xG TECHNOLOGY, INC.
Form 10-K
April 14, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2015

or

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

For the transition period from to .

Commission File Number: **333-187094**

xG Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-5856795**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

240 S. Pineapple Avenue, Suite 701
Sarasota, FL 34236

(Address of principal executive offices) (Zip Code)

(Registrant's telephone number, including area code): **(941) 953-9035**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	**Name of each exchange on which registered:**
Common Stock, par value $0.00001	The NASDAQ Stock Market LLC
Warrant to purchase Common Stock (expiring July 24, 2018)	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨(Do not check if smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

As of June 30, 2015, 5,028,658 (retroactively adjusted to reflect the July 17, 2015 one-for-ten reverse stock split) shares of common stock were outstanding. The aggregate market value of the common stock held by non-affiliates of the registrant, as of June 30, 2015, the last business day of the second fiscal quarter, was approximately $9,223,334, based on the average high and low price of $2.90 (retroactively adjusted to reflect the July 17, 2015 one-for-ten reverse stock split) for the registrant's common stock as quoted on NASDAQ Capital Market on that date. Shares of common stock held by each director, each officer and each person who owns 10% or more of the outstanding common stock have been excluded from this calculation in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily conclusive.

The registrant had 46,051,516 shares of its common stock outstanding as of April 13, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Part III is incorporated by reference from the Proxy Statement for the 2016 annual meeting of stockholders.

XG TECHNOLOGY, INC.
FORM 10-K
ANNUAL REPORT
For the Fiscal Year Ended December 31, 2015

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FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K (including the section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) (the "Report") contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar words and phrases are intended to identify forward-looking statements. However, this is not an all-inclusive list of words or phrases that identify forward-looking statements in this Report. Also, all statements concerning future matters are forward-looking statements.

Although forward-looking statements in this Report reflect the good faith judgment of our management, such statements can only be based on facts and circumstances currently known by us. Forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those discussed elsewhere in this Report.

We file reports with the Securities and Exchange Commission ("SEC"), and those reports are available free of charge on our Web site (*www.xgtechnology.com*) under "About/Investor Information/SEC Filings." The reports available include our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, which are available as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site (*www.sec.gov*) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

We undertake no obligation to revise or update any forward-looking statements to reflect any event or circumstance that may arise after the date of this Report. We urge you to carefully review and consider all of the disclosures made in this Report.

PART I

Item 1. Business

Overview

xG Technology, Inc. (“xG Technology”, “xG”, the “Company”, “we”, “our”, “us”) has developed a broad portfolio of innovati intellectual property that we believe will enhance wireless communications. Our intellectual property is embedded in proprietary software algorithms that offer cognitive interference mitigation and spectrum access solutions for countless applications using commercial off the shelf devices.

Our Company was founded on the premise that the wireless communications industry is facing a spectrum crisis because the demand for flexible, affordable voice and data access continues to increase rapidly while the amount of available spectrum remains relatively constant. We have developed frequency-agnostic cognitive radio solutions to address this increasing demand by eliminating the need to acquire scarce and expensive licensed radio spectrum and thus ideally lowering the total cost of ownership for wireless broadband access. With such fast growing demand straining network capacity, our intellectual property is also designed to help wireless broadband network operators make more efficient use of existing spectrum allocations. We are targeting numerous industries world-wide, such as telecommunications, cable, defense, and public safety, municipal governments, critical infrastructure and markets ranging from rural to urban areas and expeditionary deployments.

Our strategy is initially to commercialize our intellectual property portfolio by developing and selling network equipment using our proprietary software algorithms to offer cognitive radio-based interference mitigation and spectrum sharing solutions. In the future, our strategy is for our intellectual property to be embedded by partners in a semiconductor chip that could be sold to third party equipment manufacturers and inserted in their devices and to license our intellectual property to other customers in vertical markets worldwide. The implementation of our cognitive radio intellectual property is xMax®. We believe the xMax® system represents the only commercially available cognitive radio network system that is designed to include interference mitigation by spatial processing. xMax® implements our proprietary interference mitigation software that can increase capacity on already crowded airwaves by improving interference tolerance, enabling the delivery of a comparatively high quality of service where other technologies would not be able to cope with the interference.

The initial implementation of our cognitive radio intellectual property is xMax®. We believe the xMax® system, represents the only commercially available cognitive radio network system that includes our interference mitigation and spatial processing technologies. xMax® implements our proprietary interference mitigation software that can

increase capacity on already crowded airwaves by improving interference tolerance, enabling the delivery of a comparatively high quality of service where other technologies would not be able to cope with the interference. We believe that the xMax® system will also, when in a future development operating on more than one radio channel, deliver dynamic spectrum access by using our patented self-organizing network techniques.

Our system is frequency agnostic, although currently designed to operate within the 902 – 928 MHz unlicensed band. xMax® serves as a mobile voice over internet protocol ("VoIP") and broadband data system that utilizes an end-to-end Internet Protocol ("IP") system architecture. The xMax® product and service suite includes a line of access points, fixed and mobile personal hotspots, mobile switching centers, network management systems, deployment tools, and customer support. The xMax® system will allow mobile operators to utilize free, unlicensed 902 – 928 MHz ISM band spectrum (which spectrum is available in all of the Americas except French Guiana) instead of purchasing scarce, expensive licensed spectrum. Our xMax® system will also enable enterprises to set up a mobile communications network in an expeditious and cost-effective manner.

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In addition, we believe that our xMax® cognitive radio technology can also be used to provide additional capacity to licensed spectrum by identifying and utilizing unused bandwidth within the licensed spectrum.

Below is a diagram that provides a high-level overview of the xMax® network architecture:

On January 29, 2016, we completed the acquisition of certain assets and liabilities of Integrated Microwave Technologies, LLC, a Delaware limited liability company (''IMT''), pursuant to an asset purchase agreement by and between us and IMT (the ''Asset Purchase Agreement''). Pursuant to the terms of the Asset Purchase Agreement, we acquired substantially all of the assets and liabilities of IMT in connection with, necessary for or material to IMT's business of designing, manufacturing and supplying of Coded Orthogonal Frequency Division Multiplexing (COFDM) microwave transmitters and receivers serving the broadcast, sports and entertainment, military, aerospace and government markets.

IMT comprises the leading microwave brands Nucomm, RF Central and IMT, offering customers worldwide complete video solutions. Nucomm is a premium brand of digital broadcast microwave video systems. RF Central is an innovative brand of compact microwave video equipment for licensed and license-free sports and entertainment applications. IMT is a trusted provider of mission-critical wireless video solutions to state, local and federal police departments.

Our Strategy

We are developing a broad portfolio of innovative intellectual property that we believe will enhance wireless communications. Leveraging elements of our intellectual property portfolio, we plan to introduce a range of spectrum agnostic, cognitive radio solutions that span numerous industries and applications. We believe that these products, together with our ability to leverage our patent portfolio, present us with an attractive revenue model. Our strategy is initially to commercialize our intellectual property portfolio by developing and selling network equipment using our proprietary software algorithms to offer cognitive interference mitigation and spectrum access solutions. In the future, our strategy is for our intellectual property to be embedded by partners in a semiconductor chip that could be sold to third party equipment manufacturers and inserted in their devices and to license our intellectual property to other customers in vertical markets world-wide.

Our acquisition of the IMT assets allows us to offer a comprehensive suite of services and product offerings in each of the markets it is already active in. Leveraging its heritage as a leader in the broadcast industry that dates back to 1990, IMT's key sector strategies are the following:

1. Expand their current markets for existing miniature wireless video products. These include educational sectors, videographers, and video service providers.

2. Provide complete end-to-end solutions for the video surveillance market.

3. Introduce complete end-to-end IP technology into the broadcast market.

Market Overview

Our Market

We are witnessing rapidly increasing demand in the marketplace for mobile bandwidth. The surge in demand is attributable to the proliferation of smartphones, tablet PCs and other broadband-centric devices, as well as the shift to data and video-intensive services. A Cisco report (the Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2015–2020 White Paper, February 2016) indicates that in 2015 55% of the data traffic on mobile networks was video, and they forecast video traffic to account for over 75% of total mobile data traffic by 2020.

There has also been an increase in mobile voice demand as more people unplug their wired phones and rely on wireless devices for all of their calling needs. According to Cisco's report, as well as several studies undertaken by the Federal Communications Commission ("FCC"), the demand for wireless services will continue to grow in the coming years, as shown in the chart below. Cisco predicts mobile data traffic will increase nearly 8-fold between 2015 and 2020, a 53% CAGR, reaching 30.6 exabytes per month by 2020.

Source: Cisco VNI Mobile 2015

In early 2009, Congress directed the Federal Communications Commission (FCC) to develop a National Broadband Plan to ensure every American has "access to broadband capability." After conducting thirty-six public workshops and engaging in significant collaboration and conversations with other government agencies and Congress, the FCC released the National Broadband Plan ("the Plan") in early 2010. Within the Plan the FCC acknowledges that "the current spectrum policy framework sometimes impedes the free flow of spectrum to its most highly valued uses." The Plan states that "Wireless broadband is poised to become a key platform for innovation in the U.S. over the next decade. As a result, U.S. spectrum policy requires reform to accommodate the new ways that industry is delivering wireless services. These reforms include making more spectrum available on a flexible basis, including for unlicensed and opportunistic uses."

Specific recommendations within the report that indicate a favorable regulatory environment for cognitive radio technology include: "Recommendation 5.13: The FCC should spur further development and deployment of opportunistic uses across more radio spectrum." The Plan further states that, "the FCC and NTIA should take steps to expand the environment in which new, opportunistic technologies can be developed and improved" and "the FCC should allow opportunistic radios to operate on spectrum currently held by the FCC (such as in certain license areas where spectrum was not successfully auctioned)."

Over the years since the Plan was released, it has been generally accepted that many of the its spectrum-related suggestions have been attempted or implemented. It recommended, for example, that 500 additional MHz of spectrum be made available for commercial high-speed data use, that incentive-based auctions for spectrum be considered, and that opportunistic use of spectrum be considered. Since the time of the Plan's publication, much of this has happened or been tried.

On March 27, 2012 the U.S. Department of Commerce, through the National Telecommunications and Information Administration ("NTIA"), released a report in which they announced, "In the past, the federal government has freed up spectrum for exclusive commercial use by clearing a spectrum band of federal users, who typically relocated to other bands. However, given the growing demand for spectrum by both industry and the federal agencies, it is increasingly difficult to find desirable spectrum that can be vacated by federal users as well as spectrum in which to relocate these federal users. Due to the scarcity of spectrum, the complexity of federal operations, and the time and cost of relocating federal users, the old approach alone is no longer feasible."

The report further states, “NTIA proposes a new path forward for spectrum repurposing that relies on a combination of relocating federal users and sharing spectrum between federal agencies and commercial users. Spectrum sharing will be a vital component to satisfying the growing demand for spectrum, and federal and non-federal users will need to adopt innovative spectrum-sharing techniques to accommodate this demand.”

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In July 2012, The President's Council of Advisors on Science and Technology (PCAST) issued a report to the US President titled "Realizing the Full Potential of Government-Held Spectrum to Spur Economic Growth" in which "It concludes that the traditional practice of clearing government-held spectrum of Federal users and auctioning it for commercial use is not sustainable. In light of changes made possible by modern technology, we recommend that you issue a new Memorandum that states it is the policy of the U.S. government to share underutilized spectrum to the maximum extent consistent with the Federal mission, and requires the Secretary of Commerce to identify 1,000 MHz of Federal spectrum in which to implement shared-use spectrum pilot projects." The report noted that simply clearing and reallocating spectrum would not be sustainable and pointed to a recent study by the National Telecommunications and Information Administration (NTIA) which found that clearing of just one 95 MHz band will take 10 years, cost $18 billion, and cause significant disruption. Among its key recommendations are to adopt new technologies, including cognitive radios, that could help use existing spectrum more efficiently, stating that "the use of new radio technologies, including cognitive radios, will be an important tool in helping increase spectrum capacity and utilization". The PCAST authors stated that agile (cognitive) radio technologies that make it possible for computerized radio systems to share spectrum on a vastly more efficient basis would make it possible to move from an era of scarcity to one of abundance.

Moreover, on July 6, 2012 a Presidential Executive Order was issued regarding the Assignment of National Security and Emergency Preparedness Communications Functions. The order establishes that the federal government must be able to communicate with the public, other agencies, other levels of government and businesses "at all times and circumstances" and in all locations, both domestically and internationally. To ensure this, the order mandates the establishment of emergency communications capabilities that are "survivable, resilient, enduring and effective". These capabilities are not available in traditional public system networks, but the xMax® cognitive radio system has been designed from the ground up to meet the very survivability, redundancy, mobility, interoperability, and resiliency requirements specified by this order.

Recognizing the spectrum constraints on fast growing needs for wireless connectivity, in September 2012 the European Commission published a communication promoting the shared use of radio spectrum resources. A study conducted for the European Commission showed that finding additional shared spectrum resources for wireless broadband could create significant net economic benefits for the European Union. With an increase of between 200 to 400 MHz in shared access spectrum for wireless broadband, the scenarios evaluated in the study showed a net increase in the value to the European economy of the order of several hundred billion Euros by 2020. The Commission, therefore, proposed steps to foster the development of wireless innovations in the EU to ensure that the currently allocated spectrum is exploited to the fullest extent possible. This has been followed by Ofcom, the telecommunications regulator in the UK, moving to complete the process to release TV Whites Spaces for shared use.

There have been other activities by Federal agencies in support of spectrum sharing since the release of the aforementioned reports.

To meet escalating commercial and Federal demands for spectrum, the NTIA and FCC have been conducting spectrum band analyses to identify additional opportunities for spectrum sharing and repurposing. They are also developing publicly accessible spectrum inventories and conducting a number of measurement studies to gain a better understanding of spectrum use patterns. In addition, the NTIA has joined with Federal partners in launching research and development activities at new facilities in Boulder, Colorado, and the NTIA and FCC are developing the "RF Model City" concept.

Other Federal agencies, including the Department of Defense, the National Science Foundation, and the Department of Energy, have ongoing research and development activities in the area of spectrum sharing. For example, the Defense Advanced Research Projects Agency (DARPA) supported early research into cognitive radio and dynamic spectrum access, and it continues to address key problem areas in spectrum sharing for military systems.

While it appears to management that spectrum regulation is developing in a favorable manner, we have, nonetheless, chosen to release the initial xMax® product line on the unlicensed 900 MHz ISM band (902 – 928 MHz) in order to minimize our exposure to regulatory risk (see further under the section entitled "Government Regulations, Regulators' Role in spectrum"). The unlicensed bands are well established and although these bands are allocated for Industrial Scientific and Medical (ISM) use (e.g., microwave ovens and industrial equipment), a major use has been unlicensed (Part 15) systems such as Wi-Fi, Bluetooth, and ZigBee. In the period 1995 – 2005, most of the cordless phones marketed in the US were in the 902 – 928 MHz band, but conflicts with the other uses and availability of DECT equipment has greatly decreased sales of 902 – 928 MHz cordless phones.

The rules for these bands sprung from FCC Docket 81-413 which sought to end an implicit prohibition of spread spectrum/CDMA technology that resulted from a focus on FDMA spectrum uses. This resulted in rules adopted in 1985 that allow unlicensed spread spectrum systems to use these bands for almost any possible application subject to a 1W power limit. When wireless LAN use became of interest several years later, these time-tested rules allowed U.S. market access without FCC deliberations. The 2.4 and 5.8 GHz bands are used for Wi-Fi today. In a similar fashion, we are launching our initial software-defined product offering programmed to operate on unlicensed spectrum in order to speed commercialization of our intellectual property without requiring FCC or NTIA deliberations on opportunistic access. Because we have designed our core technology to be usable beyond the unlicensed band that its initial product offering operates on, we believe that we are well positioned to benefit from possible future regulatory reforms that support wider spread use of spectrum sharing and opportunistic access techniques.

The growth of wireless data over the past few years has made the subject of available spectrum a pressing priority. In fact, the current situation has been referred to as a "looming spectrum crisis". (FCC Chairman Julius Genachowski, speech to CTIA, October 2009). Responses to this "crisis" have included lobbying efforts to persuade the FCC to find new sources of licensed spectrum and proposals to reallocate existing licensed spectrum. Demand for more spectrum and capacity has also been a key factor in industry consolidation. The rationale given for the AT&T/Cingular merger was based on the fact that AT&T had more spectrum than Cingular, and by combining the companies they could more efficiently serve their customers. Likewise, Verizon's $3.6 billion bidding to buy unused wireless spectrum and AT&T'S $39 billion attempt to acquire T-Mobile was primarily driven by AT&T's desire to secure additional spectrum and cell sites in order to provide more capacity across its network. Most recently, the FCC's AWS-3 spectrum auction, which began on November 13, 2014, generated nearly $45 billion in bids by the time bidding closed on January 29, 2015. This was another indication of the ongoing need for wireless carriers to increase network capacity and coverage by securing additional spectrum assets.

Our Company and our technology and products are built based on our belief that there is insufficient spectrum available to satisfy the current and future growth of wireless data. However, we also believe that this crisis is not solely a result of insufficient amounts of available spectrum, but also the result of inefficient use of the currently available spectrum. Rather than merely demanding more spectrum we believe that the more appropriate response to the call for increased bandwidth would be to shift the focus to getting more use out of spectrum that has already been allocated. More effective utilization of the available spectrum can be accomplished in a number of different ways. Advancements in radio technology, such as the movement to the LTE standard from the previous 3G networks, for example, have allowed for better spectrum utilization. This has been attributed to the incorporation of new advanced

technologies such as multiple in, multiple out (“MIMO”) and Orthogonal Frequency-Division Multiple to reduce multiuser interference.

Other methods being employed by network operators to meet bandwidth requirements have included off-loading some of the demand to unlicensed Wi-Fi hotspots and selling in-building femtocells that make use of a customer’s own wired Internet connection. Another approach is to build more cell sites closer together. Each cell site would cover a smaller area, and thus offer the ability to reuse frequencies more times in a larger geographic coverage area. However, such methods would entail more costs, and is time consuming due to local permitting and other considerations. Many of these approaches have been driven by the need to receive more capacity out of limited spectrum.

While the spectrum currently available cannot satisfy the future growth of wireless data, the idea of getting better use out of spectrum (both licensed and unlicensed) by sharing it is receiving increased attention as a more effective and efficient solution for the industry than simply identifying new spectrum. This has led industry and policy makers to consider technology-based approaches, such as cognitive radio and opportunistic (i.e. shared) spectrum use.

Users of commercial cellular networks are not the only users that are running out of capacity due to spectrum limitations. Wireless users around the globe such as industrial and enterprise users, public safety agencies and those who use unlicensed spectrum (such as Wi-Fi and White Spaces) are also lacking necessary spectrum, but are not being allocated the necessary spectrum due to the fact that regulators have historically prioritized commercial mobile carriers in the allocation of spectrum assets as the demand for both voice and broadband access continues to increase.

We believe that deployment of cognitive radio networks offers the best solution to addressing the pressing need for more efficient use of spectrum.

Radio Spectrum — A Primer

Radio spectrum is a finite resource. In order to utilize this limited radio spectrum better, we have essentially been limited to reallocating swaths held by existing users, who either have to lose some of their spectrum or have to move to other portions of the band.

The best spectrum for two-way radio or cellular types of communications is in lower frequencies. These frequencies are scarce due to technical, historical, and regulatory reasons. A large part of the spectrum (30MHz to 900MHz) that is well suited for cellular and land mobile radio (LMR) is occupied by existing business, industrial, public safety, and other license holders. Additionally, only a fraction of this spectrum is practical for mobile commercial consumption as the usage of lower frequencies requires antennas, filters and other components that do not fit into a portable handheld device. There are also many services that have long used valuable spectrum in frequencies that could be reassigned for mobile data and voice since those services could use some other spectrum efficiently.

The availability of widespread high-speed wireless broadband has led to customer uptake that was far greater than the network operators, device manufacturers, and application developers had predicted. The introduction of the iPhone by Apple was a starting point for soaring broadband wireless service demand, and since that time, new applications, including streaming video for TV and movie services, have proliferated. Network operators are struggling with how to keep up with this demand.

AT&T reported that 4% of its iPhone customers were accounting for more than 50% of the data traffic on its 3G network, and a Cisco report indicates that today more than 60% of the data traffic on mobile networks is video. This trend is expected to accelerate as network operators expand deployments of 4G (fourth-generation cellular services). However, 4G does not fully address the current spectrum issues, and in fact may make it worse, as new bandwidth and spectrum-intensive services are brought to market.

Cognitive Radio Networks — A Primer

The industry definition of a cognitive radio is a device that, unlike a traditional radio, can dynamically find and use available frequency to improve throughput and connectivity. This can be done via real-time sensing that allows the radio to scan for unused frequencies and then instantly tune to such frequencies. Cognitive radios can also rely on a database that can tell it what channels are available (usually based on the radio's location and known spectrum restrictions in that area).

Either or both of these techniques can be used to help the cognitive radio avoid interference and optimize its throughput and connection reliability on a dynamic basis. With detailed information about its local radio frequency (''RF'') environment, cognitive radios are able to change power output, frequency and receive or transmit parameters, in order to extract latent (unused) bandwidth and capacity from crowded unlicensed, as well as underutilized licensed, wireless spectrum.

The key elements of cognitive radio technology include spectrum sensing, spectrum management, spectrum mobility, spectrum sharing, and spatial processing:

Spectrum sensing may be defined as interference-based detection of transmitters with the ability to look at a portion of the spectrum to see if it contains any transmitters that could cause interference to the cognitive radio system. Making the end user devices and network infrastructure cognitive enables both to dynamically react to a wide range of conditions. In the xMax® system, the end user radio is used to inform the network of changes in the RF environment, core infrastructure and other relevant conditions. This allows the network itself, and not just the radios, to adapt dynamically. When only the radio itself is cognitive, each radio will individually optimize its parameters and throughput based on local conditions, without regard to overall system performance. What may be optimal for the radios on an individual basis may not lead to overall network optimization in terms of coverage, throughput or other measures.

Spectrum management is the ability of the system to capture the best available spectrum for use at any given point in time. It is based on the premise that both terminals and base stations can be directed to change their operating frequencies dynamically as needed to keep the communications from interfering with others in that portion of the spectrum, or of being interfered with by others in the same spectrum. By propagating and collecting data from individual radios across the network, a cognitive system approach can make the entire network smarter, and optimize total network throughput. This enables new and useful features such as self-RF planning that can simplify, and reduce the cost of, the deployment and operation of the network. After the RF data is collected, better utilization and performance can be achieved automatically and continuously. This makes the network vastly more adaptable, self-sustaining and self-optimizing in many ways. The ability for the network to provide a level of self-RF planning is only one example of what a cognitive network can offer. Because a cognitive radio network can self-optimize and self-configure, little-to-no frequency coordination between cognitive radio nodes or other radio networks operating in the same frequencies is needed. This leads to an often overlooked benefit of having a self-planning, self-optimizing network: it reduces or eliminates the need for skilled radio technicians. These cognitive radio networks use software, powerful on-board computing power and real-time RF sensing to supplant expensive and overburdened radio technicians. The smart network goes beyond self-frequency planning to also encompass dynamic capacity shifting. That is to say that when a cell is lightly loaded, it can automatically abandon one or more channels in any given sector, thus making those channels available for adjacent cells to use if loading at that cell justifies the need for more spectrum. In addition to the ability to shift spectrum resources around to other cells, it also makes the network as a whole a good neighbor to other systems that might be trying to use the same spectrum in a shared band (like TV White Spaces) by using the minimum amount of spectrum at any given time. Moreover, these capabilities will allow xMax® networks themselves to become mobile, adapting to new spectrum conditions and terrain “on-the-go”, which will make xMax® an excellent solution for expeditionary deployments by defense, public safety and emergency agencies.

Spectrum mobility refers to the ability to make use of spectrum dynamically, commonly called dynamic spectrum access (DSA). The system can decide to change bands or channels within the spectrum in which they are operating.

Spectrum sharing is the ability for a cognitive radio system to operate in shared spectrum (unlicensed spectrum, for example), detect stations that interfere with the transmissions, mitigate that interference if possible, or avoid it by changing operating frequencies or other system parameters. By enabling xMax® to tolerate high levels of interference before requiring the radios to switch channels, more “gray spectrum” (containing interference or jamming) can be used

in place of white spectrum (clean and interference-free). This makes these white spectrum channels available for other radios that cannot mitigate the interference on their current channel. The overall capability increases the network's total throughput and capacity greatly — without consuming additional scarce spectrum resources.

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Spatial processing is the use of multiple integrated receiver chains known as MIMO systems that can provide another layer of resistance to interferers. MIMO processing allows better use of the radio channel to improve link budget and data rates. By employing advanced signal processing techniques, we believe that our system can also be used to track and mitigate interference from multiple mobile transmitters using sophisticated signal processing algorithms. The ability to mitigate, rather than simply run away from interference will be critical going forward. We believe that there will be no more “white spaces” and that all spectrum will be made up of “gray spaces” (interference laden frequencies) caused by a system’s own self-interface or that which is caused by other nearby systems.

