQ Stock Market; issued by a registered investment company; excluded from the definition on the basis of price (at least \$5.00 per share) or the issuer's net tangible assets; or exempted from the definition by the Commission. As a result, trading in TX Holdings' common stock is subject to additional sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors, generally persons with assets in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 together with their spouse.

For transactions covered by these rules, broker-dealers must make a special suitability determination for the purchase of such securities and must have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the first transaction, of a risk disclosure document relating to the penny stock market. A broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information for the penny stocks held in the account and information on the limited market in penny stocks. Consequently, these rules may restrict the ability of broker-dealers to trade and/or maintain a market in TX Holdings' common stock and may affect the ability of shareholders to sell their shares.

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### Preferred Stock

This Company has 1,000 shares of preferred stock issues to Mark Neuhaus, the President and Chairman of the Board of Directors. The preferred stock has no dividend rights, no registration rights and no conversion rights. The preferred stock does have a super-voting right equivalent to 50% of the outstanding voting rights held by the common stock holders. This voting right provides Mr. Neuhaus with control of the Company.

### Dividends

We have never declared or paid any cash dividends on our common stock. We currently intend to retain future earnings, if any, to finance the expansion of

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our business. As a result, we do not anticipate paying any cash dividends in the foreseeable future.

### Holder's

As of September 30, 2006, TX Holdings has issued and outstanding 27,002,558 shares of common stock. During the fiscal year 2006 the following warrants were issued: Douglas C. Hewitt, exercisable for 300,000 shares; Michael A. Cederstrom, exercisable for 200,000 shares; Bobby Fellers, exercisable for 300,000 shares; W.A. ("Bill") Alexander, exercisable for 250,000 shares; and as part of the Private Placement exercisable for a total of 4,633,324 shares, none of which have been exercised.

Of the total 27,002,558 shares outstanding as of December 8, 2006, 16,550,124 were deemed "restricted securities," as defined by the Act when issued to their registered owner and continues to have their restricted status noted on the books of TX Holdings' transfer agent. Certificates representing such shares bear an appropriate restrictive legend and their sale is subject to Rule 144 under the Act.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned restricted shares of the Company for at least one year, is entitled to sell, within any three-month period, an amount of shares that does not exceed the greater of (i) the average weekly trading volume in the Company's common stock, as reported through the automated quotation system of a registered securities association, during the four calendar weeks preceding such sale or (ii) 1% of the shares then outstanding. A person who is not deemed to be an "affiliate" of the Company (as the term "affiliate" is defined in the Act), and has not been an affiliate for the most recent three months, and who has held restricted shares for at least two years would be entitled to sell such shares without regard to the resale limitations of Rule 144.

### Recent Sales of Unregistered Securities

As of September 30, 2006, TX Holdings has issued and outstanding 27,002,558 shares of common stock. As of September 30, 2005, TX Holdings had issued and outstanding 16,705,593 shares of common stock. On December 12, 2002, MA&N acquired control of the Company through purchase of 4,647,626 shares of common stock representing 51% of the 9,112,992 outstanding shares of common stock of the Company.

Robert S. Wilson was the Chairman and Chief Executive Officer of the Company since its incorporation on June 16, 2000, until December 12, 2002. He resigned as a member of the Board of Directors on April 30, 2003. Mr. Wilson had agreed to accept options to purchase 294,341 shares of the Company's common stock in lieu of compensation due him for his tenure with the Company. In December 2005, Mr. Wilson exercised all of his options.

On February 19, 2003, the Company issued to Mark Neuhaus the chief executive officer of the company, 3,000,000 shares of its common stock as compensation to Mr. Neuhaus for services provided to the company and were registered under Securities and Exchange Commission Form S-8 under the Securities Act of 1933.

On February 19, 2003, the Company issued 1,500,000 shares of the Company's Common Stock to Ned Baramov, Secretary - Treasurer were registered under Securities and Exchange Commission Form S-8 under the Securities Act of 1933. Mr. Baramov resigned from the Company on June 24, 2005.

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On August 2, 2004, the Company issued 500,000 shares of common stock of the Company to S2 Consulting. The shares were issued as payment of \$35,000 in fees for past and future advisory services provided to the Company in relation to the evaluation of potential merger and acquisition targets. Such services include, but are not limited to advising, evaluating and developing corporate strategy, providing company guidance, and assisting in developing relationships and opportunities. S2 Consulting is an accredited investor. The sale was exempt pursuant to Section 4 (2) of the Securities Act of 1933.

On May 11, 2005 Company issued 100,000 shares of common stock of the Company to Frank Shafer. The shares were issued as payment of \$12,000 in fees for past and future advisory services provided to the Company in relation to financial aspects of the Company's plans for expansion, acquisitions, and business opportunities. Frank Shafer is an accredited investor. The sale was exempt pursuant to Section 4 (2) of the Securities Act of 1933.

On July 1, 2005, the Company authorized the issuance of 350,000 shares of TX Holdings common stock to Ned Baramov for services, valued at \$28,000, in relation to the preparation of SEC filings. Mr. Baramov's role included assisting the Company in record keeping, accounting and data management. Mr. Baramov is an accredited investor. The sale was exempt pursuant to Section 4 (2) of the Securities Act of 1933.

On July 21, 2005, a warrant to purchase 1,434,088 shares of TX Holdings stock ("Warrant") was issued to Baker, Johnston & Wilson LLC (now Baker & Johnston LLC ("B & J")) at an exercise price of \$.15 a share. The Warrant provided that it expires June 30, 2010, was callable by the Company on or after February 1, 2006 if the per share market value of TX Holdings common stock has been at least 2 1/2 times the exercise price for 20 consecutive trading days. The Warrant was issued pursuant to a Forbearance Agreement between B & J and TX Holdings whereby B & J agreed not to seek collection of \$215,113.20 owed to it by TX Holdings for legal services and expenses until January 21, 2007. The Warrant, if exercised, provides for a total exercise price of \$215,113.30 (\$.15 x 1,434,088), exactly equaling the indebtedness of the Company to B & J and the warrant may be exercised by application of indebtedness to the exercise price. B & J is an accredited investor. The sale was exempt pursuant to Section 4(2) of the Securities Act of 1933. On January 12, 2006 but effective November 1, 2005, (i) the Warrant was amended to expire December 31, 2010, (ii) to be callable only on or after August 1, 2006, and (iii) to be exercisable only on or after July 1, 2006 and the Forbearance Agreement was amended to provide for forbearance until July 21, 2007. On or about May 1, 2006 this Warrant was assigned to David R. Baker as to 717,041 Warrants and to J. Brooke Johnston, Jr. as to 717,041 Warrants.

On August 5, 2005, 461,942 shares of TX Holdings common stock were issued to David R. Baker, 361,942 representing settlement of \$36,494.20 of legal fees and expenses of Haskell Slaughter Young & Rediker, LLC that were due to Mr. Baker (the issuance being 3,000 shares less than required, which additional shares will be issued in due course) and 100,000 shares representing an accountable retainer valued at \$10,000 for future services and expenses of Haskell Slaughter Young & Rediker, LLC in assisting the Company (through Mr. Baker) in bringing all required SEC filings up to date. Mr. Baker is an accredited investor. Such services exceeding \$10,000 in value have been performed. The sale was exempt pursuant to Section 4(2) of the Securities Act of 1933.

On December 12, 2005, the Company issued 2,000,000 shares of its common stock to Darren Bloom as his compensation in the role of, CFO, Secretary - Treasurer. Mr. Bloom is an accredited investor. The sale was exempt pursuant to Section 4 (2) of the Securities Act of 1933. TX Holdings has filed suit against Mr. Bloom for the return of the shares for breach of contract. The shares were issued pursuant to a three year employment contract which Mr. Bloom only served for 9 months. (SEE Item 3 Litigation, above)

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On March 28, 2006 a warrant to purchase 200,000 shares of common stock of TX Holdings, Inc. at an exercise price of \$0.30 was issued to Michael A Cederstrom. The warrant expires on March 31, 2010 and is callable by the Company on or after March 27, 2007 if the market value of TX Holding Stock is has been at least 2 1/2 times the exercise price for 20 consecutive trading days.

On March 28, 2006 a warrant to purchase 300,000 shares of TX Holdings, Inc. common stock at an exercise price of \$0.30 was issued to Douglas C. Hewitt. The warrant expires on March 27, 2010 and is callable by the Company on or after March 31, 2007 if the market value of TX Holding Stock has been at least 2 1/2 times the exercise price for 20 consecutive trading days.

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On March 28 a warrant to purchase 300,000 shares of common stock of TX Holdings, Inc. at an exercise price of \$0.30 was issued to Bobby Fellers. The warrant expires on March 31, 2010 and is callable by the Company on or after March 31, 2007 if the market value of TX Holding Stock is has been at least 2 1/2 times the exercise price for 20 consecutive trading days.

On May 11, 2006 the Company entered into an Employment Agreement with Mark Neuhaus. As part of the Employment Agreement Mr. Neuhaus was provided 1,000 preferred shares of stock. The preferred shares have no dividend rights and no conversion to common stock rights. The preferred stock does have a super-voting right equivalent to 50% of the outstanding shares of common stock. The super-voting right provides Mr. Neuhaus with control of the Company.

On July 1, 2006 a warrant to purchase 250,000 shares of common stock of TX Holdings, Inc. at an exercise price of \$0.30 was issued to W.A. ("Bill") Alexander. The warrant expires on March 31, 2010 and is callable by the Company on or after March 31, 2007 if the market value of TX Holding Stock is has been at least 2 1/2 times the exercise price for 20 consecutive trading days.

During May 2006 the Company entered into a Private Placement Agreement with Brill Securities, Inc. to act as a financial advisor for the private placement of shares of common stock of TX Holdings. Pursuant to the Private Placement Memorandum approximately \$1,240,000 of units were placed. The units contained an aggregate of 4,633,324 shares of the Company's common stock and 4,633,324 common stock purchase warrants. Each common stock purchase warrant is exercisable for a period of two years at an exercise price of \$.50 per share. In connection with the offering, the Company paid a placement fee of \$70,500 in cash. In addition, the placing agent was issued warrants to purchase 235,000 shares of common stock on the same terms and conditions as the investors. The net proceeds of the offering will be used by the Company to purchase necessary equipment to upgrade, replace, repair equipment on site at the fields we lease; to search, negotiate and acquire additional oil and gas leases; and general corporate purposes. All units placed were sold pursuant to Rule 144 of the Act. All purchasers of the units met the definition of an accredited investor.

### Share Repurchases

None.

