Quarterly Report

For the Six months ended January 31, 2019

Trading Symbol:	**"ITEX"**
CUSIP Number:	**465647402**

ITEX CORPORATION

QUARTERLY REPORT

For the Six months ended January 31, 2019

INDEX

Item 1 Name of the Issuer and its Predecessors (if any)

ITEX Corporation, a Nevada corporation (referred to as "ITEX" or the "Company")

Item 2 Address of the Issuer's Principal Executive Offices

ITEX Corporation
15900 SE Eastgate Way, Suite 100
Bellevue, WA 98008
Telephone: 425-463-4000
Website: www.itex.com

IR Contact:
Rob Benson
Telephone: 425-463-4003
rob.benson@itex.com

Item 3 Security Information

Trading Symbol:	**ITEX**
Title and class of securities outstanding:	**Common Stock**
CUSIP:	**465647402**
Par Value:	**$0.01 per share**
Total shares authorized:	**9,000,000** as of January 31, 2019
Total shares outstanding	**2,111,114**[1] as of January 31, 2019

Additional classes of securities:

Trading Symbol:	**None**
Title and class of securities outstanding:	**Series A Junior Participating Preferred Stock**
CUSIP:	**None**
Par Value:	**$0.01 per share**
Total shares authorized:	**5,000,000** as of January 31, 2019
Total shares outstanding	**None** as of January 31, 2019

Transfer Agent:

OTR, Inc.
1001 SW Fifth Avenue, Ste 1550
Portland, OR 97204-1143
Phone: (503) 225-0375
Fax: (503) 273-9168

Is the Transfer Company registered under the Exchange Act? Yes ☒ No ☐

[1] Includes unvested restricted stock.

List any restrictions on the transfer of security:

Shares previously issued in private placements (“restricted securities”), and shares held by affiliates such as officers, directors or large shareholders (“control securities”) are generally subject to the applicable resale conditions of Rule 144. Rule 144 requires a holding period for restricted and control securities of at least twelve (12) months after acquisition, before open market sales can be made. Affiliates are subject to additional requirements for market sales, including current public information, volume limitation on sales, manner of sale requirements, and the filing of a Form 144.

Describe any trading suspension orders issued by the SEC in the past 12 months: None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

We have paid cash dividends to stockholders since 2010. On November 15, 2018, the Board of Directors of ITEX Corporation declared a semi-annual cash dividend in the amount of $0.10 per share, payable on December 17, 2018 to stockholders of record as of the close of business on December 3, 2018.

Item 4 Issuance History

In December 2013, stockholders approved the adoption of the ITEX Corporation 2014 Equity Incentive Plan (the “Plan”), pursuant to which 400,000 shares of common stock were authorized for issuance. The Plan provides for the awards of restricted stock, restricted stock units, and other awards including unrestricted stock awards, stock bonuses, or the payment of cash for bonuses or in settlement of restricted stock unit awards to the Company’s employees, directors, officers or consultants.

During the year ended July 31, 2017, we issued a total of 45,000 restricted stock awards under the Plan to three employees pursuant to an effective registration statement on Form S-8 under the Securities Act. The shares are subject to a 7-year service-based vesting period, so that the shares will be fully vested on May 1, 2024. The fair value of these shares as of the grant date was $171,000. During the year ended July 31, 2018, 10,714 of the 45,000 shares that were granted were forfeited.

During the year ended July 31, 2018, we issued 25,000 shares under the Plan to an employee. The fair value of these shares as of the grant date was $92,500. The issuance was deemed to be exempt from registration under the Securities Act in reliance on Rule 701 promulgated thereunder. The recipient received restricted securities and transfer agent records and any certificate issued in the transaction carry an appropriate legend.

In December 2018, we issued 25,000 shares under the Plan to an employee. The fair value of these shares as of the grant date was $108,750. The issuance was deemed to be exempt from registration under the Securities Act in reliance on Rule 701 promulgated thereunder. The recipient received restricted securities and transfer agent records and any certificate issued in the transaction carry an appropriate legend.

Item 5 Financial Statements

The unaudited consolidated financial statements for the six months ended January 31, 2019 and 2018, are attached, starting on page 11.

