

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

FORM 10-Q

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2015

or

**TRANSITION REPORT UNDER 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**

(State or other jurisdiction of incorporation or organization)

**20-585-6795**

(I.R.S. Employer Identification No.)

**240 S. Pineapple Avenue, Suite 701**

**Sarasota, FL 34236**

(Address of principal executive offices) (Zip Code)

**(941) 953-9035**

(Registrant's telephone number, including area code)

**n/a**

(Former name, former address and former fiscal year, if changed since last report)

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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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  No

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

Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

The number of shares of the Registrant's common stock outstanding as of May 15, 2015 is 48,351,269.

**xG TECHNOLOGY, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
For the quarter ended March 31, 2015

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## PART I: FINANCIAL INFORMATION

### Item 1. Financial Statements

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**xG TECHNOLOGY, INC.**  
**UNAUDITED CONDENSED BALANCE SHEETS**  
**(IN THOUSANDS EXCEPT PER SHARE DATA)**

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 221	\$ 758
Cash, restricted	600	—
Inventory, net	3,758	4,070
Accounts receivable, net of allowance of \$30 and \$30 (\$335 and \$480 from related party)	557	702
Prepaid expenses and other current assets	336	411
Total current assets	5,472	5,941
Property and equipment, net	882	816
Intangible assets, net	16,111	16,382
Total assets	<u>\$ 22,465</u>	<u>\$ 23,139</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 1,393	\$ 868
Accrued expenses	731	511
Accrued interest	87	42
Deferred revenue	50	—
Due to related parties	264	2,110
Deferred revenue - related party	—	480
Obligation under capital lease	135	123
Derivative liabilities	520	270
Total current liabilities	3,180	4,404
Long-term obligation under capital lease	83	—
Convertible note payable to related party	2,000	2,000
Total liabilities	5,263	6,404
<b>Commitments and contingencies</b>		
Series A convertible preferred stock – \$0.00001 par value per share: 3,000,000 shares authorized at March 31, 2015 and December 31, 2014; 0 and 750,000 issued or outstanding as of March 31, 2015 and December 31, 2014 (liquidation preference of \$0 at March 31, 2015 and \$750,100 at December 31, 2014)	—	378
Series B convertible preferred stock – \$0.00001 par value per share: 3,000,000 and 0 shares authorized at March 31, 2015 and December 31, 2014; 250,000 and 0 issued or outstanding as of March 31, 2015 and December 31, 2014 (liquidation preference of \$252,300 at March 31, 2015)	104	—
Series C convertible preferred stock – \$0.00001 par value per share: 3,000,000 and 0 shares authorized at March 31, 2015 and December 31, 2014; 1,589,720 and 0 issued or outstanding as of March 31, 2015 and December 31, 2014 (liquidation preference of \$1,600,391 at March 31, 2015)	895	—
Total convertible preferred stock	999	378
<b>Stockholders' equity (deficit)</b>		
Preferred stock – \$0.00001 par value per share: 1,000,000 and 7,000,000 shares authorized at March 31, 2015 and December 31, 2014; none issued or outstanding as of March 31, 2015 and December 31, 2014	—	—
Common stock, – \$0.00001 par value, 100,000,000 shares authorized, 36,419,029 and 26,176,153 shares issued as of March 31, 2015 and December 31, 2014, respectively	—*	—*
Additional paid in capital	190,302	186,919
Accumulated deficit	(174,077)	(170,540)
Treasury stock, at cost – 2,284 shares at March 31, 2015 and December 31, 2014, respectively	(22)	(22)
Total stockholders' equity	16,203	16,357
Total liabilities and stockholders' equity	<u>\$ 22,465</u>	<u>\$ 23,139</u>

\* Less than \$1

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

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

	For the Three Months Ended March 31,	
	2015	2014
<b>Revenue</b>	\$ 584	\$ 250
<b>Cost of revenue and operating expenses</b>		
Cost of components and personnel	330	63
General and administrative expenses	1,586	1,679
Development	1,550	2,453
Stock based compensation	133	214
Amortization and depreciation	960	948
Total cost of revenue and operating expenses	<u>4,559</u>	<u>5,357</u>
Loss from operations	<u>(3,975)</u>	<u>(5,107)</u>
<b>Other income (expense)</b>		
Changes in fair value of derivative liabilities	485	—
Interest expense, net	<u>(47)</u>	<u>(46)</u>
Total other income (expense)	<u>438</u>	<u>(46)</u>
Loss before income tax provision	<u>(3,537)</u>	<u>(5,153)</u>
Income tax provision	—	—
<b>Net loss</b>	<u>\$ (3,537)</u>	<u>\$ (5,153)</u>
Dividends and deemed dividends	1,070	—
<b>Net loss attributable to common shareholders</b>	<u>(4,607)</u>	<u>(5,153)</u>
Basic and diluted net loss per share	\$ (0.15)	\$ (0.27)
Weighted average number of shares outstanding basic and diluted	29,979	18,757

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

xG TECHNOLOGY, INC.

CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY  
(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	26,176,153	\$ —*	\$ 186,919	\$ (22)	\$ (170,540)	\$ 16,357
Net loss	—	—	—	—	(3,537)	(3,537)
Stock based compensation	—	—	133	—	—	133
Compensation granted in stock	103,424	—*	73	—	—	73
Issuance of stock MBTH conversion of due to related party	3,991,131	—*	1,756	—	—	1,756
Commitment fee – 15 million purchase agreement	—	—*	(45)	—	—	(45)
Issuance of stock – Series A conversions	2,392,465	—*	528	—	—	528
Issuance of stock – Series B conversions - Related Party	2,227,910	—*	703	—	—	703
Issuance of stock – Series B conversions - 31 Group	449,099	—*	44	—	—	44
Issuance of stock – Series C conversions	882,502	—*	103	—	—	103
Issuance of stock commitment shares – Series B financing – Related Party	53,095	—*	24	—	—	24
Issuance of stock commitment shares – Series B financing – 31 Group	24,619	—*	10	—	—	10
Issuance of stock commitment shares – Series C financing	118,631	—*	54	—	—	54
<b>Balance, March 31, 2015</b>	<b>36,419,029</b>	<b>\$ —*</b>	<b>\$ 190,302</b>	<b>\$ (22)</b>	<b>\$ (174,077)</b>	<b>\$ 16,203</b>

\* Less than \$1

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

**xG TECHNOLOGY, INC.**  
**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS**  
**(IN THOUSANDS)**

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities		
Net loss	\$ (3,537)	\$ (5,153)
Adjustments to reconcile net loss to net cash used in operating activities		
Stock based compensation	133	214
Share-based consulting and other services	73	38
Non-cash interest expense	—	45
Allowance for doubtful accounts	12	2
Depreciation and amortization	960	948
Change in fair value of derivative liabilities	(485)	—
Non-monetary transaction	43	—
Changes in assets and liabilities		
Accounts receivable	133	(100)
Inventory	312	(962)
Prepaid expenses and other current assets	31	(26)
Accounts payable	509	(651)
Accrued expenses	330	17
Deferred revenue – related party	(480)	—
Due to related parties	55	1,105
Long term capital lease obligation	87	—
Net cash used in operating activities	<u>(1,824)</u>	<u>(4,523)</u>
Cash flows from investing activities		
Capital expenditures for property and equipment	(130)	(84)
Capitalization of intangible assets	(625)	(193)
Net cash used in investing activities	<u>(755)</u>	<u>(277)</u>
Cash flows from financing activities		
Payment of capital lease	(35)	(31)
Proceeds from issuance of convertible preferred stock, net of issuance costs	2,677	—
Restricted cash	(600)	—
Net cash provided by (used in) financing activities	<u>2,042</u>	<u>(31)</u>
Net (decrease) in cash	<u>(537)</u>	<u>(4,831)</u>
Cash, beginning of period	758	5,517
Cash, end of period	<u>\$ 221</u>	<u>\$ 686</u>
Supplemental cash flow disclosures of investing and financing activities		
Stock issued in connection with conversion of due to related party	1,756	—
Stock issued in connection with conversion of preferred stock and deemed dividend	1,379	—
Derivative liability in connection with conversion option and warrants	460	—
Stock issued as payment of fees on convertible preferred stock	88	—
Amortization of prepaid fees related to the \$15M purchase agreement	45	—
Stock issued as payment of bonus	—	168

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

**xG TECHNOLOGY, INC.**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**  
**AS OF MARCH 31, 2015 AND DECEMBER 31, 2014 AND FOR THE**  
**THREE MONTHS ENDED MARCH 31, 2015**  
*(Unaudited)*

**NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Description of Business*

xG Technology, Inc. (the “Company”) is a Delaware corporation that has developed a broad portfolio of innovative intellectual property that we believe 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.

*Basis of Presentation*

The accompanying unaudited financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, these financial statements do not include all information or notes required by generally accepted accounting principles for annual financial statements and should be read in conjunction with the 2014 Financial Statements as filed on the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

The preparation of financial statements in conformity with these accounting principles 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 date of the financial statements; and the reported amounts of expenses during the reported period. Ultimate results could differ from the estimates of management.

In the opinion of management, the unaudited financial statements included herein contain all adjustments necessary to present fairly the Company’s financial position as of March 31, 2015 and the results of its operations and cash flows for the three months ended March 31, 2015 and 2014. Such adjustments are of a normal recurring nature. The results of operations for the three months ended March 31, 2015 may not be indicative of results for the full year.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

*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’s cash balances exceeded the current insured amounts under the Federal Deposit Insurance Corporation of \$250,000.

*Concentrations of Credit Risk*

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 accounts receivable. 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 through March 31, 2015. For customers, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The majority of trade receivables are those of related parties and management does not expect any losses from non-performance of these parties.

## NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *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 adjusts inventory to the lower of cost or market based upon anticipated usage of the inventory and the potential for obsolescence.

### *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 Generally Accepted Accounting Principles ("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.

The Company's software is inherently complex and may contain defects and errors that are only detectable when the products are in use. Such defects or errors could have a serious impact on our end customers, which could damage our reputation, harm our customer relationships and expose the Company to liability. Defects in the Company's software could adversely affect our ability and that of our customers to ship products on a timely basis as well as customer or licensee demand for our products. Any such delays or declines in demand could reduce the Company's revenues and harm our ability to achieve or sustain desired levels of profitability. We and our customers may also experience component or software failures or defects that could require significant product recalls, rework and/or repairs that are not covered by warranty reserves. In 2014, we began developing a new product, the CN3200 Dual Band Routing Modem ("CN3200"), formerly known as the xRM modem. On September 30, 2014, we received certification from the U.S. Federal Communications Commission in connection with the CN3200. Intellectual property is embedded in proprietary software algorithms that offer cognitive spectrum access and interference mitigation solutions.

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, Plant and Equipment*

Property, plant 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 commencing the month following the purchase.

### *Impairment of Long-Lived Assets*

Long-lived assets including certain intangible assets with finite lives are reviewed for impairment 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.

## NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Allowance for Doubtful Accounts*

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, we will make our best estimate of probable or potential losses in our 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 was \$30,000 and \$30,000 as of March 31, 2015 and December 31, 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 has passed.