### Item 6 Management's Discussion and Analysis or Plan of Operations

#### Introduction

The following discussion is intended to facilitate an understanding of our business and results of operations and includes forward-looking statements that reflect our plans, estimates and beliefs. It should be read in conjunction with

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our audited consolidated financial statements and the accompanying notes to the consolidated financial statements included herein. Our actual results could differ materially from those discussed in these forward-looking statements.

The Company has never earned a profit, and has incurred an accumulated deficit of \$10,734,907 as of June 30, 2007. The acquisition of a controlling interest in the Company by MA&N has given the Company access to additional funds directly from MA&N, and the business plan developed by MA&N has enabled the Company to raise additional funds from third parties. As of September 30, 2006, the Company had raised \$1,240,000 in equity. The Company has used these funds to purchase or place deposits on three oil and gas fields to begin its operations as an oil and gas exploration and production company. In addition the Company has entered into negotiations to purchase additional fields of operation that are scheduled to close during the fourth quarter of 2007. The Company will begin oil production upon the completion of well integrity tests required to be performed by the Texas Railroad Commission on the wells located in the Williams Lease. Upon the successful completion of the test the Company will be in a position to start the recompletion of the 30 wells located on the Williams Brothers leases. Revenues derived from the planned production and sale of oil will be based on the evaluation and development of fields. If our development plan is successful, it is estimated it will take approximately one year to reach production levels to sufficiently capitalize the Company on an ongoing basis. During this initial ramp up period, the Company believes it will need to raise additional funds to fully develop its fields, purchase equipment and meet general administrative expenses. The Company may seek both debt and equity financing. The Company currently has in excess of seventy wells located on the three fields located in Texas. Each of the wells will need to be reworked to establish production at a cost of approximately \$5,000 to \$10,000 per well. Initial production from each well is estimated to be between two to five barrels per day. Once initial production has been established the Company will begin a water flood program that injects water into the oil producing zone through injector wells. The water then forces the oil towards the producing well and may increase production of each well up to an estimated eight to twelve barrels per day per well. If the Company is able to produce its wells upon the recompletion the Company will be profitable if 200 barrels of oil is produced and the price of oil remains above \$50.00 per barrel. The Company's success is dependent on if and how quickly it can reach these levels of production. The Company plans to use all revenues for general corporate purposes as well as, future expansion of its current oil producing properties and the acquisition of other oil and gas properties. There is no certainty that the Company can achieve profitable levels of production or that it will be able to raise additional capital through any means.

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### Results of Operations

Year Ended September 30, 2006 Compared With Year Ended September 30, 2005

Revenues From Operations - The Company had no Revenues for the years ended September 30, 2006 and 2005. On December 2004, the company announced plans to change business direction and began to structure itself into an oil and gas production and exploration company. Since it ceased its former business operations, the company has devoted its efforts to research, product development and securing financing and has not earned revenues.

Expenses From Continuing Operations - The Company incurred operating expenses of \$4,998,139 for the fiscal year ended September 30, 2006 an increase of \$4,762,319 compared to \$235,820 for the fiscal year ended September 30, 2005. The increase in operating expenses are primarily related to stock-based compensation increasing to \$4,542,901 for the year ended September 30, 2006 from \$40,000 for the year ended September 30, 2005 and increases in professional fees

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as it pursues its business strategy of oil and gas exploration and production.

Net Loss - For the fiscal year ended September 30, 2006 the Company incurred a loss of \$5,019,715 compared to a loss of \$340,900 for the fiscal year ended September 30, 2005, an increase of \$4,678,815. The major reasons for this loss increase is having no revenue and stock-based compensation and professional fees for the fiscal year ended September 30, 2006 as the Company shifted its focus to oil and gas exploration and production.

### Net Operating Loss Carryforward for Tax Purposes

The Company has tax net operating loss carryforwards totaling approximately \$1,740,000, expiring in 2018 through 2026. 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.

Net operating losses after December 12, 2002 through September 30, 2005 were approximately \$1,316,000. The total net operating losses available to the Company to offset future taxable income is approximately \$1,740,000.

There can be no assurance that these deferred tax assets can ever be used. A deferred tax asset can be used only if there is future taxable income, as to which there can be no assurance in the case of the Company. (SEE NOTE 5 - NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.)

### Liquidity

At September 30, 2006 we had cash or cash equivalents in the amount of \$332,546. As of September 30, 2005 we had no cash, cash equivalents and \$10,000 in prepaid current assets.

Historically the company has lacked liquidity, a result of insufficient financing alternatives available to the company and the lack of a business strategy that produced significant revenues. Since MA&N took a controlling interest in the Company in December 2002, Mr. Neuhaus has provided loans to the Company providing the Company with \$164,385 for operating purposes as of September 30, 2006. The Company has also made an arrangement with its primary creditor concerning an Account Payable in the amount of \$215,113 to accept Warrants totaling 1,434,088 warrants to purchase common stock of the Company. (See Recent Sale of Unregistered Securities) to forebear the collection of the liability. The \$215,113 represents 47% of the Company's outstanding Account Payable of \$455,241.

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During the Fourth quarter of 2006 the Company was able to complete a Private Placement of \$1,240,000 of units of common stock and warrants to purchase common stock to accredited investors. This placement has provided the Company with the liquidity to enter into the oil and gas business to acquire oil and gas leases (See Oil and Gas Business). However, based on current expectations, the Company will need to find additional sources of financing to meet our general corporate needs as well as the large capital requirements necessary for the production of the oil and gas in the wells we currently own and lease, and the acquisition of additional oil and gas producing properties.

The Company currently requires operating capital of approximately \$75,000 per month to meet its current obligations. At this time the Company has no revenue

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and is unable to meet its current obligations. In the past the Company has been able to raise capital from its shareholders/officers through stock-based compensation and advances. The Company will require the officers of the company to continue to receive stock-based compensation and the company will need to borrow or raise sufficient equity capitalization to meet its current obligations. In addition the Company will need to raise approximately \$500,000 in working capital to complete the refurbishment and development of the leases it currently owns. If the Company is unable to raise sufficient capital to refurbish and develop its fields, it will need to find working interest partners to assist in the development of its oil and gas leases. The Company's primary challenge is to begin to generate revenue from its oil and gas leases. If the revenue is not generated, then the Company will need to seek merger partners."

### Item 7 Financial Statements

The Company's consolidated balance sheets as of September 30, 2006 and 2005, and the related consolidated statements of operations, changes in stockholders deficit and cash flows for the years then ended have been audited by Ham, Langston & Brezina, LLP, independent registered public accountants. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to Regulation S-B as promulgated by the Securities and Exchange Commission and are included herein in response to Part F/S of this Form 10-KSB. The financial statements have been prepared assuming the Company will continue as a going concern.

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TX HOLDINGS, INC.  
A CORPORATION IN THE DEVELOPMENT STAGE  
FINANCIAL STATEMENTS - TABLE OF CONTENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

## Edgar Filing: TX Holdings, Inc. - Form 10KSB/A

To the Stockholders and Directors of TX Holdings, Inc.:

We have audited the accompanying balance sheets of TX Holdings, Inc. as of September 30, 2007 and 2006 and the related statements of operations, stockholders' deficit and cash flows for the years then ended and for the period from inception of the development stage, October 1, 2004, to September 30, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of TX Holdings, Inc. as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended and for the period from inception of the development stage, October 1, 2004, to September 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements and discussed in Note 1, the Company has incurred significant recurring losses from operations since inception and is dependent on outside sources of financing for continuation of its operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to this matter are also discussed in Note 1. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Ham, Langston & Brezina, L.L.P.

Houston, Texas  
March 20, 2007

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TX HOLDINGS, INC.  
A CORPORATION IN THE DEVELOPMENT STAGE  
BALANCE SHEETS  
September 30, 2006 and 2005

|                           | 2006       | 2005   |
|---------------------------|------------|--------|
| ASSETS                    |            |        |
| Current assets:           |            |        |
| Cash and cash equivalents | \$ 332,546 | \$ -   |
| Prepaid expenses          | 15,000     | 10,000 |

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|  |             |             |
|--|-------------|-------------|
|  | -----       | -----       |
| Total current assets   | 347,546     | 10,000      |
| Deposits for oil and gas property acquisition  | 253,000     | -           |
| Property and equipment, net  | 290,318     | 1,080       |
|  | -----       | -----       |
| Total assets   | \$ 890,864  | \$ 11,080   |
|  | =====       | =====       |
| LIABILITIES AND STOCKHOLDERS' DEFICIT  |             |             |
| Current liabilities:   |             |             |
| Accounts payable and accrued liabilities   | \$ 455,251  | \$ 220,277  |
| Accrued stock-based compensation   | 830,000     | -           |
| Advances from stockholders/officer   | 164,385     | 214,697     |
|  | -----       | -----       |
| Total current liabilities  | 1,449,636   | 434,974     |
|  | -----       | -----       |
| Commitments and contingencies  |             |             |
| Stockholders' deficit:   |             |             |
| Preferred stock: no par value, 1,000,000 shares authorized, 1,000 shares issued or outstanding   | 1,018,000   | -           |
| Common stock: no par value, 50,000,000 shares authorized, 25,782,558 and 16,705,593 shares issued and outstanding at September 30, 2006 and 2005, respectively | 5,104,541   | 1,618,305   |
| Additional paid-in capital   | 587,703     | 211,098     |
| Accumulated deficit  | (1,803,507) | (1,803,507) |
| Losses accumulated in the development stage  | (5,465,509) | (449,790)   |
|  | -----       | -----       |
| Total stockholders' deficit  | (558,772)   | (423,894)   |
|  | -----       | -----       |
| Total liabilities and stockholders' deficit  | \$ 890,864  | \$ 11,080   |
|  | =====       | =====       |

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

TX HOLDINGS, INC.