Item 6 Description of Business, Products and Services

a. Description of the issuer's business operations:

ITEX Corporation operates a marketplace (the "Marketplace") in which products and services are exchanged by Marketplace members utilizing ITEX dollars ("ITEX dollars"). ITEX dollars are only usable in the Marketplace and allow thousands of member businesses (our "members") to acquire products and services without exchanging cash. We service our member businesses through our independent licensed brokers and franchise network (individually, "broker" and together, the "Broker Network") in the United States and Canada. We administer the Marketplace and provide record-keeping and payment transaction processing services for our members. We generate revenue by charging members percentage-based transaction fees, association fees, and other fees assessed in United States dollars and Canadian dollars where applicable (collectively and as reported on our financial statements, "USD" or "Cash").

b. Date and State (or Jurisdiction) of Incorporation:

Nevada; incorporated October 1, 1985

c. Issuer's primary and secondary SIC Codes:

The Standard Industrial Code for our principal line of business is: 7389

d. Issuer's fiscal year end date:

July 31

e. Principal products or services, and their markets:

Marketplace Transactions. The Marketplace provides a forum for our members to purchase from and sell their products and services to other members using ITEX dollars instead of USD. An ITEX dollar is an accounting unit used to record the value of transactions as determined by the members in the Marketplace. ITEX dollars are not intended to constitute legal tender, securities, or commodities and have no readily determinable correlation to USD. ITEX dollars may only be used in the manner and for the purpose set forth in our Member Agreement and the rules of the Marketplace.

Businesses use our Marketplace to attract new customers, increase sales and to utilize unproductive assets, surplus inventory, or excess capacity. The Marketplace is especially useful to businesses where the variable costs of products or services are low, such as hospitality, media, and service related businesses.

For tax purposes, the Internal Revenue Service ("IRS") considers ITEX dollar sales to be equivalent to USD sales and ITEX dollar expenses to be equivalent to USD expenses. As a third-party record keeper under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), ITEX is required to annually send Forms 1099-B to each of our members and to the IRS, which we do electronically.

Broker Network. We service our member businesses through our independent licensed brokers and franchise network (individually, "broker" and together, the "Broker Network"). Brokers are independent business owners with respect to the Company and provide Marketplace members with information about products and services that are available locally, nationally and in Canada. Brokers are responsible for enrolling new members, training them in Marketplace policies and procedures, facilitating their transactions and assuring payment in USD of transaction fees, association fees and other fees to us. In turn, brokers receive a commission in USD for a percentage of revenue collected from the members serviced by those brokers.

We offer the sale of ITEX franchises to qualified individuals under our most current franchise agreement. Our franchise agreement grants franchisees the right to service the needs of our Marketplace members and sets forth their obligations and responsibilities. Our franchise agreements generally provide for a five-year, renewable term unless terminated for reasons defined in the agreement.

Sources of Revenue. Our main sources of revenue are transaction and association fees. Additionally, we may charge various auxiliary fees to members. The fees we charge members are in USD and partially in ITEX dollars. We bill members for all fees at the end of each four-week operating cycle. Members that pay through our Autopay System will generally be charged a USD transaction fee equal to 6.0% of the ITEX dollar amount of the member's purchases and sales during the operating cycle. Additionally, regardless of a member's transaction activity, each operating cycle we charge most members an association fee of $20 USD ($260 USD annually) and $10 ITEX dollars ($130 ITEX dollars annually).

We prepare our financial statements on an accrual basis in accordance with United States Generally Accepted Accounting Principles (GAAP). Refer to Note 1 — "Summary of Significant Accounting Policies" included in the "Notes to Consolidated Financial Statements", Item 8 – Financial Statements for a description of our accounting policies.

Member Services. Our members are located in the United States and Canada. The majority of members are small businesses. Members choose to participate in the Marketplace for several reasons including attracting new customers, increasing sales, adding new channels of distribution, and utilizing unproductive assets, surplus inventory or excess capacity.

We provide our Marketplace members:

- An efficient method to execute and track transactions in the Marketplace.
- A community where members can interact and safely transact business with other members. Our Broker Network and corporate staff seek to maintain a fair and equitable environment for our members. Members may sell in the Marketplace only those products and services they have the legal right to sell.
- Excellent customer service by the Broker Network and our corporate staff.
- A visible social media presence and smart phone technology.

