



Annual Report

For the Year ended July 31, 2017

Trading Symbol: "ITEX"

CUSIP Number: 465647303

ITEX CORPORATION

ANNUAL REPORT
For the Year Ended July 31, 2017

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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:	465647303
Par Value:	\$0.01 per share
Total shares authorized:	9,000,000 as of July 31, 2017
Total shares outstanding	2,100,072¹ as of July 31, 2017

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 July 31, 2017
Total shares outstanding	None as of July 31, 2017

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.

In the early stages of its development, ITEX may have been a shell company. If so, the exemption offered pursuant to Rule 144 is not available. Holders of restricted securities issued in private placements or purchased directly or indirectly from any of our affiliates in a transaction not involving a public offering cannot sell their securities in an open market transaction unless and until such time as the resale of the securities is included in an effective registration statement.

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 dividends to stockholders since 2010. During fiscal 2017, we paid semi-annual dividends of \$0.10 per share, totaling \$0.20 for the year.

In June 2017, we completed an asset acquisition in an all-cash transaction of a 300-member client list from American Commerce Exchange of Glendale, California, and in July 2017, a 90-member client list from Arizona-based Tradesource Inc. The purchased assets included member client lists, transaction histories, websites, trademarks and certain assets transferred to ITEX’s corporate office.

On September 12, 2017, the Board of Directors of ITEX Corporation declared a semi-annual cash dividend in the amount of \$0.10 per share, payable on December 21, 2017 to stockholders of record as of the close of business on December 7, 2017.

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, 2016, we issued 25,000 shares under the Plan to an employee pursuant to an effective registration statement on Form S-8 under the Securities Act of 1933, as amended (“Securities Act”). The fair value of these shares as of the grant date was \$80,000.

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.

Item 5 Financial Statements

The audited consolidated financial statements for the years ended July 31, 2017 and 2016, are attached, starting on page 14.

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. Brokers are independent contractors 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 a number of 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:

- o An efficient method to execute and track transactions in the Marketplace.
- o 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.
- o Excellent customer service by the Broker Network and our corporate staff.
- o 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 Annual 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” below. 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

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

We depend on the ability of our brokers to enroll new members, train them in the use of the Marketplace, grow our transactional volume by facilitating business among members, manage member relationships, provide members with information about ITEX products and services, and assure the payment of our fees. Brokers are independently owned and operated and have a contractual relationship with ITEX, typically for a renewable five-year term. There can be no assurance that our brokers will be successful in adding members or increasing the volume of transactions through the Marketplace, or that if they do not renew their agreements or terminate operations we will be able to attract new brokers at rates sufficient to maintain a stable or growing revenue base. If our brokers are unsuccessful in generating revenue, enrolling new members to equalize the attrition of members leaving the Marketplace, or if a significant number of brokers become financially distressed and terminate operations, our revenues could be reduced and our business operating results and financial condition may be materially adversely affected.

Future revenue growth remains uncertain and our operating results and profitability may decline

Revenue has been declining since fiscal year 2010. Although we seek to increase revenues, we cannot assure you our revenues will increase in future quarters or future years; nor can we assure you that we can continue to be operated profitably, which depends on many factors, including, our success in expanding our member base, the control of our expense levels, and the success of our business activities. We may make investments in marketing, broker and member support, technology and further development of our operating infrastructure which entail long-term commitments. Our industry as a whole may be adversely affected by industry trends, economic factors and new regulations. Despite our efforts to expand our revenues, we may not be successful. We experience a certain amount of attrition from members leaving the Marketplace. If new member enrollments do not continue or are insufficient to offset attrition, we will increasingly need to focus on keeping existing members active and increasing their activity level in order to maintain or grow our business. We cannot assure you that this strategy would be successful to offset declining revenues or profits.

Substantial and increasing competition from the ecommerce industry, exchanges and other distribution channels may adversely affect our overall business, revenues and results of operations

We encounter significant competition in our efforts to develop our Marketplace. Our competitors include internet distribution channels and local Exchanges. Internet distribution channel competitors include well-known companies such as eBay, Travelocity, Priceline, Amazon, and Overstock. Similar to our

Marketplace, these companies provide distribution channels to move excess or surplus inventory. The internet and mobile networks provide new, rapidly evolving and intensely competitive channels for the sale of all types of products and services. The greater the number of avenues to move excess inventory or products and services, the more competitive it is to attract businesses to trade their inventory in our Marketplace. We also compete with these companies with respect to price, ease of use and brand name awareness. Increased competition could result in erosion of our market share, and adversely affect our revenues, business operating results and financial condition.

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

As of July 31, 2017, we reported a consolidated federal net operating loss ("NOL") carryforward and deferred tax asset, net of valuation allowances, of \$2,159, which represents approximately 24% of our total assets. The use of our NOL carryforwards is subject to uncertainty because, in addition to the factors discussed below, it is dependent upon the amount of taxable income we generate. There can be no assurance that we will have sufficient taxable income, if any, in future years to use the net operating loss carryforwards before they expire. If we have uncertainties surrounding our ability to continue to generate future taxable income to realize these tax assets, a valuation allowance will be established to offset our deferred tax assets.