A CORPORATION IN THE DEVELOPMENT STAGE

STATEMENTS OF OPERATIONS

For the Years Ended September 30, 2006 and 2005 and for the Period from Inception of the Development Stage, October 1, 2004, to September 30, 2006

-----  
Inception of  
Development

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|  | 2006           | 2005         | Stage to<br>September 30,<br>2006 |
|--|----------------|--------------|-----------------------------------|
|  | -----          | -----        | -----                             |
| Operating expenses, except items shown separately below                  | \$ 202,177     | \$ 67,250    | \$ 269,427                        |
| Stock-based compensation   | 4,542,901      | 40,000       | 4,582,901                         |
| Professional fees  | 211,624        | 120,706      | 332,330                           |
| Lease expense  | 12,392         | 5,000        | 17,392                            |
| Depreciation expense   | 780            | 480          | 1,260                             |
| Advertising expense  | 28,265         | 2,384        | 30,649                            |
|  | -----          | -----        | -----                             |
| Total operating expenses   | 4,998,139      | 235,820      | 5,233,959                         |
|  | -----          | -----        | -----                             |
| Loss from operations   | (4,998,139)    | (235,820)    | (5,233,959)                       |
|  | -----          | -----        | -----                             |
| Other income and (expenses):   |                |              |                                   |
| Other income   | 710            | -            | 710                               |
| Forebearance agreement costs   | -              | (211,098)    | (211,098)                         |
| Interest expense   | (18,290)       | (2,872)      | (21,162)                          |
|  | -----          | -----        | -----                             |
| Total other income and (expenses), net                                   | (17,580)       | (213,970)    | (231,550)                         |
|  | -----          | -----        | -----                             |
| Loss from continuing operations  | (5,015,719)    | (449,790)    | (5,465,509)                       |
|  | -----          | -----        | -----                             |
| Discontinued operations:   |                |              |                                   |
| Gain (loss) from disposal of discontinued business segment               | -              | 108,890      | -                                 |
|  | -----          | -----        | -----                             |
| Loss from discontinued operations  | -              | 108,890      | -                                 |
|  | -----          | -----        | -----                             |
| Net loss   | \$ (5,015,719) | \$ (340,900) | \$ (5,465,509)                    |
|  | =====          | =====        | =====                             |
| Net loss per common share - basic and diluted                            |                |              |                                   |
| Continuing operations  | \$ (0.25)      | \$ (0.03)    |                                   |
| Discontinued operations  | -              | 0.01         |                                   |
|  | -----          | -----        |                                   |
| Total  | \$ (0.25)      | \$ (0.02)    |                                   |
|  | =====          | =====        |                                   |
| Weighted average number of common shares outstanding - basic and diluted | 20,192,875     | 15,958,775   |                                   |
|  | =====          | =====        |                                   |

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

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TX HOLDINGS, INC.

A CORPORATION IN THE DEVELOPMENT STAGE

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

For the Years Ended September 30, 2006 and 2005

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

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

TX HOLDINGS, INC.

A CORPORATION IN THE DEVELOPMENT STAGE

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

For the Years Ended September 30, 2006 and 2005

| Preferred Stock | Common Stock | Additional<br>Paid-In | Accumulate |
|-----------------|--------------|-----------------------|------------|
|-----------------|--------------|-----------------------|------------|

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|   | Shares | Amount       | Shares     | Amount       | Capital    | Deficit        |
|---|--------|--------------|------------|--------------|------------|----------------|
|   | -----  | -----        | -----      | -----        | -----      | -----          |
| Balance at September 30, 2005   | -      | \$ -         | 16,705,593 | \$ 1,618,305 | \$ 211,098 | \$ (1,803,500) |
| Common stock issued for professional services                               | -      | -            | 4,649,300  | 2,318,296    | -          | -              |
| Common stock issued for cash  | -      | -            | 4,633,324  | 1,164,997    | -          | -              |
| Common stock issued upon exercise of warrants                               |        |              | 294,341    | 2,943        |            |                |
| Common stock surrendered  | -      | -            | (500,000)  | -            | -          | -              |
| Warrants issued for services  | -      | -            | -          | -            | 376,605    |                |
| Preferred stock issued to the Company's chief executive officer/stockholder | 1,000  | 1,018,000    | -          | -            | -          | -              |
| Net income (loss)   | -      | -            | -          | -            | -          | -              |
|   | -----  | -----        | -----      | -----        | -----      | -----          |
| Balance at September 30, 2006   | 1,000  | \$ 1,018,000 | 25,782,558 | \$ 5,104,541 | \$ 587,703 | \$ (1,803,500) |
|   | =====  | =====        | =====      | =====        | =====      | =====          |

The accompanying notes are an integral part of the consolidated financial

TX HOLDINGS, INC.  
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STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2006 and 2005 and for the Period From Inception of the Development Stage, October 1, 2004, to September 30, 2006

|       | 2006 | 2005 | Inception of Development Stage to September 30, 2006 |
|-------|------|------|--|
| ----- |      |      |  |

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|  |                |              |                |
|--|----------------|--------------|----------------|
| -----  |                |              |                |
| Cash flows from operating activities:                                      |                |              |                |
| Net  |                |              |                |
| loss   | \$ (5,015,719) | \$ (340,900) | \$ (5,465,509) |
| Adjustments to reconcile net loss to net cash used in operating activities |                |              |                |
| Loss (gain) from discontinued operations                                   | -              | (108,890)    | -              |
| Warrants issued for forbearance agreement                                  | -              | 211,098      | 211,098        |
| Depreciation expense   | 780            | 480          | 1,260          |
| Common and preferred stock issued for services                             | 3,336,296      | 50,000       | 3,386,296      |
| Warrants issued for services   | 376,605        | -            | 376,605        |
| Common stock issued to settle accounts payable                             | -              | 36,194       | 36,194         |
| Changes in operating assets and liabilities:                               |                |              |                |
| Prepaid expenses and other assets  | (5,000)        | (9,750)      | (14,750)       |
| Accrued interest added to stockholder advances                             | 18,290         | -            | 18,290         |
| Accounts payable and accrued liabilities                                   | 1,064,974      | 20,705       | 1,085,679      |
|  | -----          | -----        | -----          |
| Net cash used by operating activities                                      | (223,774)      | (141,063)    | (364,837)      |
|  | -----          | -----        | -----          |
| Cash flows from investing activities:                                      |                |              |                |
| Deposits paid for oil and gas property acquisition                         | (253,000)      |              | (253,000)      |
| Purchase of property and equipment   | (290,018)      | -            | (290,018)      |
|  | -----          | -----        | -----          |
| Net cash provided by financing activities                                  | (543,018)      | -            | (543,018)      |
|  | -----          | -----        | -----          |
| Cash flows from financing activities:                                      |                |              |                |
| Repayment of note payable to a bank  | -              | (20,598)     | (20,598)       |
| Proceeds from sale of common stock   | 1,164,997      | -            | 1,164,997      |
| Proceeds from exercise of warrants   | 2,943          | -            | 2,943          |
| Proceeds (repayments) of advances from stockholder/officer                 | (68,602)       | 161,661      | 93,059         |
|  | -----          | -----        | -----          |
| Net cash provided by financing activities                                  | 1,099,338      | 141,063      | 1,240,401      |
|  | -----          | -----        | -----          |
| Increase in cash and cash equivalents                                      | 332,546        | -            | 332,546        |
| Cash and cash equivalents at beginning of year                             | -              | -            | -              |
|  | -----          | -----        | -----          |
| Cash and cash equivalents at end of year                                   | \$ 332,546     | \$ -         | \$ 332,546     |
|  | =====          | =====        | =====          |

Supplemental disclosure of cash flow

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information

|                                |    |   |    |       |
|--------------------------------|----|---|----|-------|
| Cash paid for interest expense | \$ | - | \$ | 2,872 |
| Cash paid for income taxes     |    | - |    | -     |

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

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

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

#### HISTORICAL BUSINESS ACTIVITIES

TX Holdings, Inc. (formerly R Wireless, Inc. and HOM Corporation) (the "Company"), incorporated May 4, 2000 in the State of Georgia, is transitioning from a holding company to an oil and gas exploration and production company. This transition began during 2005 and is discussed below in "CURRENT BUSINESS ACTIVITIES." Prior to May 26, 2005, the Company operated as a holding company for its formerly two wholly owned subsidiaries, Homes By Owners, Inc. ("Homes") and Direct Lending, Inc. ("Direct"). The Company received approval from the Secretary of State of Georgia for a certificate of merger between Homes and Freedom Homes, Inc. ("Freedom"). The Company remains the owner of 32.3% of the common shares of Homes. The remaining common shares of Homes are owned as follows: 63.1% by Jim Evans, owner of Freedom, and 4.6% by Robert S. Wilson, operating officer of Homes. In 2005 the company sold a 67.7% interest in Freedom and wrote off its remaining 32.3% investment because management was unable to demonstrate that its equity interest had any future value. Accordingly, at September 30, 2005 the Company recognized a gain from discontinued operations of \$108,890.

The principal business of Freedom was the retailing of manufactured homes, the publishing of the periodic magazine, For Sale by Owner, and maintaining its residential sales web site. Subsequent to the May 26, 2005 Freedom Merger, the periodic magazine as well as web site maintenance were discontinued, although Freedom did intermittently issue a magazine in support of a local real estate broker. Since May 26, 2005, none of the operations of Freedom are included in the financial statements of the Company. As of May 26, 2005, the operations of Freedom are not consolidated with the financial statements of the Company since Freedom no longer is a subsidiary and is under the control of Jim Evans, not TX Holdings, Inc. In fact, TX Holdings, Inc. has not participated in the operation of Freedom since May 26, 2005. The Company's management has determined that the value of its interest in Freedom is \$0.00. The Company has not received any revenue, dividends, or distributions from Freedom since prior to its merger on May 26, 2005. Freedom is a private company that is not publicly traded, with limited investors, and has no market for its stock. The liquidation value of Freedom would be difficult to determine and no market is currently available for the transfer of TX Holdings' shares.

Clarification of Freedom Homes was incorporated in the State of Georgia in December 1999 and operates in the real estate market as an advertiser of real estate listed as "for sale by owner" ("FSBO"). Homes has published a periodic magazine which contains FSBO and other advertising, and Homes offers an Internet

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web page that serves as an advertising venue for FSBO residential and commercial real estate in the Central Savannah River Area.

### CURRENT BUSINESS ACTIVITIES

Management seeks to acquire producing oil and gas properties in and around Texas, Louisiana and Oklahoma that will define the operational holdings of The Company. Management has defined a number of criteria for acquisition which include:

- o Wells should be currently Producing
- o Production should be broadly distributed across lease
- o Lease should show a 24 month payback (or better)
- o Wells should show upside potential (proved undeveloped reserves of approximately 20%)

These criteria were developed in an effort to mitigate risk for TX Holdings, Inc. and its investors.

Management raised \$1,240,000 in a Private Placement offering during the months of July through September 2006 to finance these acquisitions. The funds raised in 2006 were used to purchase an interest in three oil and gas fields located in Texas. Development of the fields began on November 1, 2006. The Company experienced substantial costs for engineering and other professional services during 2005 and 2006 in making the transition to an oil and gas exploration and production company. The Company plans to continue to use a combination of debt, and equity finance. Currently, management cannot provide any assurance regarding the successful development of acquired oil

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TX HOLDINGS, INC.  
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NOTE 1 - SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES AND ACTIVITIES, continued

CURRENT BUSINESS ACTIVITIES, continued

and gas fields, the completion of additional acquisitions or the continued ability to raise funds, however it is using its best efforts to complete field work on the fields acquired, acquire additional fields and finance the operations.