The Marketplace is handled by our proprietary software system, which is designed to facilitate the activities of all parties involved in the Marketplace, from our corporate management and accounting personnel to brokers and members. Our system provides: customer relationship management tools; a number of analytical reports; an online classified ad section where members can list products and services they are offering for sale as well as locate products and services they are seeking to purchase; a categorized listing of members; and a mobile app to easily register new prospects, complete a transaction, search for other members, and make payments.

Forward-Looking Statements

In addition to current and historical information, this Quarterly Report contains forward-looking statements. These statements relate to our future operations, prospects, potential products, services, developments, business strategies or our future financial performance. Forward-looking statements reflect our expectations and assumptions only as of the date of this report and are subject to risks and uncertainties. Actual events or results may differ materially. We have included a discussion of certain risks and uncertainties that could cause actual results and events to differ materially from our forward-looking statements in the section titled "Risk Factors," filed with our Annual Report, posted with the OTC Disclosure and News Service on October 19, 2018 ("Annual Report"). We undertake no obligation to update or revise publicly any forward-looking statement after the date of this report, whether as a result of new information, future events or otherwise.

RISK FACTORS

Material risk factors are contained in our Annual Report related to the industry and our business which may affect our future prospects, performance and results. Some of the risk factors that investors or potential investors in our securities should consider are summarized as follows:

- Our revenue growth and success is tied to the operations of our Broker Network, and as a result the loss of our brokers or the financial performance of our brokers can negatively impact our business
- Future revenue growth remains uncertain and our operating results and profitability may decline
- Substantial and increasing competition from the ecommerce industry, exchanges and other distribution channels may adversely affect our overall business, revenues and results of operations
- Our ability to use our net operating loss carryforwards to offset future taxable income would be limited if we do not generate sufficient taxable income or if an ownership change occurs, which would negatively impact our results of operations and stockholders' equity
- Our brokers could take actions that could harm our business, our reputation and adversely affect the ITEX Marketplace
- We may be held responsible by members, third parties, regulators or courts for the actions of, or failures to act by, our brokers or their employees, which exposes us to possible adverse judgments, other liabilities and negative publicity
- Our business is subject to government regulation and future regulation or regulatory changes may increase the cost of compliance and doing business
- The emergence of increased regulation related to virtual currencies could increase our costs by requiring us to update our products and services; or subject us to operational requirements that result in substantial compliance costs which would adversely affect our business
- The market for our securities has limited liquidity

Item 7 Description of Facilities

Our corporate and administrative headquarters offices are located in approximately 3,379 square feet of office space in Bellevue, Washington. Our lease extends through March 2022. Our premises are utilized by our senior management and administrative personnel. We believe that our facilities are adequate and suitable for their current use.

Item 8 Officers, Directors, and Control Persons

A. Officers and Directors

The following table sets forth certain information about our executive officers and directors as of January 31, 2019:

Name and Address[(1)]	Age	Current Principal Occupation or Employment and Five-Year Employment History	Director Since
Steven White	60	Chairman and Chief Executive Officer of the Company (2003-present).	2003
John Wade	56	Director (2003-present) and Chief Financial Officer since January 2013. Since January 2018, Mr. Wade has provided outsourced CFO services on a contract basis. He has served as Secretary and Treasurer of ITEX since 2003. Mr. Wade is currently a principal of Wade Consulting.	2003
Eric Best	46	Chief Executive Officer at Sound Commerce since February 2017. Mr. Best served as Chief Strategy Officer of CommerceHub from January 2015 to August 2016. Mr. Best founded and served as Chief Executive Officer of Mercent Corporation from 2005 to January 2015.	2003
Kevin Callan	62	Executive Director of the Washington State Major League Baseball Stadium Public Facilities District since 2000. Since 2001 he has served as the Chief Financial Officer of a collection of light manufacturing and distribution companies owned by PT Foley.	2013
Tim Morones	53	VP Operations at LiveStories, a civic data company since April 2018. From 2011 until March 2018, Mr. Morones held several positions at DataSphere Technologies, most recently as the VP General Manager of LandWatch.	2012

(1) The business address of the current directors and executive officers is c/o ITEX Corporation, 15900 SE Eastgate Way, Suite 100, Bellevue, Washington 98008.