### *Development Expenses*

Development expenses consist primarily of salaries and related costs for technical and programming personnel, they are expensed as incurred and were \$1,550,000 and \$2,453,000 for the three months ended March 31, 2015 and 2014, respectively.

### *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 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 incurred in finance income (expense), net in the Statements of Operations. There were no liabilities recorded for uncertain tax positions at March 31, 2015 and December 31, 2014.

### *Stock Based Compensation*

The Company accounts for stock-based awards to employees in accordance with applicable accounting principles, 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, expected term, and forfeiture rate. Any changes in these highly subjective assumptions significantly impact stock-based compensation expense.

Options awarded to purchase shares of common stock issued to non-employees in exchange for services are accounted for as variable awards in accordance with applicable accounting principles. Such options are valued using the Black-Scholes option pricing model.

### *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.

## NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Earnings Per Share*

Basic earnings per common share amounts are based on weighted average number of common shares outstanding. Diluted earnings 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 and convertible debt, subject to anti-dilution limitations. All such potentially dilutive instruments were anti-dilutive as of March 31, 2015 and December 31, 2014. At March 31, 2015 and December 31, 2014 approximately 15.7 million and 6.95 million shares, respectively, underlying the options, warrants, convertible debt and convertible preferred stock were anti-dilutive.

### *Warranty Reserve*

The Company established a warranty reserve policy effective for the fiscal year ending December 31, 2013. 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 at March 31, 2015 and December 31, 2014 was \$10,000 and \$9,000, respectively.

### *Fair Value of Financial Instruments*

Generally accepted accounting principles require 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 cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses, it 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.

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 in active markets for identical assets or liabilities.

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.

### *Recently Issued Accounting Principles*

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.

## NOTE 2 — GOING CONCERN

The financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the Company as a going concern. As of March 31, 2015, the Company had an accumulated deficit of \$174.1 million and a net loss of \$3.5 million for the three months ended March 31, 2015. On March 1, 2015, the Company announced that it implemented cost reduction initiatives that included a decrease in the Company's workforce and other expense reductions, which should decrease the monthly cash burn. As of the date of this filing, the Company believes it has sufficient liquidity to fund operations through May 2015. To date, the Company is experiencing long sales cycles in the areas that have potential for near term revenue, 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 of its assets may be impacted and it may be material. 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.

## NOTE 3 — INVENTORY

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

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Raw materials consisting of purchased parts, components and supplies	\$ 1,815,000	\$ 2,084,000
Finished goods	2,143,000	2,186,000
Sub-total inventories	<u>3,958,000</u>	<u>4,270,000</u>
Less inventory reserve	(200,000)	(200,000)
Total Inventory-net	<u>\$ 3,758,000</u>	<u>\$ 4,070,000</u>

Based upon the Company's analysis of the lower of cost or market, the Company recorded a reserve for inventory of \$200,000 and \$200,000 as of March 31, 2015 and December 31, 2014, respectively.

**NOTE 4 — ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following:

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Accounts receivable	\$ 251,000	\$ 252,000
Accounts receivable - related parties	336,000	480,000
Sub-total accounts receivable	<u>587,000</u>	<u>732,000</u>
Allowance for doubtful accounts	(30,000)	(30,000)
Net accounts receivable	<u>\$ 557,000</u>	<u>\$ 702,000</u>

**NOTE 5 — PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<b>Useful Life</b>	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Cost:			
Furniture and equipment	3 – 7 years	\$ 3,059,000	\$ 2,930,000
Accumulated depreciation:		(2,177,000)	(2,114,000)
Property and equipment, net		<u>\$ 882,000</u>	<u>\$ 816,000</u>

Depreciation expense amounted to approximately \$63,000 and \$52,000 for the three months ended March 31, 2015 and 2014, respectively.

**NOTE 6 — INTANGIBLE ASSETS**

Intangible assets consist of the following:

	<u>Software Development Costs</u>		<u>Patents &amp; Licenses</u>		<b>Total</b>
	<u>Costs</u>	<u>A.A.</u>	<u>Cost</u>	<u>A.A.</u>	
Balance as of December 31, 2014	\$ 16,455,000	\$ (5,494,000)	\$ 12,378,000	\$ (6,957,000)	\$ 16,382,000
Additions	625,000	—	—	—	625,000
Amortization	—	(730,000)	—	(166,000)	(896,000)
Balance as of March 31, 2015	<u>\$ 17,080,000</u>	<u>\$ (6,224,000)</u>	<u>\$ 12,378,000</u>	<u>\$ (7,123,000)</u>	<u>\$ 16,111,000</u>

Amortization of intangible assets amounted to \$896,000 and \$897,000 for the three months ended March 31, 2015 and 2014, respectively. The total cost basis of intangible assets at March 31, 2015 was \$29.5 million, which consists of \$26.9 million of costs that are subject to amortization and \$2.6 million of assets that are not subject to amortization.

*Software Development Costs*

At March 31, 2015, the Company has capitalized a total of \$17.1 million of software development costs. Included in the capitalized costs is \$2.5 million of costs associated with enhancement of the xMax cognitive radio products. These costs are not being amortized considering that the enhancement is not yet incorporated in products and available for sale. During the three months ended March 31, 2015 and 2014, the Company recognized amortization of software development costs available for sale of \$0.7 million and \$0.7 million, respectively.

**NOTE 6 — INTANGIBLE ASSETS (continued)***Patents & Licenses*

At March 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 \$0.2 million of amortization expense related to patents and licenses for the three months ended March 31, 2015 and 2014.