DEVELOPMENT STAGE COMPANY

The Company ceased its former operations as of September 30, 2004. During the first quarter for 2005 beginning on October 1, 2004, the Company researched different alternatives for the future development of the company. In December 2004, as a result of the Company's research, the Company announced that it would pursue operations in the oil and gas industry. October 1, 2004 was the beginning day for the first quarter of the determination to pursue operations in the oil and gas industry. Therefore October 1, 2004 was identified as the beginning of the developmental stage.

Since it ceased its former business operations, the Company has devoted its

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efforts to research, product development, and securing financing and has not earned significant revenue from its planned principal operations. Accordingly, the consolidated financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 7, Accounting and Reporting by Development-Stage Enterprises.

### GOING CONCERN CONSIDERATIONS

The Company, with its prior subsidiaries, has suffered recurring losses while devoting substantially all of its efforts to raising capital, identifying and pursuing businesses opportunities and management currently believes its best opportunities are in the oil and gas business. The Company's total liabilities exceed its total assets and the Company's liquidity is substantially dependent on raising capital.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates continuing operations, realization of assets and liquidation of liabilities in the ordinary course of business. The Company's ability to continue as a going concern is dependent upon its ability to raise sufficient capital to implement a successful business plan and to generate profits sufficient to become financially viable. The consolidated financial statements do not include adjustments relating to the recoverability of recorded assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and 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, valuation of acquired in-process research and development, measurement of stock-based compensation, and the fair value of the Company's common stock. The Company bases its estimates on historical experience and various other 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.

### PROPERTY AND EQUIPMENT

The Company uses the successful efforts method of accounting for oil and gas producing activities. Under this method, acquisition costs for proved and unproved properties are capitalized when incurred. Exploration costs, including geological and geophysical costs, the costs of carrying and retaining unproved properties and exploratory dry hole drilling costs, are expensed. Development costs, including the costs to drill and equip development wells,

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### PROPERTY AND EQUIPMENT, continued

and successful exploratory drilling costs to locate proved reserves are capitalized. Exploratory drilling costs are capitalized when incurred pending the determination of whether a well has found proved reserves. A determination of whether a well has found proved reserves is made shortly after drilling is completed. The determination is based on a process that relies on interpretations of available geologic, geophysical, and engineering data. If a well is determined to be successful, the capitalized drilling costs will be reclassified as part of the cost of the well. If a well is determined to be unsuccessful, the capitalized drilling costs will be charged to expense in the period the determination is made. If an exploratory well requires a major capital expenditure before production can begin, the cost of drilling the exploratory well will continue to be carried as an asset pending determination of whether proved reserves have been found only as long as: i) the well has found a sufficient quantity of reserves to justify its completion as a producing well if the required capital expenditure is made and ii) drilling of the additional exploratory wells is under way or firmly planned for the near future. If drilling in the area is not under way or firmly planned, or if the well has not found a commercially producible quantity of reserves, the exploratory well is assumed to be impaired, and its costs are charged to expense.

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

The impairment of unamortized capital costs is measured at a lease level and is reduced to fair value if it is determined that the sum of expected future net cash flows is less than the net book value. TX Holdings determines if impairment has occurred through either adverse changes or as a result of the annual review of all fields.

Development costs of proved oil and gas properties, including estimated dismantlement, restoration and abandonment costs and acquisition costs, are depreciated and depleted on a field basis by the units-of-production method using proved developed and proved reserves, respectively. The costs of unproved oil and gas properties are generally combined and impaired over a period that is based on the average holding period for such properties and the Company's experience of successful drilling.

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

### REVENUE RECOGNITION

Currently the Company has no revenue from oil and gas operations. When the Company begins to receive revenue from oil and gas operations it will be

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recognized upon the delivery of the oil or gas to the purchaser of the oil or gas.

### INCOME TAXES

Income taxes are estimated for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the financial reporting basis and income tax basis of assets and liabilities. Deferred tax assets and liabilities represent future tax consequences of those

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NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, continued

#### INCOME TAXES, continued

differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes may also be recognized for operating losses that are available to offset future taxable income. Deferred taxes are adjusted for changes in tax laws and tax rates when those changes are enacted.

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

#### RECLASSIFICATIONS

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

#### BASIC NET LOSS PER COMMON SHARE

Net loss per share is computed based on the guidance of SFAS No. 128, Earnings Per Share (SFAS 128), requiring companies to report both basic net loss per common share, which is computed using the weighted average number of common shares outstanding during the period, and diluted net loss per common share, which is computed using the weighted average number of common shares outstanding and the weighted average dilutive potential common shares outstanding using the treasury stock method. However, for all periods presented, diluted net loss per share is the same as basic net loss per share as the inclusion of weighted average shares of common stock issuable upon the exercise of stock options and warrants and conversion of convertible preferred stock would be anti-dilutive.

The following table summarizes securities outstanding at each of the periods presented which were not included in the calculation of diluted net loss per share since their inclusion would be anti-dilutive.

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|  | 2006      | 2005      |
|--|-----------|-----------|
|  | -----     | -----     |
| Options issued to former owner             | -         | 294,341   |
| Warrants Issued for forbearance of payable | 1,434,088 | 1,434,088 |
| Warrants issued as compensation            | 1,050,000 | -         |
| Warrants issued in private placement       | 4,368,324 | -         |
|  | -----     | -----     |
| Total                                      | 6,852,412 | 1,728,423 |
|  | =====     | =====     |

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2004, the FASB issued FAS No. 123R, "Share-Based Payment." The statement replaces FAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The adoption of the statement will result in the expensing of the fair value of stock options granted to employees in the basic financial statements. The statement is effective for the years commencing after January 1, 2006 and management is currently assessing its impact.

The statement applies to new equity awards and to equity awards modified, repurchased, or cancelled after the effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the effective date shall be recognized as the requisite service is rendered on or

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, continued

RECENTLY ISSUED ACCOUNTING STANDARDS, continued

after the effective date. The compensation cost for that portion of awards is based on the grant-date fair value of those awards as calculated from the pro forma disclosures under Statement No. 123. Changes to the grant-date fair value of equity awards granted before the effective date of this statement are precluded. The compensation cost for those earlier awards shall be attributed to periods beginning on or after the effective date of this statement using the attribution method that was used under Statement No. 123, except that the method of recognizing forfeitures only as they occur shall not be continued.

Any unearned or deferred compensation (contra-equity accounts) related to those earlier awards shall be eliminated against the appropriate equity accounts. Additionally, common stock purchased pursuant to stock options granted under our employee stock purchase plan is expensed based upon the fair market value of the stock option.

The statement also allows for a modified version of retrospective application to periods before the effective date. Modified retrospective application may be applied either (a) to all prior years for which Statement No. 123 was effective

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or (b) only to prior interim periods in the year of initial adoption. An entity that chooses to apply the modified retrospective method to all prior years for which Statement No. 123 was effective shall adjust financial statements for prior periods to give effect to the fair-value-based method of accounting for awards granted, modified, or settled in cash in fiscal years beginning after December 15, 1994, on a basis consistent with the pro forma disclosures required for those periods by Statement No. 123. Accordingly, compensation cost and the related tax effects will be recognized in those financial statements as though they had been accounted for under Statement No. 123. Changes to amounts as originally measured on a pro forma basis are precluded.

In December 2004, the FASB issued FAS No. 153, "Exchange of Nonmonetary Assets", which is an amendment to APB Opinion No. 29. The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that opinion, however, included certain exceptions to that principle. This statement amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of FAS No. 153 is not expected to have a material impact on our financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes--an interpretation of FAS 109. This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation No. 48 is effective for fiscal years beginning after December 15, 2006. Earlier application is encouraged if the company has not yet issued financial statements, including interim financial statements, in the period Interpretation No. 48 is adopted. The Company is currently evaluating the impact the adoption of this interpretation will have on its consolidated results of operations and financial position.

Other accounting standards that have been issued or proposed by the Financial Accounting Standards Board that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

### NOTE 2 - DEPOSITS FOR OIL AND GAS PROPERTY ACQUISITION

On November 1 2006, the Company entered into a purchase and sale agreement (the "Agreement") for a 60% interest in certain oil and gas properties located in Eastland County, Texas. Under the Agreement, the Company is

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### NOTE 2 - DEPOSITS FOR OIL AND GAS PROPERTY ACQUISITION, continued

obligated to pay a total of \$7,200,000 for equipment, mineral leases, drilling and reworks, and various other categories of costs if all provisions of the agreement are met. At September 30, 2006, the Company had made payments totaling \$253,000 to the seller and those payments are presented as deposits for oil and gas property acquisition in the accompanying balance sheet.

### NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30, 2006 and 2005:

|   | Life<br>Years | 2006       | 2005    |
|---|---------------|------------|---------|
|   |               |            |         |
| Oil and gas properties and equipment                      |               | \$ 289,248 | \$ -    |
| Furniture and office equipment                            | 3-5 years     | 3,070      | 2,400   |
|   |               |            |         |
| Total   |               | 292,318    | 2,400   |
| Less accumulated depreciation, depletion and amortization |               | (2,000)    | (1,320) |
|   |               |            |         |
|   |               | 290,318    | 1,080   |
|   |               |            |         |

Depreciation expense of \$780 and \$480 was recognized during the years ended September 30, 2006 and 2005, respectively. At September 30, 2006, the Company has no proven oil and gas properties and, accordingly, there is no amortization of oil and gas properties during the year ended September 30, 2006.

### NOTE 4 - DISCONTINUED OPERATIONS

In 2005 the company sold a 67.7% interest in Freedom Home Inc and wrote off its remaining 32.3% investment in Freedom because management is unable to demonstrate that its equity interest has any future value. Accordingly, at September 30, 2005 the Company recognized a gain from discontinued operations of \$108,890.

### NOTE 5 - INCOME TAXES

The tax effects of temporary differences that give rise to deferred taxes are as follows at September 30, 2006 and 2005:

|                                 | 2006       | 2005       |
|---------------------------------|------------|------------|
|                                 |            |            |
| Deferred tax assets:            |            |            |
| Net operating losses            | \$ 591,580 | \$ 413,573 |
| Accrued wages                   | -          | 17,149     |
| Valuation allowance             | (591,480)  | (430,722)  |
|                                 |            |            |
| Total deferred tax assets       | 100        | -          |
| Deferred tax liabilities:       |            |            |
| Basis of property and equipment | 100        | -          |



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### NOTE 7 - STOCKHOLDERS' EQUITY

#### PREFERRED STOCK

In May 2006 an employment agreement was entered into with Mr. Neuhaus the president, CEO and chairman of the Board. The agreement provides that Mr. Neuhaus shall be compensated at the rate of \$25,000 per month plus bonus based on oil and gas production. In addition the employment agreement provides to Mr. Neuhaus 1,000 shares of preferred stock. The preferred stock has the following rights and privileges:

1. Super voting rights: The preferred stock has the right to vote on any item of business submitted to the common shareholders for a vote the equivalent number of votes representing 50% of the outstanding common shares then issued by company.
2. No other rights: The preferred shares have no other rights, including but not limited to no conversion rights; no dividend rights; and no liquidation priority rights.