Additionally, the future utilization of our NOL carryforwards to offset future taxable income may be subject to an annual limitation as a result of ownership changes that could occur in the future. Generally, an ownership change occurs if the percentage of the value of the stock that is owned in the aggregate by our direct or indirect "five percent shareholders" increases by more than 50% over their lowest ownership percentage at any time during any three-year testing period. Future changes in our stock ownership, which may be outside of our control, may trigger an "ownership change." If an "ownership change" has occurred or does occur in the future, utilization of the NOL carryforwards or other tax attributes may be limited, which could potentially result in increased future tax liability to us and cause us to pay U.S. federal income taxes earlier than we otherwise would, adversely affecting our future cash flow, net earnings and stockholders' equity.

Our brokers could take actions that could harm our business, our reputation and adversely affect the ITEX Marketplace

Our agreements with our brokers require that they understand and comply with all laws and regulations applicable to their businesses, and operate in compliance with our Marketplace Rules. Brokers are independently owned and operated and are not our employees, partners, or affiliates. We set forth operational standards and guidelines; however, we have limited control over how our broker businesses are run. Our brokers have individual business strategies and objectives, and may not operate their offices in a manner consistent with our philosophy and standards. We cannot assure that our brokers will avoid actions that adversely affect the reputation of ITEX or the Marketplace. Improper activity stemming from one broker can generate negative publicity which could adversely affect our entire Broker Network and the Marketplace, could discourage new brokers from entering our network or existing brokers from renewing their agreements, and could have a material adverse effect on our business, financial condition and results of operations.

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

From time to time we are subject to claims for the conduct of our brokers in situations where a broker is alleged to have caused injury to a member as a result of a transaction in the Marketplace. Third parties, regulators or courts may seek to hold us responsible for the actions or failures to act by our brokers or their employees. The failure to comply with laws and regulations by our brokers, or litigation involving potential liability for broker activities could be costly and time consuming for us, divert management attention, result in increased costs of doing business, lead to adverse judgments, expose us to possible fines and negative publicity, or otherwise harm our business.

Our business is subject to government regulation and future regulation or regulatory changes may increase the cost of compliance and doing business

We are subject to various federal, state and local laws, regulations and administrative practices affecting our businesses. These include the requirement to obtain business licenses, withhold taxes, remit matching contributions for our employees' social security accounts, and other such legal requirements, regulations and administrative practices required of businesses in general. We are a third party record-keeper under the Tax Equity and Fiscal Responsibility Act ("TEFRA") and accordingly, we account for and report annually to the IRS the total ITEX dollar sales transactions, net of any returns, of each member in our Marketplace. Under the Federal Trade Commission Act and state franchise and business opportunity laws, our franchisees are entitled to certain protections including mandatory disclosures and the provision that many of the substantive aspects of the business relationship (i.e., termination, transfer, cancellation, and non-renewal) will be governed by state law. An adverse finding in one or more of these business relationship aspects could govern the enforceability of our franchise agreements or permit the recovery of damages and penalties which could have a material adverse effect on our financial condition.

In addition, we are currently or potentially subject to laws and regulations affecting our operations in a number of other areas, including data privacy requirements, intellectual property ownership and infringement, prohibited items and stolen goods, digital content, promotions, virtual currency, taxes, as well as laws and regulations intended to combat money laundering and the financing of terrorist activities. With respect to our online and mobile operations, it is not always clear how certain laws and regulations apply to our business. Many of these laws were adopted prior to the advent of the internet, mobile, and related technologies and, as a result, are subject to interpretation by the courts on an ongoing basis. We cannot predict the impact, if any, that future internet-related regulation or regulatory changes might have on our business. Compliance with these laws, regulations, and similar requirements may be onerous and expensive, and variances and inconsistencies from jurisdiction to jurisdiction may further 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

Innovation in the payments industry has led to a variety of virtual currencies, community currencies and reward points, and federal and state regulatory regimes are seeking to revise antiquated currency provisions. The increased attention to virtual currencies could result in changes in federal or state regulations or the adoption of new regulations that could affect us as well as many companies transacting in credits that might be considered "virtual currency." For example, the Financial Crimes Enforcement Network ("FinCEN"), a bureau of the U.S. Treasury, as the delegated administrator of the Bank Secrecy Act

(“BSA”) issued interpretive guidance in March 2013 to clarify the applicability of regulations to persons creating, obtaining, distributing, exchanging, accepting, or transmitting virtual currencies. Although we do not believe we as an administer of a Marketplace utilizing ITEX dollars are currently subject to the BSA requirements, that could potentially change with new regulation. Registering with FinCEN and complying with FinCEN’s regulations would be burdensome and expensive, as would getting licensed as a money transmitter and complying with the money transmission regulatory regimes in each state. This could make our business cost-prohibitive in the affected state or states and could materially adversely affect our business.

