

19 September 2007

**xG Technology, Inc.**  
("xG" or "the Company")

**2007 Interim Statement**

xG Technology, Inc., (AIM:XGT) the Florida based communications technology business, today announces its half year results for the 6 months ended 30 June 2007.

**Highlights:**

- Cash and cash equivalents as of 30 June 2007 was \$41,807,000.
- Net increase in cash for the period of \$33,791,000.
- Closed on convertible preferred equity agreements of \$40 million; \$38 million of which converted to common shares during the period.
- Entered into an agreement with a major UK-based telecommunications infrastructure company which will allow the two parties to enter into negotiations regarding the potential deployment of xG's transmission technologies across the UK market.
- Entered into an exclusive territory trial agreement with Telefonica Mexico (Pegaso PCS S.A. de C.V.). The agreement allows Telefonica Mexico to evaluate and test the xG technology for a potential joint venture to build a network providing xG transmission technologies in Mexico.
- Entered into an exclusive territory trial agreement with Gama Ticaret ve Turizm A.S., a member of Gama Group, the Turkish-based infrastructure group. The six month agreement allows the Gama Group to enter into negotiations regarding the potential deployment of xG's transmission technologies across Turkey.
- The first shipment of commercial base stations to Far Reach Technologies in the United States. In November 2007 Far Reach will be deploying the initial shipment of base stations in the Daytona Beach area and will be offering their customers mobile VoIP services, followed by mobile broadband.
- The appointment of Piper Jaffrey Ltd. as its Nominated Adviser and exclusive Financial Advisor.
- The receipt of the 2007 Frost & Sullivan Award for Technology Innovation in the European Market.

Commenting on today's announcement, Rick Mooers, Chairman & CEO of xG said:

"The outlook for the second half will be defined by the further acceleration of the Company's first vertical business model of mobile VoIP. xG has developed a forward-looking new product roadmap that will feature exciting product and service announcements over the next several quarters. This will include advanced handset designs, a desktop wireless modem, and cutting-edge smartphone-type devices, as well as enhancements to the xMax family of services that will include in-demand voice, data, and video options. I look forward to reporting on the Company's progress on these fronts and more in the coming quarters".

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## **Chief Executive Officer's statement**

### **Introduction**

xG Technology, Inc. has made good progress in executing the strategy set out at the time of its AIM admission in November 2006 and the Company has now moved into the execution phase of all activities supporting the commercial launch of the xMax Mobile VoIP Service. Product testing and refinement continues and involves the resources of our design and manufacturing partners as well as our in-house technical staff.

To ensure a successful product rollout, xG has carefully chosen best-in-breed vendor partners. These include Cambridge Consultants, Ltd. (product planning and design), Brightpoint, Inc. (distribution and product fulfillment logistics), Telcentris (backend VoIP platforms), Rackspace (managed hosting services), and St. John & Partners (advertising and creative marketing services).

### **Business Review**

During the period under review, the Company has had numerous operational developments, including:

- Entering into an agreement with a major UK-based telecommunications infrastructure company which will allow the two parties to enter into negotiations regarding the potential deployment of xG's transmission technologies across the UK market.
- Entering into an exclusive territory trial agreement with Telefonica Mexico (Pegaso PCS S.A. de C.V.). The agreement allows Telefonica Mexico to evaluate and test the xG technology for a potential joint venture to build a network providing xG transmission technologies in Mexico.
- Entering into an exclusive territory trial agreement with Gama Ticaret ve Turizm A.S., a member of Gama Group, the Turkish-based infrastructure group. The six month agreement allows the Gama Group to enter into negotiations regarding the potential deployment of xG's transmission technologies across Turkey.
- The first shipment of commercial base stations to Far Reach Technologies in the United States. Far Reach will be deploying the initial shipment of base stations in the Daytona Beach area and will be offering their customers mobile VoIP services, followed by mobile broadband.
- The appointment of Piper Jaffrey Ltd. as its Nominated Adviser and exclusive Financial Advisor.
- The receipt of the 2007 Frost & Sullivan Award for Technology Innovation in the European Market.