During the fiscal year 2006, Mr. Neuhaus waived his salary; however, the preferred stock he was issued was valued at \$1,018,000 due to the fact that the shares give Mr. Neuhaus complete control over every decision made by the Company.

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NOTES TO FINANCIAL STATEMENTS

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### NOTE 7 - STOCKHOLDERS' EQUITY, continued

#### COMMON STOCK

During the years ended September 30, 2006 and 2005, the Company issued Common stock to raise capital, compensate employees and professionals, and to settle liabilities. Following is a description of stock issuances in 2006 and 2005:

On May 11, 2005, the Company issued 100,000 shares of common stock of the Company to Frank Shafer. The shares were issued as payment of \$12,000 in fees for past and future advisory services provided to the Company in relation to financial aspects of the Company's plans for expansion, acquisitions, and business opportunities. On April 18, 2006, June 9, 2006 and July 31, 2006, Frank Shafer received additional shares of 100,000, 20,000 and 300,000, respectively, for his services. The shares issued to Frank Shafer during the years ended September 30, 2006 and 2005 were valued at \$338,400 and \$12,000, respectively.

On July 1, 2005, the Company authorized the issuance of 350,000 shares of TX Holdings common stock to Ned Baramov for services, valued at \$28,000, in relation to the preparation of SEC filings. Mr. Baramov's role included assisting the Company in record keeping, accounting and data management.

On August 5, 2005, 461,942 shares of TX Holdings common stock were issued to David R. Baker, 361,942 representing settlement of \$36,194 of legal fees and expenses of Haskell Slaughter Young & Rediker, LLC that were due to Mr. Baker (the issuance being 3,000 shares less than required, which additional shares

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will be issued in due course) and 100,000 shares representing an accountable retainer valued at \$10,000 for future services and expenses of Haskell Slaughter Young & Rediker, LLC in assisting the Company (through Mr. Baker) in bringing all required SEC filings up to date. Mr. Baker is an accredited investor. Such services exceeding \$10,000 in value have been performed.

On October 19, 2005, the Company issued 2,000,000 shares of its common stock to Darren Bloom as his compensation in the role of, CFO, Secretary - Treasurer. The Company has filed suit against Mr. Bloom for the return of the shares for breach of contract. The shares were issued pursuant to a three year employment contract which Mr. Bloom only served for 9 months.

On February 22, 2006, the company issued 200,000 shares of common stock to The Research Works for consulting services, valued at \$70,000.

On March 1, 2006, the Company entered into a contract with Global Investment Holdings, LLC ("Global"). Global acts as a consultant and provides advice in the areas of paper-based stock and internet-based stock information publishers who are in compliance with the federal securities laws, etc. For their services, Global will receive 400,000 restricted shares of common stock each month for a period of six months commencing March 1, 2006. The Company used the services of Global for seven months in 2006 and issued Global a total of 1,600,000 shares in 2006 with a value of \$1,300,000. An additional 1,220,000 shares were issued to Global subsequent to September 30, 2006, with a value of \$830,000. The liability for the services performed for which shares were not issued in 2006 is presented as accrued stock-based compensation in the accompanying balance sheet.

On March 14, 2006, the company issued 400,000 shares of common stock to Security Pacific Holdings LLC for consulting services, valued at \$100,000.

During May 2006, the Company entered into a Private Placement Agreement with Brill Securities, Inc. to act as a financial advisor for the private placement of shares of common stock of TX Holdings. Pursuant to the Private Placement Memorandum \$1,240,000 of units were placed. The units contained an aggregate of 4,133,324 shares of the Company's common stock and 4,133,324 common stock purchase warrants. Each common stock purchase warrant is exercisable for a period of two years at an exercise price of \$.50 per share. The purchase warrants contain a call provision as follows:

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NOTE 7 - STOCKHOLDERS' EQUITY, continued

COMMON STOCK, continued

The Warrants are exercisable for up to twenty-four (24) months after the date of their issuance. The Warrant Exercise Price of the Warrants is subject to adjustment for stock splits, combinations, dividends and the like. The company may call this warrant at anytime after January 1, 2007 if the Stock Price of the Company is trading above \$1.50 per share for a period of ten (10) trading days as quoted on the stock quotation system where the shares are regularly traded. If the Company chooses to call the Warrants, then the Warrant holder shall have twenty (20) trading days from the day on which the Company sets as the "Call Date" in which to surrender

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the Warrant with the payment pursuant to paragraph 1.1 above. If the Warrant holder fails to exercise the Warrant within the twenty (20) day period then the Warrant shall expire. Warrant holder shall be sent a notice of the Call by the Company to the address that the Company has on record for the Warrant holder. The Notice shall be mailed at least 10 calendar days prior to the Call Date.'

In connection with the offering, the Company paid a placement fee of \$70,500 in cash. In addition, the placing agent was issued warrants to purchase 235,000 shares of common stock on the same terms and conditions as the investors. The net proceeds of the offering will be used by the Company to purchase necessary equipment to upgrade, replace, repair equipment on site at the fields we lease; to search, negotiate and acquire additional oil and gas leases; and general corporate purposes.

On June 9, 2006, the company issued 17,900 shares of common stock to Michael Pisani for consulting services in assisting with investor relations efforts, valued at \$18,079.

On June 9, 2006, the Company issued 11,400 shares of common stock to Barker Design Inc. for website design services valued at \$11,514.

### STOCK OPTIONS AND WARRANTS

On December 12, 2002, the award of 5-year options to purchase 294,341 shares of TX Holdings Common Stock at \$0.01 per share to Robert Wilson, then Chairman and Chief Executive Officer of the Company was authorized in lieu of \$54,000 in compensation earned during calendar year 2001, and cash advances and accrued interest of \$19,585 for a total of \$73,585. The options were exercised in December 2005.

On July 21, 2005, a warrant to purchase 1,434,088 shares of TX Holdings stock ("Warrant") was issued to Baker, Johnston & Wilson LLC (now Baker & Johnston LLC ("B & J")) at an exercise price of \$.15 a share. The Warrant provided that it expires June 30, 2010, was callable by the Company on or after February 1, 2006 if the per share market value of TX Holdings common stock has been at least 2 1/2 times the exercise price for 20 consecutive trading days. The Warrant was issued pursuant to a Forbearance Agreement between B & J and TX Holdings whereby B & J agreed not to seek collection of \$215,113.20 owed to it by TX Holdings for legal services and expenses until January 21, 2007. The Warrant, if exercised, provides for a total exercise price of \$215,113.30 (\$.15 x 1,434,088), exactly equaling the indebtedness of the Company to B & J and the warrant may be exercised by application of indebtedness to the exercise price. B & J is an accredited investor. The sale was exempt pursuant to Section 4(2) of the Securities Act of 1933. On January 12, 2006 but effective November 1, 2005, (i) the Warrant was amended to expire December 31, 2010, (ii) to be callable only on or after August 1, 2006, and (iii) to be exercisable only on or after July 1, 2006 and the Forbearance Agreement was amended to provide for forbearance until July 21, 2007. On or about May 1, 2006 this Warrant was assigned to David R. Baker as to 717,041 Warrants and to J. Brooke Johnston, Jr. as to 717,041 Warrants.

On March 28, 2006, a warrant to purchase 200,000 shares of common stock of TX Holdings, Inc. at an exercise price of \$0.30 was issued to Michael A Cederstrom. The warrant expires on March 31, 2010 and is callable by the Company on or after March 27, 2007 if the market value of TX Holding Stock is has been at least 2 1/2 times the exercise price for 20 consecutive trading days.

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

NOTE 7 - STOCKHOLDERS' EQUITY, continued

STOCK OPTIONS AND WARRANTS, continued

On March 28, 2006, a warrant to purchase 300,000 shares of TX Holdings, Inc. common stock at an exercise price of \$0.30 was issued to Douglas C. Hewitt. The warrant expires on March 27, 2010 and is callable by the Company on or after March 31, 2007, if the market value of TX Holding Stock has been at least 2 1/2 times the exercise price for 20 consecutive trading days.

On March 28, 2006, a warrant to purchase 300,000 shares of common stock of TX Holdings, Inc. at an exercise price of \$0.30 was issued to Bobby Fellers. The warrant expires on March 31, 2010 and is callable by the Company on or after March 31, 2007 if the market value of TX Holding Stock is has been at least 2 1/2 times the exercise price for 20 consecutive trading days.

In September 1, 2006, the Company entered into a consulting agreement with W.A. ("Bill") Alexander to provide technical support and advice in setting up the oil and gas operations. Mr. Alexander was granted warrants to purchase 250,000 shares of TX Holdings Common Stock at an exercise price of \$0.30 per share. The warrants will expire on March 27, 2010.

Following is a summary of outstanding stock warrants at September 30, 2006 and 2005 and activity during the years then ended:

|                                | Number of<br>Shares | Exercise<br>Price | Weighted<br>Average Price |
|--------------------------------|---------------------|-------------------|---------------------------|
|                                |                     |                   |                           |
| Warrants at September 30, 2004 | 294,341             | \$ 0.01           | \$ 0.01                   |
| Issued                         | 1,434,082           | 0.15              | 0.15                      |
|                                |                     |                   |                           |
| Warrants at September 30, 2005 | 1,728,423           | 0.01 - 0.15       | 0.13                      |
| Issued                         | 5,418,324           | 0.30 - 0.50       | 0.46                      |
| Exercised                      | (294,341)           | 0.01              | 0.01                      |
|                                |                     |                   |                           |
| Warrants at September 30, 2006 | 6,852,406           | \$0.15 - 0.50     | \$ 0.40                   |
|                                |                     |                   |                           |

A summary of outstanding warrants at September 30, 2006, follows:

| Expiration Date | Number of<br>Shares | Exercise<br>Price | Contractual<br>Remaining Life<br>(Years) |
|-----------------|---------------------|-------------------|--|
|                 |                     |                   |  |
| March 2007      | 800,000             | \$ 0.30           | 0.5                                      |
| October 2008    | 4,368,324           | 0.50              | 2.0                                      |
| March 2010      | 250,000             | 0.30              | 3.5                                      |
| December 2010   | 1,434,082           | 0.15              | 4.3                                      |
|                 |                     |                   |  |

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Warrants at September 30, 2006                      6,852,406  
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## NOTE 8 - RELATED PARTY TRANSACTIONS

Mark Neuhas, Chairman of the Board of Directors and Chief Executive Officer of the Company and entities he controls have provided much of the support of the Company in the development stage. As described in Note 7, the Company issued preferred stock to Mr. Neuhaus in 2007 and that preferred stock includes provisions that give Mr. Neuhaus voting control over the actions of the Company.