The market for our securities has limited liquidity

Our common stock trades on the OTC Pink tier of the over-the-counter market known as the OTC Marketplace. Many of the securities quoted in the OTC Marketplace do not have a liquid market. They are infrequently traded and can move up or down in price substantially from one trade to the next. As a result, an investment in our shares may be illiquid even if there is a market.

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 July 31, 2017:

Name and Address⁽¹⁾	Age	Current Principal Occupation or Employment and Five-Year Employment History	Director Since
Steven White	59	Chairman and Chief Executive Officer of the Company (2003-present).	2003
John Wade	55	Director (2003-present) and Chief Financial Officer since January 2013. He has served as Secretary and Treasurer of ITEX since 2003. Mr. Wade is currently a principal of Wade Consulting.	2003
Eric Best	45	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	61	Executive Director of the Washington State Major League Baseball Stadium Public Facilities District since 2000. Since 2001 he has served as the Chief	2013

Name and Address⁽¹⁾	Age	Current Principal Occupation or Employment and Five-Year Employment History	Director Since
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Financial Officer of a collection of light manufacturing and distribution companies owned by PT Foley.

Tim Morones	52	VP General Manager of LandWatch, recently acquired by the CoStar Group (NASDAQ: CSGP). Tim held several positions at DataSphere Technologies Inc., a Seattle-based technology company from June 2011 till the CoStar acquisition in June of 2017.	2012
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- ⁽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 July 31, 2017 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.

<u>Name and Address⁽¹⁾</u> <u>Of Beneficial Owner</u>	<u>Shares⁽²⁾</u> <u>Beneficially</u> <u>Owned</u>	<u>Percent⁽³⁾</u> <u>of Voting</u> <u>Shares</u>
<i>Current Directors and Executive Officers:</i>		
Steven White ⁽⁴⁾	590,487	28.1%
Eric Best	17,025	*

Name and Address ⁽¹⁾ Of Beneficial Owner	Shares ⁽²⁾ Beneficially Owned	Percent ⁽³⁾ of Voting Shares
Kevin Callan	15,000	*
Tim Morones	15,000	*
John Wade	27,731	1.3%
All current directors and executive officers as a group (5 persons)	665,243	31.7%
<i>Other Beneficial Owners:</i>		
The Lion Fund, L.P. ⁽⁵⁾	340,840	16.2%
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 2,100,072 voting shares outstanding as of the record date (including shares of unvested restricted stock).
- (4) Mr. White has 114,000 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
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 annual 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: October 18, 2017

/s/ Steven White
Steven White
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER:

I, John Wade, certify that:

4. I have reviewed this annual 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: October 18, 2017

/s/ John Wade

John Wade
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
ITEX Corporation and Subsidiary
Bellevue, Washington

We have audited the accompanying consolidated financial statements of ITEX Corporation and Subsidiary, which are comprised of the consolidated balance sheets as of July 31, 2017 and 2016, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

ITEX Corporation and Subsidiary
To the Board of Directors and
Stockholders Page Two

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ITEX Corporation and Subsidiary as of July 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

EKS+H LLP
EKS&H LLP

October 16, 2017
Denver, Colorado

ITEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)

	July 31, 2017	July 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,259	\$ 3,235
Accounts receivable, net of allowance of \$313 and \$408	383	429
Prepaid expenses	117	183
Loans and advances	3	4
Notes receivable	193	283
Other current assets	21	4
Total current assets	<u>4,976</u>	<u>4,138</u>
Property and equipment, net of accumulated depreciation of \$289 and \$353	3	16
Goodwill	1,441	1,441
Deferred tax asset, net of allowance of \$967 and \$866	2,159	2,634
Intangible assets, net of accumulated amortization of \$3,418 and \$3,380	29	48
Notes receivable, net of current portion	356	592
Other long-term assets	23	25
Total assets	<u>\$ 8,987</u>	<u>\$ 8,894</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts and other expenses payable	48	37
Commissions payable to brokers	207	233
Accrued commissions to brokers	606	654
Accrued expenses	248	254
Deferred revenue	23	25
Advance payments	106	114
Total current liabilities	<u>1,238</u>	<u>1,317</u>
Long-term liabilities:		
Other long-term liabilities - deferred rent	38	-
Total liabilities	<u>1,276</u>	<u>1,317</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 9,000 shares authorized; 1,933 shares and 1,948 shares issued and outstanding, respectively	19	20
Additional paid-in capital	22,447	22,497
Stockholder notes receivable	-	(3)
Accumulated deficit	(14,755)	(14,937)
Total stockholders' equity	<u>7,711</u>	<u>7,577</u>
Total liabilities and stockholders' equity	<u>\$ 8,987</u>	<u>\$ 8,894</u>

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

ITEX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except per share amounts)