B. **Legal/Disciplinary History.**

During the last five years, none of the foregoing officers or directors has been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person’s involvement in any type of business, securities, commodities, or banking activities;

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

C. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information that has been provided to the Company regarding the beneficial ownership as of January 31, 2019 of the Company's common stock by (a) each person who is known by the Company to be a beneficial owner of more than five percent of the outstanding common stock of the Company, (b) each director of the Company, (c) each of the executive officers, and (d) all directors and executive officers of the Company as a group.

Name and Address [(1)] Of Beneficial Owner	Shares [(2)] Beneficially Owned	Percent [(3)] of Voting Shares
Current Directors and Executive Officers:		
Steven White [(4)]	640,430	30.3%
Eric Best	17,000	*
Kevin Callan	15,000	*
Tim Morones	15,000	*
John Wade	27,700	1.3%
All current directors and executive officers as a group (5 persons)	715,130	33.9%
Other Beneficial Owners:		
The Lion Fund, L.P. [(5)]	340,840	16.1%
Pagidipati Family, L.P. [(6)]	183,478	8.7%

* Less than one percent.

(1) The business address of the current directors and executive officers is c/o ITEX Corporation, 15900 SE Eastgate Way, Suite 100, Bellevue, Washington 98008.

(2) Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned and the percentage ownership of an individual or group, any shares that the individual or group may acquire within 60 days, including through the exercise of stock options or vesting of restricted stock units, are deemed outstanding. These shares, however, are not deemed outstanding for purposes of computing the ownership of any other person. To our knowledge, except as indicated in the footnotes to this table and subject to applicable community property laws, the stockholders named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

(3) Percentage of beneficial ownership is based upon 2,111,114 voting shares outstanding as of the record date (including shares of unvested restricted stock).

(4) Mr. White has 76,000 unvested restricted stock awards outstanding.

(5) The latest Schedule 13D filed by the beneficial owners on April 24, 2015, indicated that 340,840 shares are held by The Lion Fund, L.P., Biglari Capital Corp. and Sardar Biglari. The principal business address of each of the Lion Fund, Biglari Capital Corp. and Sardar Biglari is 17802 IH 10 West, Suite 400, San Antonio, Texas 78257.

(6) Based on beneficial ownership information dated as of October 28, 2016. Includes shares beneficially owned by Rahul Pagidipati and Dr. Devaiah Pagidipati, who have voting and investment power with respect to the Pagidipati Family, L.P.

Item 9 Third Party Providers

Legal Counsel

Stephen Tollefsen
Tollefsen Business Law PC
5129 Evergreen Way Ste D-20
Everett, Washington 98203
Telephone (425) 353-8883
Email: st@tbuslaw.com

Accountant or Auditor

EKS&H LLLP, now part of Plante Moran
8181 East Tufts Avenue, Suite 600
Denver, Colorado 80237
Telephone: (303) 740-9400
Fax: (303) 740-9009
www.eksh.com

Item 10 Issuer Certification

CERTIFICATION OF CHIEF EXECUTIVE OFFICER:

I, Steven White, certify that:

1. I have reviewed this quarterly report of ITEX Corporation.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: February 28, 2019

/s/ Steven White
Steven White
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER:

I, John Wade, certify that:

4. I have reviewed this quarterly report of ITEX Corporation.
5. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
6. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: February 28, 2019

/s/ John Wade
John Wade
Chief Financial Officer

ITEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands) (Unaudited)