Included in the financial statements at September 30, 2006 and 2005 are advances from stockholders and officers of \$164,385 and \$214,697, respectively. Interest has been accrued on these advances at rates ranging from 8% to 10% in 2006 and substantially all interest expense in the accompanying statement of operations relates to those advances.

### Item 8 Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

Effective August 9, 2005, the Registrant engaged Ham Langston & Brezina L.L.P., 11550 Fuqua, Suite 475, Houston, Texas 77034 as its auditors to replace its former auditors, Elliott Davis LLC. The former auditor was notified of their dismissal on August 09, 2005.

Elliott Davis, LLC audited the financial statements for the Company for the fiscal years ending September 30, 2002, and September 30, 2003. The audit report of Elliott Davis, LLC for the year ended September 30, 2003 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles, except the audit report prepared by Elliott Davis LLC did contain a going concern qualification; such financial statements did not contain any adjustments for uncertainties stated therein.

In connection with the audit for the fiscal years ended September 30, 2002, September 30, 2003 and the subsequent interim period ended August 9, 2005, there were no disagreements with Elliott Davis, LLC on any matter of accounting principles or practices, financial statement disclosures or auditing scope or procedure, which if not resolved to the satisfaction of Elliott Davis LLC, would have caused it to make reference to the subject matter of the disagreement in connection with its reports except that Elliott Davis advised the Company's board of directors that internal controls necessary to develop reliable financial statements did not exist.

During the fiscal years ended September 30, 2002, September 30, 2003 and the subsequent interim period ended August 9, 2005, there were no "Reportable Events" as defined in Regulations S-K Item 304 (a) (1) (v) other than the advice referred to in the previous paragraph that internal controls necessary to develop reliable financial statements did not exist.

The Registrant has complied with the requirements of Item 304(a)(3) of Regulation SB with regard to providing the former accountant with a copy of the

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disclosure it is making in response to this Item and has requested the former accountant to furnish a letter addressed to the Commission stating whether it agrees with the statements made by the registrant and, if not, stating the respects in which it does not agree.

The change in accountants was approved by the board of directors.

During the registrant's two most recent fiscal years and the subsequent interim period prior to the August 9, 2005 appointment of Ham Langston & Brezina L.L.P, neither the company nor anyone on its behalf consulted with Ham Langston & Brezina L.L.P regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the company's financial statements, and neither a written report nor oral advice was provided to the company by Ham Langston & Brezina L.L.P that was an important factor considered by the company in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement, as that term is defined to Item 304 (a)(1)(iv) of Regulation S-K and the related instructions to 304 of Regulation S-K, or a reportable event, as that term is defined in Item (a)(1)(v) of Regulation S-K.

There were no disagreements with accountants on accounting and financial disclosure.

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

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### Item 8A Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

TX Holdings, Inc.'s Chief Executive Officer and Chief Financial Officer performed an evaluation of the Company's disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the issuer's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of September 30, 2006.

#### Changes in Internal Control over Financial Reporting

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Since the assessments of September 30, 2006, the Company has instituted significant changes in the control over the expense accounts of the Company. These changes include the following controls:

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1. All obligations that are paid are subject to review by the President and the Director of Finance;
2. The President of the Company signs each check or other financial instrument;
3. Copies of each check are maintained and attached to each invoice or funds request;
4. The President and the Director of Finance review all bank statements on a monthly basis;
5. Each bank account and the stock accounts are reconciled on a monthly basis;
6. All of the financial records are maintained in the Company's business office;
7. The Company has hired as the Director of Finance, Jose Fuentes, who is a Certified Public Accountant;
8. The Company has hired a Company to oversee all accounting, payments and operations for its Texas oil and gas operations;
9. The Chief Financial Officer reviews all accounts on a regular basis.

### Item 8B Other Information

On March 24, 2004, the SEC filed a civil complaint seeking a temporary restraining order ("TRO") and other relief, alleging an illegal distribution to the public of common stock of Universal Express, Inc. ("Universal"), an unaffiliated organization, by Universal's chief executive officer, its general counsel and four others, including Mark Neuhaus, the Company's Chairman and Chief Executive Officer.

Mr. Neuhaus is alleged to have violated Sections 5(b) and (c) and Sections 17(a)(1), (2) and (3) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Mr. Neuhaus denies violation of any applicable law in connection with his resale of Universal common stock. On February 21, 2007 the United States District Court Southern District of New York granted a motion for summary judgment against Mr. Neuhaus as to Section 5 liability only. The summary judgment motion was denied as to all other issues pending against Mr. Neuhaus. The Company believes there is no connection between the Company and Universal other than Mr. Neuhaus' position with the Company and the fact that Mr. Neuhaus was a consultant to Universal and received and resold shares of its common stock.

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## PART III

Item 9 Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The following table shows the names, ages and positions held by our executive officers, directors and significant employees at February 23, 2007:

| Name                  | Age | Position   |
|-----------------------|-----|--|
| Mark Neuhaus          | 52  | Chairman of the Board of Directors and President (Chief Executive Officer) |
| Michael A. Cederstrom | 54  | Interim Chief Financial Officer  |
| W.A. Alexander        | 70  | Chief Operating Officer  |

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|                   |    |                           |
|-------------------|----|---------------------------|
| Jose Fuentes      | 59 | Vice President of Finance |
| Bobby S. Fellers  | 57 | Director                  |
| Douglas C. Hewitt | 49 | Director                  |

### Business Experience of Executive Officers and Directors

Mark S. Neuhaus, Chairman of the Board of Directors and Chief Executive Officer

Mr. Neuhaus has served as Chairman and Chief Executive Officer since December 12, 2002 when MA&N acquired a controlling interest in TX Holdings. Mr. Neuhaus and his wife, Nicole B. Neuhaus, own 100% of MA&N, LLC and other investment funds specializing in small cap public companies, which Mr. Neuhaus manages and had been his principal occupation since 1995 until his involvement in TX Holdings. Prior to 1995, Mr. Neuhaus founded several startup companies including Solar Engineering in 1987, which later became US Electric Car. Mr. Neuhaus was also one of the founding shareholders of Interactive Motorsports and Entertainment.

Michael A Cederstrom, Esq., Chief Financial Officer - Mr. Cederstrom joined TX Holdings as part time interim Chief Financial Officer on March 28, 2006 and will assist the company with its reorganization as an oil and gas company. Mr. Cederstrom has served as the Chief Financial Officer for several oil and gas companies over the past 10 years. Mr. Cederstrom received his Bachelor of Science degree in finance with honors from the University of Utah. In addition he received his Juris Doctorate degree from Southwestern University.

W. A. "Bill" Alexander, PE, Chief Operating Officer - Mr. Alexander joined TX Holdings on August 2, 2006 as Chief Operating Officer. Mr. Alexander has worked at Shell Oil, Inc and Kirby Exploration, as well consulting in his own practice, Alexander Engineering. Mr. Alexander received his Bachelor of Science degree in Mining Engineering from the University of Wisconsin.

Jose Fuentes, Vice President of Finance - Mr. Fuentes has over thirty-five years of financial related experience in the energy sector. The majority of his early career, after leaving public accounting, was spent at Atlantic Richfield Co., where he held several progressive 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.

Douglas C. Hewitt, Member Board of Directors - Mr. Hewitt joined TX Holdings as a member of the board of directors on March 28, 2006. Mr. Hewitt has approximately 20 years experience in the energy and technology industries holding various positions including chief executive officer at public companies.

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Bobby S. Fellers, Member Board of Directors - Mr. Fellers Joined TX Holdings on March 28, 2006 as a member of the board of directors. Mr. Fellers has over 30 years experience in the oil and gas industry in both field and offshore operations. Currently, Mr. Fellers is the principal of the Masada Family of Companies which includes Masada Oil and Gas Company, Ltd.

Term of Office

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All directors hold office until the next annual meeting of shareholders and until their successors have been duly elected and qualified. Directors will be elected at the annual meetings to serve for one-year terms. The Company does not know of any agreements with respect to the election of directors. The Company has not compensated its directors for service on the Board of Directors of TX Holdings or any of its subsidiaries or any committee thereof. Any non-employee director of TX Holdings or its subsidiaries is reimbursed for expenses incurred for attendance at meetings of the Board of Directors and any committee of the Board of Directors, although no such committee has been established. Each executive officer of TX Holdings is appointed by and serves at the discretion of the Board of Directors.

None of the officers or directors of TX Holdings is currently an officer or director of a company required to file reports with the Securities and Exchange Commission, other than TX Holdings.

Ned Baramov, a former director, resigned on June 24, 2005. Mr. Baramov received 1,500,000 shares for his services as Secretary Treasurer, for the period January 15, 2003 - June 24, 2005.

Darren Bloom, former director, chief financial officer, Secretary and Treasurer resigned on March 17, 2006. Mr. Bloom received 2,000,000 shares of stock. The Company is seeking the return of the shares.

### Audit Committee

The Company's Board of Directors has determined that TX Holdings does not currently have a separately-designated standing audit committee established or a committee performing similar functions, nor an audit committee financial expert.

### Compliance with Section 16(a)

Based solely upon a review of Forms 3 and 4 (there have been no amendments) furnished to the Company during the year ended September 30, 2006 (no Forms 5 having been furnished with respect to such year) and written representation furnished to the Company as provided in paragraph (b)(2)(i) of Item 405 of Form 10-KSB, there are no persons who need to be identified under this Item as having failed to file on a timely basis reports required by Section 16(a) of the Securities Exchange Act of 1934 during the fiscal years ended September 2005 and 2004, except that Darren Bloom, a former Secretary-Treasurer and past member of the Board of Directors, and former Chief Financial Officer failed to make timely filing of a Form 3, which filing he has since made.

### Code of Ethics

On February 24, 2004, the Company adopted a Code of Ethics that applies to all officers, directors and employees of the Company. See exhibit 33.1 for the full text of the Company's Code of Ethics. The Company will provide to any person, without charge, a copy of its code of ethics upon request to:

TX Holdings, Inc.  
1701 North Judge Ely Blvd. #6420  
Abilene, Texas 79601

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The following table sets forth all compensation paid in respect of our Chief Executive Officer and those individuals who received compensation in excess of \$100,000 per year (collectively, the "Named Executive Officers") for our last three completed fiscal years.

