

Press Release

28 September 2009

XG TECHNOLOGY, INC.

2009 INTERIM STATEMENT

xG Technology, Inc. ("xG" or "the Company") (LSE-AIM: XGT.L), which has developed an innovative, low-cost, mobile VoIP and data communications system, is pleased to announce its half year results for the six months ended 30 June 2009.

Key points:

- revenues of \$8.0 million and gross profit margin of 77%;
- operating profit (before interest and share based payments) of \$1.5 million, and net profit of \$1.1 million;
- received an FCC Grant of Equipment Authorization for the second-generation xMax BSN250 base station;
- made further optimisations and enhancements to the xMax VoIP technology application, as well as to xMax hardware products, including the TX60 handset, xMax-MSC switching centre, and BSN250 base station;
- signed an agreement with Townes Tele-Communications, Inc. to do due diligence into xG's xMax technologies and product family and evaluate the business opportunity offered by the deployment of xMax across the US market;
- entered into an agreement with Spartan Mullen & Cie S.A. ("Spartan Mullen") to make a significant investment in the Company. A balance of \$5 million plus interest is outstanding and, as separately announced, the Company is taking all appropriate steps to recover all amounts owing to it as well as any and all resultant damages. The Directors remain highly confident that the Company will receive all monies due to it from Spartan Mullen;
- the Company had net cash and cash equivalents of \$5.7 million at 30 June 2009. The Company has no debt. While the Board is confident of being able to call upon the continued financial support of certain Directors and major shareholders, it is, nevertheless, prudently in discussions with a number of third parties with regard to raising additional capital to avoid any possible future deficiency or to support expected growth opportunities. The Directors are confident that such additional capital will be secured and will update the market in due course; and
- continued patent filing activity, enhancing the Company's portfolio of intellectual property. The patent portfolio now stands at 50 patents filed in the US (11 granted) and 124 international patents filed (13 granted) to date.

On outlook, Richard Mooers, Chairman and Chief Executive Officer, stated:

"Since the end of last year, it has been highly gratifying to see xMax products meet and exceed our expectations in field operating environments, both rural and high-interference suburban/urban. These successful field trials have provided validation of our technology concept and expertise in research and development and will allow us to continue to leverage and monetise our extensive patent portfolio. These trials also enable us to demonstrate the significant competitive advantages the xMax technology infrastructure can offer for strategic partners. We remain highly confident that our considerable technical competency and solid business plan will allow us to reach our goal of ushering in an era of lower-cost communications services to the market."

CONTACTS

xG Technology, Inc.

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ABOUT xG TECHNOLOGY

Based in Florida, United States, xG Technology, Inc. has developed innovative, patented communications technologies which offer the potential to significantly reduce the required capital investment and operating costs of wireless and wired voice and data communications services.

xG's first suite of products – branded as xMax – is a mobile VoIP and data system operating in the license-free ISM 900MHz band (902-928MHz). xMax is an end-to-end Internet Protocol (IP) system infrastructure that includes a line of base stations, mobile switching centers (MSC), handsets, and modems which represents the first commercially available, fully mobile VoIP network. xG's package of hardware and intellectual property delivers high-margin, low-cost, mobile and fixed voice, and broadband data services that can operate in licensed or unlicensed spectrum. xMax networks deployed in license-free spectrum can be significantly less expensive and faster to market than other technologies. xMax modules can also be incorporated into any Customer Premise Equipment (CPE) or device hardware and software.

xMax technology offers advantages for numerous types of prospective domestic and international carriers. These organizations include incumbent local exchange carriers (ILEC), competitive local exchange carriers (CLEC), original equipment manufacturers (OEM), mobile operators, cable companies and other content providers, and infrastructure mobile virtual network enablers (MVNE).

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT

INTRODUCTION

During the six month period ended 30 June, 2009, xG Technology, Inc. ("xG" or "the Company") took steps to prepare for the deployment of a national network based exclusively on its xMax technologies. In addition, the Company made further enhancements to the performance and functionality of its test pilot xMax networks currently operating in the field, with the goal of assuring a mobile VoIP and broadband service of high capacity and exceptional quality.

The xMax network solution incorporates xG's patented technologies to deliver the first fully mobile VoIP network that can offer excellent quality of service, fixed low latency and is Internet Protocol (IP) end-to-end. While our xMax technologies are frequency-agnostic, we have initially developed a robust, interference-resistant network design that can offer high call Quality of Service while using free, unlicensed spectrum available in the United States and several other markets across the world, instead of extremely costly licensed spectrum. These attributes make xMax an extremely cost-efficient communications approach, allowing benefits and opportunities for a number of different types of providers, including incumbent carriers, competitive local exchange carriers, mobile operators, original equipment manufacturers, content providers and infrastructure mobile virtual network enablers. Highlighting this is our recent announcement that, alongside Townes Tele-Communications, Inc., the Company is talking to a number of parties interested in deploying xMax both in the US and internationally. To this end, the Company's strategy has been focused on expanding its relationships with major potential carrier partners, with the expectation that they will be interested in deploying xMax across the whole of a national market or sizable regional markets.