### **Financial Review**

As the company continues to grow and invest in its business future, operating expenses for the six months to 30 June 2007 have risen to \$6,093,000, compared to \$4,020,000 during the same period last year. Net loss for the period increased to \$5,574,000 compared to a net loss of \$3,990,000 in the same period last year.

The increase in operating expenses of \$2,073,000 was primarily the result of costs associated with the expansion in the size of the technical and sales/marketing organizations, along with increased funding on product development, manufacturing and testing. However, the majority of the loss is related to stock-based compensation costs, which totaled \$3,786,000 for the period. Revenue consisted of the shipment of the Company's first xMax base stations.

During the period, the Company closed on the sale of \$40,000,000 of Series A Convertible Preferred Equity Shares. This capital raise essentially secured the Company's future by financing its business plan. As of the period end, \$38,000,000 of those Preferred Shares had been converted to common stock of the Company (subject to certain restrictions upon disposal).

The Company's liquidity position is strong with more than \$41,807,000 in cash and cash equivalents at 30 June 2007. The cash used in operating activities during the six month period was \$2,731,000. Cash outflows attributable to capital expenditures totaled \$1,573,000 during the period. There were cash inflows of \$38,095,000 (net of issue costs) from the issuance of Series A Convertible Preferred Equity Shares and common stock; the net cash increase for the period was \$33,791,000.

## **Outlook**

The outlook for the second half will be defined by the further acceleration of the Company's first vertical business model of mobile VoIP. xG has developed a forward-looking new product roadmap that will feature exciting product and service announcements over the next several quarters. This will include advanced handset designs, a desktop wireless modem, and cutting-edge smartphone-type devices, as well as enhancements to the xMax family of services that will include in-demand voice, data, and video options. I look forward to reporting on the Company's progress on these fronts and more in the coming quarters.

**Richard Mooers**  
**Chairman and CEO**  
**17 September 2007**

## **Independent review report to xG Technology, Inc.**

### *Introduction*

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2007 which comprises an income statement, balance sheet, cash flow statement, changes in equity and related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

### *Directors' Responsibilities*

The half-yearly financial report is the responsibility of, and has been approved by, the directors. As disclosed in note 1, the annual financial statements of the company are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

### *Our Responsibility*

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Firm of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2007 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Chantrey Vellacott DFK LLP  
18 September 2007

## Unaudited income statement for the six months ended 30 June 2007

	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006	Year ended 31 December 2006
<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Continuing operations</b>			
<b>Revenue</b>	<b>250</b>	-	-
Cost of sales	<u>(13)</u>	<u>-</u>	<u>-</u>
<b>Gross profit</b>	<b>237</b>	-	-
Administrative expenses	<u>(6,093)</u>	<u>(4,020)</u>	<u>(11,373)</u>
<b>Loss from operations</b>	<b>(5,856)</b>	(4,020)	(11,373)
Interest receivable and similar income	<b>282</b>	30	112
<b>Loss for the period</b>	<u><b>(5,574)</b></u>	<u>(3,990)</u>	<u>(11,261)</u>
<b>Loss per share</b>	<b>3</b>		
<b>Basic</b>	<u><b>(\$0.04)</b></u>	<u>(\$0.03)</u>	<u>(\$0.09)</u>
<b>Diluted</b>	<u><b>(\$0.04)</b></u>	<u>(\$0.03)</u>	<u>(\$0.09)</u>

## Unaudited balance sheet as at 30 June 2007

	Notes	30 June 2007 \$'000	30 June 2006 \$'000	31 December 2006 \$'000
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible fixed assets	4	17,021	14,240	15,240
Fixtures and equipment		95	113	75
		<u>17,116</u>	<u>14,353</u>	<u>15,315</u>
<b>Current assets</b>				
Trade receivables and other current assets	5	3,335	79	79
Cash and cash equivalents		41,807	8,487	8,016
		<u>45,142</u>	<u>8,566</u>	<u>8,095</u>
<b>Total assets</b>		<b>62,258</b>	22,919	23,410
<b>Current liabilities</b>				
Trade and other liabilities		(3,301)	(218)	(772)
<b>Net assets</b>		<u><b>58,957</b></u>	<u>22,701</u>	<u>22,638</u>
<b>Shareholders' equity</b>				
Share capital		1,290	-	1,224
Share premium account		65,404	-	29,363
Preferred equity		2,000	-	-
Paid in capital		-	32,905	-
Other reserve		13,312	-	9,526
Retained losses		(23,049)	(10,204)	(17,475)
<b>Total equity</b>		<u><b>58,957</b></u>	<u>22,701</u>	<u>22,638</u>