Estimated amortization expense for the twelve-month periods ended March 31 is as follows:

2016	\$ 3,613,000
2017	2,912,000
2018	2,802,000
2019	1,723,000
2020 and thereafter	2,500,000
	<u>\$ 13,550,000</u>

**NOTE 7 — OBLIGATION UNDER CAPITAL LEASE**

During the three months ending March 31, 2015, we purchased equipment under a capital lease with a value totaling \$129,000.

The future minimum capital lease payments for the following twelve months periods as of March 31 are as follows:

2016	\$ 142,000
2017	50,000
2018	45,000
Total minimum lease payments	<u>237,000</u>
Less Amount representing interest	<u>(19,000)</u>
Present value of the net minimum lease payments	218,000
Less obligations under capital lease maturing within one year	<u>(135,000)</u>
Long-term portion of obligations under capital lease	\$ 83,000

The interest rate for the capital leases range between 4% and 9%.

**NOTE 8 — 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 the 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 \$35.00 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 March 31, 2015, \$2 million of principal balance was outstanding under the \$2 Million Convertible Note. The accrued interest at March 31, 2015 was \$87,000.

**NOTE 9 — COMMITMENTS**

The Company's office rental, deployment sites and warehouse facilities expenses aggregated approximately \$107,000 and \$86,000 for the three months ended March 31, 2015 and 2014, respectively. The leases will expire on different dates from 2016 through 2019. The Company also entered into contract agreements with one of its principal vendors to provide parts for production. Total obligation

**NOTE 9 — COMMITMENTS (continued)**

of purchasing parts under contractual agreements, minimum future annual rentals, exclusive of real estate taxes and related costs, are approximately as follows:

		<b>Twelve Months Ended March 31,</b>
	2016	\$ 2,052,000
	2017	\$ 127,000
	2018	\$ 84,000
	2019	\$ 87,000
	2020	\$ 66,000
		<u>\$ 2,416,000</u>

**NOTE 10 — 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 Preferred Stock. On February 11, 2015, 3,000,000 shares were designated as authorized Series B Preferred Stock. On February 24, 2015, 3,000,000 shares were designated as authorized Series C Preferred Stock.

*Series A 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 Preferred Stock, par value \$0.00001 per share (the “Series A Preferred Stock”) and warrants (the “Warrants”) to purchase 375,000 shares of common stock. The Company also issued to 31 Group 33,142 shares of common stock in consideration of 31 Group’s execution and delivery of the Purchase Agreement (the “Commitment Shares”). The offer and sale of the Series A Preferred Stock, the common stock issuable upon conversion of the Series A Preferred Stock and the Commitment Shares were made pursuant to the Company’s registration statement on Form S-3 that was declared effective on August 31, 2014 (the “Shelf Registration Statement”).

The Warrants are exercisable immediately for a period of five years from their issue date. The exercise price with respect to the warrants is \$2.00 per share. 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. Upon certain fundamental events, the warrants could be redeemed by the holders of the warrants at fair market value estimated using Black Scholes.

*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.

## **NOTE 10 — 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) \$2.00 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.

### *Voting Rights*

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

## **NOTE 10 — PREFERRED STOCK (continued)**

### ***Conversions and Balances of Outstanding Series A Preferred Stock***

As of March 27, 2015, 750,000 shares of the Series A Preferred Stock and 52,500 shares of Series A Preferred Stock issued as dividends have been converted into 2,392,465 shares of common stock. As of March 27, 2015, all outstanding shares of the Series A Preferred Stock have been fully converted.

As a result of the conversion, the preferred stock value, net of discounts, and the derivative liability arising from the conversion feature were extinguished. The Company recorded the fair value of the common stock issued upon conversion which resulted in a deemed dividend of \$483,000 that was recorded as a charge to additional paid in capital.

### ***Short Term Related Party Loans***

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 as a due to related parties on the financial statements.

On January 8, 2015, the Company repaid \$100,000 of the \$245,000 due to related party balance owed to George Schmitt.

On January 29, 2015 and February 13, 2015, the Company received an aggregate of \$700,000 from certain family members of George Schmitt, Chairman of the Board and Chief Executive Officer (effective as of February 17, 2015). This amount was recorded as a short term loan in due to related parties. On February 23, 2015, George Schmitt transferred the balance of his \$145,000 loan to certain family members bringing the total the Company owed to certain family members to \$845,000. The \$845,000 loan was settled through the issuance of 845,000 shares of Series B Preferred Stock, 53,095 shares of common stock and warrants with respect to 422,500 underlying shares of common stock exercisable for five years at a price of \$2.00 per share. Upon certain fundamental events, the warrants could be redeemed by the holders of the warrants at fair market value estimated using Black Scholes.

### ***\$350,000 Purchase Agreement***

On February 11, 2015, the Company entered into a purchase agreement, pursuant to which the Company sold to 31 Group, 350,000 shares of the Company's Series B Preferred Stock, par value \$0.00001 per share (the "Series B Preferred Stock") and warrants to purchase 175,000 shares of the Company's common stock for a purchase price of \$350,000. The Company also issued 24,619 shares of its common stock in consideration of 31 Group's execution and delivery of the purchase agreement (the "Commitment Shares"). The Series B Preferred Stock and the Commitment Shares were issued pursuant to the Company's Shelf Registration Statement.

The Warrants are exercisable immediately for a period of five years from their issue date. The exercise price with respect to the warrants is \$2.00 per share. 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. Upon certain fundamental events, the warrants could be redeemed by the holders of the warrants at fair market value estimated using Black Scholes.

### **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:

***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) \$2.00 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 and Balances of Outstanding Series B Preferred Stock***

As of March 31, 2015, 945,000 shares of the Series B Preferred Stock and 66,150 shares of the Series B Preferred Stock issued as dividends has been converted into 2,677,009 shares of our common stock. As of March 31, 2015, 250,000 shares of the Series B Preferred Stock remains outstanding.