	Year ended July 31,	
	2017	2016
Revenue:		
Marketplace and other revenue	\$ 10,211	\$ 11,110
Costs and expenses:		
Cost of Marketplace revenue	6,349	6,883
Corporate salaries, wages and employee benefits	1,668	1,782
Selling, general and administrative	1,072	1,135
Depreciation and amortization	51	82
Goodwill impairment	-	1,750
	<u>9,140</u>	<u>11,632</u>
Income/(loss) from operations	<u>1,071</u>	<u>(522)</u>
Other income	42	61
Income/(loss) before income taxes	<u>1,113</u>	<u>(461)</u>
Income tax expense	<u>513</u>	<u>1,058</u>
Net income/(loss)	<u>\$ 600</u>	<u>\$ (1,519)</u>

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

ITEX CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Shares	Stock Amount	Additional Paid-in Capital	Stockholder Note Receivable	Accumulated Deficit	Total
Balance, July 31, 2015	1,890	\$ 19	\$ 22,361	\$ (6)	\$ (13,002)	\$ 9,372
Stock based compensation expense	88	1	249	-	-	250
Common Stock repurchased and retired	(30)	-	(113)	-	-	(113)
Payments on Broker notes receivables	-	-	-	3	-	3
Dividend payment	-	-	-	-	(416)	(416)
Net Loss	-	-	-	-	(1,519)	(1,519)
Balance at July 31, 2016	1,948	\$ 20	\$ 22,497	\$ (3)	\$ (14,937)	\$ 7,577
Common stock repurchased and retired	(34)	(1)	(126)	-	-	(127)
Payments on stockholder notes receivable	-	-	-	3	-	3
Stock based compensation expense	19	-	76	-	-	76
Dividend payment	-	-	-	-	(418)	(418)

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

ITEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year ended July 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	\$ 600	\$ (1,519)
Items to reconcile to net cash provided by operating activities:		
Depreciation and amortization	51	82
Goodwill impairment	-	1,750
Stock-based compensation	76	250
Bad debt expense	187	192
Decrease in deferred income taxes	475	1,044
Changes in operating assets and liabilities:		
Accounts receivable	(141)	(223)
Prepaid expenses	66	(9)
Loans and advances	1	4
Other assets	(15)	(8)
Accounts and other expenses payable	11	(13)
Commissions payable to brokers	(26)	(26)
Accrued commissions to brokers	(48)	(5)
Accrued expenses	(6)	(6)
Deferred revenue	(2)	(2)
Advance payments	(8)	2
Long-term liabilities	38	-
Net cash provided by operating activities	<u>1,259</u>	<u>1,513</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received from notes receivable - corporate office sales	376	288
Purchase of membership lists and non-compete	(19)	-
Notes receivable - advances	(50)	(80)
Purchase of property and equipment	-	(6)
Net cash provided by investing activities	<u>307</u>	<u>202</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes receivable from broker stock purchase	3	3
Repurchase of Common stock	(127)	(113)
Cash dividend paid to Common Stockholders	(418)	(417)
Net cash used in financing activities	<u>(542)</u>	<u>(527)</u>
Net increase in cash and cash equivalents	1,024	1,188
Cash and cash equivalents at beginning of period	3,235	2,047
Cash and cash equivalents at end of period	<u>\$ 4,259</u>	<u>\$ 3,235</u>
Supplemental cash flow information:		
Cash paid (refund) for taxes	55	27

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:

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”, “2017” for August 1, 2016 to July 31, 2017, and “2016” or August 1, 2015 to July 31, 2016). We report our results as of the last day of each calendar month (“accounting cycle”).

Concentrations of Credit Risk

At July 31, 2017, we maintained our cash balances in banking institutions in the United States and Canada that exceed amounts insured by the Federal Deposit Insurance Corporation and the Canadian Deposit Insurance Corporation.

Accounts and Notes Receivable

We assess the collectability of accounts receivable monthly based on past collection history and current events and circumstances. Accordingly, we adjust the allowance on accounts receivable to reflect net receivables that we ultimately expect to collect.

We review all notes receivable for possible impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying value has been impaired and may not be recoverable. Factors considered important that could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results and a change in management of the franchisee or independent licensed broker responsible for the note.

Notes Receivable

From time to time we finance the operational and expansion activities of our brokers. We loan brokers funds for general operational purposes, to acquire the management rights to select member accounts, and for other reasons. These loans are repaid from regular deductions from broker commissions. The amount of loans to brokers as of July 31, 2017 was \$549. Interest rates are typically 6% to 8% charged on the outstanding balances. The loans mature at various dates through the year 2022.

Property and Equipment

We report property and equipment at cost less accumulated depreciation recorded on a straight-line basis over useful lives ranging from three to seven years. Included in property and equipment are additions and improvements that add to productive capacity or extend useful life of the assets. Property and equipment may also include internally developed software (refer to "Software for Internal Use" below). When we sell or retire property or equipment, we remove the cost and related accumulated depreciation from the balance sheet and record the resulting gain or loss in the income statement. We record an expense for the costs of repair and maintenance as incurred. Depreciation expense for property and equipment was \$13 and \$26 for the years ended July 31, 2017 and 2016, respectively.