Approved by the board of directors on 17 September 2007

Signed on behalf of the board of directors

Roger Branton  
COO & CFO

## Unaudited statement of changes in equity for the six months ended 30 June 2007

	Share capital \$'000	Share premium \$'000	Preferred equity \$'000	Paid in capital \$'000	Other reserves \$'000	Retained losses \$'000	Total \$'000
<b>Balance at 31 December 2005</b>	-	-	-	20,996	2,131	(6,214)	16,913
Loss for the period	-	-	-	-	-	(3,990)	(3,990)
Issue of capital (net of issue costs)	-	-	-	6,591	-	-	6,591
Share based transactions	-	-	-	-	3,187	-	3,187
<b>Balance at 30 June 2006</b>	-	-	-	27,587	5,318	(10,204)	22,701
Loss for the period	-	-	-	-	-	(4,941)	(4,941)
Share based transactions	-	-	-	-	3,639	-	3,639
Conversion of Company to Inc status	1,209	26,378	-	(27,587)	-	-	-
<b>Balance at 8 November 2006</b>	1,209	26,378	-	-	8,957	(15,145)	21,399
Loss for the period	-	-	-	-	-	(2,330)	(2,330)
Issue of capital (net of issue costs)	15	2,985	-	-	-	-	3,000
Share based transactions	-	-	-	-	569	-	569
<b>Balance at 31 December 2006</b>	1,224	29,363	-	-	9,526	(17,475)	22,638
Loss for the period	-	-	-	-	-	(5,574)	(5,574)
Issue of preferred equity including issue costs	-	(1,975)	40,000	-	-	-	38,025
Conversion of preferred equity	66	37,934	(38,000)	-	-	-	-
Exercise of options	-	70	-	-	-	-	70
Issue of shares for services	-	12	-	-	-	-	12
Share based transactions	-	-	-	-	3,786	-	3,786
<b>Balance at 30 June 2007</b>	<b>1,290</b>	<b>65,404</b>	<b>2,000</b>	<b>-</b>	<b>13,312</b>	<b>(23,049)</b>	<b>58,957</b>

Other reserves consist of the cumulative amount attributable to share based transactions.

## Unaudited cash flow statement for the period ended 30 June 2007

	Six months ended 30 June 2007 \$'000	Six months ended 30 June 2006 \$'000	Year ended 31 December 2006 \$'000
<b>Cash flows from operating activities</b>			
Loss for the period	(5,574)	(3,990)	(11,261)
Interest receivable	(282)	(30)	(112)
Depreciation	36	21	68
Amortisation	18	17	34
Issue of shares for services	12	-	-
Share based transactions	3,786	3,186	7,395
<b>Operating cash flows before movement in working capital</b>	<b>(2,004)</b>	<b>(796)</b>	<b>(3,876)</b>
Change in trade receivables and other current assets	(3,256)	-	-
Change in trade and other payables	2,529	142	696
<b>Net cash used in operating activities</b>	<b>(2,731)</b>	<b>(654)</b>	<b>(3,180)</b>
<b>Cash flows from investing activities</b>			
Interest received	282	30	112
Purchase of fixtures and equipment	(57)	(76)	(85)
Purchase of intangible assets	(1,798)	(883)	(1,900)
<b>Net cash used in investment activities</b>	<b>(1,573)</b>	<b>(929)</b>	<b>(1,873)</b>
<b>Cash flows from financing activities</b>			
Issue of capital (net of issue costs)	70	6,591	9,590
Issue of preferred equity (net of issue costs)	38,025	-	-
<b>Net cash from financing activities</b>	<b>38,095</b>	<b>6,591</b>	<b>9,590</b>
<b>Net increase in cash and cash equivalents</b>	<b>33,791</b>	<b>5,008</b>	<b>4,537</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>8,016</b>	<b>3,479</b>	<b>3,479</b>
<b>Cash and cash equivalents at end of period</b>	<b>41,807</b>	<b>8,487</b>	<b>8,016</b>

## Notes to Accounts

### 1. Basis of preparation

The interim report has been prepared using accounting policies consistent with International Accounting Standard 34, 'Interim Financial Reporting'.