We believe that a true cognitive or intelligent radio network will make use of most, if not all, of these capabilities in order to be able dynamically to keep the system operating by mitigating or avoiding interference that may show up in the frequencies the cognitive network is currently using. If the interference becomes too severe, an intelligent system will be able to locate other spectrum and shift the radio links to new frequencies nearly instantaneously. Using cognitive radio techniques, the cognitive network can intelligently share spectrum and extract more bandwidth via “opportunistic use” of shared spectrum resources.

Today’s cognitive radio systems are taking advantage of new antenna technology (such as MIMO) and digital signal processors (DSPs) with advanced, innovative software algorithms. This evolution has also yielded a class of DSPs that are incredibly powerful, yet still energy-efficient. These and other technologies are enabling a new generation of smart (i.e., cognitive) radios. In general, the limiting factor in high capacity wireless systems is interference. As stated above, there are a number of ways to deal with interference to keep the communications link up and running. Unlike traditional systems (such as 3G and 4G), cognitive systems can recognize and then deal with interference locally and in real-time, thus greatly increasing the capacity of new and existing spectrum.

Our IMT services and product offerings address three markets: Broadcasting, Sports and Entertainment, and Surveillance (Military and Government).

The **Broadcasting** market consists of a few key segments including electronic news gathering, wireless camera systems, portable microwave, and fixed point to point systems. The market looks to improve operational efficiencies in the gathering, production, and transmission of wireless content. Recent trends in the market include a movement towards IP connectivity over point to point links for infrastructure, high definition upgrades of remote news gathering vehicles, and continued pressure to reduce expenses by improving operational efficiencies. Customers within this market are major network TV stations including over-the- air broadcasters, cable and satellite news providers. IMT focuses on the unique manner in which these customers create and gather content wirelessly.

The **Sports and Entertainment** market consists of a few key segments including sports production, sports venue entertainment systems, movie director video assist, and the non-professional user segment. Generally this market is focused on much more agile wireless video systems. Drivers in these markets include small, lightweight, easy to use

equipment, low-latency video systems, reliability of the wireless links, and the ability to use licensed and unlicensed bands. Current trends within the market are to further reduce the size and improve agility of the wireless video systems as users are demanding higher link reliabilities at longer ranges. Customers within this market are professional sports teams, movie production companies, live video production service providers, system integrators and a growing segment of drone and unmanned ground vehicle providers.

The **Government/Surveillance** market consists of a few key segments including state and local law enforcement agencies, federal "3-letter" agencies and military system integrators. The market looks to improve the reliability and quality of video content without adding complexity. The video systems must be operated without technical intervention. State and local agencies benefit from Department of Homeland Security grant programs to improve overall security. Recent trends within these segments are improved interoperability within agencies, and demand for fully integrated systems including robust microwave combined with ubiquitous IP networks. As wireless video systems are becoming more reliable and easier to deploy, the adoption rate of wireless systems is increasing. Customers within this market include state police forces, sheriff's departments, fire departments, first responders, the Department of Justice and the Department of Home Land Security.

Products

xMax® : The first implementation of xG's innovative cognitive radio intellectual property is xMax®. Operating initially within the 902 – 928 MHz license-free band, xMax® is a mobile voice over internet protocol ("VoIP") and broadband data system that utilizes an end-to-end Internet Protocol ("IP") system architecture. The xMax® technology we have developed is spectrum agnostic. In any spectrum band that xMax® will operate in, we will break the band into channels and sub channels. We will then use spatial processing and adaptive modulation to mitigate interference in that band. If the band becomes unusable because of overwhelming interference, we will then use dynamic spectrum access to change to another channel or band. The xMax® product suite we are currently developing is band specific due to the current limitations in RF technology that can be produced for a given size, cost and complexity. Multiband, small, portable devices today require custom developed integrated circuits, which are on our technology roadmap, but not currently available. The mid-term objective is to transition implementation of xMax® to a licensing and semiconductor chip business model.

The xMax® system design represents a turnkey network solution that will include rapid-deploy self-organizing access points (base stations), fixed and mobile personal Wi-Fi hotspots, mobile switching centers, as well as network management and deployment tools. A key feature of the xMax® system is the ability to leverage off-the-shelf commercial mobile devices (such as smartphones, laptops and tablets), resulting in reduced network infrastructure, maintenance and operational costs. The xMax® system will allow mobile operators to utilize free, unlicensed 902 – 928 MHz ISM band spectrum (available in most of the Americas) instead of having to purchase scarce licensed spectrum which can be prohibitively expensive. In addition, mobile network operators will be able to use xMax® cognitive radio technology to add additional capacity to licensed spectrum by identifying and utilizing unused bandwidth in those frequencies.

Our xMax® system is designed to utilize an advanced cognitive radio technology that incorporates OFDM and MIMO to increase interference tolerance, allow mobility, and improve resistance to fading. All xMax® products leverage an array of high-performance, low-cost digital signal processors (DSPs) that enable multidimensional signal processing that mitigates interference and dynamically optimizes available spectrum. xMax's software defined radios (SDR) are designed to be inherently frequency-agile, which will allow network access points and user devices to automatically retune and operate on clearer channels within the band. This innovative signal processing will enable xMax® to deliver a licensed spectrum experience using unlicensed spectrum.

The product portfolio that we are creating by combining advanced computer processing power and novel wireless design means that a technology solution is becoming a viable alternative to past public and private spectrum acquisition policies. We employ a multifaceted cognitive radio approach that combines sophisticated interference mitigation capabilities with innovative dynamic spectrum access attributes. The former features MIMO smart antenna technologies. Employed in concert, these capabilities will help squeeze additional usable spectrum out of airwaves once considered unusable for advanced mobile communications.

CN5100 Mobile Hotspot (formerly known as xMod):

The xMax® CN5100 Mobile Hotspot is a device that allows users of Wi-Fi-enabled smartphones, tablets, notebooks and other devices to access the Internet through the xMax® cognitive radio network. The CN5100 Mobile Hotspot acts as a transparent protocol bridge that connects end user devices to the wide-area xMax® network using secure Wi-Fi links, USB or Ethernet cables. It supports not only fixed users but will also supports mobile users and has been designed to provide exceptional QoS (Quality of Service) and MoS (Mean Opinion Score) while supporting calls, texting (SMS) and broadband data streams over the xMax® network.

The CN5100 Mobile Hotspot includes a Wi-Fi router chip that allows it to simultaneously support multiple external devices wirelessly. It will enable operators to deploy long-range xMax® networks that can integrate with the large installed base of Wi-Fi and Ethernet-capable devices. Subscribers will easily be able to install and set up a CN5100 Mobile Hotspot to support any device having a Wi-Fi, USB or Ethernet connection. By incorporating xMax® radios and 2x4 MIMO technology, CN5100 Mobile Hotspots can provide range and reliability that management believes is superior to Wi-Fi-based wide-area systems.

The CN5100 Mobile Hotspot and xMax® system is designed to support nomadic and mobile connectivity (including high-speed handoffs) which will allow xMax® operators to offer on-the-go services that differ from those of fixed services, such as cable and DSL. It can be deployed in fixed, mobile or nomadic configurations. As with all the components in the xMax® family of products, the CN5100 Mobile Hotspot offers increased range, flexibility, throughput and reliability, while reducing network deployment and management costs. Management believes this will make xMax® an attractive solution for WISPs, mobile telecommunications operators and other service providers.

CN3100 Vehicle Modem (formerly known as xVM):

The xMax® CN3100 Vehicle Modem is an IP67-rated ruggedized subscriber device that is designed to be installed inside or outside vehicles. The CN3100 Vehicle Modem acts as a transparent protocol bridge, allowing users of WiFi-enabled smartphones, tablets, notebooks and other devices to seamlessly access the Internet through the xMax cognitive radio network.

The CN3100 Vehicle Modem is waterproof and made to withstand wide temperature ranges and challenging environmental conditions. It has been designed to meet the extreme demands characteristic of expeditionary environments, making it ideally suited for employment in the public safety, homeland security, and military market places.

While primarily developed for vehicle usage, the CN3100 Vehicle Modem may also be externally mounted in fixed locations like parks or other outdoor areas to provide WiFi access for use in monitoring, surveillance, machine-to-machine and other applications using the xMax backhaul link.

CN3200 Dual-Band Routing Modem:

Introduced in 2014, the xMax® CN3200 Dual-Band Routing Modem is a single compact unit that operates in both the 900 MHz and 2.4 GHz frequency bands. The CN3200 Dual-Band Routing Modem utilizes interprotocol smart-routing algorithms to automatically determine which frequency to use based on the user's application. Voice calls are prioritized to the 900 MHz band while video and data are prioritized to the 2.4 GHz band. The experience to the user is seamless, providing simultaneous high speed data communications and calling without latency or echo.

CN3200 Dual-Band Routing Modem is designed for use in both fixed and mobile applications. In logistics, military, or public service applications, the 2.4 GHz link can assist in loading and unloading high volumes of data from the application server to a stationary vehicle and then transparently switch over to 900 MHz once it goes mobile. The CN3200 Dual-Band Routing Modem automatically switches all data and voice traffic to the 900 MHz radio to keep the connection alive. When the vehicle becomes stationary again, the CN3200 Dual-Band Routing Modem resumes dual band operation.

The CN3200 Dual-Band Routing Modem has been designed with built-in redundancy with automatic failover. If the 2.4 GHz band becomes congested, slow, or filled with interference, the CN3200 Dual-Band Routing Modem automatically routes all voice and data communications over the 900 MHz band to preserve communications.

The CN3200 Dual-Band Routing Modem has been engineered to support the delivery of both fixed location high data rates and reliable high-speed mobility in the same system. It is management's belief that it will provide a cost-effective way for rural telecommunications operators to deliver high quality voice, high speed data, and streaming video to their rural and remote customers. We believe the CN3200 Dual-Band Routing Modem will help these operators recover the cost of the network via the Universal Service Fund ("USF") subsidy mechanism. Recent regulatory reform has begun to transition USF support from telephone to broadband services. Because xMax® can carry both voice and data, we believe that xMax® is well suited for rural carriers to handle such a migration.

In addition, it is expected that the CN3200 Dual-Band Routing Modem will allow these providers to create entirely new sources of unregulated revenue, for example, providing voice and data services to local emergency response teams.

CN1100 Access Point (formerly known as xAP):

The xMax® CN1100 Access Point is an all-IP wireless access point that will deliver wide area coverage and reliability even when there is significant interference. The CN1100 Access Point brings together innovative technologies including Software Defined Radio (SDR), cognitive networking and a 2x4 MIMO in a compact and affordable broadband access point. These capabilities will enable the CN1100 Access Point to deliver wide area coverage and broadband throughput for fixed, nomadic and mobile applications.

xMax® radios and 2x4 MIMO technologies give the CN1100 Access Point range and reliability surpassing Wi-Fi-based systems. The CN1100 Access Point (as well as all xMax® components) will support nomadic and fully mobile connectivity, including high-speed handoff that will allow xMax® operators to offer on-the-go services that differ from those of fixed services, such as cable and DSL. As part of the xMax® family of products, the CN1100 Access Point is designed to offer increased coverage, throughput and robustness while reducing network deployment and management costs, making it, we believe, an attractive solution for WISPs, mobile telecommunications operators and other service providers. When implemented, Self-Organizing Networking (SON) technology will simplify and speed deployment for commercial, private and tactical networks.

The CN1100 Access Point is a small, single channel device that will provide voice, data and video over ranges of 1 to 5 miles (non-line-of-sight) and up to 15 miles (line-of-sight), depending on environmental and installation conditions. The xMax® system is designed so that it will be possible to collocate multiple CN1100 Access Points in order to increase system capacity. CN1100 Access Points are GPS time-synchronized to avoid self-interference, which increases overall system capacity and load leveling. These features, along with deterministic Media Access Control (MAC) for high-quality voice calls, give the xMax® system improved scalability in real-world conditions.

Having numerous accessible channels will allow neighboring network nodes (made up of one or more CN1100 Access Points) to utilize non-interfering channels automatically when employing the network self-planning features that are in our technology roadmap. This will allow the network to grow and scale more easily without the operator having to redesign the network RF plan each time a device moves, or when CN1100 Access Points or users are added or removed from the network.

CN7000 Mobile Control Center (formerly known as xMSC):

The xMax® CN7000 Mobile Control Center is the backbone network element in the xMax® regional network. The CN7000 Mobile Control Center controls the delivery of voice and data services, and manages all elements in the regional network, including access points and end-user devices.

The CN7000 Mobile Control Center acts as an aggregation point for the connected CN1100 Access Points and it performs routing and security functions. The CN7000 Mobile Control Center is typically connected to the Internet/Global Information Grid (GIG) and one or more VoIP soft switches.

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xMonitor/xDrive:

These software tools provide integrated and comprehensive network and element management for the xMax® network, as well as mobile network throughput and coverage optimization.

xMonitor is a component of the CN7000 Mobile Control Center that monitors the status and health of all CN1100 Access Points, CN7000 Mobile Control Center elements, and VoIP core elements. It provides end-to-end IP network management and monitoring services. xMonitor is a web-based application that will be installed at an operator's Network Operation Center, enabling remote management of network status. The program runs as a live application that continuously collects data from the network, updating the aggregated information without user intervention. It can be programmed to display specific views around the clock — providing an at-a-glance heads-up display from which to survey the network.

xDrive is a drive mapping utility designed to gather, display and log performance statistics from the CN5100 Mobile Hotspot, CN3200 Dual-Band Routing Modem and CN3100 Vehicle Modem. It will allow field technicians to map the coverage of a deployment of CN1100 Access Points, as well as providing CN5100 Mobile Hotspot / CN3200 Dual-Band Routing Modem/ CN3100 Vehicle Modem to CN1100 Access Points to link statistics.

Through IMT, we offer a full spectrum of wireless video products which are built around providing complete solutions. IMT has traditionally focused on the development of core product technologies that have the potential for application in final assembled products that cross market segments. Technology focus areas include RF and microwave component development spanning the frequency range from DC to 18GHz, waveform modulation, H.264 video encoding and decoding, and digital signal processing. Through these products, we are uniquely positioned with significant technology IP and an established reputation for rapidly and economically delivering complex, bespoke engineering products and solutions to customers that are expertly managed to tight deadlines. Production of these products can be rapidly scaled to respond to changes in market demand.

Key products by segment are:

Broadcast: We have a line of high-margin receiver products including the DR3, CRx6 and CIRAS. These products may be interconnected over IP networks, expanding and simplifying their overall use and reducing the deployment cost significantly. The microLite is a small, low-cost wireless camera system enabling broadcast news operators to eliminate the use of coaxial cables in their remote news operations. This significantly reduces labor costs in the operation, and increases the speed and agility of the cameramen to focus on capturing engaging content.

DR3 Receiver

CRx6 Receiver

CIRAS Receiver

Sports and Entertainment: The microLite is available in both licensed and unlicensed frequency bands, the latter enabling non-TV broadcasters to capture broadcast quality video without the cost and limitations of gaining a frequency license. The unlicensed market is very large and just being opened to high quality technologies.

microLite

Government/Surveillance: IMT has focused on handheld receivers and benefits from limited competition in this area. The MiniMobile Commander and Mobile Commander are high quality, feature-rich products. IMT vNet IP Video Distribution Servers enable commanders and managers to view near real time video captured on scene and consumed anywhere in the world over public and private IP networks.

MiniMobile Commander
Receiver Monitor

Mobile Commander
Receiver Monitor

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Competition

The wireless technology sector is intensely competitive and is rapidly evolving. Several vendors have researched and experimented with cognitive radios. This research predominately falls under the traditional industry defined use of a cognitive radio where cognitive capabilities are restricted to dynamic spectrum access ("DSA") within the radio device. However, we believe that only a few vendors are undertaking development across all the key elements of cognitive technology: spectrum sensing, spectrum management, spectrum mobility, spectrum sharing, and spatial processing.

As an example, both Spectrum Bridge and Microsoft have developed a database approach to frequency reuse. This method was developed specifically to enable unlicensed broadband systems to coexist with existing TV transmitters in the TV White Spaces band.

We not only face competition from other companies developing cognitive radio solutions but we are also competing for sales to end-user customers with companies offering solutions utilizing other technologies for access to licensed and unlicensed spectrum, such as LTE and Wi-Fi.

In the cognitive radio market, our competitors include, Neul Ltd., Shared Spectrum Corporation and Adaptrum.

End-customers in the rural broadband market are being offered a choice of solutions based on alternative technologies, such as LTE and Wi-Fi. Global communications networking equipment vendors such as Ericsson, Huawei, Alcatel-Lucent and others are actively selling and deploying LTE and, to a lesser extent, WiMax equipment with rural telecommunications operators that own, or can lease, appropriate licensed spectrum frequencies. We also face competition for equipment sales with Ruckus Wireless, Ubiquiti Networks and Cambium Networks, which have also targeted markets for communications systems around the world similar to our target markets. These companies are vastly larger than we are, with significantly greater resources, we believe that we or our channel partners will need to convince end users to consider our offerings as a viable alternative to these larger companies if we are to succeed.

It is not uncommon for a single rural operator to deploy a mix of technologies (such as LTE and Wi-Fi) to address differing applications, spectrum holdings and economics across their market areas. As new technologies are introduced and spectrum availability and costs increase, we anticipate that rural telecommunications operators will continue to deploy a growing range of innovative solutions that deliver voice and data communications to their customers.

The main vendor in the public safety market is Motorola Solutions, which is a global player that holds a highly dominant market share in the U.S. of over 80% in public safety and government wireless networks.

In the defense market, there are several large and significant companies that provide wireless communications systems to U.S. and international military agencies, including Harris Corporation, ITT Industries, Raytheon, Boeing, Thales Communications and Lockheed Martin. It is common for one competitor to be a subcontractor to another competitor who is the prime contractor and vice versa as programs of record ramp up and ramp down over time.

A number of our current or potential competitors have long operating histories, significant brand recognition, large customer bases and significantly greater financial, technical, sales, marketing and other resources than we do. As an emerging technology company, our brand is not as well known as incumbents in those markets. Potential customers may prefer to purchase from their existing suppliers rather than a new supplier, regardless of product performance or features.

Primary competitors of IMT are Vislink, Domo Tactical Communications (Formerly a division of Cobham), and a number of smaller market- specific businesses. IMT has been able to successfully leverage its long broadcast industry leadership, reputation for advanced technology, and ability to provide end-to-end-solutions in order to maintain and increase its customer base and to continue providing highly competitive offerings.

Competitive Positioning

Regulatory risk — we believe that our choice initially to develop our cognitive radio technology utilizing the unlicensed 902 – 928 band exposes us to less regulatory risk than companies building products upon newly available TV White Space frequencies. Whereas the 902 – 928 MHz band has withstood multiple attempts to redefine the rules regarding its use, newer frequency bands such as TV White Spaces have yet to demonstrate their permanence. Specific initiatives to license off TV White Space frequencies for cellular carrier use are being promoted by licensed spectrum stakeholders. While our core technology can be adapted for operation upon such newly available frequencies once their staying power has been demonstrated, we believe that we are not subject to the same make-or-break dependency upon the availability of TV White Spaces as are most other cognitive radio product companies.

Mobility — we are specifically developing our product line to support mobility. We believe that mobility is an important differentiator with regard to our offering in the marketplace. Designed to do its own RF planning automatically by utilizing an extended range of non-interfering channels without manual intervention, xMax® will offer the ability to make the entire network infrastructure mobile, with CN1100 Access Point base stations able to move in relation to each other as well as to CN5100 Mobile Hotspots, CN3200 Dual-Band Routing Modems, xMax CN3100 Vehicle Modems and users. We believe this feature will be unique to xMax® and will address a major capability gap for defense, homeland security, and public safety agencies which all require "on the move" communications networks. These agencies currently have no equipment or capacity for this identified and urgently needed capability.

Supports both real-time VoIP and data sessions utilizing a single set of infrastructure — Most IP systems do not carry large numbers of simultaneous voice conversations. We have focused on designing a core technology that is capable of carrying both mass-scale voice and data sessions on the same network.

Interference mitigation — Whereas most efforts to date focus on interference avoidance, we have extended our core competency into the realm of interference mitigation. In a world where wireless demand is certain to result in more, not less, congested airwaves, we believe that our intellectual property that can help to ameliorate interference is a unique competitive advantage in the marketplace.

Strong engineering management team — We maintain a strong, product-driven, engineering team with a track record within the Ad-Hoc wireless networking domain with Motorola Mesh Networks.

No federal government unlimited use licenses — We have solely funded the development of our intellectual property, which is, accordingly, unencumbered by any federal government unlimited use licenses.

Strong Patent Portfolio — We maintain a strong intellectual property portfolio that presents a barrier to entry to other firms that may attempt to develop cognitive radio network technology.

We believe we compete favorably on these factors. However, our industry is evolving rapidly and is becoming increasingly competitive. Other developers could develop alternative wireless cognitive networks and other technologies that may adversely affect our ability to attract and retain customers. These competitors may include companies of which we may not be currently aware.

We are well positioned for continued growth in broadcast and sports and entertainment markets, and expect near term growth in the government/surveillance market. IMT has recently completed a number of new products and product updates, enabling us to offer end-to- end solutions that encompass video capture, consolidation and distribution. Full control of the production process is now inhouse, eliminateing reliance on third party providers and allow us to realize improving margins, control over product quality and competitive agility.

Sales and Marketing

Our strategy is to sell the equipment in which our intellectual property is initially implemented, globally direct and through an indirect channel network of technology partners that we will leverage in order to upscale our selling efforts without the significant cost of a large direct sales force. Our channel partners will utilize their own internal and external sales representatives to provide lead generation among their established customer base and beyond, pre-sales support, product fulfillment and, in certain circumstances, post-sales customer service and support. In certain cases, service providers may also act as a channel partner for sales of our solutions to their existing customers or new enterprise accounts. Among the channel partner firms with whom we have formally announced agreements are GlobalMed (telemedicine market), DirectView (video and security market), Drakontas (public safety market), Kerberos (government markets), and Radio IP Software (mobile security markets).

Our sales team currently is comprised of business development, relationship and account executives. This sales team is focused on supporting our current customers, as well as nurturing relationships with prospective customers in key domestic and international markets. Our relationship managers support the development of sales presentation materials and training of our channel partner sales personnel to assist them in marketing our services, either directly or indirectly to their customers. We also directly train and support selected key customers and technology providers in order to grow an active client base and solidify relationships.

IMT uses a combination of sales channels, including direct-to-end customer sales, network group sales, reseller/integrators and OEM sales channels, to reach its customers depending on the market segment.

Effective March 1, 2015, we implemented cost reduction initiatives that included a decrease in our then current full, part-time and contracted workforce. We reduced our business development, sales and marketing team to ten full-time employees or contractors. As of December 31, 2015, our business development, sales and marketing team consisted of six full-time employees or contractors.

Customers

We have begun to implement our sales and marketing strategy, both through direct sales to end-customers and indirect sales to channel network partners, and we have entered into a number of equipment purchase, reseller and teaming agreements as a result. These customer engagements span our target markets in rural telecommunications and defense.

Manufacturing and Suppliers

We have historically retained contract manufacturers to manufacture, test, assure the quality of, and ship our products. With our recently announced IMT acquisition, we anticipate that our internal manufacturing organization, which currently consists of a small number of supply chain managers, employees and independent contractors, will increase. During the next several months, as we integrate the IMT business that we have acquired, we will rely less on our contract manufacturers, and more on internal test engineers and resources to implement quality assurance programs designed to assure high product quality and reliability. Going forward, we anticipate that we will focus on our core strengths, which are innovation and technology design and the development, creation and exploitation of our intellectual property. Accordingly, we ultimately plan to become a designer, developer and fabless supplier of xMax® integrated circuits and system software solutions for xMax® products where we would supply integrated circuits produced either through the IMT assets, if we are able to successfully integrate them into our business, or by third party manufacturing partners under license, software, reference designs, features, tools and technical support.

We intend to integrate IMT into our plan to build our products, but may continue to rely, particularly in the short term, on third party components and technology to build our products, as we procure components, subassemblies and products necessary for the manufacture of our products based upon our design, development and production needs. While components and supplies are generally available from a variety of sources, we currently depend on a single or limited number of suppliers for several components for our products. We are using a single source digital signal processor that may be difficult to replace with an equivalent performance device. In the longer term, we are planning to adapt the xMax® system to run on multiple low cost platforms. We rely on purchase orders rather than long-term contracts with our suppliers. We do not currently stockpile enough components to mitigate any potential supply disruption if we are required to re-engineer our products to use alternative components.

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Intellectual Property

Our business is significantly based on the creation, acquisition, use and protection of intellectual property. Some of this intellectual property is in the form of software code, patented technology and trade secrets that we use to develop our technologies, solutions and products. We have developed a broad portfolio of intellectual property that covers wired and wireless communications systems. As of December 31, 2015, in the U.S., we have 55 patents granted, 3 patent applications pending, and no provisional application pending. Internationally, we have 57 patents granted, 36 patent applications pending, and no Patent Cooperation Treaty (PCT) applications.