Software for Internal Use

We have developed extensive software to manage and track the ITEX dollar activity in the Marketplace to calculate USD and ITEX dollar fees accordingly. We have expensed costs incurred in the development of software for internal use in the period incurred as such costs were not significant during the related application development phase.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired, including domains and other definite-lived intangible assets, and liabilities assumed in business combinations accounted for under the purchase method.

Goodwill acquired in a purchase business combination is determined to have an indefinite useful life and is not amortized, but instead tested for impairment at least annually. In testing goodwill for impairment, we first assess qualitative factors before calculating the fair value of our reporting unit in step 1 of the goodwill impairment test. If we determine that the fair value of the reporting unit is more likely

than not less than its carrying value, then we will perform the two-phase approach. The first phase is a screen for potential impairment, while the second phase (if necessary) measures the amount of impairment, if any. Goodwill is written down and charged to operating results in any period in which the recorded value of goodwill exceeds its estimated fair value.

In the year ended July 31, 2016, we determined a \$1,750 impairment in goodwill should be recorded. The goodwill impairment loss resulted primarily from a sustained decline in the Company's projected revenue growth rates and profitability levels. The lower projected operating results reflect changes in assumptions related to revenue initiatives, organic revenue growth rates, market trends, cost structure, and other expectations about the anticipated short-term and long-term operating results.

We analyzed goodwill as of July 31, 2017 using a discounted cash flow methodology with a risk-adjusted weighted average cost of cost of capital (WACC). We believe the use of a discounted cash flow approach is the most reliable indicator for the Company to use when determining its fair market value. In order to determine the future cash flows, we prepared a cash flow forecast for the next 15 years based on past experience and our anticipated capital expenditures, revenue and expense forecast. As of July 31, 2017, we did not identify any impairment.

Intangible Assets with Definite Lives

Intangible assets acquired in business combinations are estimated to have definite lives and are comprised of membership lists, noncompetition agreements and trade names. The Company amortizes costs of acquired intangible assets using the straight-line method over the contractual life of one to three years for noncompetition agreements, the estimated life of six to ten years for membership lists and the estimated life of ten years for trade names.

The carrying value of intangible assets with definite lives is reviewed on a regular basis for the existence of facts that may indicate that the assets are impaired. An asset is considered impaired when the estimated undiscounted future cash flows expected to result from its use and disposition are less than the amount of its carrying value. If the carrying value of an asset is deemed not recoverable, it is adjusted downward to the estimated fair value.

Long-Lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. We look primarily at the market values of the assets when available, or, alternatively, the estimated undiscounted future cash flows in our assessment of whether or not they have been impaired. If impairment is deemed to have occurred, we then measure the impairment by looking to the excess of the carrying value over the discounted future cash flows or market value, as appropriate.

Commissions Payable to Brokers and Accrued Commissions to Brokers

We compute commissions to brokers as a percentage of cash collections of revenues from association fees, transactions fees, and other fees. We pay most commissions in two tranches with approximately 50% paid one week after the end of the operating cycle and the remainder paid two weeks later. Commissions payable to brokers on our balance sheet as of July 31, 2017 represents commissions payable from the operating cycle ending July 20, 2017. In 2016, the closest operating cycle ended July 21, 2016. Accrued commissions to brokers on our balance sheets are the estimated commissions on the net accounts receivable balance and unpaid commissions on cash already collected as of the financial statement date.

Fair Value of Financial Instruments

All of our financial instruments are recognized in our balance sheet. The carrying amount of our financial instruments including cash, accounts receivable, loans and advances, accounts payable, commissions payable and accrued commissions and other accruals approximate their fair values at July 31, 2017 due to the short-term nature of these instruments. All of these instruments have terms of less than one year. For notes receivable, the Company has determined that the rates are commensurate with current rates for similar transactions, and therefore, net book value approximates fair value.

Revenue Recognition

We generate our 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”). We recognize revenue when persuasive evidence of an arrangement exists, the transaction has occurred or a cycle period has ended, the charges are fixed and determinable and no major uncertainty exists with respect to collectability.

Our largest sources of revenue are transaction fees and association fees. We charge members of the Marketplace an association fee every operating cycle in accordance with our members’ individual agreements. We also charge both the buyer and the seller a transaction fee based on the ITEX dollar value of that Marketplace transaction. Additionally, we may charge various auxiliary fees to members, such as annual membership dues, late fees, and insufficient fund fees. The total fees we charge to members are in USD and partially in ITEX dollars (see below, “Accounting for ITEX Dollar Activities”). We bill members for all fees at the end of each operating cycle. We track all financial activity in our internally developed database. Members have the option of paying USD fees automatically by credit card, by electronic funds transfer or by check. In each of the years ended July 31, 2017 and 2016, member payments of approximately 95% were made through electronic funds transfer, by credit cards and using our Preferred Member Autopay System. If paying through our Autopay System, generally, the USD transaction fee is 6% of the ITEX dollar amount of the member’s purchases and sales during the operating cycle. If paying by check, generally, the USD transaction fee is 7.5% of the ITEX dollar amount of that 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).