	January 31, 2019	July 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,302	$ 5,130
Accounts receivable, net of allowance of $429 and $524	728	438
Prepaid expenses	57	131
Loans and advances	-	5
Notes receivable	226	187
Other current assets	18	1
Total current assets	6,331	5,892
Property and equipment, net of accumulated depreciation of $291	1	1
Goodwill	1,441	1,441
Deferred tax asset, net of allowance of $304	1,341	1,457
Intangible assets, net of accumulated amortization of $3,443 and $3,436	29	36
Notes receivable, net of current portion	337	350
Other long-term assets	19	19
Total assets	$ 9,499	$ 9,196
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts and other expenses payable	20	25
Commissions payable to brokers	409	188
Accrued commissions to brokers	418	610
Accrued expenses	156	248
Deferred revenue	14	17
Advance payments	126	116
Total current liabilities	1,143	1,204
Long-term liabilities:		
Other long-term liabilities - deferred rent	28	32
Total liabilities	1,171	1,236
Commitments and contingencies		
Stockholders’ equity:		
Common stock, $0.01 par value; 9,000 shares authorized; 2,009 shares and 1,965 shares issued and outstanding, respectively	20	20
Additional paid-in capital	22,708	22,557
Accumulated deficit	(14,400)	(14,617)
Total stockholders' equity	8,328	7,960
Total liabilities and stockholders’ equity	$ 9,499	$ 9,196

The accompanying notes are an integral part of these Consolidated Financial Statements

ITEX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands) (Unaudited)

	Three months Ended January 31,		Six months Ended January 31,	
	2019	2018	2019	2018
Revenue:				
Marketplace revenue and other revenue	$ 2,420	$ 2,618	$ 4,723	$ 5,010
Costs and expenses:				
Cost of Marketplace revenue	1,479	1,673	2,874	3,130
Corporate salaries, wages and employee benefits	418	442	719	810
Selling, general and administrative	252	207	587	529
Depreciation and amortization	4	4	8	8
	2,153	2,326	4,188	4,477
Income from operations	267	292	535	533
Other income	7	12	15	21
Income before income taxes	274	304	550	554
Income tax expense	62	109	125	198
Net income	$ 212	$ 195	$ 425	$ 356

The accompanying notes are an integral part of these Consolidated Financial Statements

ITEX CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands) (Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at July 31, 2017	1,933	$ 19	$ 22,447	$ (14,755)	$ 7,711
Common stock repurchased and retired	(21)	-	(83)	-	(83)
Stock based compensation expense	53	1	193	-	194
Dividend payment	-	-	-	(416)	(416)
Net income	-	-	-	600	600
Balance at July 31, 2018	1,965	$ 20	$ 22,557	$ (14,617)	$ 7,960
Stock based compensation expense	44	-	151	-	151
Dividend Payment	-	-	-	(208)	(208)
Net income	-	-	-	425	425
Balance at January 31, 2019	2,009	$ 20	$ 22,708	$ (14,400)	$ 8,328

The accompanying notes are an integral part of these Consolidated Financial Statements

ITEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

(Unaudited)

	Six months ended January 31, 2019	Six months ended January 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 425	$ 356
Items to reconcile to net cash provided by operations:		
Depreciation and amortization	8	8
Stock based compensation	151	57
Bad debt expense	130	96
Change in deferred income taxes	116	188
Changes in operating assets and liabilities:		
Accounts receivable	(421)	(463)
Prepaid expenses	74	39
Loans and advances	5	(12)
Other assets	(17)	11
Accounts payable and other expenses	(5)	8
Commissions payable to brokers	221	(206)
Accrued commissions to brokers	(192)	318
Accrued expenses	(92)	(3)
Deferred revenue	(3)	(6)
Advance payments	10	8
Long-term liabilities	(4)	(2)
Net cash provided by operating activities	406	397
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received from notes receivable	141	96
Advances on Loans	(167)	(191)
Net cash used in investing activities	(26)	(95)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividend paid to Common Shareholders	(208)	(207)
Net cash used in financing activities	(208)	(207)
Net increase in cash and cash equivalents	172	95
Cash and cash equivalents at beginning of period	5,130	4,259
Cash and cash equivalents at end of period	$ 5,302	$ 4,354
Supplemental cash flow information:		
Cash paid for taxes	$ 27	$ 16

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTE 1 - DESCRIPTION OF OUR COMPANY AND SUMMARY OF OUR SIGNIFICANT ACCOUNTING POLICIES

Description of our Company

ITEX Corporation (“ITEX”, “Company”, “we” or “us”) was incorporated in October 1985 in the State of Nevada. Through our independent licensed broker and franchise network (individually, “broker,” and together the “Broker Network”) in the United States and Canada, we operate a “Marketplace” in which products and services are exchanged by Marketplace members utilizing ITEX dollars “ITEX dollars”. ITEX dollars are only usable in the Marketplace and allows thousands of member businesses (our “members”) to acquire products and services without exchanging cash. We administer the Marketplace and provide record-keeping and payment transaction processing services for our members. A summary of significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows:

Unaudited Interim Financial Information

These consolidated financial statements are unaudited and, in our opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of our consolidated balance sheets, operating results, and cash flows for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been omitted. The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amount of revenue and expenses during the reporting period. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in our Annual Report, posted with the OTC Disclosure and News Service on October 19, 2018.