Areas of our development activities for xMax® and beyond that have culminated in filings and/or awarded patents include:

- Spatial Processing (MIMO);
- Self-Organizing Networks;
- RF Modulation;
- Compression (protocols, payload, signaling, etc.);
- Modulators/Demodulators;
- Antennas/Shielding;
- Wired and Wireless Networks;
- Media Access Control Protocols;
- Interference Mitigation;
- Cognition enabling over the air protocols (MAC layer);
- Wireless data compression;
- Dynamic Spectrum Access (DSA); and
- Quality of Service.

We protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We control access to our proprietary technology by entering into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with third parties. We also actively engage in monitoring activities with respect to infringing uses of our intellectual property by third parties.

In addition to these contractual arrangements, we also rely on a combination of trade secret, copyright, trademark, trade dress, domain name and patents to protect our products and other intellectual property. We typically own the copyright to our software code, as well as the brand or title name trademark under which our products are marketed. We pursue the registration of our domain names, trademarks, and service marks in the United States and in locations outside the United States. Our registered trademarks in the United States include “xG”, and “xMax®”, the names of our suite of products, among others.

Circumstances outside our control could pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in the United States or other countries in which our products are sold or distributed. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. In addition, protecting our intellectual property rights is costly and time-consuming. Any unauthorized disclosure or use of our intellectual property could make it more expensive to do business, thereby harming our operating results.

Companies in the mobile wireless communications technology and other industries may own large numbers of patents, copyrights and trademarks and may frequently request license agreements, threaten litigation or file suit against us based on allegations of infringement or other violations of intellectual property rights. We may face allegations by third parties, including our competitors and non-practicing entities, that we have infringed their trademarks, copyrights, patents and other intellectual property rights. As our business grows, we will likely face more claims of infringement.

Government Regulations

Regulators’ Role in Spectrum

In the past, all radios were designed with the assumption that they were operating in a spectrum band that was free of interference. There was no requirement to design radios with the ability to dynamically change channels or change spectrum bands in response to interference. These radios required pristine, dedicated licensed spectrum to operate. This led to the FCC and other regulators worldwide licensing spectrum to a particular network operator, for example, cellular paging or wireless service provider so that interference would be carefully controlled. Because of this past legacy, significant blocks of spectrum were underutilized. Even in spectrum bands that might be considered to be highly utilized, valuable spectrum can sit idle in sparsely populated areas or at certain hours of the day when network use dramatically drops.

There are also applications, such as paging, that have fallen out of favor and contribute to this underutilization. Despite the dramatic drop in the use of pagers, a large amount of spectrum is still dedicated to this application. In addition, there are large swaths of unused or lightly-used spectrum that have been held by federal agencies. Traditionally, these agencies were not allowed to sell or transfer their spectrum to commercial users, meaning those spectral resources were locked. This regulatory policy has led to inefficient use of spectrum which has been exacerbated by exploding consumption of commercial mobile data services and, consequently, the declaration of a spectrum crisis. While regulators are continuing to allocate spectrum based upon this assumption that radios do not have the ability to share spectrum, they are now starting to embrace the concept of shared spectrum and the opportunistic use of spectrum enabled by cognitive radio networks.

Regulators are starting to ease the rules relative to the allocation and access of spectrum. A good example of this is the shared use of TV broadcast spectrum via the creation of TV White Spaces (TVWS) for wireless broadband. The FCC and other spectrum regulatory agencies like the UK's Ofcom have begun the process to allow cognitive radios to use freed-up spectrum resulting from the transition from analog to digital TV broadcasts. For example, TV white space continues to gain momentum in the US and Europe with multiple deployments and trials being supported by some of the world's largest technology companies. Furthermore, a new group has been formed called AIR.U that is being funded by Microsoft, Google and others to utilize TV White Spaces to bring high-speed Internet services to rural campuses, schools and other institutions in the US. Similar initiatives are being undertaken in the UK with extensive trials being done in both urban and rural settings using TV White Spaces. In addition to two of the largest technology companies mentioned above, Nokia is also taking a leading role in the UK's TV White Space trials. While there have been rumors circulating that the FCC was somehow taking back TV White Spaces, there appears to be no actual indication of this taking place. In fact, the FCC appears to be approving more TV White Space database administrators as well as certifying additional radio platforms for operation in TV White Spaces. It is possible, nonetheless, that over time, TV White Spaces could be reclaimed by Congress or the FCC and re-auctioned for licensed use. However, that is a risk any unlicensed spectrum faces and has never actually occurred in the US. Other countries globally are also seriously considering creating their own TV white space allocations. These countries include Canada, Brazil and the EU.

Operators and consumers are able to use available unlicensed spectrum bands for the delivery of new applications and inexpensive broadband capacity. An example of this is the data offload efforts of some carriers that use 802.11 Wi-Fi (in the 2.4 and 5.8 GHz unlicensed bands) in densely populated areas where their 3G network is congested. This allows carriers to continue supporting mobile voice and data services over their licensed spectrum, while data that can be consumed at a fixed location (airport, coffee shop, office, etc.) is forced over an unlicensed Wi-Fi link. However, the popularity of Wi-Fi and other devices that use these frequencies has resulted in crowded and noisy spectrum that not only has to support the carriers' smartphone data, but all other applications from other devices in that band as well. The interference in these bands affects the capacity and efficiency of this spectrum for conventional radios. However, where conventional radios see "walls of interference", cognitive radios can uncover "windows of opportunity" and recover up to 85% of the total unused bandwidth in these frequencies.

The FCC's Part 15 rules that govern use of the 902 – 928 MHz ISM band and other unlicensed spectrum bands are well established and are considered responsible for creating an environment where technology and innovation has flourished. They are recognized as having helped create an industry that has generated tens of thousands of high technology jobs, added billions of dollars to the United States economy, and brought the benefits of a wide variety of convenient, economical communications devices to business, industry, education, health care providers and consumers alike. While there have been some attempts to challenge them, they have always been reaffirmed and we have every reason to believe they will remain so.

Even during the recent debates over spectrum policy, there have been no suggestions put forth by the FCC, the Congress or industry to repurpose the ISM unlicensed band to a licensed one that could be auctioned off. The reallocation of a band that is in active use by so many devices would be prohibitively disruptive. Given the long history and widespread use of the ISM band for such a wide array of communications, we feel very confident that it will remain open to use by technologies such as xMax® for the foreseeable future.

While devices operating upon unlicensed bands do not require FCC licensing, they are not unregulated and must meet the Federal Code of Regulation (CFR) FCC Part 15, which is a common testing standard for most electronic equipment. FCC Part 15 covers the regulations under which an intentional, unintentional, or incidental radiator that can be operated without an individual license. FCC Part 15 covers as well the technical specifications, administrative requirements and other conditions relating to the marketing of FCC Part 15 devices.

We are well-versed in the process involved in meeting FCC equipment authorization for products, owing to our extensive experience dating back to certifying pre-commercial prototype xMax networking devices. This process has included working closely with FCC authorized testing laboratories, sending sample units and representative data, and participating in briefings with the FCC Office of Engineering Technology. As a result, we have been able to secure FCC equipment authorization of our xMax commercial networking devices on a timely basis, thus preventing disruption to the sales process caused by regulatory issues. We believe this accumulated experience makes us well-positioned to continue meeting regulatory requirements for future equipment we intend to bring into commercial production.

Underserved and underpenetrated markets. Wireless networks are emerging as an attractive alternative for addressing both the broadband access needs of underserved and underpenetrated markets and for offering a host of other services and solutions. According to forecasts made by the ITU in 2015, global mobile broadband penetration was expected to reach 47% by the end of 2015, compared to only 7% for fixed-mobile penetration. The difference is especially acute in less developed areas. We believe this is due to the lack of an established network infrastructure and the high initial deployment costs of wired networks. We believe that this rate has the potential to be even higher if carrier class wireless solutions were broadly available at a fraction of the established market costs.

Limitation of existing solutions. Existing wireless networking technologies such as standard 802.11 based Wi-Fi, WiMax and LTE have been designed to satisfy the increasing demand for broadband access and support mobility. According to a Gartner forecast, aggregate end-user spending on wireless networking equipment for Enterprise WLAN, wireless broadband access, and LTE solutions, is expected to grow from $10.4 billion in 2012 to $41.3 billion in 2017, representing a CAGR of 32%. However, these existing alternative networking solutions often fail to meet the price-performance requirements of wireless networking in emerging markets, which in turn has led to low penetration and large populations of unaddressed users in these areas. As a result, there is a strong need for cost-effective solutions to deliver wireless networking solutions to consumers and enterprises in underserved and underpenetrated markets. These solutions must be robust and provide service equivalent to that of alternative wired and wireless solutions while simultaneously meeting the economic objectives of network operators and service providers in these

markets.

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Increasing use of unlicensed spectrum. Private industry in underserved and underpenetrated markets worldwide has responded to the lack of wired infrastructure by deploying wireless networks utilizing unlicensed RF spectrum. These network operators and service providers often cannot afford the capital outlay to acquire licenses for the licensed RF spectrum and have consequently designed their wireless networks for unlicensed RF spectrum. In the absence of affordable broadband access in licensed spectrum, the number of users of unlicensed RF spectrum has increased for communications equipment, as well as consumer devices such as cordless phones, baby monitors and microwave ovens. As a result of high demand for unlicensed RF spectrum, use of this spectrum to provide high quality wireless networking has become more challenging and congestion is limiting the growth of wireless networks.

Government incentives for broadband access. Governments around the world are increasingly taking both regulatory and financial steps to expand access to broadband networks and increase availability of advanced broadband services to consumers and businesses. For example, in many countries, including the United States, the responsible regulatory agencies have released the spectrum previously used for broadcast TV, known as the TV White Space, to relieve some of the congestion. The United States and other countries have adopted stimulus plans to increase the delivery of robust broadband access in unserved and underserved areas. The World Bank has reported that 12 countries and the EU have committed an aggregate of $122.4 billion in broadband stimulus funds to date.

Company Information

The Company was organized as a limited liability company under the laws of the State of Delaware on August 26, 2002 under the name JTS Acquisitions, LLC. On March 21, 2003, we changed our name to xG Technology, LLC. Pursuant to a certificate of conversion and a certificate of incorporation filed with the State of Delaware on November 8, 2006, xG Technology, LLC converted to a Delaware corporation under the name xG Technology, Inc. Our executive offices are located at 240 S. Pineapple Avenue, Suite 701, Sarasota, FL 34236, and our telephone number is (941) 953-9035. Our website address is *www.xgtechnology.com*. Information contained in our website does not form part of the report and is intended for informational purposes only.

We are an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act. We will remain an emerging growth company for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenue exceed $1 billion, (ii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter or (iii) the date on which we have issued more than $1 billion in non-convertible debt during the preceding three-year period. Pursuant to Section 102 of the JOBS Act, we have provided reduced executive compensation disclosure and have omitted a compensation discussion and analysis from this Report. Pursuant to Section 107 of the JOBS Act, we have elected to utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards.

Employees

As of December 31, 2015, we employed 58 full-time equivalent employees, contractors or consultants, which included 37 in development, 4 officers, 5 in general and administrative, 1 in business development, 5 in operations and 6 in sales and marketing. In 2016, in connection with our acquisition of IMT, we added 32 employees. We also engage a number of temporary employees and consultants. None of our employees are represented by a labor union or are party to collective bargaining agreements. We believe that we have good relations with our employees.

Item 1A. Risk Factors

As a Smaller Reporting Company, the Company is not required to include the disclosure under this Item 1A. Risk Factors.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our corporate headquarters and marketing and business development office are located in Sarasota, Florida, in an office consisting of a total of 3,403 square feet pursuant to a lease that expires October 31, 2019. For our research and development, engineering, sales and support personnel we also have an office in Sunrise, Fort Lauderdale, Florida consisting of 12,832 square feet pursuant to a lease that expires on May 11, 2016. IMT leases 65,000 square feet at 200 International Drive, Mount Olive Township, NJ 07828 through February 5, 2017. We believe our current facilities are sufficient for our current needs and will be adequate, or that suitable additional or substitute space will be available on commercially reasonable terms, for the foreseeable future.

Item 3. Legal Proceedings

We are currently not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our company's or our company's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect. From time to time, we may become involved legal proceedings, lawsuits, claims and regulations in the ordinary course of our business.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our shares are currently listed on The NASDAQ Stock Market under the symbol "XGTI". Our shares began trading on NASDAQ on July 19, 2013

The following table shows the high and low market prices for our shares for each fiscal quarter for the two most recent fiscal years. Market prices for our shares have fluctuated significantly. As a result, the market prices shown in the following table may not be indicative of the market prices at which our shares will trade after this filing. These prices reflect our reverse splits of our common stock undertaken in 2013 and the 1-for-10 reverse stock split on July 17, 2015.

	Share Price	
Quarter	High	Low
Fourth Quarter 2015	$0.80	$0.19
Third Quarter 2015	$3.20	$0.35
Second Quarter 2015	$5.60	$2.00
First Quarter 2015	$6.40	$2.60
Fourth Quarter 2014	$20.50	$4.90
Third Quarter 2014	$27.40	$18.60
Second Quarter 2014	$30.10	$12.80
First Quarter 2014(**)	$50.01	$11.20

Holders

As of April 13, 2016, there were 46,051,516 shares outstanding and approximately 171 holders of record of our shares. Because shares of our common stock are held by depositories, brokers and other nominees, the number of beneficial holders of our shares is substantially larger than the number of stockholders of record. Our transfer agent and registrar is Continental Stock Transfer & Trust Company, 17 Battery Place, 8th Floor, New York, New York 10004.

Dividend Policy

We have never declared or paid any cash dividend on our common stock. We intend to retain any future earnings and do not expect to pay any cash dividends in the foreseeable future.

Securities Authorized For Issuance under Equity Compensation Plans

Reference is made to "*Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters—Securities Authorized for Issuance under Equity Compensation Plans"* for the information required by this item.

Recent Sales of Unregistered Securities

In October 2015, George Schmitt, Chief Executive Officer and Chairman of the Board, agreed to convert $500,000 of existing loans due from the Company into 892,858 shares of the Company's common stock with a grant date fair value of approximately $500,000.

The shares were issued in reliance upon the exemption from registration contained in Section 4(a)(2) of the Securities Act of 1933, as amended, based on the extensive information the shareholder has regarding us.

Item 6. Selected Financial Data

As a Smaller Reporting Company, the Company is not required to include the disclosure under this Item 6 Selected Financial Data.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations for the years ended December 31, 2015 and December 31, 2014 should be read in conjunction with the accompanying financial statements and the related notes included in Item 8 in this Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements.

Overview

xG Technology, Inc. has developed a broad portfolio of innovative intellectual property that we believe will enhance wireless communications. Our intellectual property is embedded in proprietary software algorithms that offer cognitive (intelligent) radio-based interference mitigation and spectrum sharing solutions for countless applications using commercial off the shelf devices.

Our strategy is initially to commercialize our intellectual property portfolio by developing and selling network equipment using our proprietary software algorithms to offer cognitive radio-based interference mitigation and spectrum sharing solutions. In the future, our strategy is for our intellectual property to be embedded by partners in a semiconductor chip that could be sold to third party equipment manufacturers and inserted in their devices and to license our intellectual property to other customers in vertical markets worldwide. The implementation of our cognitive radio intellectual property is xMax®. We believe the xMax® system represents the only commercially available cognitive radio network system that is designed to include interference mitigation by spatial processing. xMax® implements our proprietary interference mitigation software that can increase capacity on already crowded airwaves by improving interference tolerance, enabling the delivery of a comparatively high quality of service where other technologies would not be able to cope with the interference.

The initial implementation of our cognitive radio intellectual property is xMax®. We believe the xMax® system, represents the only commercially available cognitive radio network system that includes our interference mitigation

and spatial processing technologies. xMax® implements our proprietary interference mitigation software that can increase capacity on already crowded airwaves by improving interference tolerance, enabling the delivery of a comparatively high quality of service where other technologies would not be able to cope with the interference. We believe that the xMax® system will also, when in a future development operating on more than one radio channel, deliver dynamic spectrum access by using our patented self-organizing network techniques.

Our system is frequency-agnostic although currently designed to operate within the 902 – 928 MHz license-free band. xMax® is intended to serve as a mobile voice over internet protocol (“VoIP”) and broadband data system that utilizes an end-to-end Internet Protocol (“IP”) system architecture. The xMax® product and service suite includes a line of access points, fixed and mobile dual-band hotspots, mobile switching centers, network management and deployment tools, and customer support. The xMax® system will allow mobile operators to utilize free, unlicensed 902 – 928 MHz ISM band spectrum (which spectrum is available in most of the Americas) instead of purchasing scarce, expensive licensed spectrum. Our xMax® system will also enable enterprises to set up a mobile communications network in an expeditious and cost-effective manner. In addition, we believe that our xMax® cognitive radio technology can also be used to provide additional capacity to licensed spectrum by identifying and utilizing unused bandwidth within the licensed spectrum.

On January 29, 2016, we completed the acquisition of certain assets and liabilities of IMT, pursuant to the Asset Purchase Agreement by and between us and IMT. Pursuant to the terms of the Asset Purchase Agreement, we acquired substantially all of the assets and liabilities of IMT in connection with, necessary for or material to IMT’s business of designing, manufacturing and supplying of Coded Orthogonal Frequency Division Multiplexing (COFDM) microwave transmitters and receivers serving the broadcast, sports and entertainment, military, aerospace and government markets (the ‘‘Transaction’’). The purchase price for the Transaction was $3,000,000, which was paid through: (i) the issuance of a promissory note in the principal amount of $1,500,000 due March 31, 2016 (the ‘‘Initial Payment Note’’); and (ii) the issuance of a promissory note in the principal amount of $1,500,000 due July 29, 2017 (the ‘‘Deferred Payment Note’’). The Company has not yet made the required $1.5 million payment due on March 31, 2016 and is currently in negotiations to modify the repayment terms.

IMT comprises the leading microwave brands Nucomm, RF Central and IMT, offering customers worldwide complete video solutions. Nucomm is a premium brand of digital broadcast microwave video systems. RF Central is an innovative brand of compact microwave video equipment for licensed and license-free sports and entertainment applications. IMT is a trusted provider of mission-critical wireless video solutions to state, local and federal police departments.

Result of Operations

The following table sets forth the items contained in the statements of operations of the financial statements included herewith for the fiscal years ended December 31, 2015 and December 31, 2014.

xG TECHNOLOGY, INC.
STATEMENTS OF OPERATIONS
(IN THOUSANDS EXCEPT NET LOSS PER SHARE DATA)

	For the Years Ended December 31,	
	2015	2014
Revenue	$932	$628
Cost of Revenue and operating expenses		
Cost of components and personnel	510	156
Inventory valuation adjustments	861	200
General and administrative expenses	6,259	7,418
Research and development	4,658	7,597
Stock based compensation	1,584	625
Impairment charge	2,092	-
Amortization and depreciation	4,829	3,871
Total cost of revenue and operating expenses	(20,793)	(19,867)
Loss from operations	(19,861)	(19,239)
Other income (expenses)		
Changes in fair value of derivative liabilities	2,559	
Other income	-	440
Other expense	(26)	-
Interest expense	(529)	(179)
Total other income	2,004	261
Net loss	$(17,857)	$(18,978)
Dividends and deemed dividends	(3,079)	-
Net loss attributable to common shareholders	$(20,936)	$(18,978)
Basic and diluted net loss per common share	$(2.76)	$(8.31)
Weighted average number of shares outstanding basic and diluted	7,599	2,285

Revenue

Our revenues for the fiscal year ended December 31, 2015 increased 48% from $628,000 in the year ended December 31, 2014 to $932,000 as a result of having additional sales during the fiscal year. Of the $932,000 in revenue, $145,000 was previously recorded as deferred revenue but was earned in the current year. Revenue of $701,000 resulted from sales of equipment and $231,000 resulted from an engineering and consulting services agreement.

Cost of Revenue and Operating Expenses

Cost of Components and Personnel

Cost of components and personnel was $510,000 in the year ended December 31, 2015 as compared to $156,000 in fiscal 2014. $458,000 of such costs is based on the cost of components and the time allocated to building the products sold and $52,000 is based on the cost of the time allocated towards the engineering and consulting services agreements.

Inventory valuation adjustments

Inventory valuation adjustments consist primarily of items that are written off due to obsolescence or reserved for slow moving or excess inventory. Inventory valuation adjustments increased by $0.7 million or 350%, from $0.2 million in the year ended December 31, 2014 to $0.9 million in the year ended December 31, 2015. The increase is primarily due to reserving all the xMod finished goods due to lack of sales for that product in 2015.

General and Administrative Expenses

General and administrative expenses are the expenses of operating the business on a daily basis and include salary and benefit expenses and payroll taxes, as well as the costs of trade shows, marketing programs, promotional materials, professional services, facilities, general liability insurance, and travel.

General and administrative expenses decreased by $1.1 million, or 17%, from $7.4 million in the year ended December 31, 2014 to $6.3 million in the year ended December 31, 2015. The change is primarily due to decreases of $0.3 million in salary and benefit expenses due to a reduction in personnel; $0.3 million in advertising due to not attending as many trade shows in 2015 as we did in 2014; $0.2 million in legal fees; $0.2 million of travel expenses; $0.1 million in taxes and licenses associated with paying less in Delaware Franchise Tax in 2015 than we did in 2014.

Research and Development

Research and development expenses consist primarily of salary and benefit expenses and payroll taxes, as well as costs for prototypes, facilities and travel. Development expenses decreased by $2.9 million, or 38%, from $7.6 million in the year ended December 31, 2014 to $4.7 million in the year ended December 31, 2015. The change is primarily due to due to decreases of $1.0 million in payroll and $0.5 in consulting services due to a reduction in personnel and contracted workforce; $0.4 million in materials used for research and development purposes; $0.2 million in costs related to maintaining existing patents; $0.5 million in additional payroll capitalization; $0.1 in office, computer-IT expenses; and $0.1 million in insurances. We expect our development costs to continue to decrease going forward due to the implemented cost saving measures in 2015, which included a reduction in the full-time, part-time and contracted workforce by 22 employees; and new cost saving measures implemented in April 2016 which included a reduction in the full-time workforce by 3 employees.

Stock Based Compensation

Stock based compensation increased by $1.0 million, or 167%, from $0.6 million in the year ended December 31, 2014 to $1.6 million in the year ended December 31, 2015. The change arose from an increase in the number of options granted and outstanding options being expensed in fiscal 2015 when compared to fiscal 2014.

Amortization and Depreciation

Amortization and depreciation expenses increased by $0.7 million, or 18%, from $3.9 million in the year ended December 31, 2014 to $4.8 million in the year ended December 31, 2015. The change arose from an increase in the amount of software development costs subject to amortization.

Impairment

We recorded an impairment charge of $2.1 million on software development costs due to our analysis of the net realizable value of our capitalized software costs.

Other Income (Expense)

Other income increased by $2.2 million, or 550%, from $0.4 for the year ended December 31, 2014 to $2.6 million in the year ended December 31, 2015. The increase was the result of the changes in fair value of derivative liabilities due to the significant number of warrants issued during 2015 that required liability classification. Decreases in our stock price subsequent to these warrant issuances resulted in an unrealized gain in the fair value of the derivative liabilities.

Interest expense for the year ended December 31, 2015 was $0.5 million compared to $0.2 million for the year ended December 31, 2014, representing an increase of $0.3 million or 150%. The increase was due to the interest incurred on the 8% Bridge Loans and promissory notes with our CEO, George Schmitt.

Net Loss

For the year ended December 31, 2015, the Company had a net loss of $17.9 million, as compared to a net loss of $19.0 million for the year ended December 31, 2014, a decrease of $1.1 million or 6%. The decrease in net loss is due cost cutting measures implemented during 2015 and the unrealized gain in the change in fair value of derivative liabilities.

Liquidity and Capital Resources

Our operations primarily have been funded through cash generated by debt and equity financing. Cash comprises cash on hand and demand deposits. Our cash balances were as follows (in thousands):

	December 31, 2015	2014
Cash	368	758

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Cash Flows

The following table sets forth the major components of our statements of cash flows data for the periods presented (in thousands).

	Year Ended December 31, 2015	Year Ended December 31, 2014
Net cash used in operating activities	$ (7,693)	$ (14,904)
Net cash used in investment activities	(2,226)	(1,905)
Net cash inflow from financing activities	9,529	12,050
Net decrease in cash	$ (390)	$ (4,759)

Operating Activities

Net cash used in operating activities for the year ended December 31, 2015 totaled $7.7 million as compared to $14.9 million for the year ended December 31, 2014. Of the $7.7 million, $0.3 million to the increase of our payables and $1.1 million from the increase in accrued expense and the remaining consisted principally of the net loss from operations.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2015 was $2.2 million as compared to $1.9 million for the year ended December 31, 2014. This represents capital expenditures primarily associated with the investment in product and technology development.

We have invested in product and technology development, with $2.2 million accounted for as investment in intangible assets in the year ended December 31, 2015, and $1.8 million in the year ended December 31, 2014. In addition, the Company’s investment in property and equipment, comprising of the purchase of two Cell-on-Wheels and a deployment vehicle in 2015 of $0.34 million in the year ended December 31, 2015, and $0.13 million in the year ended December 31, 2014.