SUMMARY COMPENSATION TABLE  
-----

| Name And<br>Principal<br>Position | Year | Annual Compensation |               |   | Long Term<br>Awards                         |  |
|-----------------------------------|------|---------------------|---------------|---|---|--|
|                                   |      | Salary<br>(\$)      | Bonus<br>(\$) | Other<br>Annual<br>Compensation<br>(\$) | Restricted<br>Stock<br>Compensation<br>(\$) | Securiti<br>Under-<br>Lying<br>Options<br>SARs (#) |
| Mark Neuhaus, Chief               | 2006 | -0-                 | -0-           | -0-                                     | N/A   | N/A  |
| Executive Officer and<br>Chairman | 2005 | -0-                 | -0-           | -0-                                     | N/A   | N/A  |
|                                   | 2004 | -0-                 | -0-           | -0-                                     | N/A   | N/A  |

(1) During the year ended September 30, 2007, Mr. Neuhaus received 1,000 shares of preferred stock. The stock is non convertible, but provides for 50% of the voting rights in the Company.

The preceding table does not include any amounts for non-cash compensation, including personal benefits, paid to any of the foregoing officers during the periods covered herein. The Company believes that the value of such non-cash benefits and compensation paid during the periods presented did not exceed the lesser of \$50,000 or 10% of the annual salary reported for them.

### Equity Compensation Plan Information - Employment Agreements

In May, 2006 an employment agreement was entered into with Mr. Neuhaus the president, CEO and chairman of the Board. The agreement provides that Mr. Neuhaus shall be compensated at the rate of \$25,000 per month plus bonus based on oil and gas production. In addition the employment agreement provides to Mr. Neuhaus 1,000 shares of preferred stock with no rights of conversion to common stock. The preferred stock documents provide Mr. Neuhaus with voting rights equivalent to 50% of the common shares of issued by company. During the fiscal year 2006 Mr. Neuhaus waived his monthly salary.

On March 28, 2006 the Company entered into a Contract with Michael A. Cederstrom for services as the part time interim Chief Financial Officer. Mr. Cederstrom was granted warrants to purchase 200,000 shares of TX Holdings Company Stock at an exercise price of \$0.30 per share. The warrants will expire on March 27, 2010. In addition, Mr. Cederstrom performs legal services for the Company through his law firm, Dexter and Dexter. The company pays to Dexter and Dexter the sum of \$15,000 per month for legal representation.

On March 28, 2006 the Company entered into a consulting agreement with Douglas C. Hewitt to provide technical support and advice in setting up the oil and gas operations. Mr. Hewitt was granted warrants to purchase 300,000 shares of TX Holdings Common Stock at an exercise price of \$0.30 per share. The warrants will expire on March 27, 2010.

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On March 28, 2006 the Company entered into an agreement with Bobby Fellers to provide technical support and advice in setting up the oil and gas operations. Mr. Fellers was granted warrants to purchase 300,000 shares of TX Holdings Common Stock at an exercise price of \$0.30 per share. The warrants will expire on March 27, 2010.

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On July 1, 2006 the Company entered into a consulting agreement with W.A. ("Bill") Alexander to provide technical support and advice in setting up the oil and gas operations. Mr. Alexander was granted warrants to purchase 250,000 shares of TX Holdings Common Stock at an exercise price of \$0.30 per share. The warrants will expire on March 27, 2010.

On December 12, 2005, the Company issued 2,000,000 shares of the Company's Common Stock for the compensation of Darren Bloom, CFO, Secretary/Treasurer and member of the Board of Directors. The shares were issued pursuant to a three year employment contract which Mr. Bloom only served for 9 months. TX Holdings has filed suit against Mr. Bloom for the return of the shares for breach of contract.

### Option Warrant Grants During 2006 Fiscal Year

The following table provides information related to options and warrants granted to the named executive officers and directors during the 2006 fiscal year. The Company does not have any outstanding stock appreciation rights.

| Name<br>Expiration Date                    | No. of Securities<br>Underlying Options<br>Granted (#) | % of Total Options Granted<br>to Employees in Fiscal | Exercise Price<br>(\$/Sh) |
|--|--|--|---------------------------|
| W.A. Alexander<br>March 27, 2010           | 250,000  | 23.8   | \$0.30                    |
| Michael A.<br>Cederstrom<br>March 27, 2010 | 200,000  | 19.0   | \$0.30                    |
| Bobby S. Fellers<br>March 27, 2010         | 300,000  | 28.6   | \$0.30                    |
| Douglas C. Hewitt<br>March 27, 2010        | 300,000  | 28.6   | \$0.30                    |

Messer Fellers and Hewitt were granted warrants to purchase securities of the company for consulting services provided to the company.

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### Aggregated Option Exercises During 2006 Fiscal Year and Fiscal Year-End Option Values

The following table provides information related to employee options exercised by the named executive officers during the 2006 fiscal year and number and value

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of such options held at fiscal year-end.

| Name                   | Shares   |             | Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) |               | Value of Unexercised Money Options at Fiscal Year-End (\$) |
|------------------------|----------|-------------|--|---------------|--|
|                        | Acquired | on Exercise | Realized   | Unexercisable | Exercisable  |
| W.A. Alexander Michael | N/A      | N/A         | 250,000  | -0-           | 100,000  |
| A. Cederstrom          | N/A      | N/A         | 200,000  | -0-           | 80,000   |
| Bobby S. Fellers       | N/A      | N/A         | 300,000  | -0-           | 120,000  |
| Douglas C. Hewitt      | N/A      | N/A         | 300,000  | -0-           | 120,000  |

(1) Based on the closing price of \$0.70 at September 30, 2006.

Item 11 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information, to the best of the Company's knowledge, as of January 22, 2007 with respect beneficially ownership (as such term is defined in Item 403 of Regulation S-B under the Securities Exchange Act of 1934) of the outstanding TX Holdings common stock by (i) each person to own more than 5%, (ii) each director, each executive officer and (iii) all directors and officers as a group.

| Name of Beneficial Owner (1)<br>Percent of Class | Amount and Nature of Beneficial<br>Ownership |
|--|--|
| Mark Neuhaus<br>19.7%                            | 7,662,626 (3)                                |
| Darren Bloom<br>7.4%                             | 2,000,000                                    |
| Nicole B. Neuhaus<br>8.6%                        | 4,647,626 (4)                                |
| MA&N LLC<br>17.2%                                | 4,647,626                                    |
| David R. Baker<br>6.0%                           | 1,632,669 (5)                                |
| Ned Baramov<br>3.5%                              | 940,000                                      |
| Michael A. Cederstrom*                           | 200,000 (6)                                  |

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|  |             |
|--|-------------|
| Bobby S. Fellers                                 | 300,000 (6) |
| Douglas C. Hewitt                                | 300,000 (6) |
| W.A. Alexander                                   | 250,000 (6) |
| All Directors and executive officers (5 persons) | 8,712,626   |

\* Represents less than 1% of our outstanding common stock.

- (1) Unless otherwise indicated, the Company has been advised that each person above has sole investment and voting power over the shares indicated above. The address of each beneficial owner is c/o TX Holdings, 1701 North Judge Ely Blvd., #6480, Abilene, Texas 79601.
- (2) Based upon shares of common stock outstanding as of December 8, 2006, together with securities exercisable or convertible into shares of common stock within 60 days of December 8, 2006 for each stockholder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of December , 2006 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
- (3) Of which 4,647,626, shares are owned by MA&N. Mr. Neuhaus has a 50% equity interest in MA&N. 15,000 shares were acquired in the open market. Mr. Neuhaus disclaims any beneficial interest in the 2,323,813 shares allocable to his wife's beneficial interest.
- (4) Represents shares held by MA&N in which Mrs. Neuhaus has a 50% equity interest and her husband, Mark S. Neuhaus, also has a 50% equity interest. Mrs. Neuhaus disclaims any beneficial interest in the 2,323,813 shares allocable to her husband's beneficial interest.
- (5) Represents 915,625 shares owned by Mr. Baker and 717,044 shares subject to warrants currently exercisable.

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- (6) Represents warrants issued to each individual for their specific role with the company during fiscal year 2006.

No Director, executive officer, affiliate or any owner of record or beneficial owner of more than 5% of any class of voting securities of the Company is a party adverse to the Company or has a material interest adverse to the Company.

### Item 12 Certain Relationships and Related Transactions

#### Particular Transactions

There have been no transactions during the last two years between the Company and any officer, director, nominee for election as director, or any shareholder owning more than 5% of the Company's outstanding shares, or any member of any such individual's immediate family, as to which the amount involved in the transaction or a series of similar transactions exceeded \$60,000, except as set forth below:

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- (1) During 2006 the Company entered into agreements to purchase from a company beneficially owned by Bobby S. Fellers two fields. Mr. Fellers is a Member of the Board of Directors of the Company. The Contract Area #1 field and the Park's Lease field. Mr. Fellers through his company has retained a 40% working interest in the Contract Area #1 field and a 25% working interest in the Park's Lease. The Management believes that the agreements were entered at arms length and upon terms that would be common for the industry and location of the fields.
- (2) On March 28, 2006 the Company entered into a consulting agreement with Mr. Bobby S. Fellers, a Member of the Company's Board of Directors, to provide technical support and advice in organizing the Company's oil and gas operations. Mr. Fellers received warrants to purchase 300,000 shares of the Company's common stock at an exercise price of \$0.30 per share.
- (3) On December 12, 2005 the Company issued 2,000,000 shares of TX Holdings Common Stock to Darren Bloom, Mr. Bloom was Secretary-Treasurer and member of the Board of Directors. The shares represented \$100,000 of stock compensation for 2005. Mr. Bloom is the brother of Nicole B. Neuhaus, the wife of Mark Neuhaus, the Company Chief Executive Officer and Chairman of the Board of Directors. Subsequently, Mr. Bloom resigned from all positions with the Company. The Company has filed suit for return all of the shares of Company Common Stock.
- (4) The law firm of Dexter and Dexter, located in the state of Utah, has been engaged by the Company and is paid \$15,000 per month for legal services. Mr. Michael A. Cederstrom, the Company's part time interim Chief Financial Officer is a partner with Dexter and Dexter.
- (5) On March 28, 2006 the Company entered into a consulting agreement with Mr. Douglas C. Hewitt, a Member of the Company's Board of Directors, to provide technical support and advice in organizing the Company's oil and gas operations. Mr. Hewitt received warrants to purchase 300,000 shares of the Company's common stock at an exercise price of \$0.30 per share.
- (6) As of August 1, 2005, TX Holdings and David R. Baker ("Baker") executed the Services Settlement Agreement whereby TX Holdings agreed to issue, and Baker agreed on behalf of himself and his firm, Haskell Slaughter Young & Rediker, LLC, to accept \$6,888.22 in cash and 464,942 in shares of TX Holdings common stock in full satisfaction of statements for legal services and expenses of that firm (for which Baker had full benefit and responsibility) aggregating \$43,382.43 and an accountable retainer for future legal services and expenses of \$10,000, which payment and stock issuances have been made except that the stock issuance was 3,000 shares less than the Services Settlement Agreement provided.
- (7) As of July 21, 2005, TX Holdings and Baker & Johnston LLP ("BJ," then called Baker, Johnston & Wilson LLP) executed the Forbearance Agreement whereby BJ agreed to forbear collection of the indebtedness to it of TX Holdings of \$215,113.20 until January 21, 2007 in consideration of a warrant (which has been issued to BJ) to purchase 1,434,088 shares of TX Wireless common stock exercisable from January 1, 2006 at \$0.15 a share and callable at \$.001 per underlying share from February 1, 2006 if on 20 consecutive trading days ending within 5 trading days of the call the per share market value of TX Holdings common stock is at least 2 1/2 times the then exercise price. If the warrants are fully exercised, the aggregate exercise price would equal

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the indebtedness of TX Holdings to BJ for the past legal services. On January 12, 2006, effective November 1, 2005, Baker and Johnson agreed to forbear collection of the indebtedness of the company to it until July 21, 2007 and the Warrant was amended to delay the exercise date until July 1, 2006 and the call date to August 1, 2006.