The modular and frequency-agnostic characteristics of the system enable potential partners to implement xMax as a targeted solution, capable of being incorporated into any form of Customer Premise Equipment or device hardware and software. As an example, an incumbent could utilise xMax-based solutions to expand in its current market as well as enter into new ones.

The considerable value of xG's core technology has been enhanced by industry trends that continued to come to the forefront in the interim period. VoIP adoption continues to grow, impacting traditional telephony traffic and revenue patterns. Indeed, the proportion of VoIP users is expected to increase from 28% of users in 2008 (up from 20% of users in 2007) to more than 50% in 2010 (*Source: Osterman Research Inc. - Feb. 2009*). Mobile VoIP is increasingly being viewed as a key component in integrated IP-based communications. In addition, significant government and industry attention has been focused on the efficient use of spectrum, especially in "white spaces", which underscores the advantages of having a frequency-agnostic system. xG has an excellent opportunity to capitalise upon these trends.

HIGHLIGHTS FOR THE PERIOD

During the six month period, xG continued making impressive strides in meeting its business and technical objectives and recorded the following achievements:

- appointed Cenkos Securities plc as nominated advisor and broker to the Company;
- received an FCC Grant of Equipment Authorization for the second-generation xMax BSN250 base station;
- made further optimisations and enhancements to the xMax VoIP technology application, as well as to xMax hardware products, including the TX60 handset, xMax-MSC switching centre, and BSN250 base station;
- signed an agreement with Townes Tele-Communications, Inc. to do due diligence into xG's xMax technologies and product family and evaluate the business opportunity offered by the deployment of xMax across the US market;
- entered into an agreement with Spartan Mullen & Cie S.A. to make a significant investment in the Company; and
- continued patent filing activity, enhancing the Company's portfolio of intellectual property. The patent portfolio now stands at 50 patents filed in the US (11 granted) and 124 international patents filed (13 granted) to date. These cover the areas of VoIP system design, Physical Layer (PHY), and Media Access Control (MAC) layer protocols.

FINANCIAL REVIEW

Reflecting the strong interest of our infrastructure partner, Treco International SA ("Treco"), in supporting deployment of our technology, and continuing to fulfill Treco's original purchase order for 1,000 of the Company's BSN250 base stations, which constituted all the Company's sales in the period, the Company achieved a solid financial performance in the first half of 2009. For the six month period ended 30 June 2009, the Company recorded \$8.0 million in revenues (\$7.5 million for the same period last year), with a gross profit margin of 77%. Operating expenses declined to \$5.3 million, as compared to \$7.3 million during the same period last year. This was largely due to the reduction of non-cash stock-based compensation costs (\$0.6 million in the current year as compared to \$3.2 million for the same period last year). Operating profit before interest and stock-based compensation was \$1.5 million (\$2.9 million for the same period last year) and we achieved a net profit for the period of \$1.1 million (\$46,000 for the same period last year).

The Company still maintains a debt-free balance sheet and continues to invest in product development and pilot networks. This was reflected in \$4.7 million of cash used for operating activities as well as \$5.5 million of cash used in investing activities during the period.

The Company ended the period with a cash and cash equivalents position of \$5.7 million. Since the end of the period, the Company has received \$1.0 million as partial payment by Spartan Mullen & Cie. ("Spartan Mullen") for two million shares that it agreed to purchase during the first half of the year. A balance of \$5 million plus interest is outstanding and, as separately announced, the Company has been informed that payment is disputed. The Company is taking all appropriate steps to recover all amounts owing to it. The Company remains highly confident that it will receive all monies due to it from Spartan Mullen.

OUTLOOK

Since the end of last year, it has been highly gratifying to see xMax products meet and exceed our expectations in field operating environments, both rural and high-interference suburban/urban. These successful field trials have provided validation of our technology concept and expertise in research and development and will allow us to continue to leverage and monetise our extensive patent portfolio. These trials also enable us to demonstrate the significant competitive advantages the xMax technology infrastructure can offer for strategic partners. For carriers seeking to provide advanced mobile voice and broadband Internet services, xMax offers a low cost and efficient way to build and deploy broadband wireless networks. Whether they seek to increase their existing market footprint or expand into new territories, xMax is indeed a compelling business opportunity.