Financing Activities

Our net cash provided by financing activities for the year ended December 31, 2015 was $9.5 million as compared to $12.0 million for 2014. The proceeds of $9.7 million in 2015 primarily consisted of proceeds from the issuance of common and preferred stock advances from related parties, warrant exercises, and short-term convertible notes. During 2015, there were net proceeds from the August financing totaling $4.0 million; net proceeds from the conversion of the August financing Series B, C and D warrants totaling $1.8 million, net proceeds from the Series B and C Preferred Stock totaling $2.0 million; and net proceeds from a short term convertible note totaling $1.5 million

During the year ended December 31, 2014, the proceeds of $12.0 million primarily consisted of proceeds from the issuance of common and preferred stock. During 2014, we raised $8.8 million through the third offering; $1.0 million from the $1 million purchase agreement; $1.3 million from various investors through financing under our S-3 registration statement; and $0.7 million through the sale of convertible preferred stock.

The ability to recognize revenue and ultimately cash receipts is contingent upon, but not limited to, acceptable performance of the delivered equipment and services. If we are unable to raise additional capital and/or close on some of our revenue producing opportunities in the near term, the carrying value our assets may be materially impacted. The financial statements do not include any adjustments related to the recovery and classification of asset carrying amounts or the amount and classification of liabilities that might result should we be unable to continue as a going concern.

Cost Reduction Initiatives

In 2015, we implemented cost reduction initiatives that included a decrease in our current full, part-time and contracted workforce. These initiatives resulted in a reduction in monthly operating expenses to approximately $800,000 – an improvement of over 30 percent. This saved us approximately $3,500,000 in 2015.

On April 6, 2016, we announced the implementation of further additional cost reduction initiatives that will include a decrease in our current, full, part-time and contracted workforce, transitioning other employees to non-cash compensation agreements, and other reductions in operating expenses. These initiatives are expected to result in a monthly decrease of $300,000 in our operating expenses.

Subsequent Financing Events

$500,000 Securities Purchase Agreement

On January 29, 2016, we entered into a securities purchase agreement (the ‘‘Securities Purchase Agreement’’) pursuant to which we sold 5% Senior Secured Convertible Promissory Notes (the ‘‘5% Convertible Notes’’) to accredited investors (each, a ‘‘Holder’’, and collectively, the ‘‘Holders’’) for an aggregate purchase price of $500,000 for net proceeds of $500,000. In connection with the February 2016 offering, all of our obligations under the 5% Convertible Notes have been extinguished.

February 2016 Financing

On February 29, 2016, we closed a public offering of 3,556,660 Units, at a price of $1.00 per Unit, each of which consists of one share of its Series B Convertible Preferred Stock and 0.5 of a Warrant to purchase one share of its common stock at an exercise price of $0.21 per Warrant. We received approximately $3,556,660 in gross proceeds from the offering, before deducting placement agent fees and offering expenses payable by the Company. Roth Capital Partners acted as sole placement agent for the offering. The Company used $1,456,660 of the gross proceeds and repaid the outstanding principal balance and interest on the 8% and 5% Convertible Notes.

Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support development efforts, the timing of new product introductions, market acceptance of our products and overall economic conditions. Our ability to continue as a going concern is dependent upon its ability to raise additional capital, obtain other means of financing, and to fulfill purchase orders. The ability to recognize revenue and ultimately cash receipts, on purchase orders is contingent upon, but not limited to, acceptable performance of the delivered equipment and services.

Off-Balance Sheet Arrangements

As of December 31, 2015 and 2014 we had no off-balance sheet arrangements.

Recent Accounting Pronouncements

We are an ‘‘emerging growth company’’ as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act. We will remain an emerging growth company for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenue exceed $1 billion, (ii) the date that we become a ‘‘large accelerated filer’’ as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter or (iii) the date on which we have issued more than $1 billion in non-convertible debt during the preceding three-year period. Pursuant to Section 107 of the JOBS Act, we have elected to utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards.

The Financial Accounting Standards Board (the "FASB") has issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities are required to apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The Company has not yet determined the effect of the adoption of this standard on the Company's financial position and results of operations.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10) ("ASU 2016-01"), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For private companies, not-for-profit organizations, and employee benefit plans, the new guidance becomes effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The Company has not yet determined the effect of the adoption of this standard will have on the Company's financial position and results of operations.

In August 2015, the FASB issued FASB ASU No. 2015-15, "Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements". ASU 2015-15 clarified the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. Such costs may be presented in the balance sheet as an asset and subsequently amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-15 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Earlier adoption is permitted for financial statements that have not been previously issued. The adoption of this standard is not expected to have a material impact on the Company's financial position and results of operations.

The FASB has issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. For all other entities, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted commencing January 1, 2017. A nonpublic entity may elect to apply this guidance earlier, however, only as prescribed in this ASU. The Company has not yet determined the effect of the adoption of this standard will have on the Company's financial position and results of

operations.

In July 2015, the FASB issued ASU No. 2015-11, " *Simplifying the Measurement of Inventory* " ("ASU 2015-11"). ASU 2015-11 requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out ("LIFO") or the retail inventory method. It is effective for annual reporting periods beginning after December 15, 2016. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company has not yet determined the effect of the adoption of this standard will have on the Company's financial position and results of operations.

In April 2015, the FASB issued ASU 2015-03, Interest–Imputation of Interest-Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this update. Debt issuance costs related to revolving lines of credit are not within the scope of this new guidance. Additionally, in August 2015 the FASB issued guidance expanding the April 2015 update (ASU 2015-15). It states that, given the absence of authoritative guidance within the update, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset for revolving lines of credit and subsequently amortizing the deferred debt issuance costs ratably over the term of the arrangement, regardless of whether there are any outstanding borrowings on the line of credit. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted for financial statements that have not been previously issued. Full retrospective application is required. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements when adopted.

In August 2014, FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entities Ability to Continue as a Going Concern, which is included in Accounting Standards Codification (ASC) 205, Presentation of Financial Statements* . This update provides an explicit requirement for management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company has not yet determined the effect of the adoption of this standard will have on the Company's financial position and results of operations.

Critical Accounting Policies and Estimates

Critical accounting estimates are those that management deems to be most important to the portrayal of our financial condition and results of operations, and that require management's most difficult, subjective or complex judgments, due to the need to make estimates about the effects of matters that are inherently uncertain. We have identified our critical accounting estimates which are discussed below.

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Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions include reserves and write-downs related to receivables and inventories, the recoverability of long-lived assets, the valuation allowance relating to the Company's deferred tax assets, valuation of equity and derivative instruments, and debt discounts.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded net of allowances for cash discounts for prompt payment, doubtful accounts, and sales returns. Estimates for cash discounts and sales returns are based on analysis of contractual terms and historical trends. In the event that management determines that a receivable becomes uncollectible, or events or circumstances change, which result in a temporary cessation of payments from the customer, the Company will make a best estimate of probable or potential losses in accounts receivable balance using the allowance method for each quarterly period. Management will periodically review the receivables at the end of each quarterly reporting period and the appropriate accrual will be made based on current available evidence and historical experience.

Intangible Assets

Capitalized software costs incurred in the research, design and development of software for sale to others as a separate product or embedded in a product and sold as part of the product as a whole are charged to expense until technological feasibility is established and amortized on a straight-line basis over five years, beginning when the products are offered for sale or the enhancements are integrated into the products. Management is required to use its judgment in determining whether capitalized software costs meet the criteria for immediate expense or capitalization, in accordance with U.S. GAAP. The unamortized capitalized costs of a computer software product are compared to the net realizable value of that product and any excess is written off.

The Company's proprietary software solutions operate in a fast changing industry that may generate unknown methods of detecting and monitoring disturbances that could render our technology inferior, resulting in the Company's results of operations being materially adversely affected. The Company does, however, closely monitor trends and changes in technologies and customer demand that could adversely impact its competitiveness and overall success. It is reasonably possible that those estimates of anticipated future gross revenues, the remaining estimated economic life of the product, or both will be reduced significantly in the near term due to competitive pressures. As a result, the

carrying amount of the capitalized software costs for the Company's products may be reduced materially in the near term.

Costs incurred for product enhancements are charged to expense as research and development until the technological feasibility of the enhancement has been established. These enhancements are amortized on a straight line basis over the useful life of the product enhancement which is currently estimated to be five years beginning when the enhancements are integrated into the products that are offered for sale.

Patent and licenses are measured initially at purchase cost and are amortized on a straight line basis over their useful lives which range between 18.5 to 20 years.

Revenue Recognition

The Company recognizes revenues when persuasive evidence of an arrangement exists, services have been rendered, the price is fixed and determinable, and collectability is reasonably assured. Revenues from management and consulting, time-and-materials service contracts, maintenance agreements and other services are recognized as the services are provided or at the time the goods are shipped and title as passed.

Common Stock Purchase Warrants and Other Derivative Financial Instruments

The Company classifies common stock purchase warrants and other free standing derivative financial instruments as equity if the contracts (i) require physical settlement or net-share settlement in common stock or (ii) give the Company a choice of net-cash settlement or settlement in common stock (physical settlement or net-share settlement). The Company classifies the following contracts as either an asset or a liability: contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the Company), (ii) give the counterparty a choice of net-cash settlement or settlement in common stock (physical settlement or net-share settlement) or (iii) contain reset provisions. The Company assesses classification of its freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

Convertible Instruments

The Company evaluates and bifurcates conversion features from the instruments containing such features and accounts for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the underlying instrument, (b) the hybrid instrument that contains both the embedded derivative instrument and the underlying instrument is not re-measured at fair value under otherwise applicable U.S. GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. An exception to this rule is when the underlying instrument is deemed to be conventional as that term is described under applicable U.S. GAAP.

Commitments and Contingencies

Except as otherwise disclosed elsewhere in this document, we have no material commitments or contingent liabilities. The Company has an employment contract with its CEO that would require a one-year severance payment in the event the Company terminates his services under certain circumstances.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are not required to provide the information required by this Item as we are a smaller reporting company.

Item 8. Financial Statements and Supplementary Data

The Company’s audited financial statements and notes thereto appear in this report beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedure

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed by us in the reports filed under the Securities Exchange Act, is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. As further discussed below, we have identified material weaknesses in the effectiveness, design and operation of our disclosure controls and procedures.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive officer and principal financial officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and includes those policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

The Company's management, including the chief executive officer and chief financial officer, do not expect that its disclosure controls or internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

As of December 31, 2015, management has not completed an effective assessment of the Company's internal controls over financial reporting based on the 2013 Committee of Sponsoring Organizations (COSO) framework. Management has concluded that, during the period covered by this report, our internal controls and procedures were not effective to detect the inappropriate application of U.S. GAAP. Management identified the following material weaknesses set forth below in our internal control over financial reporting.

1. We lack the necessary corporate accounting resources to maintain adequate segregation of duties.

2. We currently have inadequate accounting resources due to the need to hire accounting personnel with the requisite knowledge of U.S. GAAP.

3. We did not perform an effective risk assessment or monitor internal controls over financial reporting

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only the management's report in this annual report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter ended December 31, 2015, that have materially affected, or reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be set forth in our Proxy Statement for the 2016 Annual Meeting of Stockholders in the sections entitled “Election of Directors,” “Information about our Executive Officers,” “Compliance with Section 16(a) of the Exchange Act” and “Corporate Governance” and is incorporated by reference.

Item 11. Executive Compensation

The information required by this Item will be set forth in our Proxy Statement for the 2016 Annual Meeting of Stockholders in the section entitled “Executive Compensation” and “Director Compensation for Fiscal 2015” and is incorporated by reference.

Item 12. Security Ownership Of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be set forth in our Proxy Statement for the 2016 Annual Meeting of Stockholders in the section entitled “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance under Equity Compensation Plans” and is incorporated by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be set forth in our Proxy Statement for the 2016 Annual Meeting of Stockholders in the sections entitled “Related Party Transactions” and “Corporate Governance” and is incorporated by reference.

Item 14. Principal Accounting Fees and Services

The information required by this Item will be set forth in our Proxy Statement for the 2016 Annual Meeting of Stockholders in the section entitled “Auditor Fees” and is incorporated by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Financial Statements:

The audited balance sheets of the Company as of December 31, 2015, the related statements of operations, changes in stockholders' equity and cash flows for the years then ended, the footnotes thereto, and the report of Marcum LLP, independent auditors, are filed herewith.

The audited balance sheets of the Company as of December 31, 2014, the related statements of operations, changes in stockholders' equity and cash flows for the years then ended, the footnotes thereto, and the report of Friedman LLP, independent auditors, are filed herewith.

(2) Financial Schedules:
None.

Financial statement schedules have been omitted because they are either not applicable or the required information is included in the financial statements or notes hereto.

(3) Exhibits:

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Report.

(b) The following are exhibits to this Report and, if incorporated by reference, we have indicated the document previously filed with the SEC in which the exhibit was included.

Certain of the agreements filed as exhibits to this Report contain representations and warranties by the parties to the agreements that have been made solely for the benefit of the parties to the agreement. These representations and warranties:

- may have been qualified by disclosures that were made to the other parties in connection with the negotiation of the agreements, which disclosures are not necessarily reflected in the agreements;
- may apply standards of materiality that differ from those of a reasonable investor; and
- were made only as of specified dates contained in the agreements and are subject to subsequent developments and changed circumstances.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date that these representations and warranties were made or at any other time. Investors should not rely on them as statements of fact.

Exhibit Number	Description of Exhibit
3.1(i)	Amended & Restated Certificate of Incorporation (1)
3.1(i)(a)	Amendment to Certificate of Incorporation filed June 11, 2014(2)
3.1 (i)(b)	Amendment to Certificate of Incorporation filed July 10, 2015(14)
3.1(i)(c)	Amended and Restated Certificate of Designation of Series B Convertible Stock (19)
3.1(ii)	Amended & Restated Bylaws (3)
4.1	Form of Common Stock Certificate of the Registrant (4)
4.2	Form of Warrant Agreement by and between the Registrant and Continental Stock Transfer & Trust Company and Form of Warrant Certificate for the offering closed July 24, 2013 and August 19, 2013 (5)
4.3	Form of Underwriters' Warrant for the offering closed July 24, 2013(1)
4.4	Form of Underwriters' Warrant for the offering closed November 18, 2013(6)
4.5	Form of Warrant issued in December 30, 2014 Offering. (11)
4.6	Form of Warrant issued in February 11, 2015 Offering. (12)
4.7	Form of Warrant issued in February 24, 2015 Offering. (13)
4.8	Form of 8% Convertible Note(14)
4.9	Form of Series A Warrant for the August 2015 Offering(16)
4.10	Form of Pre-funded Series B Warrant for the August 2015 Offering(16)
4.11	Form of Series C Warrant for the August 2015 Offering (16)
4.12	Form of Series D Warrant for the August 2015 Offering (16)
4.13	Form of 5% Convertible Note(18)
10.1	2013 Long Term Incentive Plan(7)
10.2	Forms of Agreement Under 2013 Long Term Incentive Plan (7)
10.3	Loan Documents Between xG Technology and MB Technology Holdings, LLC (7)
10.4	Form of Securities Subscription Agreement (7)
10.5	Form of Bridge Loan Documents (7)
10.6	2004 Option Plan (7)
10.7	2005 Option Plan (7)
10.8	2006 Option Plan (7)
10.9	2007 Option Plan (7)
10.10	2009 Option Plan (7)
10.11	Forms of Award Documents under 2004, 2005, 2006, 2007, and 2009 Option Plans (7)
10.12	Sunrise Office Lease (7)
10.13	Treco Documents (7)
10.14	Mats Wennberg Consulting Agreement (7)
10.15	Mats Wennberg Warrant Agreement (7)
10.16	MBC Agreement (7)
10.17	Purchase Agreement, dated as of December 30, 2014, by and between the Company and 31 Group, LLC. (11)
10.18	Purchase Agreement, dated as of February 11, 2015, by and between the Company and 31 Group, LLC. (12)
10.19	Purchase Agreement, dated as of February 24, 2014, by and between the Company and 31 Group, LLC. (13)
10.20	Form of Purchase Agreement dated as of June 11, 2015(14)
10.21	Amendment to Purchase Agreement dated as of June 11, 2015(14)
10.22	

	Asset Purchase Agreement, dated as of January 29, 2016, by and between the Company and Integrated Microwave Technologies, LLC[18]
10.23	Form of Securities Purchase Agreement [18]
10.24	$1,500,000 Initial Payment Note from the Company to IMT[18]
10.25	$1,500,000 Deferred Payment Note from the Company to IMT[18]
10.26	2015 Employee Stock Purchase Plan
10.27	2015 Incentive Compensation Plan

Exhibit Number	Description of Exhibit
14.1	Code of Ethics[8]
23.1	Consent of Marcum LLP
23.2	Consent of Friedman LLP
31.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

(1) Filed as an Exhibit on Form S-1 with the SEC on October 23, 2013.
(2) Filed as an Exhibit on Current Report on Form 8-K with the SEC on June 13, 2014.
(3) Filed as an Exhibit on Quarterly Report on Form 10-Q with the SEC on August 30, 2013.
(4) Filed as an Exhibit on Form S-1/A with the SEC on May 21, 2013.
(5) Filed as an Exhibit on Current Report to Form 8-K with the SEC on August 19, 2013.
(6) Filed as an Exhibit on Form S-1/A with the SEC on November 6, 2013.
(7) Filed as an Exhibit on Form S-1 with the SEC on March 7, 2013.

(8) Filed as an Exhibit on Form 10-K with the SEC on March 6, 2014.
(9) Filed as an Exhibit on Current Report on Form 8-K with the SEC on September 24, 2014.
(10) Filed as an Exhibit on Current Report on Form 8-K with the SEC on November 26, 2014.
(11) Filed as an Exhibit on Current Report on Form 8-K with the SEC on December 31, 2014.
(12) Filed as an Exhibit on Current Report on Form 8-K with the SEC on February 12, 2015.
(13) Filed as an Exhibit on Current Report on Form 8-K with the SEC on February 26, 2015.
(14) Filed as an Exhibit on Current Report on Form 8-K with the SEC on June 12, 2015.
(15) Filed as an Exhibit on Current Report on Form 8-K with the SEC on July 20, 2015
(16) Filed as an Exhibit on Current Report on Form 8-K with the SEC on August 20, 2015.
(17) Filed as an Exhibit on Current Report on Form 8-K with the SEC on November 4, 2015.
(18) Filed as an Exhibit on Current Report on Form 8-K with the SEC on February 3, 2016.
(19) Filed as an Exhibit on Current Report on Form 8-K with the SEC on February 10, 2016.
(20) Filed as an Exhibit on Form S-1 with the SEC on February 12, 2016.

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SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

xG TECHNOLOGY, INC.

/s/ George Schmitt

George Schmitt

Date: April 14, 2016 By:

Chief Executive Officer and Chairman of the Board

(Duly Authorized Officer and

Principal Executive Officer)

/s/ Roger G. Branton

Roger G. Branton

Date: April 14, 2016 By:

Chief Financial Officer

(Duly Authorized Officer and

Principal Financial Officer)

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

Signature	**Title**	**Date**
/s/ George Schmitt George Schmitt	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	April 14, 2016

/s/ Roger G. Branton Roger G. Branton	Chief Financial Officer (Principal Financial and Accounting Officer)	April 14, 2016
/s/ John C. Coleman John C. Coleman	Director	April 14, 2016
/s/ Richard L. Mooers Richard L. Mooers	Director	April 14, 2016
/s/ Gary Cuccio Gary Cuccio	Director	April 14, 2016
/s/ Raymond M. Sidney Raymond M. Sidney	Director	April 14, 2016
/s/ Kenneth Hoffman Kenneth Hoffman	Director	April 14, 2016
/s/ James T. Conway James T. Conway	Director	April 14, 2016

xG TECHNOLOGY, INC.

December 31, 2015 and December 31, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the

Board of Directors and Shareholders

of xG Technology, Inc.

We have audited the accompanying balance sheet of xG Technology, Inc. (the "Company") as of December 31, 2015, and the related statements of operations, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of xG Technology, Inc. as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully discussed in Note 2, the Company has incurred significant net losses and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Marcum LLP

Marcum LLP

New York, NY

April 14, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of xG Technology, Inc.

We have audited the accompanying balance sheet of xG Technology, Inc. (the "Company") as of December 31, 2014, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of xG Technology, Inc. as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has recurring losses. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include and adjustments relating to the recoverability and classification of assets carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

/s/ FRIEDMAN LLP
East Hanover, New Jersey
March 31, 2015

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xG TECHNOLOGY, INC.

BALANCE SHEETS

(IN THOUSANDS EXCEPT SHARE DATA)

	December 31, 2015	2014
ASSETS		
Current assets		
Cash	$368	$758
Accounts Receivable, net of allowance of $87 and $30 ($138 and $480 from related party, respectively)	641	702
Inventories, net	777	4,070
Prepaid expenses and other current assets	15	411
Total current assets	1,801	5,941
Inventories, net	2,078	—
Property and equipment, net	792	816
Intangible assets, net	11,903	16,382
Total assets	$16,574	$23,139
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable	$1,196	$868
Accrued expenses	252	511
Accrued interest ($56 due to related party)	137	42
Due to related parties	324	2,110
Deferred revenue ($13 and $480 from related party, respectively)	149	480
Convertible notes payable	781	—
Obligation under capital lease	54	123
Derivative liabilities	1,284	270
Total current liabilities	4,177	4,404
Long-term obligation under capital lease, net of current portion	106	—
Convertible notes payable	2,000	2,000
Total liabilities	6,283	6,404
Commitments and contingencies		
Series A convertible preferred stock – $0.00001 par value per share: 3,000,000 and 3,000,000 shares designated at December 31, 2015 and December 31, 2014; 0 issued and outstanding as of December 31, 2015 and 750,000 issued and outstanding as of December 31, 2014 (liquidation preference of $0 at December 31, 2015)	—	378
Total convertible preferred stock	—	378
Stockholders' equity		
Preferred stock – $0.00001 par value per share: 10,000,000 shares authorized at December 31, 2015 and December 31, 2014; 0 and 750,000	—	—

shares issued and outstanding as of December 31, 2015 and December 31, 2014		
Common stock, – $0.00001 par value, 100,000,000 shares authorized, 20,227,701 and 2,617,622 shares issued and 20,227,472 and 2,617,393 outstanding as of December 31, 2015 and December 31, 2014, respectively	—	—
Additional paid in capital	198,710	186,919
Treasury stock, at cost – 229 shares as of December 31, 2015 and 2014, respectively	(22)	(22)
Accumulated deficit	(188,397)	(170,540)
Total stockholder's equity	10,291	16,357
Total liabilities and stockholders' equity	$16,574	$23,139

The accompanying notes are an integral part of these financial statements.

xG TECHNOLOGY, INC.

STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	For the Years Ended December 31,	
	2015	2014
Revenue	$932	$628
Cost of Revenue and operating expenses		
Cost of components and personnel	510	156
Inventory valuation adjustments	861	200
General and administrative expenses	6,259	7,418
Research and development	4,658	7,597
Stock based compensation	1,584	625
Impairment charge	2,092	-
Amortization and depreciation	4,829	3,871
Total cost of revenue and operating expenses	(20,793)	(19,867)
Loss from operations	(19,861)	(19,239)
Other income (expenses)		
Changes in fair value of derivative liabilities	2,559	
Other income	-	440
Other expense	(26)	-
Interest expense	(529)	(179)
Total other income	2,004	261
Net loss	$(17,857)	$(18,978)
Dividends and deemed dividends	(3,079)	-
Net loss attributable to common shareholders	$(20,936)	$(18,978)
Basic and diluted net loss per common share	$(2.76)	$(8.31)
Weighted average number of shares outstanding basic and diluted	7,599	2,285

The accompanying notes are an integral part of these financial statements.

xG TECHNOLOGY, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Common Stock		Additional Paid In Capital	Treasury Stock	Accumulated Deficit	Total
	Shares	Amount				
Balance, January 1, 2014	1,868,235	$ —	$ 174,000	$ (22)	$ (151,562)	$ 22,416
Net loss	—	—	—	—	(18,978)	(18,978)
Stock-based compensation	—	—	625	—	—	625
Compensation granted in stock	14,560	—	307	—	—	307
Issuance of stock as payment of 2011 and 2012 bonus	14,887	—	272	—	—	272
Issuance of stock in exchange for payment of interest on convertible debt	8,466	—	180	—	—	180
Issuance of stock – third offering	526,500	—	8,816	—	—	8,816
Issuance of stock – 15 million purchase agreement	27,500	—	439	—	—	439
Issuance of stock – 1 million purchase agreement	50,000	—	961	—	—	961
Issuance of stock – S-3 financing	104,159	—	1,302	—	—	1,302
Issuance of stock to financing agent – Series A financing	3,315	—	17	—	—	17
Balance, December 31, 2014	2,617,622	$ —	$ 186,919	$ (22)	$ (170,540)	$ 16,357

The accompanying notes are an integral part of these financial statements.

xG TECHNOLOGY, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2015

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Common Stock		Additional Paid In Capital	Treasury Stock	Accumulated Deficit	Total
	Shares	Amount				
Balance, January 1, 2015	2,617,622	$ —	$ 186,919	$ (22)	$ (170,540)	$ 16,357
Net loss	—	—	—	—	(17,857)	(17,857)
Stock-based compensation	—	—	530	—	—	530
Compensation granted in common stock	1,833,464	—	1,834	—	—	1,834
Issuance of common stock in settlement of due to related party (MBTH)	399,114	—	1,756	—	—	1,756
Amortization of commitment fees	—	—	(294)	—	—	(294)
Issuance of common stock in connection with Series A Preferred Stock conversion See Note 13.	239,247	—	1,011	—	—	1,011
Issuance of common stock in connection with Series B Preferred Stock conversion (related parties) See Note 13.	222,791	—	1,003	—	—	1,003
Issuance of common stock in connection with Series B Preferred Stock conversion	182,708	—	474	—	—	474
Issuance of common stock in connection with Series C Preferred Stock conversion	946,518	—	3,189	—	—	3,189
Issuance of common stock in connection with settlement of amounts due to related parties	5,310	—	24	—	—	24
Issuance of common stock in connection with Series B Financing See Note 13.	2,462	—	10	—	—	10
Issuance of common stock in connection with Series C Financing See Note 13.	11,864	—	53	—	—	53
Issuance of common stock in connection with repayment of accrued interest	200,435	—	180	—	—	180
Issuance of common stock in connection with underwritten offering, net of offering costs	2,550,000	—	1,302	—	—	1,302
Issuance of common stock in connection with reclassification of derivative liability and warrant exercise	9,365,000	—	3,147	—	—	3,147
	758,308	—	150	—	—	150

Issuance of common stock in connection with conversion of convertible notes payable						
Issuance of common stock in connection with conversion of advances from related parties	892,858	—	500	—	—	500
Dividends and deemed dividends	—	—	(3,079)		—	(3,079)
Balance, December 31, 2015	20,227,701	$ —	$ 198,710	$ (22)	$ (188,397)	$ 10,291

The accompanying notes are an integral part of these financial statements.

xG TECHNOLOGY, INC.

STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Year Ended December 31,	
	2015	2014
Cash flows used in operating activities		
Net loss	$(17,857)	$(18,978)
Adjustments to reconcile net loss to net cash used in operating activities		
Stock-based compensation	530	625
Payment made in stock (payroll and consultants)	1,834	307
Allowance for doubtful accounts	78	14
Bad debt write-off	—	257
Reserve for slow moving inventory	861	200
Depreciation and amortization	4,830	3,871
Impairment charge	2,092	—
Expenses associated with offering of warrant liabilities	640	—
Change in fair value of derivative liabilities	(2,559)	—
Other income	—	(440)
Amortization of offering costs	326	—
Non-monetary exchange	—	(65)
Reversal of accrued bonus expense	—	(25)
Inventory write-off	—	159
Changes in assets and liabilities		
Accounts receivable	(336)	(185)
Inventory	354	(1,676)
Prepaid expenses and other current assets	102	(3)
Accounts payable	328	(973)
Accrued expenses and interest	1,096	359
Deferred revenue – related party	(12)	—
Due to related parties	—	1,649
Net cash used in operating activities	(7,693)	(14,904)
Cash flows used in investing activities		
Capital expenditures for property and equipment	(34)	(134)
Capitalization of intangible assets	(2,192)	(1,771)
Net cash used in investing activities	(2,226)	(1,905)

Cash flows provided by financing activities		
Repayment of capital lease obligations	(156)	(123)
Proceeds from issuance of convertible preferred stock, common stock and warrants	1,977	664
Proceeds received from related party advances	2,330	285
Repayments of advances to related parties	(1,015)	
Proceeds from issuance of convertible notes payable	1,470	—
Principle repayments of convertible notes payable	(702)	—
Costs incurred in connection with convertible notes payable	(163)	—
Proceeds from issuance of common stock and warrants	4,976	11,224
Costs associated with under written offering	(946)	—
Net proceeds from the exercise of warrants	1,758	—
Net cash provided by financing activities	9,529	12,050
Net decrease in cash	(390)	(4,759)
Cash, beginning of year	758	5,517
Cash, end of year	$368	$758

The accompanying notes are an integral part of these financial statements.

xG TECHNOLOGY, INC.

STATEMENTS OF CASH FLOWS – (continued)

(IN THOUSANDS)

	Year Ended December 31,	
	2015	2014
Cash paid for interest	$240	$—
Cash paid for taxes	$—	$—
Supplemental cash flow disclosures of investing and financing activities		
Stock issued as payment of fees under the $15M purchase agreement	$—	$294
Acquisition of equipment under capital lease obligation	193	—
Issuance of Common stock in connection with conversion of amounts due to related party	1,756	
Common stock issued in connection with conversion of preferred stock	5,677	—
Conversion of amounts of due to related parties into Series B Preferred, common stock and warrants	845	—
Reclassification of derivative liabilities to stockholders' equity upon the exercise of warrants	1,390	—
Issuance of common stock in connection with the conversion of promissory note (related party)	500	—
Issuance of common stock in connection with the conversion of convertible notes payable	150	—
Amortization of commitment fees	294	—
Issuance of common stock in connection with the payment of a bonus	—	272
Issuance of common stock in connection with the repayment of accrued interest	180	180
Derivative liability in connection with conversion option and warrants	270	270
Reclassification of inventory to fixed asset	—	163
Stock issued as payment of fees on convertible preferred stock	—	17
Deemed dividend	$3,079	$-

The accompanying notes are an integral part of these financial statements.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1 — NATURE OF OPERATIONS

Description of Business

xG Technology, Inc. (the "Company") is a Delaware corporation that has developed a broad portfolio of innovative intellectual property that it believes will enhance wireless communications. The Company's intellectual property is embedded in proprietary software algorithms designed to offer cognitive interference mitigation and spectrum access solutions to organizations in a wide variety of industries, including national defense and rural broadband, which represent the primary vertical markets that the Company is initially targeting.

On January 29, 2016, the Company completed the acquisition of certain assets and liabilities of Integrated Microwave Technologies, LLC, a Delaware limited liability company (''IMT''), pursuant to an asset purchase agreement by and between the Company and IMT (the ''Asset Purchase Agreement''). Pursuant to the terms of the Asset Purchase Agreement, the Company acquired substantially all of the assets and liabilities of IMT in connection with, necessary for or material to IMT's business of designing, manufacturing and supplying of Coded Orthogonal Frequency Division Multiplexing (COFDM) microwave transmitters and receivers serving the broadcast, sports and entertainment, military, aerospace and government markets (the ''Transaction''). The purchase price for the Transaction was $3,000,000, which was paid through: (i) the issuance of a promissory note in the principal amount of $1,500,000 that was originally due on March 31, 2016 (the ''Initial Payment Note''); and (ii) the issuance of a promissory note in the principal amount of $1,500,000 due July 29, 2017 (the ''Deferred Payment Note''). The acquisition of IMT will be treated as a business combination in accordance with Accounting Standards Codification 805. See Note 17.

IMT comprises the microwave brands Nucomm and RF Central offering customers worldwide complete video solutions. Nucomm is a premium brand of digital broadcast microwave video systems. RF Central is an innovative brand of compact microwave video equipment for licensed and license-free sports and entertainment applications. IMT is a trusted provider of mission-critical wireless video solutions to state, local and federal police departments.

Reverse Stock Split

On July 9, 2015, the Company's Board of Directors (the "Board") approved a resolution to amend the Company's Certificate of Incorporation and to authorize the Company to effect a reverse split of the Company's outstanding common stock at a ratio of 1-for-10. On July 17, 2015, the Company effected a one-for-ten reverse stock split. Upon effectiveness of the reverse stock split, every 10 shares of outstanding common stock decreased to one share of common stock. Throughout this report the reverse split was retroactively applied to all periods presented.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1 — NATURE OF OPERATIONS - (continued)

Delisting Notice

On September 28, 2015, the Company received a written notification from the Nasdaq indicating that the Company was not in compliance with Nasdaq Listing Rule 5550(a)(2) relating to the minimum bid requirements as the Company's closing bid price was below $1.00 per share for the previous thirty (30) consecutive business days. Pursuant to Nasdaq Listing Rule 5810(c)(3)(A), the Company has been granted a 180 calendar day compliance period, or until March 28, 2016, to regain compliance with the minimum bid price requirements. During the compliance period, the Company's shares of common stock will continue to be listed and traded on the Nasdaq Capital Market. To regain compliance, the closing bid of the Company's shares of common stock must meet or exceed $1.00 per share for at least ten (10) consecutive business days during the 180 calendar day grace period. On March 29, 2016, the Company received written notice from Nasdaq, that it had granted the Company an additional 180 calendar days, or until September 26, 2016, to regain compliance with the minimum bid price requirement of $1.00 per share for continued listing on Nasdaq, pursuant to Nasdaq Listing Rule 5810(c)(3)(A)(ii).

2 — GOING CONCERN

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") which contemplate continuation of the Company as a going concern. At December 31, 2015, the Company has an accumulated deficit of $188.4 million and a net loss of approximately $17.9 million for the year then ended. As of December 31, 2015, the Company has been funding its business principally through debt and equity financings and advances from related parties. The Company will use the proceeds from the February 2016 financing to support the Company's operations (See Note 17 Subsequent Events). The Company continues to experience significantly long sales cycles in certain areas, most notably, in the first responder, public safety, military and rural telco markets. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The ability to recognize revenue and ultimately cash receipts is contingent upon, but not limited to, acceptable performance of the delivered equipment and services. If the Company is unable to raise additional capital and/or close on some of its revenue producing opportunities in the near term, the carrying value its assets may be materially impacted. The financial statements do not include any adjustments related to the recovery and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions include reserves and write-downs related to receivables and inventories, the recoverability of long-lived assets, the valuation allowance relating to the Company’s deferred tax assets, valuation of equity and derivative instruments, and debt discounts.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. The Company did not have any cash equivalents on hand as of December 31, 2015 and 2014.

Concentrations of Credit Risk for Cash and Accounts Receivable

The Company does not have any off-balance-sheet concentrations of credit risk. Credit risk is the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company's credit risk is primarily attributable to its cash and account receivables. The Company's policy is to maintain its cash with high credit quality financial institutions to limit its risk of loss exposure. During the year, the Company had cash balances in excess of the federally insured limits of $250,000. The funds are on deposit with Wells Fargo Bank, N.A. Consequently, the Company does not believe that there is a significant risk having these balances in one financial institution. The Company has not experienced any losses in its bank accounts during the years ended December 31, 2015 and 2014. For customers, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Inventory

Inventories, consisting principally of raw materials and finished goods, are carried at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Raw materials consist of purchased parts, components and supplies. The Company evaluates inventory balances and either writes-down its inventory to its net realizable value based on a lower of cost or market analysis or a obsolecense or records a reserve for slow moving or excess inventory.

Intangible Assets

Software costs incurred in the research, design and development of software for sale to others as a separate product or embedded in a product and sold as part of the product as a whole are charged to expense until technological feasibility is established. Costs incurred in connection with the enhancement of software that has reached technological feasibility are capitalized and amortized on a straight-line basis over five years, beginning when the products are offered for sale or the enhancements are integrated into the products. Management is required to use its judgment in determining whether software costs meet the criteria for immediate expense or capitalization, in accordance with U.S. GAAP. The unamortized capitalized costs of a computer software product are compared to the net realizable value of that product and any excess is written off.

The Company’s proprietary software solutions operate in a fast changing industry that may generate unknown methods of detecting and monitoring disturbances that could render its technology inferior, resulting in the Company’s results of operations being materially adversely affected. The Company does, however, closely monitor trends and changes in technologies and customer demand that could adversely impact its competitiveness and overall success. It is reasonably possible that those estimates of anticipated future gross revenues, the remaining estimated economic life of the product, or both will be reduced significantly in the near term due to competitive pressures. As a result, the Company recorded an impairment charge of $2.1 million and $0 during the years ended December 31, 2015 and 2014, respectively.

Costs incurred for product enhancements are charged to expense as research and development until the technological feasibility of the enhancement has been established. These enhancements are amortized on a straight line basis over the useful life of the product enhancement which is currently estimated to be five years beginning when the enhancements are integrated into the products that are offered for sale.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Patents and licenses are measured initially at purchase cost and are amortized on a straight line basis over their useful lives which range between 18.5 to 20 years.

Property and Equipment

Property and equipment are presented at cost at the date of acquisition. Depreciation is computed using the straight-line method over estimated useful asset lives, which range from 3 to 7 years.

Impairment of Long-Lived Assets

Long lived assets including certain intangible assets with finite lives are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the undiscounted future net cash flows expected to be generated by that asset. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Impairment of intangible assets amounted to $2.1 million and $0 for the years ended December 31, 2015 and 2014, respectively. Impairment of property and equipment amounted to $0 and $0 for the years ended December 31, 2015 and 2014, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded net of allowances for cash discounts for prompt payment, doubtful accounts, and sales returns. Estimates for cash discounts and sales returns are based on analysis of contractual terms and

historical trends. In the event that management determines that a receivable becomes uncollectible, or events or circumstances change, which result in a temporary cessation of payments from the customer, the Company will make a best estimate of probable or potential losses in accounts receivable balance using the allowance method for each quarterly period. Management will periodically review the receivables at the end of each quarterly reporting period and the appropriate accrual will be made based on current available evidence and historical experience. Allowance for doubtful accounts were $87,000 and $30,000 for the years ended December 31, 2015 and 2014, respectively.

Revenue Recognition

The Company recognizes revenues when persuasive evidence of an arrangement exists, services have been rendered, the price is fixed and determinable, and collectability is reasonably assured. Revenues from management and consulting, time-and-materials service contracts, maintenance agreements and other services are recognized as the services are provided or at the time the goods are shipped and title as passed.

Research and Development Expenses

Development expenses consist primarily of salaries and related costs for technical and programming personnel associated with the Company’s software and the products for which such software is embedded. These costs are expensed as incurred.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Common Stock Purchase Warrants and Other Derivative Financial Instruments

The Company classifies common stock purchase warrants and other free standing derivative financial instruments as equity if the contracts (i) require physical settlement or net-share settlement in common stock or (ii) give the Company a choice of net-cash settlement or settlement in common stock (physical settlement or net-share settlement). The Company classifies the following contracts as either an asset or a liability: contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the Company), (ii) give the counterparty a choice of net-cash settlement or settlement in common stock (physical settlement or net-share settlement) or (iii) contain reset provisions. The Company assesses classification of its freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

Convertible Instruments

The Company evaluates and bifurcates conversion features from the instruments containing such features and accounts for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the underlying instrument, (b) the hybrid instrument that contains both the embedded derivative instrument and the underlying instrument is not re-measured at fair value under otherwise applicable U.S. GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

Income Taxes

The Company accounts for income taxes using the assets and liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rate is recognized in income or expense in the period that the change is effective. Tax benefits are recognized when it is probable that the deduction will be sustained. A valuation allowance is established when it is more likely than not that all or a portion of a deferred tax asset will not be realized.

The Company files a U.S. federal and state income tax return. The Company recognizes liabilities for uncertain tax positions based on the two-step process prescribed by U.S. GAAP. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires the Company to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Company reevaluates these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period. The Company recognizes interest and penalties as a component of income tax expense in the statements of operations. There were no liabilities recorded for uncertain tax positions at December 31, 2015 and 2014.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Stock-Based Compensation

The Company accounts for stock-based awards to employees in accordance with U.S. GAAP, which requires compensation expense related to share-based transactions, including employee stock options, to be measured and recognized in the financial statements based on a determination of the fair value of the stock options.

The grant date fair value is determined using the Black-Scholes-Merton ("Black-Scholes") pricing model. For all employee stock options, the Company recognizes expense over the employee's requisite service period (generally the vesting period of the equity grant). The Company's option pricing model requires the input of highly subjective assumptions, including the expected stock price volatility, and expected term. Any changes in these highly subjective assumptions significantly impact stock-based compensation expense.

Equity instruments issued to non-employees are recorded on the basis of the fair value of the instruments, as required by Accounting Standards Codification ("ASC") 718. ASC No. 505, Equity Based Payments to Non-Employees ("ASC 505"), defines the measurement date and recognition period for such instruments. In general, the measurement date is (a) when a performance commitment, as defined, is reached or (b) when the earlier of (i) the non-employee performance is complete and (ii) the instruments are vested. The measured value related to the instruments is recognized over a period based on the facts and circumstances of each particular grant as defined in ASC 505. The unvested portions of non-employee awards are revalued each reporting period.

Treasury Stock

Shares of common stock repurchased are recorded at cost as treasury stock. When shares are reissued, the cost method is used for determining cost. In accordance with GAAP, the excess of the acquisition cost over the reissuance price of the treasury stock, if any, is recorded to additional paid-in capital, limited to the amount previously credited to

additional paid-in capital, if any. Any excess is charged to accumulated deficit.

Loss Per Share

Basic loss per common share amounts are based on weighted average number of common shares outstanding. Diluted loss per share amounts are based on the weighted average number of common shares outstanding, plus the incremental shares that would have been outstanding upon the assumed exercise of all potentially dilutive stock options, warrants, convertible preferred stock, and convertible debt. All such potentially dilutive instruments were anti-dilutive as of December 31, 2015 and 2014. At December 31, 2015 and 2014 approximately 11.9 million and 0.7 million shares underlying the convertible notes payable, convertible preferred stock, options and warrants were anti-dilutive.

Warranty Reserve

Although the Company tests its product in accordance with its quality programs and processes, its warranty obligation is affected by product failure rates and service delivery costs incurred in correcting a product failure. Should actual product failure rates or service costs differ from the Company’s estimates, which are based on limited historical data, where applicable, revisions to the estimated warranty liability would be required. The warranty reserve for the fiscal year ending December 31, 2015 and 2014 was $9,000 and $9,000, respectively. There were immaterial warranty accruals during the year ended December 31, 2015 and immaterial claims made. Warranty reserve is included in accrued expenses on the accompanying balance sheet.

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising costs amounted to $48,000 and $347,000, for the years ended December 31, 2015 and 2014, respectively. Advertising costs are included in general and administrative expenses in the accompanying statement of operations.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Fair Value of Financial Instruments

U.S. GAAP requires disclosing the fair value of financial instruments to the extent practicable for financial instruments which are recognized or unrecognized in the balance sheet. The fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement.

In assessing the fair value of financial instruments, the Company uses a variety of methods and assumptions, which are based on estimates of market conditions and risks existing at the time. For certain instruments, including accounts receivable, accounts payable, and accrued expenses, the fair value was estimated that the carrying amount approximated fair value because of the short maturities of these instruments. All debt is based on current rates at which the Company could borrow funds with similar remaining maturities and approximates fair value.

U.S. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use on unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is described below:

Level 1:	Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
Level 2:	Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3:	Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2015, consistent with the fair value hierarchy provisions:

	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Capitalized software development costs	$ —	$ —	$ 7,147,000	$ 7,147,000
Total	$ —	$ —	$ 7,147,000	$ 7,147,000
Liabilities:				
	$ —	$ —	$ —	$ —
Derivative liability	—	—	1,284,000	1,284,000
Total	$ —	$ —	$ 1,284,000	$ 1,284,000

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2014, consistent with the fair value hierarchy provisions:

	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:	$ —	$ —	$ —	$—
Liabilities:				
Preferred stock -conversion feature	$ —	$ —	$ 150,000	$150,000
Preferred stock -warrants	$ —	$ —	$ 120,000	$120,000

Recently Issued Accounting Principles

The Financial Accounting Standards Board (the "FASB") has issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities are required to apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. The Company has not yet determined the effect of the adoption of this standard on the Company's financial position and results of operations.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10) (“ASU 2016-01”), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has not yet determined the effect of the adoption of this standard will have on the Company’s financial position and results of operations.

In August 2015, the FASB issued FASB ASU No. 2015-15, “Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements”. ASU 2015-15 clarified the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. Such costs may be presented in the balance sheet as an asset and subsequently amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-15 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Earlier adoption is permitted for financial statements that have not been previously issued. The adoption of this standard is not expected to have a material impact on the Company’s financial position and results of operations.

The FASB has issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. For all other entities, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may elect to apply this guidance earlier, however, only as prescribed in this ASU. The Company has not yet determined the effect of the adoption of this standard will have on the Company’s financial position and results of operations.

In July 2015, the FASB issued ASU No. 2015-11, “ *Simplifying the Measurement of Inventory* ” (“ASU 2015-11”). ASU 2015-11 requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out (“LIFO”) or the retail inventory method. It is effective for annual reporting periods beginning after December 15, 2016. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company has not yet determined the effect of the adoption of this standard will have on the Company’s financial position and results of operations.

In April 2015, the FASB issued ASU 2015-03, Interest–Imputation of Interest-Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and

measurement guidance for debt issuance costs are not affected by this update. Debt issuance costs related to revolving lines of credit are not within the scope of this new guidance. Additionally, in August 2015 the FASB issued guidance expanding the April 2015 update (ASU 2015-15). It states that, given the absence of authoritative guidance within the update, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset for revolving lines of credit and subsequently amortizing the deferred debt issuance costs ratably over the term of the arrangement, regardless of whether there are any outstanding borrowings on the line of credit. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted for financial statements that have not been previously issued. Full retrospective application is required. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements when adopted.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

In August 2014, FASB issued Accounting Standards Update (ASU) No. 2014-15, *Disclosure of Uncertainties about an Entities Ability to Continue as a Going Concern, which is included in Accounting Standards Codification (ASC) 205, Presentation of Financial Statements* . This update provides an explicit requirement for management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company has not yet determined the effect of the adoption of this standard and it is expected to have a material impact on the Company’s financial position and results of operations.

4 — INVENTORIES

Inventories included in the accompanying balance sheet are stated at the lower of cost or market as summarized below:

	December 31, 2015	**December 31, 2014**
Raw materials	$ 2,113,000	$ 2,084,000
Finished goods	1,803,000	2,186,000
Sub-total inventories	3,916,000	4,270,000
Less reserve for slow moving and excess inventory	(1,061,000)	(200,000)
Total inventories, net	$ 2,855,000	$ 4,070,000

Based upon the Company’s analysis of slow moving goods the Company has recorded a reserve for inventory of $1,061,000 and $200,000 as of December 31, 2015 and 2014, respectively. The Company wrote-off $0 and $159,000 of inventory for the years ending December 31, 2015 and 2014, respectively.

5 — ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	December 31, 2015	December 31, 2014
Accounts receivable	$ 572,000	$ 252,000
Accounts receivable – related party (see note 16)	156,000	480,000
	728,000	732,000
Allowance for doubtful accounts	(87,000)	(30,000)
Net accounts receivable	$ 641,000	$ 702,000

During the years ended December 31, 2015 and 2014, the Company incurred bad debt expense of $78,000 and $208,000, respectively. During the year ended December 31, 2015, the Company reversed accounts receivable of $336,000 with a corresponding reversal to deferred revenue. See Note 16.

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NOTES TO FINANCIAL STATEMENTS

6 — PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Useful Life (years)	December 31,	
		2015	2014
Cost:			
Furniture and equipment	3 – 7 years	$3,157,000	$2,930,000
Accumulated depreciation		(2,365,000)	(2,114,000)
Property and equipment, net		$792,000	$816,000

Depreciation of property and equipment amounted to $251,000 and $287,000 for the years ended December 31, 2015 and 2014, respectively. The Company reclassified inventory totaling $163,000 into equipment in 2014.

7 — INTANGIBLE ASSETS

Intangible assets consist of the following:

	Software Development Costs		**Patents & Licenses**		
	Cost	**A.A.**	**Cost**	**A.A.**	**Total**
Balance as of December 31, 2013	$14,788,000	$(2,574,000)	$12,275,000	$(6,293,000)	$18,196,000
Additions	1,667,000	—	103,000	—	1,770,000
Amortization	—	(2,920,000)	—	(664,000)	(3,584,000)
Balance as of December 31, 2014	$16,455,000	$(5,494,000)	$12,378,000	$(6,957,000)	$16,382,000
Additions	2,192,000	—	—	—	2,192,000

Impairments	—	(2,092,000)	—	—	(2,092,000)
Amortization	—	(3,914,000)	—	(665,000)	(4,579,000)
Balance as of December 31, 2015	$18,647,000	$(11,500,000)	$12,378,000	$(7,622,000)	$11,903,000

Amortization of intangible assets amounted to $4,579,000 and $3,584,000 for 2015 and 2014, respectively.

Software Development Costs:

At December 31, 2015 the Company has capitalized a total of $18.6 million of software development costs. The Company recognized amortization of software development costs available for sale of $3.9 million and $2.9 million in 2015 and 2014, respectively. Based on the Company's analysis of the net realizable value of the software development costs, an impairment charge of $2.1 million was taken during the year ended December 31, 2015 as the Company's sales cycles continue to take longer to complete than anticipated. No impairment charge was taken during the year ended December 31, 2014.

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NOTES TO FINANCIAL STATEMENTS

7 — INTANGIBLE ASSETS – (continued)

Patents & Licenses:

At December 31, 2015 the Company has capitalized a total of $12.4 million of patents & licenses. Included in the capitalized costs is $12.3 million of costs associated with patents and licenses that have been filed. Also included in the capitalized costs is $0.1 million of costs associated with provisional patents and pending applications which have not yet been filed. The Company amortizes patents and licenses that have been filed over their useful lives which range between 18.5 to 20 years. The costs of provisional patents and pending applications is not amortized until the patent is filed and is reviewed each reporting period to determine if it is likely that the patent will be successfully filed. The Company recognized $0.7 million of amortization expense related to patents and licenses in each of the years ended December 31, 2015 and 2014.