Principles of Consolidation

The consolidated financial statements include the accounts of ITEX Corporation and its wholly owned subsidiary BXI Exchange, Inc. All inter-company accounts and transactions have been eliminated in consolidation.

Accounting Records and Use of Estimates

The accounting records are maintained in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions affecting the amounts reported in the consolidated financial statements and accompanying notes. Changes in these estimates and assumptions may have a material impact on the Company’s financial statements and notes. Examples of estimates and assumptions include estimating:

- certain provisions such as allowances for accounts receivable and notes receivable
- any impairment of long-lived assets including goodwill
- useful lives of property and equipment
- the value and expected useful life of intangible assets
- the value of assets and liabilities acquired through business combinations
- tax provisions and valuation allowances

- accrued commissions and other accrual expenses
- litigation matters described herein
- stock based payments

Actual results may vary from estimates and assumptions that were used in preparing the financial statements.

Operating and Accounting Cycles

For each calendar year, we divide our operations into 13 four-week billing and commission cycles always ending on a Thursday (“operating cycle”). For financial statement purposes, our fiscal year is from August 1 to July 31 (“year”, “2019” for August 1, 2018 to July 31, 2019, and “2018” or August 1, 2017 to July 31, 2018). Our second quarter is the three-month period from November 1, 2018 to January 31, 2019 (“three-month period ended January 31”) and our first six months is the period from August 1, 2018 to January 2019 (“Six-months ended”). We report our results as of the last day of each calendar month (“accounting cycle”).

Accounting for Income Taxes

We account for income taxes using an asset and liability approach as required. Such approach results in the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book carrying amounts and the tax basis of assets and liabilities and net operating loss carryforwards. We assess a valuation allowance on our deferred tax assets if it is more likely than not that a portion of our available deferred tax assets will not be realized. We record our deferred tax assets net of valuation allowances.

We also account for uncertainty in income taxes in that we recognize the tax benefits of tax positions only if it is more likely than not that the tax positions will be sustained, upon examination by the applicable taxing authorities, based on the technical merits of the positions. As required, we record potential interest and penalties associated with our tax positions. We have opted to record interest and penalties, if any, as a component of income tax expense.

Contingencies

In the normal course of our business we are periodically involved in litigation or claims. We record litigation or claim-related expenses upon evaluation of among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. We accrue for settlements when the outcome is probable and the amount or range of the settlement can be reasonably estimated. In addition to our judgments and use of estimates, there are inherent uncertainties surrounding litigation and claims that could result in actual settlement amounts that differ materially from estimates. We expense our legal costs associated with these matters when incurred.

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

In November 2015, the FASB issued Accounting Standards Update (ASU) 2015-17, *Balance Sheet Classification of Deferred Taxes*, intended to improve how deferred taxes are classified on organizations’ balance sheets. The ASU eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will now be required to classify all deferred tax assets and liabilities as noncurrent. The pronouncement is effective for reporting periods beginning after December 15, 2016. Early adoption is permitted as of the beginning of an interim or annual period. The Company adopted this provision for the period ended July 31, 2017.