Furthermore, xG is ideally positioned to capitalise on a number of key trends that are driving the wireless communications industry, namely: steady growth in the use of VoIP calling; the value realizable from an all-IP, fully mobile VoIP system design; the need for alternative wireless networks to address rural and underserved areas; and the heightened interest in networks that can support the anticipated performance and power requirements of 4G applications and services. On all these fronts, xG provides viable technology solutions.

As noted earlier, we are pursuing a strategy to forge partnerships with major carriers and other market participants interested in deploying xMax. We are talking to a number of parties and expect to be able later this year to make further announcements of progress on talks and plans for deployment of commercial xMax networks. While focusing our efforts on forging those partnerships that will bring about further customer orders of base stations, we are concentrating our resources on continuing the development and enhancement of our xMax technologies and products.

We remain highly confident that our considerable technical competency and solid business plan will allow us to reach our goal of ushering in an era of lower-cost communications services to the market. With live rural and urban/suburban demonstration networks showcasing the fully mobile VoIP capabilities of xMax and increasing momentum behind our talks with potential deployment partners, I believe the Company's prospects are outstanding. I look forward to reporting to all xG shareholders on our continued progress.

RICHARD MOOERS

Chairman and Chief Executive Officer

25 September 2009

INDEPENDENT REVIEW REPORT

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 2009 which comprises the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related 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' RESPONSABILITIES

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. As disclosed in note 1, the half-yearly 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 RESPONSABILITY

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 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

CHANTREY VELLACOTT DFK LLP

London

25 September 2009

INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Note	Six months ended 30 June 2009 (unaudited) \$'000	Six months ended 30 June 2008 (unaudited) \$'000	Year ended 31 December 2008 (audited) \$'000
Revenue		8,028	7,500	16,350
Cost of sales		(1,819)	(554)	(1,221)
Gross profit		6,209	6,946	15,129
Administrative expenses		(4,738)	(4,039)	(7,416)
Operating profit before interest and share-based payments		1,471	2,907	7,713
Interest receivable and similar income		156	385	536
Profit before share-based payments		1,627	3,292	8,249
Share-based payments		(572)	(3,246)	(6,257)
Profit for the period		1,055	46	1,992
Earnings per share	2			
Basic		\$0.008	\$0.00	\$0.015
Diluted		\$0.008	\$0.00	\$0.014

BALANCE SHEET
AS AT 30 JUNE 2009

	Notes	30 June 2009 (unaudited) \$'000	30 June 2008 (unaudited) \$'000	31 December 2008 (audited) \$'000
Assets				
Non-current assets				
Intangible fixed assets		40,330	28,503	35,714
Fixtures and equipment		1,381	640	1,457
		41,711	29,143	37,171
Current assets				
Trade receivables and other current assets	3	2,255	7,156	205
Trade receivables due after more than one year	3	15,591	-	10,192
Inventory		3,606	3,605	5,129
Cash and cash equivalents		5,667	22,878	15,830
		27,119	33,639	31,356
Total assets		68,830	62,782	68,527
Current liabilities				
Trade payables and other current liabilities		(2,133)	(2,881)	(3,457)
Net assets		66,697	59,901	65,070
Shareholders' equity				
Share capital	4	1,326	1,317	1,318
Share premium account		68,581	66,703	66,589
Preferred equity		-	2,000	2,000
Other reserve		21,726	18,935	21,170
Accumulated losses		(24,936)	(29,054)	(26,007)
Total equity		66,697	59,901	65,070

Approved by the Board of Directors on 25 September 2009.

Signed on behalf of the Board of Directors:

ROGER BRANTON
Chief Operating Officer and Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Share capital \$'000	Share premium \$'000	Preferred equity \$'000	Other reserves* \$'000	Retained losses \$'000	Total \$'000
Balance at 31 December 2007 (audited)	1,290	65,462	2,000	16,385	(29,337)	55,800
<i>Changes in equity for period:</i>						
Profit for the period	—	—	—	—	46	46
Exercise of options	27	1,241	—	(459)	—	809
Share-based transactions	—	—	—	3,009	237	3,246
Balance at 30 June 2008 (unaudited)	1,317	66,703	2,000	18,935	(29,054)	59,901
<i>Changes in equity for period:</i>						
Profit for the period	—	—	—	—	1,946	1,946
Exercise of options	1	(114)	—	(156)	481	212
Share-based transactions	—	—	—	2,391	620	3,011
Balance at 31 December 2008 (audited)	1,318	66,589	2,000	21,170	(26,007)	65,070
<i>Changes in equity for period:</i>						
Profit for the period	—	—	—	—	1,055	1,055
Conversion of preferred equity	8	1,992	(2,000)	—	—	—
Share-based transactions	—	—	—	556	16	572
Balance at 30 June 2009 (unaudited)	1,326	68,581	—	21,726	(24,936)	66,697