Estimated amortization expense for total intangible assets for the succeeding five years is as follows:

2016	$3,989,000
2017	3,568,000
2018	1,680,000
2019	664,000
2020	664,000
Thereafter	1,338,000
	$11,903,000

The Company's intangible assets will be amortized over a weighted average remaining life of approximately 4.6 years.

8 — OBLIGATIONS UNDER CAPITAL LEASE

The future minimum payments for capital leases as of December 31, 2015 are as follows:

2016	$66,000
2017	66,000
2018	24,000
2019	16,000
2020	14,000
Total minimum lease payments	186,000
Less amount representing interest	(26,000)
Present value of the net minimum lease payments	160,000
Less obligations under capital lease maturing within one year	54,000
Long-term portion of obligations under capital lease	$106,000

The interest rate for the capital leases range between 7.6% and 7.9% and the leases mature between February 2018 and October 2020.

As of December 31, 2015 and 2014, the Company held equipment under capital leases was in the gross amount of $195,000 and $370,000 net of accumulated amortization of $19,000 and $55,000, respectively. Amortization expense for the capital leases for the year ended December 31, 2015 and 2014 are included in the depreciation expense. During the year ended December 31, 2015, the Company repaid the remaining capital lease obligations associated with the equipment held under capital lease obligations in the prior year. As a result, equipment with the gross balance of $195,000 is the only equipment for which obligations under capital lease arrangements remains at December 31, 2015.

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NOTES TO FINANCIAL STATEMENTS

9 — CONVERTIBLE NOTES PAYABLE

Treco

On October 6, 2011, the Company entered into a convertible promissory note (the "$2 Million Convertible Note") in favor of Treco International, S.A. ("Treco"), as part of the settlement compensation to Treco for terminating an infrastructure agreement. The $2 Million Convertible Note is payable on final maturity, October 6, 2018 and is convertible, at Treco's option, into common shares of the Company at a price of $350.00 per share. Interest at the rate of 9% per year is payable semi-annually in cash or shares, at the Company's option. As of December 31, 2015, $2 million of principal balance was outstanding under the $2 million Convertible Note. During the years ended December 31, 2015 and 2014, the Company incurred interest expense of $180,000 per year. The accrued interest was $42,329 at December 31, 2015 and 2014, respectively. On May 7, 2014, the Company issued 3,410 shares in repayment of $90,000 of interest. On November 5, 2014, the Company issued 5,057 shares in repayment of $90,000 of interest. On April 16, 2015, the Company issued 30,623 shares in repayment of $90,000 of interest. On October 14, 2015, the Company issued 169,812 shares in repayment of $90,000 of interest.

Short-Term 8% Convertible Notes

Overview. On June 11, 2015, the Company entered into a securities purchase agreement (the "June 2015 Purchase Agreement") with a group of accredited investors pursuant to which the Company sold an aggregate of $1,166,666 in principal amount of 8% Convertible Notes (the "8% Convertible Notes") for an aggregate purchase price of $1,050,000 (the "First Tranche"). On July 14, 2015, the Company and the investors entered into an amendment to the June 2015 Purchase Agreement (the "Amendment") pursuant to which the Company sold an additional $466,667 in principal amount of 8% Convertible Notes for a purchase price of $420,000 (the "Second Tranche") for total net proceeds to the Company of $400,000 under the same terms as the First Tranche. The Company received aggregate net proceeds of $1,470,000 in connection with the sale of the First and Second Tranche. The Company paid a 5% fee totaling $163,500 in connection with both tranches. The aggregate original issue discount of approximately $163,333 was also recorded by the Company on the issuance dates in convertible notes payable on the balance sheets. The Company amortized the total offering costs and the total original issue discount during the year ended December 31, 2015, which is included in interest expense on the accompanying statement of operations.

Maturity and Interest. The First Tranche of 8% Convertible Notes matured on December 11, 2015, and the Second Tranche of 8% Convertible Notes matured on January 14, 2016 (each, a "Maturity Date"), less any amounts converted or redeemed prior to the respective Maturity Dates. If the 8% Convertible Notes are not repaid by the Company by the respective Maturity Dates, the Maturity Date shall be automatically extended for an additional three-month period until March 11, 2016 and April 14, 2016 for the First Tranche and Second Tranche, respectively (such period, the "Extension Period"), which extension shall not be considered an event of default. The 8% Convertible Notes currently bear interest at a rate of 8% per annum, and are subject to an increase to the lesser of 24% per annum or the maximum rate permitted under applicable law upon the occurrence of certain events of default. The Company incurred a total of $48,000 in interest associated with these notes during the year ended December 31, 2015. The accrued interest as of December 31, 2015 is $39,000. See Note 17.

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NOTES TO FINANCIAL STATEMENTS

9 — CONVERTIBLE NOTES PAYABLE (continued)

Conversion. The 8% Convertible Notes are convertible at any time, in whole or in part, at the option of the holders into shares of common stock at a conversion price of $5.00 per share, which is subject to adjustment for stock dividends, stock splits, combinations or similar events. However, during the Extension Period, the conversion price shall be the lesser of (i) $5.00, subject to adjustment for stock dividends, stock splits, combinations or similar events, and (ii) 85% of the lowest closing price of the common stock in the twenty (20) trading days prior to the date of conversion. During the year ended December 31, 2015, the notes holders converted a total of $150,000 principal into 758,263 shares of common stock.

Prepayments and Redemptions. The Company may, at its option, prepay in cash any portion of the principal amount of the 8% Convertible Notes and any accrued and unpaid interest. If such prepayment is made within sixty (60) days after the issuance date of the 8% Convertible Notes, the Company shall pay an amount in cash equal to 125% of the sum of the then outstanding principal amount of the note and interest; thereafter, if such prepayment is made, the Company shall pay an amount in cash equal to 135% of the sum of the then outstanding principal amount of the note and interest. Within one (1) business day after the closing of any underwritten public offering of at least $7,000,000 of securities of the Company pursuant to a registration statement on Form S-1 or Form S-3 (the "Public Offering"), the Company shall prepay in cash an amount equal to (i) 125% of the sum of the then outstanding principal amount of the note and interest if the closing of the Public Offering occurs within sixty (60) days after the issuance date of the 8% Convertible Notes or (ii) 135% of the sum of the then outstanding principal amount of the note and interest if the closing of the Public Offering occurs after sixty (60) days following the issuance date of the 8% Convertible Notes.

On August 19, 2015, the Company made repayments of principal and interest of $702,000 and $9,700, respectively. In connection with the prepayments, the Company was required to make an additional payment of $234,000 as a result of the prepayment penalties disclosed above. This amount was included in Interest Expense on the Statement of Operations for the year ended December 31, 2015.

Right to Participate in Future Financings. For so long as the 8% Convertible Notes are outstanding, the holder has a right to participate in any issuance of the Company's common stock, common stock equivalents or a combination of units thereof in an underwritten public offering (a "Subsequent Financing"), in an aggregate amount of the Subsequent Financing equal to at least $500,000, on the same terms, conditions and price provided for in the Subsequent

Financing. See Note 17.

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NOTES TO FINANCIAL STATEMENTS

10 — INCOME TAXES

The provision (benefit) for income taxes consists of the following:

	December 31,	
	2015	2014
Current tax provision (benefit)		
Federal	$—	$—
State	—	—
	—	—
Deferred tax provision (benefit)		
Federal	(6,923,000)	(5,530,980)
State	(741,000)	(547,020)
Change in valuation allowance	7,664,000	6,078,000
Income tax provision (benefit)	$—	$—

A reconciliation of the statutory tax rate to the effective tax rate is as follows:

	December 31,	
	2015	2014
Statutory Federal income tax rate	34.0 %	35 %
State and local taxes net of Federal benefit	4.15	5.50
Permanent differences	4.77	(1.90)
Valuation allowance	(42.92)	(38.60)
Effective tax rate	— %	— %

There were no uncertain tax positions taken, or expected to be taken, in a tax return that would be determined to be an unrecognized tax benefit taken or expected to be taken in a tax return that should have been recorded on the Company’s financial statements for the years ended December 31, 2015 or 2014.

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial accounting purposes and the amounts used for income tax reporting. Significant components of the Company's deferred tax assets are as follows:

	December 31, 2015	2014
Deferred Tax Assets		
Federal R&D credit	$2,285,000	$2,285,000
Inventory	399,000	75,000
Allowance for bad debt	33,000	11,000
Compensation Related	68,000	113,000
Other Accruals	9,000	184,000
State NOL	5,094,000	4,540,000
Federal NOL	47,831,000	42,658,000
Property & Equipment	157,000	187,000
Stock Options	7,371,000	7,172,000
Valuation Allowance	(59,023,000)	(51,359,000)
Total Deferred Tax Assets	4,224,000	5,866,000
Deferred Tax Liabilities		
Intangibles	(4,224,000)	(5,866,000)
Total Deferred Tax Liabilities	(4,224,000)	(5,866,000)
Net Deferred Tax Asset/(Liability)	$-	$-

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NOTES TO FINANCIAL STATEMENTS

10 — INCOME TAXES – (continued)

Net operating losses ("NOL") of approximately $140.7 million will expire beginning in 2027 for both federal and state purposes. The Company also has research and development credits of approximately $2.3 million which will begin to expire in 2027.

Realization of the NOL carry forwards and other deferred tax temporary differences is contingent on future taxable earnings. The Company's deferred tax asset was reviewed for expected utilization using a "more likely than not" approach by assessing the available positive and negative evidence surrounding its recoverability. Accordingly, a valuation allowance has been recorded against the Company's deferred tax asset, as it was determined based upon past and present losses that it was "more likely than not" that the Company's deferred tax assets would not be realized. The valuation allowance was increased to the full carrying amount of the Company's deferred tax assets. In future years, if the deferred tax assets are determined by management to be "more likely than not" to be realized, the recognized tax benefits relating to the reversal of the valuation allowance will be recorded. The Company will continue to assess and evaluate strategies that will enable the deferred tax asset, or portion thereof, to be utilized, and will reduce the valuation allowance appropriately as such time when it is determined that the "more likely than not" criteria is satisfied.

The net operating loss carryovers may be subject to annual limitations under Internal Revenue Code Section 382, and similar state provisions, should there be a greater than 50% ownership change as determined under the applicable income tax regulations. The amount of the limitation would be determined based on the value of the company immediately prior to the ownership change and subsequent ownership changes could further impact the amount of the annual limitation. An ownership change pursuant to Section 382 may have occurred in the past or could happen in the future, such that the NOLs available for utilization could be significantly limited. The Company plans to perform a Section 382 analysis in the future.

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NOTES TO FINANCIAL STATEMENTS

11 — DERIVATIVE LIABILITIES

Series A, B and C Preferred Stock Conversion Options

The conversion features embedded in the Company's Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock were bifurcated as they were not considered to be clearly and closely related to the host agreement and were accounted for as a derivative liabilities.

During the year ended December 31, 2015, all issued and outstanding shares of the Company's Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock were converted into shares of the Company's common stock. As a result, on the date of conversion the Company re-measured the fair value of each of the conversion features, recorded the change in fair value of the conversion feature in other expense on the statements of operations, and reclassified the re-measured amount to stockholders' equity.

Warrants to Purchase Common Stock

The warrants issued in connection with the Series A Financing, Series B Financing, and Series C Financing issued to investors on December 30, 2014, February 11, 2015 and February 24, 2015, respectively, have been accounted for as derivative liabilities as each of the warrants contain a net cash settlement provision whereby, upon certain fundamental events, the holders could put the warrants back to the Company for cash.

On July 20, 2015, and effective June 11, 2015, the Company amended the warrants issued to investors on December 30, 2014, February 11, 2015 and February 24, 2015 in connection with issuances of the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock, respectively, to lower the exercise price from $20.00 per share to $11.50 per share, except for the warrants issued to certain family members of George Schmitt, which retained an exercise price of $20.00 per share.

The table below sets forth a summary of changes in the fair value of the Company's Level 3 derivative liabilities (conversion option and warrant derivatives) associated with the Series A Financing, Series B Financing, and Series C Financing for the year ended December 31, 2015:

	Series A Financing	Series B Financing	Series B (Related Party)	Series C Financing	Total
Balance at January 1, 2015	$270,000	$—	$ —	$—	$270,000
Recognition of conversion feature liability	—	81,000	220,000	468,000	769,000
Recognition of warrant derivative liability	—	45,000	118,000	252,000	415,000
Reclassification to stockholders' equity upon conversion	(150,000)	(54,000)	(220,000)	(245,000)	(669,000)
Change in fair value of derivative liabilities	(114,000)	(71,000)	(117,000)	(470,000)	(772,000)
Balance at December 31, 2015	$6,000	$1,000	$ 1,000	$5,000	$13,000

The following are the key assumptions used in connection with the valuation of the conversion options associated with the Series A Financing, Series B Financing, and Series C Financing on the date of issuance, at December 31, 2014 and December 31, 2015:

	Series A Financing		Series B Financing		Series B (Related Party)		Series C Financing	
Date of issuance	12/31/2014		2/11/2015		2/24/2015		2/24/2015	
Number of shares convertible into	750,000		350,000		845,000		1,800,000	
Fair market value of stock	$5.10		$4.22		$ 4.50		$4.50	
Conversion price	$5.70		$3.57		$ 4.00		$4.00	
Volatility	131	%	143.4	%	143.4	%	143.4	%
Risk-free interest rate	0.25	%	0.24	%	0.22	%	0.22	%
Expected dividend yield	7	%	7	%	7	%	7	%
Life of convertible preferred stock (years)	1		1		1		1	

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NOTES TO FINANCIAL STATEMENTS

11 — DERIVATIVE LIABILITIES (continued)

The following are the key assumptions used in connection with the valuation of the warrants associated with the Series A Financing, Series B Financing, and Series C Financing at December 31, 2014, their respective issuance dates, and December 31, 2015:

	Series A Financing	Series B Financing	Series B (Related Party)	Series C Financing
Date of warrant	12/31/2014	2/11/2015	2/24/2015	2/24/2015
Number of shares underlying the warrants	37,500	17,500	42,250	90,000
Fair market value of stock	$5.10	$4.22	$ 4.50	$4.50
Exercise price	$20.00	$20.00	$ 20.00	$20.00
Volatility	112.9 %	120.6 %	115.8 %	115.8 %
Risk-free interest rate	0.96 %	0.90 %	0.90 %	0.90 %
Expected dividend yield	—	—	—	—
Warrant life (years)	5	5	5	5

	Series A Financing	Series B Financing	Series B (Related Party)	Series C Financing
Number of shares underlying the warrants on December 31, 2015	37,500	17,500	42,250	90,000
Fair market value of stock	$ 0.23	$ 0.23	$ 0.23	$ 0.23
Exercise price	$ 11.50	$ 11.50	$ 20.00	$ 11.50
Volatility	118.4 %	116.8 %	116.3 %	116.3 %
Risk-free interest rate	1.2 %	1.2 %	1.2 %	1.2 %
Expected dividend yield	—	—	—	—
Warrant life (years)	4.00	4.10	4.15	4.15

August 2015 Underwritten Offering

On August 19, 2015, the Company closed an underwritten public offering of its Class A Units, Class B Units, Series C Warrants and Series D Warrants. The Company offered (i) 2,550,000 Class A Units, at a price of $1.00 per Class A Unit, each of which consists of one share of its common stock and 0.5 of a Series A Warrant to purchase one share of its common stock at an exercise price of $1.00 per warrant, (ii) 2,450,000 Class B Units, at a price of $0.99 per Class B Unit, each of which consists of one pre-funded Series B Warrant to purchase one share of its common stock and 0.5 of a Series A Warrant, (iii) 2,550,000 Series C Warrants, at a price of $0.01 per Series C Warrant, which is deemed to be included in the $1.00 price per Class A Unit, each to purchase one additional Class A Unit at an exercise price of $1.00, and (iv) 4,950,000 Series D Warrants, at a price of $0.01 per Series D Warrant, which is deemed to be included in the $0.99 price per Class B Unit, each to purchase one additional Class B Unit at an exercise price of $0.99. Each of the warrants issued in connection with the August 2015 underwritten offering have been accounted for as derivative liabilities as each of the warrants contain a net cash settlement provision whereby, upon certain fundamental events, the holders could put the warrants back to the Company for cash.

Settlement with Holders of Series B Warrants

On November 2, 2015, the Company entered into a Settlement Agreement and Mutual Release (the ‘‘Agreement’’) with certain holders (the ‘‘Holders’’) of our Series B Warrants to purchase common stock (the ‘‘Original Warrants’’) issued in connection with the August 2015 underwritten public offering. Upon the consummation of the Agreement, in full and complete satisfaction of all claims that the Holders made or could have made against us arising in connection with the Original Warrants, the Company delivered to the Holders new warrants initially exercisable to purchase, in the aggregate, 2,450,000 shares of our common stock, par value $0.00001, at an exercise price of $0.75 per share with an expiration date of November 2, 2018.

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NOTES TO FINANCIAL STATEMENTS

11 — DERIVATIVE LIABILITIES (continued)

The table below sets forth a summary of changes in the fair value of the Company's Level 3 derivative warrant associated with the August 2015 underwritten offering for the year ended December 31, 2015:

	Series A	Series B and Settlement	Series C	Series D	Total
Balance at January 1, 2015	$—	$—	$—	$—	$—
Recognition of warrant liability on issuance date	2,053,000	4,275,000	178,000	347,000	6,853,000
Reclassification of derivative liability to stockholders' equity upon exercise	—	(2,617,000)	(714,000)	(464,000)	(3,795,000)
Change in fair value of derivative liabilities	(1,124,000)	(1,316,000)	536,000	117,000	(1,787,000)
Balance at December 31, 2015	$929,000	$342,000	$—	$—	$1,271,000

The following are the key assumptions used in connection with the valuation of the warrants associated with the August 2015 offering into common stock on the date of issuance, various exercise dates, and December 31, 2015:

	Series A	Series B	Series C	Series D
Date of warrant	8/19/2015	8/19/2015	8/19/2015	8/19/2015
Number of shares underlying the warrants	2,500,000	2,450,000	2,550,000	4,950,000
Fair market value of stock	$0.65	$0.65	$0.65	$0.65
Exercise price	$1.00	$0.01	$1.00	$0.99
Volatility	121.4 %	121.4 %	125.4 %	125.4 %
Risk-free interest rate	1.03 %	1.03 %	0.30 %	0.30 %
Expected dividend yield	—	—	—	—
Warrant life (years)	5	5	0.25	0.25

	Series A	Series B Settlement
Date of warrant	11/10 to 11/19/2015	11/2/2015

Number of shares underlying the warrants	3,457,501		2,450,000	
Fair market value of stock	$0.25 to 0.53		$0.60	
Exercise price	$1.00		$0.75	
Volatility	123 to 127	%	128	%
Risk-free interest rate	0.93	%	0.26	%
Expected dividend yield	—		—	
Warrant life (years)	5		3	

	Series A		Series B Settlement		Series C		Series D	
Number of shares underlying the warrants on December 31, 2015	5,957,501		2,450,000		—		—	
Fair market value of stock	$0.23		$0.23		$	—	$	—
Exercise price	$1.00		$0.75		$	—	$	—
Volatility	129	%	140	%	—%		—%	
Risk-free interest rate	1.2	%	0.48	%	—%		—%	
Expected dividend yield	—		—		—		—	
Warrant life (years)	4.63 to 4.88		2.83		—		—	

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NOTES TO FINANCIAL STATEMENTS

11 — DERIVATIVE LIABILITIES (continued)

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company's accounting and finance department, who report to the Chief Financial Officer, determine its valuation policies and procedures. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's accounting and finance department and are approved by the Chief Financial Officer.

Level 3 Valuation Techniques:

Level 3 financial liabilities consist of the derivative liabilities for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate. The Company deems financial instruments which do not have fixed settlement provisions to be derivative instruments. In accordance with ASC Topic 480, *Distinguishing Liabilities from Equity*, the fair value of these warrants is classified as a liability on the Company's balance sheets because, according to the terms of the warrants, a fundamental transaction could give rise to an obligation of the Company to pay cash to its warrant holders. Such instruments do not have fixed settlement provisions and have also been recorded as derivative liabilities. Corresponding changes in the fair value of the derivative liabilities are recognized in earnings on the Company's statements of operations in each subsequent period.

The Company's derivative liabilities are carried at fair value and were classified as Level 3 in the fair value hierarchy due to the use of significant unobservable inputs. In order to calculate fair value, the Company uses a binomial model style simulation, as the value of certain features of the warrant derivative liabilities would not be captured by the standard Black-Scholes model.

The following table sets forth a summary of the changes in the fair value of our Level 3 financial liabilities that are measured at fair value on a recurring basis:

	Years Ended December 31,	
	2015	2014
Beginning balance	$270,000	$-
Recognition of conversion feature liability	769,000	150,000
Recognition of warrant liability on issuance date	7,268,000	120,000
Reclassification to stockholders' equity upon exercise	(4,464,000)	-
Change in fair value of derivative liabilities	(2,559,000)	-
Ending balance	$1,284,000	$270,000

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NOTES TO FINANCIAL STATEMENTS

12 — Preferred Stock

In March 2013, by approval of the majority of the shareholders, the Company was authorized to issue 10,000,000 shares of “Blank Check” preferred stock, par value $0.00001 per share. On December 30, 2014, 3,000,000 shares were designated as authorized Series A Convertible Preferred Stock. On February 11, 2015, 3,000,000 shares were designated as authorized Series B Convertible Preferred Stock. On February 24, 2015, 3,000,000 shares were designated as authorized Series C Convertible Preferred Stock.

Series A Convertible Preferred Stock

On December 30, 2014, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with 31 Group, LLC (“31 Group”) pursuant to which the Company sold to 31 Group, for a purchase price of $750,000, 750,000 shares of Series A Convertible Preferred Stock, par value $0.00001 per share (the “Series A Preferred Stock”) and warrants (the “Warrants”) to purchase 37,500 shares of common stock. The Company also issued to 31 Group 3,315 shares of common stock in consideration of 31 Group’s execution and delivery of the Purchase Agreement (the “Commitment Shares”).

The warrants were exercisable immediately for a period of five years from their issue date. The exercise price with respect to the warrants is $20.00 per share but was subsequently reduced to $11.50 on June 11, 2015. The exercise price for the warrants is subject to adjustment upon certain events, such as stock splits, combinations, dividends, distributions, reclassifications, mergers or other corporate change and dilutive issuances. In addition, the warrants also contain a net cash settlement provision whereby, upon certain fundamental events, the holders could put the warrants back to the Company for cash. The change in fair value of the warrant liabilities was measured on the date of modification and was not material to the Company’s results of operations.

Holder Optional Redemption after Maturity Date

At any time from and after the tenth business day prior to the maturity date, December 30, 2015, any holder may require the Company to redeem all or any number of Series A Preferred Stock held by such holder at a purchase price equal to 105% of the conversion amount.

Ranking

The Series A Preferred Stock will rank with respect to dividend rights and/or rights upon distributions, liquidation, dissolution or winding up of the Company senior to all of the Company's common stock and other classes of capital stock, unless the holders of a majority of the outstanding shares of Series A Preferred Stock consent to the creation of parity stock or senior preferred stock.

Liquidation Preference of Series A Preferred Stock

Upon the voluntary or involuntary liquidation, dissolution or winding up of the Company, before the payment of any amount to the holder of shares of junior stock, but pari passu with any parity stock, the holders of Series A Preferred Stock are entitled to receive an amount equal to the greater of (i) the stated value of the Series A Preferred Stock or (ii) the amount the holder of Series A Preferred Stock would receive if such holder converted the Series A Preferred Stock into common stock immediately prior to the date of the liquidation event, including accrued and unpaid dividends.

Dividends on Series A Preferred Stock

Holders of Series A Preferred Stock shall be entitled to receive from the first date of issuance of the Series A Preferred Stock cumulative dividends at a rate of 7.0% per annum on a compounded basis. The Company shall have the right to pay dividends in cash or shares of common stock on the Maturity Date or in cash on any applicable redemption date or, with respect to Series A Preferred Stock subject to conversion into common stock, as part of the conversion amount.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

12 — Preferred Stock – (continued)

Redemption of Series A *Preferred Stock*

Upon the occurrence of certain triggering events as defined in the certificate of designation, the holder of Series A Preferred Stock shall have the right to require the Company, by written notice, to redeem all or any of the shares of Series A Preferred Stock at a price equal to the greater of (i) 125% of the conversion amount to be redeemed and (ii) the product of (a) the conversion amount divided by 85% of the average of the five (5) lowest volume weighted average prices of the common stock during the twenty (20) consecutive trading day period ending the trading day immediately preceding the delivery of the applicable conversion notice multiplied by (b) 125% of the greatest closing sale price of the common stock on any trading day during the period commencing on the date immediately preceding such triggering event and ending on the date the Company makes the entire redemption payment to the holder of Series A Preferred Stock.