In each accounting cycle, we recognize as revenue all USD transaction fees, association fees and applicable other fees that occurred during that month regardless of which operating cycle the fees occurred. Annual dues, billed in advance of the applicable service periods, are deferred and recognized into revenue on a straight-line basis over the term of one year.

For transaction and association fees charged to members, we share a portion of our revenue with the brokers in the Broker Network in the form of commissions based on a percentage of cash collections from members. For those fees, revenues are recorded on a gross basis. Commissions to brokers are recorded as cost of revenue in the period corresponding to the revenue stream on which these commissions are based.

We record an allowance for uncollectible accounts based upon its assessment of various factors. We consider historical experience, the age of the accounts receivable balances, the credit quality of its customers, current economic conditions and other factors that may affect customers’ ability to pay to determine the level of allowance required.

Gross versus Net Revenue Recognition

In the normal course of our core business, we act as administrator to execute transactions between Marketplace members. We pay commissions to our brokers after the close of each operating cycle based on member transaction and association fees collected in USD. We report revenue based on the gross amount billed to our ultimate customer, the Marketplace member. When revenues are recorded on a gross basis, any commissions or other payments to brokers are recorded as costs or expenses so that the net amount (gross revenues less expenses) is reflected in operating income.

Share-based Payments

We account for share-based compensation to our employees, and directors and measure the amount of compensation expense for all stock-based awards at fair value on the date of grant and recognition of compensation expense over the service period for awards expected to vest. Restricted stock awards issued to employees and directors are measured based on the fair market values of the underlying stock on the dates of grant. Share based expense was \$76 and \$250 for the years ended July 31, 2017 and 2016, respectively.

Operating Leases

We account for our executive office lease and other property leases in accordance with related guidance. Accordingly, because our executive office lease has scheduled rent escalation clauses, we record minimum rental payments on a straight-line basis over the term of the lease. We record the appropriate deferred rent liability or asset and amortize that deferred rent over the term of the lease as an adjustment to rent expense.

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 \$549 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 is required to adopt the new standard in 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 Company is continuing to evaluate the provisions of this new guidance and has not determined the impact this standard may have on its financial condition, results of operations, cash flows, and related disclosures or decided upon the method of adoption.

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 – CASH AND CASH EQUIVALENTS, ACCOUNTS RECEIVABLE, COMMISSIONS PAYABLE TO BROKERS AND ACCRUED COMMISSIONS TO BROKERS

The timing differences between our operating cycles and our accounting cycles cause fluctuations in the comparative balances of cash and cash equivalents, accounts receivable, commissions payable to brokers and accrued commissions to brokers presented on the consolidated balance sheets. Depending on the length of time between the end of the operating cycle and the end of the accounting cycle, members' payments on accounts receivable balances may vary. The longer the time, the greater amount of USD collections causes an increase in the reported cash and cash equivalents balance and a decrease in the net

accounts receivable balance. The difference between our operating cycle ending date and the reporting date for July 31, 2017 was seven business days as our cycle end date was on July 21, 2017. In 2016, our operating cycle ending date was July 21, 2016 or six business days different than the accounting cycle end date of July 31, 2016.

We compute commissions to brokers as a percentage of USD collections of our revenues from association fees, transactions fees, and other fees. Commissions payable to brokers include amounts owed for the most recently ended operating cycle. We pay commissions in two tranches with approximately 50% paid approximately one week after the end of the operating cycle and the remainder paid approximately two weeks later. Commissions accrued are the estimated commissions on the net accounts receivable balance and USD collections on accounts receivable since the most recently ended operating cycle.

Our payments for salaries and wages to our employees occur on the same bi-weekly schedule as our commission payments to brokers.

NOTE 4 – NOTES RECEIVABLE

Notes receivables have been originated primarily by the sales of corporate-owned offices to brokers and loans for general operating purposes. In 2017, we originated loans to brokers as new notes receivables in the amount of \$50.

The aggregate total owed to us on July 31, 2017 is \$549. The loans mature at various dates through the year 2022.

The activity for Notes receivables was as follows:

Balance at July 31, 2015	\$	1,083
Principal additions		80
Interest income at stated rates		61
Payments received		(349)
	\$	875
Less current portion	\$	(283)
Long-term balance at July 31, 2016	\$	592
Balance at July 31, 2016		875
Principal additions		50
Interest income at stated rates		42
Payments received		(418)
		549
Less current portion		(193)
Long-term portion balance at July 31, 2017	\$	356

NOTE 5 - GOODWILL

In the year ended July 31, 2016, we determined a \$1,750 impairment in goodwill should be recorded. The goodwill impairment loss resulted primarily from a sustained decline in the Company's projected revenue growth rates and profitability levels. The lower projected operating results reflect changes in assumptions related to revenue initiatives, organic revenue growth rates, market trends, cost structure, and other expectations about the anticipated short-term and long-term operating results.