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

CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Six months ended 30 June 2009 (unaudited) \$'000	Six months ended 30 June 2008 (unaudited) \$'000	Year ended 31 December 2008 (audited) \$'000
Operating activities			
Profit for the period	1,055	46	1,992
Interest received	(156)	(385)	(536)
Depreciation	120	71	180
Amortisation	981	81	842
Share-based payments:			
Employees	550	3,065	5,896
Non-employees	22	181	361
Operating cash flows before movement in working capital	2,572	3,059	8,735
Increase in trade receivables and other current assets	(7,449)	(6,782)	(10,023)
Decrease/(increase) in inventory	1,523	(1,473)	(2,997)
(Decrease)/increase in trade payables and other current liabilities	(1,324)	1,219	1,795
Net cash used by operating activities	(4,678)	(3,977)	(2,490)
Investing activities			
Interest received	156	385	536
Purchase of fixtures and equipment	(44)	(165)	(1,091)
Purchase of intangible assets	(5,597)	(6,892)	(14,864)
Net cash used by investment activities	(5,485)	(6,672)	(15,419)
Financing activities			
Issue of capital (net of issue costs)	—	809	1,021
Net cash inflow from financing activities	—	809	1,021
Net decrease in cash and cash equivalents	(10,163)	(9,840)	(16,888)
Cash and cash equivalents at beginning of period	15,830	32,718	32,718
Cash and cash equivalents at end of period	5,667	22,878	15,830

NOTES TO THE INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. Basis of preparation

The unaudited Condensed Financial Statements for the six months ended 30 June 2009:

- were prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ('IAS 34') and thereby International Financial Reporting Standards ('IFRS'), both as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU');
- are presented on a condensed basis as permitted by IAS 34 and therefore do not include all disclosures that would otherwise be required in a full set of financial statements and should be read in conjunction with the 2008 Annual Report;
- apply the same accounting policies, presentation, and methods of calculation as those followed in the preparation of the annual financial statements for the year ended 31 December 2008;
- include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the periods presented; and
- were approved by the Board of Directors on 25 September 2009.

The information relating to the year ended 31 December 2008 is an extract from the published Annual Report released to the market earlier this year, on which the Independent Auditors' Report was unqualified.

The preparation of the Condensed Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

2. Earnings per share

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

	Six months ended 30 June 2009 (unaudited) \$'000	Six months ended 30 June 2008 (unaudited) \$'000	Year ended 31 December 2008 (audited) \$'000
Profit for the period			
Profit for the purpose of basic and diluted earnings per share	1,055	46	1,992
Number of shares			
Weighted average number in issue during the period – basic	132,006,866	129,925,276	130,872,144
Weighted average number in issue during the period – diluted	137,416,814	129,925,276	143,331,565

3. Trade Receivables

Cash consideration for base station sales is receivable over a future period. The fair value of the consideration has been determined by discounting future receipts using an imputed interest rate of 3%. The difference of \$1.0 million between the fair value and the nominal value of the consideration will be recognised as interest revenue over the estimated future payment period.

Following updated discussions with Treco, the Company has revised its estimate of receipts in respect of trade receivables outstanding at 31 December 2008 and has reduced them to fair value by discounting future receipts using an imputed interest rate of 3%. The difference of \$0.7 million between the fair value of the consideration and the nominal value has been charged to administration expenses in the current period and will be recognised as interest revenue over the estimated future payment period.

4. Share capital

Issued and fully paid

	30 June 2009 No. of shares	30 June 2008 No. of shares	31 December 2008 No. of shares
Called up, allotted and fully paid			
Common shares of \$0.01 each	132,588,615	131,698,234	131,835,271

5. Related party transactions

Mooers Branton & Co., Incorporated

Pursuant to the Management Agreement (as described in the 2008 Annual Report), the Company incurred fees of \$480,000 to Mooers Branton & Co. Incorporated ("MBC") for the six month period ended 30 June 2009. MBC is beneficially controlled and operated by two of the Company's Directors.

Wennberg Industries AB

The Company incurred consultants' fees of \$30,000 to Wennberg Industries AB for the six month period ended 30 June 2009, of which \$4,000 was outstanding at 30 June 2009. Wennberg Industries AB is wholly owned by Mats Wennberg, a Director of the Company.

6. Commitments and contingent liabilities

There have been no material changes to the Company's commitments or contingent liabilities during the period.