Upon the occurrence of a change in control of the Company, a holder of Series A Preferred Stock shall have the right to require the Company to redeem all or any portion of the Series A Preferred Stock at a price equal to 125% of the stated value of the Series A Preferred Stock. In addition, so long as certain conditions do not exist (including the Company shall have timely delivered any Common Stock upon the conversion of the Series A Preferred Stock), then the Company shall have the right to redeem all, but not less than all, of the Series A Preferred Stock outstanding in cash at a price equal to the sum of (i) 125% of the stated value of the Series A Preferred Stock and (ii) all accrued and unpaid dividends thereon.

At any time from and after the tenth (10) business day prior to the date of maturity, a holder of the Series A Preferred Stock may require the Company to redeem all or any number of Series A Preferred Stock shares held by such holder at a purchase price equal to 105% of the conversion amount of such Series A Preferred Stock shares.

Conversion Rights of Preferred Stock

A holder of Series A Preferred Stock shall have the right to convert the Series A Preferred Stock, in whole or in part, upon written notice to the Company at a conversion price equal to the lower of (i) $20.00 or (ii) 85% of the average of the five (5) lowest volume weighted average prices of the Common Stock during the twenty (20) consecutive trading day period ending the trading day immediately preceding the delivery of the applicable conversion notice (as adjusted for stock splits, share combinations and similar transactions).

Fundamental Transaction

The Company shall use its commercially reasonable efforts to not enter into a "fundamental transaction" unless the successor entity assumes the obligations of the Company under the Certificate of Designations and the successor entity (including its parent entity) is a publicly traded company whose shares of common stock are quoted or listed on an eligible national securities exchange. Upon a change of control of the Company, a holder of Series A Preferred Stock shall have the right to require the Company to redeem all or any portion of the Series A Preferred Stock at the applicable premium redemption price. A fundamental transaction is a transaction in which (i) the Company, directly or indirectly, in one or more related transactions, (a) consolidates or merges with or into any other entity (except where the Company is the surviving entity), (b) sells, leases, licenses, assigns, transfers, conveys or otherwise disposes of all or substantially all of its properties or assets to any other entity, (c) allows any other entity to make a purchase, tender or exchange offer that is accepted by such holders of more than 50% of the outstanding shares of voting stock of the Company (not including any shares of voting stock of the Company held by the entity making or party to, or associated or affiliated with the entity making or party to, such purchase, tender or exchange offer), or (d) consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with any other entity whereby such other entity acquires more than 50% of the outstanding shares of voting stock of the Company (not including any shares of voting stock of the Company held by the other entity making or party to, or associated or affiliated with the other entity making or party to, such stock or share purchase agreement or other business combination), or (e) reorganizes, recapitalizes or reclassifies the Common Stock (which shall not include a reverse stock split), or (ii) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act of 1934, as amended, (the "Exchange Act") and the rules and regulations promulgated thereunder) is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 50% of the aggregate ordinary voting power represented by issued and outstanding voting stock of the Company.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

12 — Preferred Stock – (continued)

Voting Rights

Holders of Series A Preferred Stock shall have no voting rights.

Conversions Series A Preferred Stock

During the year ended December 31, 2015, 750,000 of the Series A Preferred Stock and 52,500 shares of Series A Preferred Stock issued as dividends have been converted into 239,247 shares of common stock. As a result of the conversion, the preferred stock value, net of discounts of $378,000, and the $150,000 derivative liability arising from the conversion feature were reclassified to stockholders' equity. The aggregate grant date fair value of the common stock issued upon conversion was $1,011,000 and as result, the Company recorded $483,000 of dividends and deemed dividend.

Series B Convertible Preferred Stock

31 Group LLC Offering

On February 11, 2015, the Company entered into a purchase agreement, pursuant to which the Company sold to the 31 Group, 350,000 shares of the Company's Series B Convertible Preferred Stock, par value $0.00001 per share (the "Series B Preferred Stock") and warrants to purchase 17,500 shares of the Company's common stock for a purchase price of $350,000 (the "Series B Financing"). The Company also issued 2,462 shares of its common stock with a grant date value of approximately $10,000 in consideration of 31 Group's execution and delivery of the purchase agreement. The Company incurred costs associated with the offering of $89,000.

The warrants are exercisable immediately for a period of five years from their issue date. The exercise price with respect to the warrants is $20.00 per share and were subsequently lowered to $11.50 as of June 11, 2015. The exercise price for the warrants is subject to adjustment upon certain events, such as stock splits, combinations, dividends, distributions, reclassifications, mergers or other corporate change and dilutive issuances. In addition, the warrants also contain a net cash settlement provision whereby, upon certain fundamental events, the holders could put the warrants back to the Company for cash.

On July 20, 2015, and effective June 11, 2015, the Company amended the warrants issued to investors of the Series B Preferred Stock to lower the exercise price from $20.00 per share to $11.50 per share except for the warrants issued to certain family members of George Schmitt, which retained an exercise price of $20.00 per share (see below). The change in fair value of the warrant liabilities was measured on the date of modification and was not material to the Company’s results of operations.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

12 — Preferred Stock – (continued)

Liquidation Preference of Series B Preferred Stock

The Series B Preferred Stock rank pari passu with our Series A Preferred Stock with respect to dividend rights and/or rights upon distributions, liquidation, dissolution or winding up of the Company and have the same terms and preferences as the Series A Preferred Stock except for the following:

Dividends on Series B Preferred Stock

Holders of Series B Preferred Stock shall be entitled to receive from the first date of issuance of the Series B Preferred Stock cumulative dividends at a rate of 7.0% per annum on a compounded basis. The Company shall have the right to pay dividends in cash or shares of common stock on the Maturity Date or in cash on any applicable redemption date or, with respect to Series B Preferred Stock subject to conversion into common stock, as part of the conversion amount.

Conversion Rights of Series B Preferred Stock . A holder of Series B Preferred Stock shall have the right to convert the Series B Preferred Stock, in whole or in part, upon written notice to the Company at a conversion price equal to the lower of (i) $20.00 or (ii) 85% of the lowest volume weighted average price of the common stock of the Company during the five (5) consecutive trading day period ending and including the trading day immediately preceding the delivery of the applicable conversion notice (as adjusted for stock splits, share combinations and similar transactions).

Conversions of Series B Preferred Stock

During the first and second quarters of 2015, 350,000 of the Series B Preferred Stock and 24,500 shares of Series B Preferred Stock issued as dividends were converted into 182,708 shares of common stock. As a result of the conversion, the preferred stock value, net of discounts of $125,000, and the $54,000 derivative liability arising from the conversion feature were reclassified to stockholders' equity. The aggregate grant date fair value of the common stock issued upon conversion was $474,000 and as result, the Company recorded $295,000 of dividends and deemed dividend.

Related Party Extinguishment

On December 30, 2014, the Company received a $245,000 loan from George Schmitt, the Company's Chairman of the Board and Chief Executive Officer. This amount was recorded as a due to related parties on the balance sheet. On January 8, 2015, the Company repaid $100,000 of the $245,000 due to related party balance owed to Mr. Schmitt. On January 29, 2015 and February 13, 2015, the Company received an aggregate $700,000 from certain family members of Mr. Schmitt. This amount was recorded in due to related parties on the balance sheet. On February 23, 2015, Mr. Schmitt transferred the remaining balance of his $145,000 loan to certain family members bringing the total the Company owed to Mr. Schmitt's family members to $845,000. See Note 17 for additional details.

On February 23, 2015, the Company issued 845,000 shares of Series B Preferred Stock, 5,310 shares of common stock, and warrants to purchase an aggregate 42,250 shares of common stock exercisable for five years at a price of $20.00 per share in full settlement and extinguishment of the $845,000 due to related parties. The grand date fair value of the consideration issued by the Company on the settlement date approximated the $845,000 due to related parties that was settled. Upon certain fundamental events, the warrants could be redeemed by the holders of the warrants at fair market value estimated using Black Scholes. The exercise price for the warrants is subject to adjustment upon certain events, such as stock splits, combinations, dividends, distributions, reclassifications, mergers or other corporate change and dilutive issuances. In addition, the warrants also contain a net cash settlement provision whereby, upon certain fundamental events, the holders could put the warrants back to the Company for cash.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

12 — Preferred Stock – (continued)

On February 23, 2015, 845,000 of the Series B Preferred Stock were converted into 222,791 shares of common stock. As a result of the conversion, the preferred stock value of $703,000, net of discounts was reclassified to stockholders' equity. The aggregate grant date fair value of the common stock issued upon conversion was $1,003,000 and as result, the Company recorded $300,000 of dividends and deemed dividend.

Series C Convertible Preferred Stock

On February 24, 2015, the Company entered into a purchase agreement, pursuant to which the Company sold to institutional investors, 1,800,000 shares of the Company's Series C Preferred Stock, par value $0.00001 per share (the "Series C Preferred Stock") and warrants to purchase 90,000 shares of the Company's common stock for a purchase price of $1,800,000 (the "Series C Financing"). The Company also issued 11,864 shares of its common stock with a grant date value of approximately $53,000 in consideration of the investors' execution and delivery of the purchase agreement. The Company paid offering costs of $84,000 in connection issuance of the Series C Preferred Stock.

The warrants are exercisable immediately for a period of five years from their issue date. The exercise price with respect to the warrants is $20.00 per share which was subsequently lowered to $11.50 as of June 11, 2015. The exercise price for the warrants is subject to adjustment upon certain events, such as stock splits, combinations, dividends, distributions, reclassifications, mergers or other corporate change and dilutive issuances. In addition, the warrants also contain a net cash settlement provision whereby, upon certain fundamental events, the holders could put the warrants back to the Company for cash.

On July 20, 2015, and effective June 11, 2015, the Company amended the warrants issued to investors of the Series C Preferred Stock to lower the exercise price from $20.00 per share to $11.50 per share. The change in fair value of the warrant liabilities was measured on the date of modification was not material to the Company's results of operations.

Liquidation Preference of Series C Preferred Stock

The Series C Preferred Stock rank pari passu with our Series A Preferred Stock and our Series B Preferred Stock with respect to dividend rights and/or rights upon distributions, liquidation, dissolution or winding up of the Company and have the same terms and preferences as the Series A and Series B Preferred Stock except for the following:

Dividends on Series C Preferred Stock

Holders of Series C Preferred Stock shall be entitled to receive from the first date of issuance of the Series C Preferred Stock cumulative dividends at a rate of 7.0% per annum on a compounded basis. The Company shall have the right to pay dividends in cash or shares of common stock on the Maturity Date or in cash on any applicable redemption date or, with respect to Series C Preferred Stock subject to conversion into common stock, as part of the conversion amount.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

12 — Preferred Stock – (continued)

Conversion Rights of Series C Preferred Stock . Upon the occurrence of certain triggering events (including the Series C Preferred Stock or common stock underlying the Series C Preferred Stock is not freely tradeable without restriction; the failure of the common stock to be listed on the NASDAQ Capital Market or other national securities exchange; and bankruptcy, insolvency, reorganization or liquidation proceedings instituted against the Company shall not be dismissed in thirty (30) days or the voluntary commencement of such proceedings by the Company), the holder of Preferred Stock shall have the right to require the Company, by written notice, to redeem all or any of the shares of Series C Preferred Stock at a price equal to the greater of (i) 125% of the conversion amount to be redeemed and (ii) the product of (a) the conversion amount divided by the lower of (x) $20.00 or (y) 85% of the lowest volume weighted average price of the common stock of the Company during the five (5) consecutive trading day period ending and including the trading day immediately preceding the delivery of the applicable conversion notice multiplied by (b) 125% of the greatest closing sale price of the common stock on any trading day during the period commencing on the date immediately preceding such triggering event and ending on the date the Company makes the entire redemption payment to the holder of Series C Preferred Stock.

Conversions of Series C Preferred Stock

During the first and second quarters of 2015, 1,800,000 shares of the Series C Preferred Stock and 126,000 shares of the Series C Preferred Stock issued as dividends were converted into 946,518 shares of common stock. As a result of the conversion, the preferred stock value, net of discounts of $943,000, and the $245,000 derivative liability arising from the conversion feature were reclassified to stockholders' equity. The aggregate grant date fair value of the common stock issued upon conversion was $3,189,000 and as result, the Company recorded $2,001,000 of dividends and deemed dividend.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

13 — STOCKHOLDERS' EQUITY

April 2014 Offering

On April 22, 2014, the Company closed an underwritten public offering of 526,500 shares of common stock, at a purchase price to the public of $19.00 per share, for net proceeds to the Company, after deducting underwriter discounts and offering expenses, of $8,816,000. Roth Capital Partners and Feltl and Company acted as underwriters for the offering.

Reduction in Authorized Shares

On June 11, 2014, the Board approved a resolution to amend the Corporation's Certificate of Incorporation, declaring said resolution to be advisable, and calling for the submission of the following resolution to the shareholders to authorize the Board to decrease the number of authorized shares of common stock from 300,000,000 shares to 100,000,000 shares.

Purchase Agreements and Registration Rights Agreement with Lincoln Park

$1,000,000 Purchase Agreement

On September 22, 2014, the Company entered into a Purchase Agreement with Lincoln Park Capital Fund ("Lincoln Park"), pursuant to which we offered 50,000 shares of our common stock to Lincoln Park at a price of $20.00 per share, for an aggregate purchase price of $961,000 net of expenses. The closing of the transaction occurred on September 24, 2014. The Company issued the 50,000 shares of common stock pursuant to the Company's registration statement on Form S-3 that was declared effective on August 31, 2014 (the "Shelf Registration Statement").

$15,000,000 Purchase Agreement

On September 19, 2014, the Company entered into a Purchase Agreement (the "$15M Purchase Agreement") and a registration rights agreement with Lincoln Park. In consideration for entering into the transaction, the Company issued 17,500 shares of our common stock to Lincoln Park as a commitment fee upon execution of the $15M Purchase Agreement. The Company recorded $346,000 as a prepaid expense based upon a stock price of $19.80 on the date of issuance. Lincoln Park also agreed to purchase up to $15,000,000 of our shares of common stock over the 24-month term of the $15M Purchase Agreement.

The $15M Purchase Agreement provides that, from time to time over the term of the $15M Purchase Agreement, on any business day, as often as every other business day, and at our sole discretion, the Company may require Lincoln Park to purchase up to 10,000 shares of our common stock (a "Regular Purchase"); provided, however, that (i) a Regular Purchase may be increased to up to 15,000 shares of our common stock provided that the closing sale price of our common stock is not below $20.00 on the purchase date, (ii) a Regular Purchase may be increased to up to 20,000 shares of our common stock provided that the closing sale price of our common stock is not below $25.00 on the purchase date and (iii) a Regular Purchase may be increased to up to 25,000 shares of our common stock provided that the closing sale price of our common stock is not below $30.00 on the purchase date; and provided, further, that the aggregate price of any Regular Purchase shall not exceed $1,000,000. The Company may not sell any shares of our common stock as a Regular Purchase on a date in which the closing sale price of our common stock is below $15.00. The purchase price for Regular Purchases shall be equal to the lesser of (i) the lowest sale price of our common stock on the purchase date and (ii) the average of the three (3) lowest closing sale prices of our common stock during the ten (10) business days prior to the purchase date, as reported on the NASDAQ Capital Market.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

13 — STOCKHOLDERS' EQUITY – (continued)

On October 3, 2014, the Company filed a registration statement on Form S-1 with the SEC to register 478,291 shares of the Company's common stock for sale to Lincoln Park under the $15M Purchase Agreement and the 17,500 shares of common stock issued to Lincoln Park as a commitment fee. On October 20, 2014, the SEC declared this registration statement effective. On May 18, 2015, the Company filed a Post-Effective Amendment to deregister the 4,857,906 shares of common stock registered pursuant to the registration statement declared effective on October 20, 2014, that remained unsold.

Between October 20, 2014 and May 18, 2015, the Company had drawn down $145,000 and issued 10,000 shares of common stock under the $15M Purchase Agreement. The prepaid expense for this financing was $0 as of December 31, 2015, representing a decrease of $346,000 from the initial recording of $346,000. The Company is amortizing the prepaid balance to additional paid in capital on a straight line basis over the term of the agreement.

$1,331,500 Purchase Agreement

On November 25, 2014, the Company entered into a purchase agreement, pursuant to which the Company sold to Lincoln Park, certain officers and directors of the Company (the "Affiliate Purchasers") and certain other investors (the "Other Investors") an aggregate of $1,331,500 of the Company's common stock. The Company received net proceeds of $1,311,500 after deducting $20,000 in expenses associated with the purchase agreement. Pursuant to the purchase agreement, Lincoln Park purchased 50,000 shares of Common Stock at a purchase price of $12.50 per share, the Affiliate Purchasers purchased 24,599 shares of Common Stock at a purchase price of $13.70 per share and the Other Investors purchased 29,560 shares of Common Stock at a purchase price of $12.50 per share pursuant to the Company's Shelf Registration Statement.

Equity Distribution Agreement with Roth Capital Partners, LLC

On November 18, 2014, the Company entered into an Equity Distribution Agreement (the "Equity Distribution Agreement") with Roth Capital Partners, LLC ("Roth"), pursuant to which the Company may sell from time to time up to

$10,000,000 of shares of common stock (the “Shares”), through Roth (the “Offering”). The Equity Distribution Agreement was amended on December 29, 2014 to change the amount of the Offering to up to $1,000,000. Effective February 23, 2015, the Company terminated the Equity Distribution Agreement with Roth.

Issuance of common stock to 31 Group

On December 30, 2014, the Company issued 3,315 shares of its common stock in consideration of 31 Group’s execution and delivery of the Purchase Agreement (See Note 12 – Series A Convertible Preferred Stock).

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

13 — STOCKHOLDERS' EQUITY – (continued)

August 2015 Underwritten Offering

On August 19, 2015, the Company closed an underwritten public offering of its Class A Units, Class B Units, Series C Warrants and Series D Warrants. The Company offered (i) 2,550,000 Class A Units, at a price of $1.00 per Class A Unit, each of which consists of one share of common stock and 0.5 of a Series A Warrant to purchase one share of its common stock at an exercise price of $1.00 per warrant, (ii) 2,450,000 Class B Units, at a price of $0.99 per Class B Unit, each of which consists of one pre-funded Series B Warrant to purchase one share of common stock and 0.5 of a Series A Warrant, (iii) 2,550,000 Series C Warrants, at a price of $0.01 per Series C Warrant, which is deemed to be included in the $1.00 price per Class A Unit, each to purchase one additional Class A Unit at an exercise price of $1.00, and (iv) 4,950,000 Series D Warrants, at a price of $0.01 per Series D Warrant, which is deemed to be included in the $0.99 price per Class B Unit, each to purchase one additional Class B Unit at an exercise price of $0.99. The Company received approximately $4,975,500 in gross proceeds from the offering, before underwriting discounts and commissions and offering expenses payable by the Company. Roth Capital Partners, LLC acted as sole book-running manager and as underwriter for the offering.

Each Series A Warrant was immediately exercisable at an initial exercise price of $1.00 per share. The Series A Warrants will expire on the fifth anniversary of the initial date of issuance.

Each Pre-funded Series B Warrant was immediately exercisable at an initial exercise price of $0.01 per share. The Pre-funded Series B Warrants will expire on the fifth anniversary of the initial date of issuance. Pre-funded Series B Warrants that expire unexercised will have no further value and the holder of such warrant will lose the pre-funded amount.

Each Series C Warrant was exercisable for one additional Class A Unit, each of which consists of one share of our common stock and 0.5 of a Series A Warrant to purchase one share of our common stock. The Series C Warrants are exercisable immediately at an initial exercise price of $1.00 per Class A Unit, subject to adjustment. Beginning at the close of trading on the 60th trading day following the date of issuance, and effective beginning on the third (3rd) trading day immediately preceding such 60th trading day, the Series C Warrants will be exercisable at a per Class A Unit exercise price equal to the lowest of (i) the then-effective exercise price per Class A Unit, (ii) 80% of the closing

price of our common stock on such 60th trading day and (iii) 80% of the average of the volume weighted average price of our common stock (‘‘VWAP’’) for the three (3) trading days ending and including the 60th trading day following the date of issuance. The Series C Warrants expired at the close of business at 5:00 p.m. (New York time) on November 19, 2015, the 65th trading day following the date of issuance.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

13 — STOCKHOLDERS' EQUITY – (continued)

Each Series D Warrant was exercisable for one additional Class B Unit, each of which consists of one Pre-funded Series B Warrant to purchase one share of our common stock and 0.5 of a Series AWarrant to purchase one share of our common stock. The Series D Warrants are exercisable immediately at an initial exercise price of $0.99 per Class B Unit, subject to adjustment. Beginning at the close of trading on the 60th trading day following the date of issuance, and effective beginning on the third (3rd) trading day immediately preceding such 60th trading day, the Series D Warrants will be exercisable at a per Class B Unit exercise price equal to the lowest of (i) the then-effective exercise price per Class B Unit, (ii) 80% of the closing price of our common stock on such 60th trading day and (iii) 80% of the average of the VWAP for the three (3) trading days ending and including the 60th trading day following the date of issuance. The Series D Warrants will expired at the close of business at 5:00 p.m.(New York time) on November 19, 2015, the 65th trading day following the date of issuance.

As a result of the net cash settlement provisions included in each of the warrants issued in the offering, the Company recorded an aggregate $3,368,000 as a derivative liability on the date of the offering. The remaining portion of the gross proceeds of $1,607,000 was recorded by the Company to stockholders' equity on the date of the offering. The Company allocated the aggregate costs associated with the offering of $945,000 on a pro rata basis to the warrants and common shares issued in the offering and as a result, $640,000 of the costs were expensed and $305,000 were recorded as a reduction to additional paid in capital on the date of the offering.

At various dates from the date of the offering through December 31, 2015, all 2,450,000 of the Series B Warrants were exercised into 2,450,000 shares of the Company's common stock. The Company received $17,000 in cash as a result of the exercise and reclassified $1,197,000 of derivative liabilities to stockholders' equity.

From October 1, 2015 through November 19, 2015, 2,250,000 Series C Warrants issued in our August 2015 underwritten public offering have been exercised into 2,250,000 Class A Units, consisting of 2,250,000 shares of common stock and 1,125,000 Series A Warrants, at an exercise price of $0.2518 per share.

From October 1, 2015 through November 19, 2015, 4,665,000 Series D Warrants issued in our August 2015 underwritten public offering have been exercised into 4,665,000 Class B Units, consisting of 4,665,000 Series B Warrants and 2,332,501 Series A Warrants, at an exercise price of $0.2518 per share. Of such Series B Warrants

issued, 4,665,000 were then exercised into 4,665,000 shares of common stock as of December 1, 2015.

Settlement with Holders of Series B Warrants

On November 2, 2015, the Company entered into a Settlement Agreement and Mutual Release (the "Agreement") with certain holders (the "Holders") of the Company's Series B Warrants to purchase common stock (the "Original Warrants"), issued in connection with the August 2015 underwritten offering. Upon the consummation of the Agreement, in full and complete satisfaction of all claims that the Holders made or could have made against the Company arising in connection with the Original Warrants, the Company delivered to the Holders new warrants initially exercisable to purchase, in the aggregate, two million four hundred fifty thousand (2,450,000) shares of the Company's common stock, par value $0.00001, at an exercise price of $0.75 per share with an expiration date of November 2, 2018, as set forth in the Agreement.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

13 — STOCKHOLDERS' EQUITY – (continued)

Settlement of Amounts Due to Related Parties

In October 2015, George Schmitt, Chief Executive Officer and Chairman of the Board, agreed to convert $500,000 of existing loans due from the Company into 892,858 shares of the Company's common stock with a grant date fair value of approximately $500,000.

Shares Issued for Services

In 2015, the Company issued 1,363,333 shares of common stock to employees in lieu of paying $1,325,221 of payroll due to cost cutting measures and 469,411 shares of common stock to various other parties to pay $509,072 worth of services. In 2014, the Company did not issue any shares to employees in lieu of paying payroll or any shares to consultants.

Stock Options — Equity Incentive Plans:

The Company's stock option plans provide for the grant of options to purchase shares of common stock to officers, directors, other key employees and consultants. The purchase price may be paid in cash or "net settled" in shares of the Company's common stock. In a net settlement of an option, the Company does not require a payment of the exercise price of the option from the optionee, but reduces the number of shares of common stock issued upon the exercise of the option by the smallest number of whole shares that has an aggregate fair market value equal to or in excess of the aggregate exercise price for the option shares covered by the option exercised. Options generally vest over a three year period from the date of grant and expire ten years from the date of grant.