As a result of the conversion, the preferred stock value, net of discounts, and the derivative liability arising from the conversion feature were extinguished. The Company recorded the fair value of the common stock issued upon conversion which resulted in a deemed dividend of \$390,000 that was recorded as a charge to additional paid in capital.

## **NOTE 10 — PREFERRED STOCK (continued)**

### ***\$1,800,000 Purchase Agreement***

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 900,000 shares of the Company's common stock for a purchase price of \$1,800,000. The Company also issued 118,631 shares of its common stock in consideration of the investors' execution and delivery of the purchase agreement (the "Commitment Shares"). The Series C Preferred Stock and the Commitment Shares were issued pursuant to the Company's Shelf Registration Statement.

The Warrants are exercisable immediately for a period of five years from their issue date. The exercise price with respect to the warrants is \$2.00 per share. 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. Upon certain fundamental events, the warrants could be redeemed by the holders of the warrants at fair market value estimated using Black Scholes.

### **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:

*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 Series C 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) \$2.00 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.

On each of March 12, 2015, March 24, 2015, April 12, 2015 and April 24, 2015, upon the Company's failure to meet certain conditions (including the Company's common stock failing to maintain a minimum trading price and the common stock failing to maintain certain trading volumes) during the period between the initial issuance date of the Series C Preferred Stock and the relevant determination date, the holders of Series C Preferred Stock shall have the right to require the Company, by written notice, to redeem in cash up to \$300,000 of the Series C Preferred Stock, at a price equal to the sum of (i) the stated value of Series C Preferred Stock to be redeemed multiplied by 105% (for redemptions occurring within the first thirty days of the initial issuance date) or 110% (for redemptions occurring during the period between thirty and sixty days of the initial issuance date) plus (ii) all accrued and unpaid dividends thereon until the date of the redemption. On both March 12, 2015, and March 24, 2015, the Company met all conditions.

### ***Conversions and Balance of Outstanding Series C Preferred Stock***

As of March 31, 2015, 210,280 shares of the Series C Preferred Stock and 14,720 shares of the Series C Preferred Stock issued as dividends have been converted into 882,502 shares of our common stock. As of March 31, 2015, 1,589,720 shares of the Series C Preferred Stock remain outstanding.

As a result of the conversion, the preferred stock value, net of discounts, and the derivative liability arising from the conversion feature were extinguished. The Company recorded the fair value of the common stock issued upon conversion which resulted in a deemed dividend of \$184,000 that was recorded as a charge to additional paid in capital.

## NOTE 11 — EQUITY

### *Delisting Notice*

On February 9, 2015, the Company received a written notification (the “Notice”) from the Nasdaq Stock Market LLC (“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 August 10, 2015, 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.

If the Company is not in compliance by August 10, 2015, the Company may be afforded a second 180 calendar day grace period. To qualify, the Company would be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for the Nasdaq Capital Market, with the exception of the minimum bid price requirements. In addition, the Company would be required to notify Nasdaq of its intent to cure the minimum bid price deficiency by effecting a reverse stock split, if necessary.

If the Company does not regain compliance within the allotted compliance period(s), including any extensions that may be granted by Nasdaq, Nasdaq will provide notice that the Company’s shares of common stock will be subject to delisting.

The Company intends to monitor its closing bid price for its common stock between now and August 10, 2015, and will consider available options to resolve the Company’s noncompliance with the minimum bid price requirement, as may be necessary. There can be no assurance that the Company will be able to regain compliance with the minimum bid price requirement or will otherwise be in compliance with other Nasdaq listing criteria.

### *Equity Distribution Agreement*

On February 23, 2015, the Company delivered notice to Roth Capital Partners, LLC (“Roth”) terminating the Equity Distribution Agreement effective as of February 23, 2015. The Company previously entered into the Equity Distribution Agreement with Roth on November 19, 2014 and amended on December 30, 2014. The Company also filed a supplement to the Prospectus Supplement terminating the offering with respect to the \$1,000,000 of the Company’s common stock issuable to Roth under the Equity Distribution Agreement. No shares of the Company’s common stock were sold to Roth by the Company during the term of the Equity Distribution Agreement.

### *Warrants and Options*

The Company has issued warrants and options outside of the equity incentive plans. A summary of the warrant and option activity is as follows:

	Number of Warrants and Options (in Shares)	Weighted Average Exercise Price
Outstanding January 1, 2015	5,579,905	\$ 9.69
Granted	1,522,500	1.97
Exercised	—	—
Forfeited or Expired	(74,284)	19.25
Outstanding, March 31, 2015	<u>7,028,151</u>	<u>7.90</u>
Exercisable, March 31, 2015	<u>6,708,151</u>	<u>\$ 8.15</u>

## NOTE 12 — DERIVATIVE LIABILITIES

### *Series A, B and C Preferred Stock - Conversion Options*

On December 30, 2014, the Company entered into a purchase agreement pursuant to which the Company sold to 31 Group, 750,000 shares of the Company's Series A Preferred Stock (the "Series A Preferred Stock"). On February 12, 2015, the Company entered into a purchase agreement pursuant to which the Company sold to 31 Group, 350,000 shares of the Company's Series B Preferred Stock (the "Series B Preferred Stock"). On February 24, 2015, the Company entered into a purchase agreement pursuant to which the Company sold to certain members of George's Schmitt's family, 845,000 shares of the Company's Series B Preferred Stock (the "Series B Preferred Stock"). On February 24, 2015, the Company entered into a purchase agreement pursuant to which the Company sold to 31 Group and Dominion Capital, 1,800,000 shares of the Company's Series C Preferred Stock (the "Series C Preferred Stock").