We analyzed goodwill as of July 31, 2017 using a discounted cash flow methodology with a risk-adjusted weighted average cost of cost of capital (WACC). We believe the use of a discounted cash flow approach is the most reliable indicator for the Company to use when determining its estimated fair market

value. In order to determine the future cash flows, we prepared a cash flow forecast for the next 15 years based on past experience and our anticipated capital expenditures, revenue and expense forecast. In connection with our assessment of goodwill impairment, management determined that a Step 1 impairment assessment should be performed. Our evaluation determined after performance of Step 1, that there was no impairment of goodwill at July 31, 2017.

NOTE 6 - 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.

Lease commitments for the year ending July 31,	
2018	81
2019	84
2020	88
2021	91
2022	54
Thereafter	-
Total	<u>\$ 398</u>

The lease expense for our executive office space for the years ended July 31, 2017 and 2016 was \$118 and \$89, respectively.

NOTE 7 – 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. We recorded \$91 and \$161 as ITEX dollar revenue for the years ended July 31, 2017 and 2016, respectively.

NOTE 8 – STOCK-BASED PAYMENTS

In March 2004 the Company adopted and stockholders approved the ITEX Corporation 2004 Equity Incentive Plan (the “2004 Plan”), which authorized 400 shares of common stock for issuance pursuant to awards under the plan. The 2004 Plan provided for the grant of incentive and nonqualified stock options, restricted stock, and stock bonuses to our employees, directors, officers and consultants. In February 2011, the Board of Directors amended and restated the 2004 Plan to increase the aggregate number of shares available for issuance by 400 shares. No shares remained available for future grants under the 2004 Plan after July 31, 2013, and the 2004 Plan expired on March 14, 2014.

In December 2013, stockholders approved the adoption of the ITEX Corporation 2014 Equity Incentive Plan (the “2014 Plan”), pursuant to which 400 shares of common stock were authorized for issuance. The 2014 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. 248 shares remained available for future grants under the 2014 Plan as of July 31, 2017.

In May 2017, the Company issued 45 shares that will vest over 7 years to employees. The fair value of these shares as of the grant date was \$169. The grant will be expensed ratably over the 7-year vesting period.

At July 31, 2017, 159 shares of common stock granted under the 2004 Plan remained unvested. At July 31, 2017, the Company had \$528 of unrecognized compensation expense.

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.

The following table summarizes the components of stock based compensation:

	Year ended July 31,	
	2017	2016
Employee Compensation	\$ 76	\$ 231
Board Compensation	-	19
Totals	<u>\$ 76</u>	<u>\$ 250</u>

The following table summarizes the granted, forfeited and vested shares of the 2004 Plan:

	Number of Shares/Options		
	Expired	Restricted Shares	Stock Options
Balance, July 31, 2015	-	390	-
Granted	-	-	-
Forfeited	-	-	-
Balance, July 31, 2016	-	390	-
Granted	-	-	-
Forfeited	-	-	-
Balance, July 31, 2017	-	390	-
Vesting as of July 31, 2017:			
Shares Vested		276	-
Shares Unvested		114	-
Balance at July 31, 2017		390	-

The following table summarizes the granted, forfeited and vested shares of the 2014 Plan:

	Number of Shares/Options		
	Available	Restricted Shares	Stock Options
Balance, July 31, 2015	318	82	-
Granted	(25)	25	-
Forfeited	-	-	-
Balance, July 31, 2016	293	107	-
Granted	(45)	45	-
Forfeited	-	-	-
Balance, July 31, 2017	248	152	-
Vesting as of July 31, 2017:			
Shares Vested		107	-
Shares Unvested		45	-
Balance at July 31, 2017		152	-

NOTE 9 - STOCKHOLDERS' EQUITY

On March 9, 2010, the Company announced a \$2,000 stock repurchase program, authorized by the Board of Directors. 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. As part of our stock repurchase program, we repurchased a total of 34 and 30 shares of ITEX common stock for \$127 and \$113 in 2017 and 2016, respectively.

The Company has 5,000 shares of preferred stock authorized at \$0.01 par value. No shares were issued or outstanding as of July 31, 2017 or 2016.

NOTE 10 - INCOME TAXES

Deferred tax assets on our balance sheet primarily include Federal and State net operating loss carry forwards (collectively “NOLs”) which are expected to result in future tax benefits. Realization of these NOLs assumes that we will be able to generate sufficient future taxable income to realize these assets. Deferred tax assets also include temporary differences between the financial reporting basis and the income tax basis of its assets and liabilities at enacted tax rates expected to be in effect when such assets or liabilities are realized or settled.

In assessing the recoverability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are expected to be deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and projections for future taxable income over the periods in which the deferred tax assets are expected to be deductible.