A summary of the Company's historical stock option plan activity as of December 31, 2015 is as follows:

Plan Name	Options Authorized	Options Granted	Shares Exercised	Shares Forfeited/Expired	Options Outstanding
2004	14,287	14,287	(6,746)	(4,683)	2,858
2005	14,287	14,287	(1,000)	(13,287)	0
2006	31,429	31,011	(631)	(7,242)	23,138
2007	2,858	2,572	—	(429)	2,143
2009	28,572	35,844	(1,005)	(14,970)	19,869
2013	90,630	49,323	—	(12,644)	36,679
2015	236,500	236,500	—	(18,000)	218,500
Total	418,563	383,824	(9,382)	(71,255)	303,187

The weighted average fair value of options granted was $2.16 and $12.18 during the years ended December 31, 2015 and 2014, respectively. Each option is estimated on the date of grant, using the Black-Scholes model and the following assumptions (all in weighted averages):

	2015	2014
Exercise price	$2.55	$14.20
Volatility	116 %	118 %
Risk-free interest rate	1.54%	1.63 %
Expected dividend yield	0 %	0 %
Expected term (years)	6	6

The risk-free rate is based on the rate for the U.S. Treasury note over the expected term of the option. The expected term for employees represents the period of time that options granted are expected to be outstanding using the simplified method and for non-employee options, the expected term is the full term of the option. Expected volatility is based on the average of the weekly share price changes over the shorter of the expected term or the period from the placement on London Stock Exchange’s AIM Market to the date of the grant. The forfeiture rate for the year ended December 31, 2015 was 5.5%. The forfeiture rate is based on historical data related to prior option grants, as the Company believes such historical data will be similar to future results.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

13 — STOCKHOLDERS' EQUITY – (continued)

A summary of the status of the Company's stock option plans for the years ended December 31, 2015 and 2014 is as follows:

	Number of Options (in Shares)	Weighted Average Exercise Price
Options Outstanding, January 1, 2015	95,940	$ 266.86
Granted	244,500	2.55
Exercised	—	—
Forfeited or Expired	(37,253)	53.75
Options outstanding, December 31, 2015	303,187	79.90
Exercisable, December 31, 2015	65,723	$ 356.27

As of December 31, 2015, the weighted average remaining contractual life was 8.26 years for the options outstanding and 4.29 years for the options exercisable.

Summary information regarding the options outstanding and exercisable at December 31, 2015 is as follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding (in shares)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable (in shares)	Weighted Average Exercise Price
$2.50 – 80.50	263,489	9.13	$ 6.34	26,474	$ 34.79
84 – 238	13,597	6.65	125.17	13,148	124.93
350 – 700	23,538	0.19	688.20	23,538	688.20
1,225 – 2,890	2,563	1.01	1,815.45	2,563	1,815.45
	303,187			65,723	

Under the provisions of ASC 718, the Company recorded approximately $530,000 and $625,000 of stock based compensation expense for the years ended December 31, 2015 and 2014, respectively. Stock based compensation for employees was approximately $269,000 and $305,000 and stock based compensation expense for non-employees was approximately $261,000 and $320,000 for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, there was approximately $0.5 million and $0.6 million, respectively, of unrecognized compensation cost related to non-vested options under the plans. The weighted average grant date value of the options forfeited in 2015 was $53.75.

In 2015 and 2014, no options were exercised. The intrinsic value of options exercisable at December 31, 2015 and 2014 was $0 and $0, respectively. The total fair value of shares vested during 2015 and 2014 was approximately $498,000 and $830,000, respectively.

The Company had approximately $0.5 million of unrecognized stock-based compensation expense related to unvested stock options, net of estimated forfeitures, as of December 31, 2015, which we expect to be recognized over the next three years.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

13 — STOCKHOLDERS' EQUITY – (continued)

Warrants:

The Company has issued warrants, at exercise prices equal to or greater than market value of the Company's common stock at the date of issuance in connection with numerous financing transactions.

A summary of the warrant and option activity is as follows:

	Number of Options/Warrants (in Shares)	Weighted Average Exercise Price
Warrants Outstanding, January 1, 2015	462,116	$ 61.60
Granted	23,172,251	0.51
Exercised	(14,030,000)	0.13
Forfeited or Expired	(585,000)	1.15
Warrants Outstanding, December 31, 2015	9,019,367	4.21
Exercisable, December 31, 2015	9,019,367	$ 4.21

Summary information regarding the warrants as of December 31, 2015 is as follows:

Exercise Price	Number Outstanding (in shares)	Weighted Average Remaining Contractual Life (in years)
$0.75	2,450,000	2.83
$1.00	5,957,501	4.77
$11.50	145,000	4.10
$20.00	42,250	4.14
$21.88	17,145	2.89

$35.00	7,074	2.65
$55.00	57,144	0.13
$68.70	326,680	2.66
$78.70	1,429	0.28
$87.50	14,286	2.04
$350.00	858	1.20
Exercisable, December 31, 2015	9,019,367	

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

14 — COMMITMENTS AND CONTINGENCIES

Leases:

The Company's office rental, deployment sites and warehouse facilities expenses aggregated approximately $484,000 and $437,000 during the years ended December 31, 2015 and 2014, respectively. The leases will expire on different dates from 2016 through 2019. Total obligation of minimum future annual rentals, exclusive of real estate taxes and related costs, are approximately as follows:

Year Ending December 31,	
2016	$215,000
2017	84,000
2018	87,000
2019	66,000
	$452,000

In connection with the acquisition of IMT, the Company assumed the lease obligations relating to IMT's were house and office space. Future payments under such lease will amount to $360,000 for the year ending December 31, 2016 and $60,000 for the year ending December 31, 2017. IMT's lease expires in February of 2017.

Legal:

The Company is subject, from time to time, to claims by third parties under various legal theories. The defense of such claims, or any adverse outcome relating to any such claims, could have a material adverse effect on the Company's liquidity, financial condition and cash flows. For the years ended December 31, 2015 and 2014, the Company did not have any legal actions pending.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

15 — CONCENTRATIONS

During the year ended December 31, 2015, the Company recorded sales to two customers of $229,000 (25%), and $150,000 (16%) in excess of 10% of the Company's total sales. During the year ended December 31, 2014, the Company recorded sales to two customers of $204,000 (32%), and $100,000 (16%) in excess of 10% of the Company's total sales. During the year ended December 31, 2014, the Company also recorded consulting revenue of which $200,000 (32%) came from one customer.

At December 31, 2015, approximately 100% of net accounts receivable was due from three customers broken down individually as follows: $272,000 (43%) and $231,000 (36%) due from unrelated parties, and $138,000 (21%) due from a related party. At December 31, 2014, approximately 97% of net accounts receivable was due from four customers, of which three comprised more than 10% of the outstanding balance, broken down individually as follows; $289,000 (41%), $190,000 (27%) and $172,000 (24%).

During the year ended December 31, 2015, approximately 61% of the Company's inventory purchases were derived from three vendors broken down individually as follows: $41,000 (30%), $27,000 (19%) and $16,000 (12%). During the year ended December 31, 2014, approximately 33% of the inventory purchases were derived from three vendors broken down individually as follows: $239,000 (13%), $188,000 (10%) and $178,000 (10%).

16 — RELATED PARTY TRANSACTIONS

MB Technology Holdings, LLC

On April 29, 2014, the Company entered into a management agreement (the "Management Agreement") with MB Technology Holdings, LLC ("MBTH"), pursuant to which MBTH agreed to provide certain management and financial services to the Company for a monthly fee of $25,000. The Management Agreement was effective January 1, 2014. The Company incurred fees related to the Management Agreement of $300,000 and $300,000 respectively, for the years ended December 31, 2015 and 2014. As of December 31, 2015, MBTH owned approximately 6.1% of the Company's outstanding shares. Roger Branton, the Company's Chief Financial Officer, George Schmitt, the Company's

Executive Chairman and, effective as of February 17, 2015, Chief Executive Officer, are directors of MBTH, and Richard Mooers, a director of the Company, is the CEO and a director of MBTH.

On February 24, 2015, the Company issued 399,114 shares of common stock to MBTH in consideration of settling $1,756,098 of amounts due to related parties at a price of $4.40 per share. The balance outstanding to MBTH at December 31, 2015 is $24,000 and has been included in due to related parties on the balance sheet.

The Company has agreed to award MBTH a 3% cash success fee if MBTH arranges financing, a merger, consolidation or sale by the Company of substantially all of its assets. On February 24, 2015, MBTH invoiced the Company for $700,000 in fees associated with equity financings that had occurred through April 16, 2014 at a rate of 3% per financing less certain discounts. The Company also accrued for an additional fee of approximately $109,000 for equity financings between April 17, 2014 and December 31, 2014. The balance of $809,000 was recorded as an expense in general and administrative expenses and included in due to related parties as of December 31, 2014. The $809,000 was included in the settlement of amounts due to related parties in exchange for common stock on February 24, 2015, as disclosed above. The Company accrued an additional approximate $90,000 for equity financings between January 1, 2015 and December 31, 2015 which is included in due to related parties on the balance sheet. The Company recorded the $90,000 in general and administrative expenses on the accompanying statement of operations.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

16 — RELATED PARTY TRANSACTIONS – (continued)

George Schmitt- Due to Related Party

On December 30, 2014, the Company received a $245,000 loan from George Schmitt, Chairman of the Board and, effective as of February 17, 2015, Chief Executive Officer. This amount was recorded in due to related parties.

On February 23, 2015, the Company issued 845,000 shares of Series B Preferred Stock, 5,310 shares of common stock, and warrants to purchase an aggregate 42,250 shares of common stock exercisable for five years at a price of $20.00 per share in full settlement and extinguishment of $845,000 due to family members of George Schmitt. See Note 6.

From January 1, 2015 through December 31, 2015, the Company received a total of $1,900,000 in loans from George Schmitt, Chairman of the Board and, effective as of February 17, 2015, Chief Executive Officer. On August 19, 2015, the Company repaid $500,000 of the outstanding due to related party balance owed to George Schmitt.

In October 2015, George Schmitt, Chief Executive Officer and Chairman of the Board, agreed to convert $500,000 of existing loans due from the Company into 892,858 shares of the Company’s common stock with a grant date fair value of approximately $500,000.

Deferred Revenue

On October 16, 2013, the Company completed the first delivery of xMax comprehensive cognitive radio system, shipping equipment and providing engineering services required to fulfill the $179,000 purchase order that was received from rural broadband provider Walnut Hill Telephone Company on November 26, 2012. Larry Townes is Chairman of Townes Tele-Communications, Inc., the parent company of Walnut Hill Telephone Company. Given that Larry Townes was a director of xG Technology at the time of the purchase order, the sale of equipment to Walnut Hill

Telephone Company was, at the time it was entered into, considered to be a related party transaction. Due to Walnut Hill Telephone Company waiting for the equipment to meet certain technical specifications, the revenue from this transaction was considered deferred revenue as of December 31, 2014.

On December 16, 2013, the Company sold xMax comprehensive cognitive radio system to Haxtun Telephone Company for $301,000 to fulfill a purchase order that was received on November 24, 2012. Larry Townes is Chairman of Townes Tele-Communications, Inc., the parent company of Haxtun Telephone Company. Given that Larry Townes was a Director of xG Technology at the time of the purchase order (Larry Townes resigned as a Director effective December 30, 2014), the sale of equipment to Haxtun Telephone Company was, at the time it was entered into, considered to be a related party transaction. Due to Haxtun Telephone Company waiting for the equipment to meet certain technical specifications, the revenue from this transaction was considered deferred revenue as of December 31, 2014.

On March 31, 2015, the Company shipped additional equipment purchased by Larry Townes and received a partial payment for the equipment that had been previously delivered in those transactions as the purchasers indicated that the equipment met certain technical specifications associated with their networks. Despite the technical specifications being met, the customer opted to return a portion of the equipment to the Company during the year ended December 31, 2015 resulting in the Company reversing accounts receivable of $336,000, with a corresponding reversal to deferred revenue.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

16 — RELATED PARTY TRANSACTIONS – (continued)

In May 2015, the Company received an order for approximately $100,000 in xMax mobile broadband wireless equipment and services which will be deployed in a network to be initially installed in Escazu, Costa Rica, with plans to expand in other Latin American locations. The xMax equipment order was received from Itellum, LLC (“Itellum”), an entity owned by MBTH, a related party, one of four companies who have entered into a formal agreement to participate in the initial xMax deployment as well as expansion into other Latin American markets thereafter. The other partners include Level 3 Communications (“Level 3”), Osmin Vargas Corporacion (“OV”), and MBTH. In June 2015, the Company announced the successful installation and initial deployment of an xMax broadband network in Escazu, Costa Rica by Itellum. This represents the first stage of xMax network deployments that are expected to cover additional areas of Costa Rica, with plans for expansion into other Latin American locations. In June 2015, the Company received an additional order for approximately $58,000 in xMax mobile broadband wireless equipment and services from Itellum.

Related party revenue was $156,000 for the year ended December 31, 2015 compared to $0 for the year ended December 31, 2014.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

17 — SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions occurring through the date the financial statements were issued and determined that no events or transactions are required to be disclosed herein, except as disclosed.

Delisting Notice from Nasdaq

On March 29, 2016, the Company received written notice from Nasdaq, that it had granted the Company an additional 180 calendar days, or until September 26, 2016, to regain compliance with the minimum bid price requirement of $1 per share for continued listing on Nasdaq, pursuant to Nasdaq Listing Rule 5810(c)(3)(A)(ii).

Acquisition of Integrated Microwave Technologies, LLC

On January 29, 2016, the Company completed the acquisition of the assets and liabilities that constituted the business of IMT pursuant to an asset purchase agreement by and between the Company and IMT. Pursuant to the terms of the Asset Purchase Agreement, the Company acquired substantially all of the assets and liabilities of IMT in connection with, necessary for or material to IMT's business of designing, manufacturing and supplying of Coded Orthogonal Frequency Division Multiplexing (COFDM) microwave transmitters and receivers serving the broadcast, sports and entertainment, military, aerospace and government markets (the ''Transaction''). The purchase price for the Transaction was $3,000,000, which was paid through: (i) the issuance of a promissory note in the principal amount of $1,500,000 due March 31, 2016 (the ''Initial Payment Note''); and (ii) the issuance of a promissory note in the principal amount of $1,500,000 due July 29, 2017 (the ''Deferred Payment Note''). The Company has yet to make its required $1.5 million payment and is currently in negotiations to modify the repayment terms.

The fair value of the purchase consideration issued to the sellers of IMT was allocated to the preliminary fair value of the net tangible assets acquired and to the separately identifiable intangibles. The excess of the aggregate fair value of the net tangible assets and identified intangible assets has been treated as a gain on bargain purchase in accordance with ASC 805. The preliminary purchase price allocation was based, in part, on management's knowledge of IMT's business and the preliminary results of a third party appraisal commissioned by management.

Purchase Consideration

Amount of consideration:	$3,000,000
Tangible assets acquired and liabilities assumed at preliminary fair value	
Cash	$477,000
Accounts receivable	676,000
Inventories	2,649,000
Property and equipment	133,000
Prepaid expenses	55,000
Accounts payable and deferred revenue	(423,000)
Deferred rent	(167,000)
Accrued expenses	(378,000)
Net tangible assets acquired	$3,022,000
Identifiable intangible assets	
Trade names and technology	$320,000
Customer relationships	170,000
Total Identifiable Intangible Assets	$490,000
Total net assets acquired	$3,512,000
Consideration paid	3,000,000
Preliminary gain on bargain purchase	$512,000

The following presents the unaudited pro-forma combined results of operations of the Company with IMT as if the acquisition occurred on January 1, 2014.

	For the Year Ended December 31,	
	2015	**2014**
Revenues, net	$8,160	$14,970
Net loss allocable to common shareholders	$(24,634)	$(21,339)
Net loss per share	$(3.24)	$(9.34)
Weighted average number of shares outstanding	7,599	2,285

The unaudited pro-forma results of operations are presented for information purposes only. The unaudited pro-forma results of operations are not intended to present actual results that would have been attained had the acquisition been completed as of January 1, 2014 or to project potential operating results as of any future date or for any future periods.

xG TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

17 — SUBSEQUENT EVENTS – (continued)

$500,000 Securities Purchase Agreement

On January 29, 2016, the Company entered into a securities purchase agreement (the ‘‘Securities Purchase Agreement’’) pursuant to which the Company sold 5% Senior Secured Convertible Promissory Notes (the ‘‘5% Convertible Notes’’) to accredited investors (each, a ‘‘Holder’’, and collectively, the ‘‘Holders’’) for an aggregate purchase price of $500,000 for net proceeds of $500,000. In connection with the February 2016 Financing, all of the Company’s obligations under the 5% Convertible Notes have been extinguished.

February 2016 Financing

On February 29, 2016, the Company closed the public offering of 3,556,660 Units, at a price of $1.00 per Unit, each of which consists of one share of its Series B Convertible Preferred Stock (as amended) and 0.5 of a Warrant to purchase one share of its common stock at an exercise price of $0.21 per Warrant. The Company received approximately $3,556,660 in gross proceeds from the offering, before deducting placement agent fees and offering expenses totaling $218,000 payable by the Company. Roth Capital Partners acted as sole placement agent for the offering.

Series A Preferred Stock and Series C Preferred Stock

The Series A Convertible Preferred Stock and Series C Convertible Preferred Stock were cancelled on February 5, 2016.

Series B Preferred Stock

On February 5, 2016, the Company filed an Amended and Restated Certificate of Designation of its Series B Convertible Preferred Stock to modify the terms of the Series B Preferred stock and the following terms were amended:

Dividends on Series B Preferred Stock

Holders of Series B Preferred Stock shall be entitled to receive from the first date of issuance of the Series B Preferred Stock until the Maturity Date cumulative dividends at a rate of 12.5% per annum. The Company shall have the right to pay dividends in cash or shares of common stock on the Maturity Date or in cash on any applicable redemption date or, with respect to Series B Preferred Stock that is converted, as part of the conversion amount.

Redemption of Series B Preferred Stock

Upon the occurrence of certain triggering events (including if the Series B Preferred Stock or common stock underlying the Series B Preferred Stock is not freely tradeable without restriction; the failure of the common stock to be listed on the NASDAQ Capital Market or other national securities exchange; and bankruptcy, insolvency, reorganization or liquidation proceedings instituted against us shall not be dismissed in thirty (30) days or the voluntary commencement of such proceedings by us), the holders of Series B Preferred Stock shall have the right to require the Company, by written notice, to redeem all or any of the shares of Series B Preferred Stock at a price equal to the greater of (i) 125% of the conversion amount to be redeemed and (ii) the product of (a) the conversion amount divided by the lower of (x) $0.25 or (y) 87.5% of the lowest volume weighted average price of our common stock during the five (5) consecutive trading-day period ending and including the trading day immediately preceding the delivery of the applicable conversion notice multiplied by (b) 125% of the greatest closing sale price of the common stock on any trading day during the period commencing on the date immediately preceding such triggering event and ending on the date the Company makes the entire redemption payment to the holder of Series B Preferred Stock; *provided* that the conversion price will not be less than the Floor Price, which Floor Price will not be adjusted for stock splits, share combinations and similar transactions.

Shares Issued Under S-8 Registration Statement

From January 1, 2016 to April 13, 2016, the Company issued 1,062,387 shares of common stock to employees in lieu of paying $147,630 of payroll due to cost cutting measures and 284,534 shares of common stock to various consultants to pay $39,000 worth of services.

From January 1, 2016 to April 13, 2016, holders of our 8% Convertible Notes converted $250,000 of principal into 1,809,476 shares of common stock.

From January 1, 2016 to April 13, 2016, the Company issued a total of 732,373 shares of common stock to directors, consultants and general counsel in lieu of paying $115,700 worth of services.

Conversions and Balances of Outstanding Series B Preferred Stock from February 2016 Financing

From January 1, 2016 to April 13, 2016, 1,966,807 of the Series B Convertible Preferred Stock and 240,851 in dividends have been converted into 21,200,445 shares of common stock. As of April 13, 2016, 1,589,853 of the Series B Convertible Preferred Stock remain outstanding.

Conversions of Series A Warrants

From January 1, 2016 to April 13, 2016, 734,600 of the Series A warrants issued in connection with the August 2015 Financing, have been exercised into 734,600 shares of common stock. The Company received $75,042 in gross proceeds from the exercise.

MB Technology Holdings

On March 3, 2016, the Board of Directors approved to award MBTH 300,000 shares of common stock on March 15, 2016, which will vest if by December 31, 2016, if IMT achieves its goals on revenue, EBITA, and cash contributions, the Board would grant MBTH up to 300,000 shares. The Board reserves the right to award lesser or greater awards based on under or over achievement of the goals.

As of April 14, 2016, the balance due to MBTH is $190,847.

INDEX OF EXHIBITS

Exhibit Number	Description of Exhibit
3.1(i)	Amended & Restated Certificate of Incorporation (1)
3.1(i)(a)	Amendment to Certificate of Incorporation filed June 11, 2014(2)
3.1 (i)(b)	Amendment to Certificate of Incorporation filed July 10, 2015(14)
3.1(i)(c)	Amended and Restated Certificate of Designation of Series B Convertible Stock (19)
3.1(ii)	Amended & Restated Bylaws (3)
4.1	Form of Common Stock Certificate of the Registrant (4)
4.2	Form of Warrant Agreement by and between the Registrant and Continental Stock Transfer & Trust Company and Form of Warrant Certificate for the offering closed July 24, 2013 and August 19, 2013 (5)
4.3	Form of Underwriters' Warrant for the offering closed July 24, 2013(1)
4.4	Form of Underwriters' Warrant for the offering closed November 18, 2013(6)
4.5	Form of Warrant issued in December 30, 2014 Offering. (11)
4.6	Form of Warrant issued in February 11, 2015 Offering. (12)
4.7	Form of Warrant issued in February 24, 2015 Offering. (13)
4.8	Form of 8% Convertible Note(14)
4.9	Form of Series A Warrant for the August 2015 Offering(16)
4.10	Form of Pre-funded Series B Warrant for the August 2015 Offering(16)
4.11	Form of Series C Warrant for the August 2015 Offering (16)
4.12	Form of Series D Warrant for the August 2015 Offering (16)
4.13	Form of 5% Convertible Note(18)
10.1	2013 Long Term Incentive Plan(7)
10.2	Forms of Agreement Under 2013 Long Term Incentive Plan (7)
10.3	Loan Documents Between xG Technology and MB Technology Holdings, LLC (7)
10.4	Form of Securities Subscription Agreement (7)
10.5	Form of Bridge Loan Documents (7)
10.6	2004 Option Plan (7)
10.7	2005 Option Plan (7)
10.8	2006 Option Plan (7)
10.9	2007 Option Plan (7)
10.10	2009 Option Plan (7)
10.11	Forms of Award Documents under 2004, 2005, 2006, 2007, and 2009 Option Plans (7)
10.12	Sunrise Office Lease (7)
10.13	Treco Documents (7)
10.14	Mats Wennberg Consulting Agreement (7)
10.15	Mats Wennberg Warrant Agreement (7)
10.16	MBC Agreement (7)
10.17	Purchase Agreement, dated as of December 30, 2014, by and between the Company and 31 Group, LLC. (11)
10.18	Purchase Agreement, dated as of February 11, 2015, by and between the Company and 31 Group, LLC. (12)

10.19	Purchase Agreement, dated as of February 24, 2014, by and between the Company and 31 Group, LLC. (13)
10.20	Form of Purchase Agreement dated as of June 11, 2015(14)
10.21	Amendment to Purchase Agreement dated as of June 11, 2015(14)
10.22	Asset Purchase Agreement, dated as of January 29, 2016, by and between the Company and Integrated Microwave Technologies, LLC(18)
10.23	Form of Securities Purchase Agreement (18)
10.24	$1,500,000 Initial Payment Note from the Company to IMT(18)
10.25	$1,500,000 Deferred Payment Note from the Company to IMT(18)
10.26	2015 Employee Stock Purchase Plan
10.27	2015 Incentive Compensation Plan

Exhibit Number	Description of Exhibit
14.1	Code of Ethics[8]
23.1	Consent of Marcum LLP
23.2	Consent of Friedman LLP
31.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

(1) Filed as an Exhibit on Form S-1 with the SEC on October 23, 2013.
(2) Filed as an Exhibit on Current Report on Form 8-K with the SEC on June 13, 2014.
(3) Filed as an Exhibit on Quarterly Report on Form 10-Q with the SEC on August 30, 2013.
(4) Filed as an Exhibit on Form S-1/A with the SEC on May 21, 2013.
(5) Filed as an Exhibit on Current Report to Form 8-K with the SEC on August 19, 2013.
(6) Filed as an Exhibit on Form S-1/A with the SEC on November 6, 2013.
(7) Filed as an Exhibit on Form S-1 with the SEC on March 7, 2013.

(8) Filed as an Exhibit on Form 10-K with the SEC on March 6, 2014.
(9) Filed as an Exhibit on Current Report on Form 8-K with the SEC on September 24, 2014.
(10) Filed as an Exhibit on Current Report on Form 8-K with the SEC on November 26, 2014.
(11) Filed as an Exhibit on Current Report on Form 8-K with the SEC on December 31, 2014.
(12) Filed as an Exhibit on Current Report on Form 8-K with the SEC on February 12, 2015.
(13) Filed as an Exhibit on Current Report on Form 8-K with the SEC on February 26, 2015.
(14) Filed as an Exhibit on Current Report on Form 8-K with the SEC on June 12, 2015.
(15) Filed as an Exhibit on Current Report on Form 8-K with the SEC on July 20, 2015
(16) Filed as an Exhibit on Current Report on Form 8-K with the SEC on August 20, 2015.
(17) Filed as an Exhibit on Current Report on Form 8-K with the SEC on November 4, 2015.
(18) Filed as an Exhibit on Current Report on Form 8-K with the SEC on February 3, 2016.
(19) Filed as an Exhibit on Current Report on Form 8-K with the SEC on February 10, 2016.
(20) Filed as an Exhibit on Form S-1 with the SEC on February 12, 2016.