The Series A Preferred Stock are convertible, in whole or in part, at a conversion price equal to the lower of (i) \$2.00 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.

The Series B and C Preferred Stock are convertible, in whole or in part, at a conversion price equal to the lower of (i) \$2.00 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.

The conversion feature was bifurcated from the Preferred Stock as it was not considered to be clearly and closely related to the host agreement and is accounted for as a derivative liability.

### *Warrants to Purchase Common Stock*

In connection with the issuance of Series A Preferred Stock to 31 Group, the Company issued warrants to purchase up to 375,000 shares of Common Stock which are exercisable at any time on or before December 31, 2019. In connection with the issuance of Series B Preferred Stock to 31 Group, the Company issued warrants to purchase up to 175,000 shares of Common Stock which are exercisable at any time on or before February 11, 2020. In connection with the issuance of Series B Preferred Stock to certain family members of George Schmitt, the Company issued warrants to purchase up to 422,500 shares of Common Stock are exercisable at any time on or before February 24, 2020. In connection with the issuance of Series C Preferred Stock to 31 Group and Dominion Capital, the Company issued warrants to purchase up to 900,000 shares of Common Stock are exercisable at any time on or before February 24, 2020. The Warrants each have an exercise price of \$2.00 per share. The warrants are accounted for as derivative liability as they can be redeemed by the holder for Black Scholes value upon certain fundamental transactions.

The table below sets forth a summary of changes in the fair value of the Company's Level 3 derivative liabilities for the quarter ended March 31, 2015:

	Series A	Series B (31 Group)	Series B (Related Party)	Series C	Total
Balance at January 1, 2015	270,000	—	—	—	270,000
Additions to conversion option derivative liability	—	84,000	220,000	468,000	772,000
Additions to warrant derivative liability	—	42,000	118,000	252,000	412,000
Conversions of derivative liability	(150,000)	(24,000)	(220,000)	(55,000)	(449,000)
Change in fair market value of the derivative liabilities	(60,000)	(44,000)	(50,000)	(331,000)	(485,000)
Balance at March 31, 2015	<u>60,000</u>	<u>58,000</u>	<u>68,000</u>	<u>334,000</u>	<u>520,000</u>

These instruments were valued using the Black Scholes pricing model that incorporates the price of a share of Common Stock, volatility, risk free rate, dividend rate and estimated life. As of March 31, 2015 all outstanding shares of the Series A Preferred Stock and the Series B Preferred Stock (Related Party) have been converted.

**NOTE 12 — DERIVATIVE LIABILITIES (continued)**

The following are the key assumptions used in connection with the valuation of the conversion option on the date of issuance, at December 31, 2014 and March 31, 2015:

	Series A	Series B (31 Group)	Series B (Related Party)	Series C
Date of issuance	12/30/2014	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	\$0.51	\$0.42	\$0.45	\$0.45
Conversion price	\$0.57	\$0.357	\$0.40	\$0.40
Volatility	131%	143.4%	143.4%	143.4%
Risk-free interest rate	0.13%	0.26%	0.26%	0.26%
Expected dividend yield	—	—	—	—
Life of convertible preferred stock (years)	1	1	1	1

	Series A	Series B (31 Group)	Series B (Related Party)	Series C
Number of shares convertible into on March 31, 2015	—	250,000	—	1,589,720
Fair market value of stock	—	\$0.279	—	\$0.279
Conversion price	—	\$0.2295	—	\$0.2295
Volatility	—	105.4%	—	105.4%
Risk-free interest rate	—	0.99%	—	0.99%
Expected dividend yield	—	—	—	—
Life of convertible preferred stock (years)	—	0.85	—	0.90

The following are the key assumptions used in connection with the valuation of the warrants on the date of issuance, at December 31, 2014 and March 31, 2015:

	Series A	Series B (31 Group)	Series B (Related Party)	Series C
Date of warrant	12/30/2014	2/11/2015	2/24/2015	2/24/2015
Number of shares underlying the warrants	375,000	175,000	422,500	900,000
Fair market value of stock	\$0.51	\$0.42	\$0.45	\$0.45
Exercise price	\$2.00	\$2.00	\$2.00	\$2.00
Volatility	112.9%	120.6%	120.6%	120.6%
Risk-free interest rate	0.96%	0.90%	0.90%	0.90%
Expected dividend yield	—	—	—	—
Warrant life (years)	5	5	5	5

	Series A	Series B (31 Group)	Series B (Related Party)	Series C
Number of shares underlying the warrants on March 31, 2015	375,000	175,000	422,500	900,000
Fair market value of stock	\$0.279	\$0.279	\$0.279	\$0.279
Exercise price	\$2.00	\$2.00	\$2.00	\$2.00
Volatility	116.3%	120.6%	120.6%	120.6%
Risk-free interest rate	0.99%	0.90%	0.90%	0.90%
Expected dividend yield	—	—	—	—
Warrant life (years)	4.75	4.85	4.90	4.90

The risk-free rate is based on the rate for the U.S. Treasury note over the expected terms. The expected term is the full term of the warrant and preferred stock. 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.

## NOTE 13 — RELATED PARTY TRANSACTIONS

### *MBTH*

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 \$75,000 and \$75,000, respectively, for the three months ended March 31, 2015 and 2014. As of March 31, 2015, MBTH owned approximately 32.09% of the Company's outstanding shares. Roger Branton, the Company's Chief Financial Officer, and 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.

During the three months ended March 31, 2015, MBTH incurred no new liabilities on behalf of the Company under the 2011 assumption of liability agreement with MBTH. From January 1, 2015 to March 31, 2015, the Company repaid MBTH \$0 for liabilities previously paid by MBTH. The due to related party balance was \$264,000 as of March 31, 2015.