On July 31, 2017, we had NOLs of approximately \$7,126 available to offset future taxable income. These are composed of approximately \$5,221 from ITEX operating losses and approximately \$1,905 from BXI operating losses. The future utilization is recorded as a deferred tax asset to the extent that management believes it is more likely than not that we will generate sufficient future taxable income. We periodically assess the realizability of our available NOLs to determine whether we believe we will generate enough future taxable income to utilize some portion or all of the available NOLs. We determined that we will not be able to utilize all of our Federal NOLs as of July 31, 2017. As of July 31, 2017 and 2016, we have a \$967 and \$866 valuation on Federal NOLs, respectively. As of July 31, 2016, California NOLs have expired and the valuation allowance has been removed accordingly.

The deferred tax assets recorded represent our estimate of all deferred tax benefits to be utilized in the current year and future periods beyond 2017. The following table reflects the reconciliation of the company’s income tax expense:

	Year Ended July 31,	
	2017	2016
Pre-tax financial income	\$1,113	(\$461)
Federal tax expense computed at the statutory rate of 34%	378	(157)
State tax expense	19	84
State ASC 740 adjustment	4	(12)
Change in valuation allowance	101	769
Permanent and other differences	11	374
Net tax expense	<u>\$ 513</u>	<u>\$ 1,058</u>

Our income tax expense is composed of the following:

	For Year Ended July 31,	
	2017	2016
Current federal tax expense	\$ 9	\$ 14
Current state tax expense	24	11
	<u>33</u>	<u>25</u>
Deferred federal tax expense	468	1,065
Deferred state tax expense	7	(32)
	<u>475</u>	<u>1,033</u>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at July 31, 2017 and 2016 are presented below:

		As of July 31,	
		2017	2016
Deferred Tax Assets			
	Net operating loss carryforwards	\$ 2,423	\$ 2,719
	Goodwill and other intangible assets	169	227
	Non-compete covenants	40	47
	Reserve for uncollectible receivables	112	145
	Federal tax credits	228	219
	Other temporary differences	154	143
		3,126	3,500
	Less: Valuation allowance	(967)	(866)
	Net deferred tax asset	<u>\$ 2,159</u>	<u>\$ 2,634</u>

ITEX Federal NOLs of approximately \$5,221 expire, if unused, from calendar years 2020 to 2024. BXI Federal NOLs of approximately \$1,905 expire, if unused, from 2020 to 2026 and are subject to an annual limitation of approximately \$172. This limitation is equal to the long-term federal tax exempt rate multiplied by the total purchase price of BXI. ITEX has no state NOLs for California as they expired in calendar year 2015.

The Company has AMT credits of \$224 and research and development credits of \$5 available to offset future taxes payable.

In accordance with the accounting guidance surrounding the uncertainty in Income Taxes we have recorded unrecognized tax liabilities of \$29 as follows:

	Year Ended July 31,
	2017
Balance at July 31, 2016	\$ 25
Increases as a result of tax positions taken in the current year	7
Increases as a result of tax positions taken in the prior year	3
Decreases resulting from settlements, payments and changes in estimates of probability tax positions will be sustained	(6)
Balance at July 31, 2017	<u>\$ 29</u>

We file income tax returns in the United States as well as various United States state jurisdictions. The tax years that remain subject to examination are 2012 through 2016 in the United States. We also have available NOLs dating from 2000 which, when used, could be subject to examination by taxing authorities. We do not believe there will be any material changes in our unrecognized tax positions over the next twelve months.

As of July 31, 2017, accrued expenses are included on our consolidated balance sheet for uncertain tax positions related primarily to state jurisdictions in the amount of \$29 which includes \$6 for interest and penalties associated with unrecognized tax benefits. Interest and penalties are included in income tax expense.

NOTE 11 – RELATED PARTY TRANSACTIONS

ITEX and its subsidiaries had no related party transactions during our last fiscal year, nor are there any currently proposed transactions, in which ITEX or its subsidiaries was or is to be a participant.

NOTE 12 – SUBSEQUENT EVENTS

On September 12, 2017, the Board of Directors of ITEX Corporation declared a semi-annual cash dividend in the amount of \$0.10 per share, payable on December 21, 2017 to stockholders of record as of the close of business on December 7, 2017.

Supplemental Information

Defaults upon Senior Securities

Not applicable.

Other Information

Not applicable.

Exhibits

Incorporated by Reference OTC Disclosure and News Service

Exhibit No.	Exhibit Description	Form	Exhibit No.	Posting Date	Posted Herewith
Item 18: Material Contracts					
1	Lease dated as of June 10, 2016	Annual Report	1	10-18-17	✓
2	Form of Indemnification Agreement	Annual Report	2	10-18-17	✓
3	2014 Equity Incentive Plan	Annual Report	3	10-18-17	✓
4	Form of Restricted Stock Agreement	Annual Report	4	10-18-17	✓
Item 19: Articles of Incorporation and Bylaws					
5	Amended and Restated Articles of Incorporation	Annual Report	5	10-18-17	✓
6	Certificate of Designation of Series A Junior Participating Preferred Stock	Annual Report	6	10-18-17	✓
7	Amended and Restated Bylaws	Annual Report	7	10-18-17	✓