### 2. Significant accounting policies

The interim report has been prepared under the historical cost convention.

The same accounting policies, presentation and methods of computation are followed in this interim report as were applied in the preparation of the company's financial statements for the year ended 31 December 2006, except for the additional accounting policies that are to be reflected in the next annual financial statements as follows:

#### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

### 3. Loss per share

The calculations of the basic and diluted loss per share are based on the following data:

	<b>Six months ended 30 June 2007</b>	Six months ended 30 June 2006	Year ended 31 December 2006
<b>Loss for the period</b>			
Loss for the purposes of basic and diluted loss per share (\$'000)	(5,574)	(3,990)	(11,261)
<b>Number of shares</b>			
Weighted average number of common shares in issue during the year	<b>124,098,469</b>	120,069,186	120,209,539

The options and warrants in existence at the end of each period end did not have a dilutive effect on the loss per share.

### 4. Intangible assets

During the period the Company has spent approximately \$1.8 million on the continued development of the Company's proprietary technologies for use in wired and wireless communications.

### 5. Trade receivables and other current assets

At 30 June 2007 the Company had spent approximately \$2.7 million with third party manufacturers on the production of goods to be resold by the Company once complete.

6. **Share Capital**

**Issued and fully paid**

	30 June 2007 No.	31 December 2006 No.
<b>Called up, allotted and fully paid</b>		
Common shares of \$0.01 each	<u>128,995,963</u>	<u>122,364,936</u>

On 30 June 2006 the Company had in issue 120,614,936 member units.

On 8 November 2006, the Company re-registered as an Inc. At that point each unit of membership converted into a common share of the Company.

On 8 February 2007, the Company issued 30,000 common shares on the exercise of 30,000 options for cash consideration of \$2.00 each.

On 8 February 2007, the Company issued 2,750 common shares in consideration for advisory services. The fair value of these common share totalled \$12,350, which was charged to the income statement during the period.

On 21 May 2007, the Company issued 5,179,926 common shares on the conversion of \$30,000,000 Series A Convertible Preferred Equity Shares ("Convertible Preferred Equity Shares").

On 12 June 2007, the Company issued 37,037 common shares on the exercise of 37,037 options for cash consideration of \$0.27 each.

On 28 June 2007, the Company issued 1,381,314 common shares on the conversion of \$8,000,000 Convertible Preferred Equity Shares.

7. **Convertible preferred equity shares**

On 9 May 2007, the Company announced that it had closed on a capital raise of \$40 million from the sale of Convertible Preferred Equity Shares.

On 21 May 2007, the Company agreed to allow the early conversion of \$30 million of Convertible Preferred Equity Shares into a total of 5,179,926 common shares.

On 28 June 2007, the Company agreed to allow the early conversion of \$8 million of Convertible Preferred Equity Shares into a total of 1,381,314 common shares.

The above two conversions were subject to the receipt of commitments that the holders will not dispose of any interest in the common shares for a period of one year from conversion (save in limited circumstances, such as a takeover offer for the Company) without the prior written consent of the Company.

On 30 June 2007 there remains \$2 million of Convertible Preferred Equity Shares in issue.

*Conversion Rights*

Subject to the early conversion provisions set out below, conversion will take place at the end of a two year period ("the Contract Period") following receipt of funding.

If the Company achieves revenues of \$120 million or more for the last six months of the Contract Period, the Convertible Preferred Equity Shares shall be convertible into common shares based on a valuation equal to the dollar amount of the Convertible Equity Preferred Shares divided by \$700 million and then multiplied by the number of common shares in issuance at the date of subscription ("the \$700 million valuation").

If the Company achieves revenues of less than \$120 million in the same period, the Convertible Preferred Equity Shares will be convertible into common shares on the same formula as above, save that the Convertible Preferred Equity Shares will be divided by \$350 million instead of \$700 million ("the \$350 million valuation").

A holder of Convertible Preferred Equity Shares can elect to convert prior to the end of the Contract Period within a window of 30 days following the first anniversary of the Contract Period. Such conversion can only be done based on a \$700 million valuation.