The Company agreed to award MBTH a 3% cash success fee if MBTH arranges financing for the Company or arranges a merger, consolidation or sale by the Company of substantially all of the assets. On February 24, 2015, MBTH invoiced the Company for \$700,000 in fees associated with equity financings 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 Company accrued approximately \$90,000 for equity financings between January 1, 2015 and March 31, 2015.

### *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 as a due to related parties on the financial statements.

On January 8, 2015, the Company repaid \$100,000 of the \$245,000 due to related party balance owed to George Schmitt.

On January 29, 2015 and February 13, 2015, the Company received an aggregate of \$700,000 from certain family members of George Schmitt, Chairman of the Board and Chief Executive Officer (effective as of February 17, 2015). This amount was recorded as a short term loan in due to related parties. On February 23, 2015, George Schmitt transferred the balance of his \$145,000 loan to certain family members bringing the total the Company owed to certain family members to \$845,000. The \$845,000 loan was settled through the issuance of 845,000 shares of Series B Preferred Stock, 53,095 shares of common stock and warrants with respect to 422,500 underlying shares of common stock exercisable for five years at a price of \$2.00 per share. Upon certain fundamental events, the warrants could be redeemed by the holders of the warrants at fair market value estimated using Black Scholes.

On February 24, 2015, the 845,000 shares of the Series B Preferred Stock issued to certain family members of George Schmitt and 59,150 shares of the Series B Preferred Stock issued as dividends were converted into 2,227,911 shares of our common stock (See Note 10 Preferred Stock). As of March 31, 2015 none of the Series B Preferred Stock issue to certain family members of George Schmitt remains outstanding.

On March 24, 2015, the Company received a \$40,000 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.

### *Issuance of common stock to MBTH*

On February 24, 2015, the company issued 3,991,131 shares of common stock to MBTH in consideration of converting \$1,756,098 owed of the balance due to related parties at a conversion price of \$0.44 per share.

### *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, 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, we shipped additional equipment purchased by Larry Townes and we 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. Previously, Walnut Hill Telephone Company and Haxtun Telephone Company did not intend to deliver payment until such technical specifications were satisfied. These specifications have now been satisfied and the deferred revenue has been recorded as revenue.

**NOTE 14 — CONCENTRATIONS**

During the three months ended March 31, 2015, the Company recorded revenue from individual sales or services rendered of \$534,000 (91%) in excess of 10% of the Company's total sales to a related party.

At March 31, 2015, approximately 91% of net accounts receivable was due from two customers broken down individually as follows; \$316,000 (57%) to a related party and \$190,000 (34%) to an unrelated party.

During the three months ended March 31, 2015, approximately 100% of the Company's inventory purchases were derived from three vendors.

**NOTE 15 — CONTINGENCIES**

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. As of March 31, 2015, the Company did not have any legal actions pending.

**NOTE 16 — SUBSEQUENT EVENTS*****Conversions and Balances of Outstanding Series B Preferred Stock***

As of April 29, 2015, 1,195,000 shares of the Series B Preferred Stock and 83,650 shares of the Series B Preferred Stock issued as dividends have been converted into 4,054,987 shares of our common stock. As of April 29, 2015, all outstanding shares of the Series B Preferred Stock have been fully converted.

***Conversions and Balance of Outstanding Series C Preferred Stock***

As of May 15, 2015, 1,685,000 shares of the Series C Preferred Stock and 117,950 shares of Series C Preferred Stock issued as dividends have been converted into 3,631,417 shares of our common stock. As of May 15, 2015, 115,000 shares of the Series C Preferred Stock remain outstanding.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

### **Cautionary Notice Regarding Forward Looking Statements**

The information contained in Item 2 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual results will not be different from expectations expressed in this report.

This filing contains a number of forward-looking statements which reflect management’s current views and expectations with respect to our business, strategies, products, future results and events, and financial performance. All statements made in this filing other than statements of historical fact, including statements addressing operating performance, events, or developments which management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, statements expressing general optimism about future operating results, and non-historical information, are forward looking statements. In particular, the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “may,” variations of such words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements, and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated, or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

Readers should not place undue reliance on these forward-looking statements, which are based on management’s current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below), and apply only as of the date of this filing. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements.

### **Overview**

We have developed a broad portfolio of innovative intellectual property to 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. We recently released the commercially available version of our software and hardware products using our proprietary xMax® cognitive radio technology.

Our current cognitive radio technology is based on years of product development. In 2008 and 2009, we generated material revenues from sales of our prior BSN250 voice-only products. After the introduction of various smartphones in 2007 and later that could handle both voice and data, we decided to enhance our voice-only products to include data services. In 2011, we delivered our enhanced BSN250 base station and TX70 handset for both voice and SMS services to the U.S. Army. Given the proliferation of smartphones, the U.S. Army subsequently requested that our BSN250 base station should integrate with commercial off the shelf devices. In 2013, we introduced an improved product line that could handle both voice and data services. These new products, the Access Point (“CN1100”), formerly known as the xAP base station, the Mobile Hotspot (“CN5100”), formerly known as the xMod modem, and the Vehicle Modem (“CN3100”), formerly known as the xVM modem, are able to communicate with any wi-fi enabled commercial off the shelf device. In 2014, we began developing a new product, the CN3200 Dual Band Routing Modem (“CN3200”), formerly known as the xRM modem. On September 30, 2014, we received certification from the U.S. Federal Communications Commission in connection with the CN3200. The CN3200 is a module that complements the xMax mobile system and is designed to provide high speed fixed broadband access using frequencies at 2.4 GHz. It offers an end-user solution that seamlessly integrates xMax and wi-fi in a single device, and allows the delivery of both high data rates and reliable high-speed mobility in the same system. We believe that the CN3200 will provide higher performance with dedicated channels for voice (xMax) and data (wi-fi), will maximize user experience via interprotocol smart-routing, and provide greater reliability.