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- (8) On February 19, 2003, the Company issued 1,500,000 shares of the Company's Common Stock to Ned Baramov, Secretary - Treasurer (SEE EXHIBIT 99.). The shares represent \$75,000 of stock compensation for 2003, and were registered under an S-8 Registration Statement under the Securities Act of 1933.

### Controlling Persons

Mark S. Neuhaus, as a director and Chief Executive Officer of TX Holdings, the owner of a 50% interest in MA&N LLC and the owner of shares of TX Holdings, all as reflected in Items 9 and 11 hereof; Nicole B. Neuhaus as the owner of a 50% interest in MA&N LLC as reflected in Item 11 hereof, and MA&N LLC as the owner of shares of TX Holdings as reflected in Item 11 hereof, may all be deemed to be controlling persons of TX Holdings. There are no agreements or understandings between any of the foregoing that they will act as a group, although from time to time they may act in concert.

### Item 13 Exhibits and Reports on Form 8-K

| Exhibit No. | Description |
|-------------|-------------|
|-------------|-------------|

|      |   |
|------|---|
| 2.1  | Stock Acquisition Agreement for 51% of the outstanding and issuable Common Stock of R Wireless Corporation dated December 12, 2002 by and between MA&N LLC and R Wireless Corporation (Exhibit B omitted, to be furnished upon request of the Commission) (1) |
| 2.2  | Sale of Assets Agreement dated November 15, 2002 between HOM Corporation and Stuckey Enterprises (list of assets omitted, to be furnished upon request of the Commission) (1)   |
| 2.3  | Stock Acquisition Agreement dated September 4, 2003 between Jim Evans, R Wireless, Inc. and Homes by Owner, Inc.  |
| 2.4  | Escrow Agreement dated September 4, 2003 between Jim Evans, R Wireless, Inc., Homes by Owner, Inc. and David Baker. (11)  |
| 2.5  | Extension Agreement dated March 5, 2004 between Jim Evans, R Wireless, Inc., and Homes by Owner, Inc. (12)  |
| 3.1a | Composite Articles of Incorporation of R Wireless, Inc, as amended to reflect the change of name from HOM Corporation, effective January 22, 2003 (3)   |
| 3.2  | By-Laws of HOM Corporation as adopted December 12, 2002 (13)  |
| 4    | Instrument defining rights of holders (See Exhibit No. 3.1a, Articles of Incorporation - Article Four)  |
| 4.2  | Warrant to Purchase Shares of Common Stock of R Wireless, Inc. issued to Baker, Johnston and Wilson LLP, dated July 21, 2005  |
| 10.4 | Agreement to Merge - Freedom Homes, Inc. - Homes By Owners, Inc., dated March 24, 2005 (6)  |
| 10.5 | Forbearance Agreement between David R. Baker, Baker, Johnston & Wilson LLP, and R Wireless, Inc., dated as of July 21, 2005 Services Settlement Agreement between David. Baker and R Wireless, Inc., dated August 1, 2005                                     |
| 10.6 | Amendment to Forbearance Agreement and Warrant between Baker & Johnston LLP, and TX Holdings, Inc., dated as of November 1, 2005  |
| 16.1 | Letter of Elliott Davis LLC (8)   |

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- 21.1 List of Subsidiaries of R Wireless, Inc. (2)
- 31.1 Certification of Michael A. Cederstrom, Esq., CFO of TX Holdings, Inc.
- 31.2 Certification of William "Buck" Shrewsbury, CEO of TX Holdings, Inc.
- 32.1 Certification of Michael A, Cederstrom, Esq., pursuant to Section 1350
- 32.2 Certification of William "Buck" Shrewsbury, pursuant to Section 1350
- 33.1 R Wireless, Inc. Code of Ethics adopted February 24, 2004 (7)
- 99.7 Employment Agreement between Registrant and Ned Baramov dated January 15, 2003 (5)
- 99.8 Employment Agreement between Registrant and Mark Neuhaus dated January 15, 2003 (5)
- 99.9 Employment Agreement between Registrant and Darren Bloom dated August, 2005 (9)

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- (1) Incorporated by reference to the exhibit as filed with Form 8-K of R Wireless, Inc., with Securities and Exchange Commission filing date of December 27, 2002.
- (2) Incorporated by reference to the exhibit as filed with Form 10-SB of R Wireless, Inc., with Securities and Exchange Commission filing date of February 9, 2001.
- (3) Incorporated by reference to the exhibit as filed with Form 10-QSB of R Wireless, Inc., with Securities and Exchange Commission filing date of February 19, 2003.
- (4) Incorporated by reference to the exhibit as filed with Form 10-SB/A2 of R Wireless, Inc., with Securities and Exchange Commission filing date of August 31, 2001.
- (5) Incorporated by reference to the exhibit as filed with Form S-8 of R Wireless, Inc., with Securities and Exchange Commission filing date of February 19, 2003.
- (6) Incorporated by reference to the exhibit as filed with Form 8-K of R Wireless, Inc., with Securities and Exchange Commission filing date of March 31, 2005.
- (7) Incorporated by reference to the exhibit as filed with Form 10-KSB of R Wireless, Inc., with Securities and Exchange Commission filing date of March 12, 2004.
- (8) Incorporated by reference to the exhibit as filed with Form 8-K of R Wireless, Inc., with Securities and Exchange Commission filing date of August 19, 2005.
- (9) Incorporated by reference to the exhibit as filed with Form 13D of Darren Bloom with Securities and Exchange Commission filing date of December 14, 2005.
- (10) Incorporated by reference to the exhibit as filed with Form 10KSB/A of R Wireless, Inc., with Securities and Exchange Commission filing date of March 12, 2004.
- (11) Incorporated by reference to the exhibit as filed with Form 10KSB/A of R Wireless, Inc., with Securities and Exchange Commission filing date of March 12, 2004.
- (12) Incorporated by reference to the exhibit as filed with Form 10KSB/A of R Wireless, Inc., with Securities and Exchange Commission filing date

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of March 12, 2004.

- (13) Incorporated by reference to the exhibit as filed with Form 10KSB of R Wireless, Inc., with Securities and Exchange Commission filing date of January 14, 2003.

Reports on Form 8-K

Nicole B. Neuhaus' resignation from the Board of Directors as of November 4, 2003, filed with the Security and Exchange Commission on December 12, 2003.

Agreement to Merge between Homes and Freedom as of March 25, 2005, filed with the Security and Exchange Commission on March 31, 2005.

Changes in R Wireless' Certifying Accountant as of August 9, 2005 - Elliott Davis LLC dismissed and Ham, Langston & Brezina LLP engaged; filed with the Security and Exchange Commission on July 19, 2005.

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Forbearance Agreement with Baker, Johnston & Wilson LLP as of July 21, 2005; Resignation of Ned Baramov as of June 24, 2005, and appointment of Darren Bloom as member of the Board and Chief Financial Officer; filed with the Security and Exchange Commission on July 25, 2005.

Appointment of Mr. Douglas Hewitt of Hewitt Energy Group and Mr. Bobby Fellers of The Masada Oil and Gas Companies as a member of the Board; Appointment of Mr. Michael Cederstrom as Chief Financial Officer; Resignation of Darren Bloom from positions as Director, Secretary/Treasurer and Chief Financial Officer; filed with the Security and Exchange Commission on March 28, 2006.

Acquired first producing oil and gas lease. TX Holdings acquired a 75% working interest in the "Parks" Lease for 320 acres with approximately 22 existing wells and estimated reserves of 12M to 13M barrels; filed with the Security and Exchange Commission on April 11, 2006.

Private Placement Agreement with Brill Securities, Inc. Under the terms of the agreement, Brill Securities will act as financial advisors for the Company's private placement offering; filed with the Security and Exchange Commission on May 16, 2006.

Commencement of legal proceedings against former CFO Darren Bloom in TX Holdings, Inc. v. Darren Bloom, Case No. 06-14396CA04, 11th Judicial Circuit Court, Dade County, Florida; filed with the Security and Exchange Commission on July 31, 2006.

Hiring of W.A. "Bill" Alexander as Chief Operating Officer of TX Holdings, Inc.; filed with the Security and Exchange Commission on August 2, 2006.

Hiring of Jose Fuentes as Vice President-Finance of TX Holdings, Inc.; filed with the Security and Exchange Commission on February 2, 2007.

Item 14 Principal Accountants Fees and Service

The aggregate fees we paid to Ham Langston & Brezina, LLP for the years ended September 30, 2006 and 2005 were as follows:

| 2006 | 2005 |
|------|------|
|------|------|

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Audit Fees \$ 30,000 \$ 20,000  
Audit-Related Fees  
Total Audit and Audit-Related Fees

Tax Fees  
All Other Fees  
Total

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TX HOLDINGS, INC.

By: /s/ William "Buck" Shrewsbury  
William "Buck" Shrewsbury  
Chief Executive Officer

Dated: March 19, 2008

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ William "Buck" Shrewsbury Chairman of the Board of Directors and  
----- Chief Executive Officer

William "Buck" Shrewsbury  
March 19, 2008

/s/ Rob Hutchings President  
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Rob Hutchings  
March 19, 2008

/s/ Michael A. Cederstrom Chief Financial Officer  
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Michael A. Cederstrom  
March 19, 2008

/s/ Bobby S. Fellers Director  
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Bobby S. Fellers  
March 19, 2008

/s/ Martin Lipper Director  
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Martin Lipper  
March 19, 2008

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