7. **Convertible preferred equity shares (continued)**

A holder can also request the Company to convert their holding during the Contract Period. This is subject to the Company agreeing to convert their holdings under certain conditions. Such conversion can only be done based on a \$700 million valuation.

If prior to conversion, all the Company's assets are sold, then the Convertible Preferred Equity Shares will be convertible based on:

- a) The \$700 million valuation formula if the sale proceeds exceed \$2 billion.  
OR
- b) The \$350 million valuation formula if the sale proceeds are less than \$2 billion.

In the event that a dividend is declared payable to holders of the common shares, or a subdivision or consolidation of the shares of common shares into a greater or lesser number of shares occurs, then an adjustment to the conversion terms shall be made. Such adjustment will amend the conversion entitlement to put the holder of a share of Convertible Preferred Equity Shares in the same position as if conversion had taken place immediately prior to the happening or record date of such event.

If subscribers do not elect to exercise, agreements will expire at the end of the Contract Period with no conversion occurring.

*Dividend Rights*

Dividends on the Convertible Preferred Equity Shares are at the discretion of the Company.

*Voting Rights*

Prior to Conversion, except as provided in the Delaware General Corporation Law, the holders of shares of Convertible Preferred Equity Shares shall have no voting rights.

8. **Related party transactions**

*PS Consulting, ehf*

The Company paid commission fees of \$1,200,000 to PS Consulting, ehf in consideration of arranging the sale of certain Convertible Preferred Equity Shares. The fees paid were at a discounted rate compared to those paid to a third-party broker. PS Consulting is owned and operated by a Director of the Company.

*Mooers Branton & Co.*

The Company incurred fees of \$420,000 for the six month period ended 30 June 2007 related to a management agreement (the "Management Agreement") with Mooers Branton & Co. Incorporated, a Florida corporation ("MBC"), pursuant to which MBC agreed to provide certain management and financial services to the Company. MBC is wholly owned and operated by two of the Company's Directors.

Pursuant to the Management Agreement, MBC will provide services to the Company, which will include, but are not limited to, financial advice, strategic and financial planning, capital structure analysis and planning and business development. In addition, the Company will provide certain office facilities, telephone and back-office administration as well as the services of a full time office manager and administrator with other part time assistance from time to time.

## **ABOUT XG TECHNOLOGY**

### **XG TECHNOLOGY'S BUSINESS**

Based in Florida, USA, xG Technology has developed innovative technologies that the directors believe can change the building blocks, capabilities and economics of the communications industry. Its patented technologies can be applied to almost any type of communication including voice, data or video in wired or wireless form.

As its first vertical application, xG Technology has designed a mobile VoIP (Voice over Internet Protocol) base station and handset product line. Branded as xMax, these products are for use by regional carriers (internet service providers, competitive local exchange carriers and entrepreneurial parties) seeking to deliver mobile Internet Protocol services directly to consumers without using the incumbent circuit switched or coaxial cable networks. Future releases of the xMax product line will expand from mobile VoIP to offer integrated video and data applications.

### **MARKET AND COMPETITION**

There is a wide variety of wireless technologies in the marketplace. The Directors believe that the key issue keeping these technologies from achieving greater success is the price versus performance of existing options. xMax changes this price/performance relationship by enabling the delivery of mobile IP services with less infrastructure using low-cost and readily available unlicensed radio spectrum.

xG Technology believes that xMax is a viable solution for mobile VoIP for a number of reasons:

- xMax is an IP solution rather than a circuit switched solution; this is a prerequisite for handling the VoIP application;
- xMax delivers high speed data in the order of Mbps rather than Kbps, which is essential for supporting large numbers of subscribers;
- xMax has a low latency physical layer, resulting in high network efficiency;
- xMax's signal profile also allows for improved range/coverage and better signal penetration, which is essential for maintaining call session reliability; and
- although this feature is not central to the VoIP application itself, xG Flash Signal's ability to deliver wireless signals with far less RF output power than conventional applications means that wireless VoIP handsets will show improved battery life over other solutions.

xG is a registered trade mark of xG Technology, Inc. under US Trade Mark Registration Number 3039835. xMax is a trademark of xG Technology, Inc.