In February 2016, the FASB issued ASU 2016-02, which amends the FASB Accounting Standards Codification and creates Topic 842, "*Leases*." The new topic supersedes Topic 840, "*Leases*," and increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires disclosures of key information about leasing arrangements. The guidance is effective for reporting periods beginning after December 15, 2019. ASU 2016-02 mandates a modified retrospective transition method. The Company has one operating lease, see Note 2 - Commitments, and at the scheduled adoption date of August 1, 2020 there will be only one and a half years left on the lease. At that time the Company will capitalize the remaining lease balance on its balance sheet with an offsetting liability also recorded. The Adoption is not expected to have a significant effect on the Company's financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments (ASU 2016-13)*, an ASU amending the impairment model for most financial assets and certain other instruments. The ASU is effective for reporting periods beginning after December 15, 2020, with early adoption permitted after December 15, 2018. The ASU must be adopted using a modified-retrospective approach. The primary impact this pronouncement will have is on our notes receivable. At the time of adoption on August 1, 2021 we anticipate that the majority of the existing $563 balance of notes receivable will be collected in full. Therefore, the Company does not expect adoption to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes current revenue recognition requirements and industry-specific guidance. The codification was amended through additional ASUs and, as amended, requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The Company was required to adopt the new standard for its fiscal year ended July 31, 2019 and may adopt either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of the adoption using one of two retrospective methods. The adoption is not expected to have a significant effect on the Company's financial statements.

There were other various accounting standards and interpretations issued recently, none of which are expected to have a material impact on the Company's consolidated financial position, operations or cash flows.

NOTE 3 - COMMITMENTS

The Company leases office space for its corporate headquarters in Bellevue, Washington. In July 2016, we signed a 5-year lease for a new location in Bellevue, Washington, with a lease commencement date of September 15, 2016. The lease expiration date is March 31, 2022. The lease expense for our executive office space for the six-months ended January 31, 2019 and 2018 was $57 and $55, respectively.

NOTE 4 – ITEX DOLLAR ACTIVITY

We record ITEX dollar revenue in the amounts ultimately equal to expenses we incurred and paid for in ITEX dollars, resulting in an overall net effect of $0 on the operating and net income lines.

NOTE 5 – STOCK-BASED PAYMENTS

We account for stock-based compensation in accordance with the related guidance. Under the fair value recognition provisions, we estimate stock-based compensation cost at the grant date based on the fair value of the award. We recognize that expense ratably over the requisite service period of the award and recognized $152 and $140 of stock-based compensation expense for the six-months ended January 31, 2019 and 2018, respectively.

At January 31, 2019, 76 shares of common stock granted under the ITEX Corporation 2004 Equity Incentive Plan remained unvested and 26 under the 2014 Equity Incentive Plan. At January 31, 2019, the Company had $343 of unrecognized compensation expense, expected to be recognized over a weighted-average period of approximately five years.

NOTE 6 - STOCKHOLDERS' EQUITY

The Company has 5,000 shares of preferred stock authorized at $0.01 par value. No preferred shares were issued or outstanding as of January 31, 2019.

On March 9, 2010, the Company announced a $2,000 stock repurchase program. The program authorizes the repurchase of shares in open market purchases or privately negotiated transactions, has no expiration date and may be modified or discontinued by the Board of Directors at any time. During the six-month period ended January 31, 2019, no shares of common stock were repurchased.

On November 30, 2017, ITEX effected a 1-for-100 reverse stock split of common stock, which was immediately followed by a forward split of common stock at a ratio of 100-for-1. Holders of fractional shares were cashed out at $4.00 per share on a pre-split basis, resulting in 21 shares repurchased by the Company.

NOTE 7 - INCOME TAXES

Income tax expense during interim periods is based on applying an estimated annual effective income tax rate to year-to-date income, plus any significant unusual or infrequently occurring items which are recorded in the interim period.

The effective tax rate related to our provision for income taxes in the six-months ended January 31, 2019 is lower to that used in the period ended January 31, 2018 as the Tax Cuts and Jobs Act was enacted in December, 2017. The Act reduced the US federal corporate tax rate from 35% to 21%. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in various jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is obtained, additional information becomes known or as the tax environment changes.

As of January 31, 2019, we have recognized a net income tax expense of $125 which is our estimated federal and state income tax liability for the six-months ended January 31, 2019. Realization of our deferred tax asset is dependent upon future earnings in specific tax jurisdictions, the timing and amount of which are uncertain. As of January 31, 2019, the net deferred tax asset was $1,341.

We account for any uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We measure the tax benefits recognized in the financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The application of income tax law is inherently complex. As such, we are required to make subjective assumptions and judgments regarding income tax exposures. The result of the assessment of our tax positions did not have an impact on the consolidated financial statements.

NOTE 8 – SUBSEQUENT EVENTS

None