We believe 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 fast-growing demand straining network capacity, our intellectual property is also designed to help wireless broadband network operators make more efficient use of their existing spectrum allocations. We are targeting sales in numerous industries worldwide, such as telecommunications services, public safety and defense, and in markets ranging from rural to urban areas as well as expeditionary deployments.

The initial implementation of our cognitive radio intellectual property is xMax. We believe the xMax system is 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 higher QoS than other technologies that would not be able to cope with the interference. We believe that the xMax system will also, when operating on more than one radio channel, deliver dynamic spectrum access by using our patented self-organizing network techniques. Furthermore, the xMax system can be used to provide additional capacity to licensed spectrum by identifying and utilizing unused bandwidth within the licensed spectrum.

Our system is frequency agnostic, although currently designed to operate within the 902 – 928 MHz unlicensed band of spectrum. xMax serves as a mobile VoIP and broadband data system that utilizes an end-to-end IP system architecture. The xMax product and service suite includes access points, mobile switching centers, network management systems, deployment tools and proactive 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 and expensive licensed spectrum. Our xMax system will also enable enterprises to set up a mobile communications network in an expeditious and cost-effective manner.

We have generated significant net losses for the past several years and we expect to continue to realize net losses for the immediate future.

### ***Plan of Operations***

We are executing on 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.

### **Recent Developments**

In April 2015, we announced that we successfully completed the installation and deployment of a three-site pilot xMax broadband wireless network for the Bay Area Regional Interoperable Communications Systems Authority (“BayRICS”). The deployment covers parts of the San Francisco Bay Area municipalities of Livermore, Dublin and Pleasanton. The xMax solution is currently being evaluated by San Francisco Bay Area emergency management organizations. Since the original announcement of the BayRICS deployment on December 18, 2014, dozens of extensive demonstrations have been granted to California public safety stakeholders interested in experiencing the features of the xMax network in a live setting. As a result of these demonstrations, xMax is under consideration for purchase and deployment as a public safety broadband wireless solution by area municipal and emergency operations officials. The pilot network covers approximately 60 square miles and is comprised of xMax networking equipment that includes compact access points and subscriber devices installed in both stationary locations as well as in specially-equipped vehicles to showcase on-the-move support.

In April 2015, we also announced that we achieved increased performance in the patented and market-leading interference mitigation capabilities of the xMax private mobile broadband wireless system. The heightened performance is the result of successfully incorporating more complex and robust signal processing algorithms and other advances spearheaded by xG’s research and development team. These technological advancements translate to up to a ten-fold improvement in the ability of xMax to withstand interference.

In April 2015, we announced an agreement with DirectView Holdings, Inc. to integrate our xMax private mobile broadband technology with DirectView’s recently announced body-worn camera scheduled for commercial launch early in the third quarter of 2015. The planned integration will consolidate the private, secure, high-performance communications capabilities of xMax with the advanced features and functionality of DirectView’s body-worn camera.

In May 2015, we announced we were awarded a new patent covering enhanced techniques for mitigating interference in wireless transmissions. The new patent, “Hybrid ARQ system with Snapshot Feedback Mechanism for Interference Prone Wireless Networks,” outlines a method for faster and more detailed analysis of data being received, which will help deliver smoother and more reliable communications in crowded and challenged RF (radio frequency) environments. Impairments in wireless channels can cause data corruption and loss, and adversely impact system throughput. The presence of interference, both intentionally and non-intentionally generated, exacerbates this problem and further degrades performance. This is a growing occurrence in public cellular systems that can be weighed down (and even become unavailable) when there is a large concentration of users during a crisis or other event. Because many first responders and public safety officials rely on the same public cellular system for their mission-essential duties, there is a risk that their ability to protect lives and property could be compromised because of congested cellular airwaves.

In May 2015, we announced a Strategic Technology Alliance Agreement with Drakontas, LLC (“Drakontas”) to cooperate in the marketing of each other’s respective solutions. Under the terms of the agreement, the Company and Drakontas will make available integrated products that include xMax private mobile broadband network technology and Drakontas’ DragonForce mobile team collaboration software application.

DragonForce is one of the most innovative emerging technologies for mobile collaboration in the public safety market. Built for tactical teams and for everyday law enforcement operations, DragonForce empowers public safety teams to effectively share information in real-time in the field through instant messaging, location, personnel tracking, photo and document sharing and collaborative whiteboards. DragonForce provides first responders a common operating platform allowing them to plan, communicate and act more quickly, safely and effectively during daily operations, events and critical incidents using smartphones, tablets and other mobile devices.

## Results of Operations

### *Comparison for the three months ended March 31, 2015 and 2014*

#### *Revenues*

Revenues for the three months ended March 31, 2015, were \$584,000 compared to \$250,000 in the corresponding period in 2014. The revenue of \$584,000 resulted from \$510,000 from sales of equipment and \$74,000 from engineering services and a consulting services agreement during the three months ended March 31, 2015. Of the \$584,000 in revenue, \$480,000 was previously recorded as deferred revenue.

#### *Cost of Revenue and Operating Expenses*

##### Cost of Components and Personnel

Cost of components and personnel for the three months ended March 31, 2015, were \$330,000 compared to \$63,000 in the corresponding period in 2014. Of the \$330,000, \$313,000 was based on the cost of components and the time allocated to building the products sold, and \$17,000 was based on the cost of the time allocated towards the engineering and consulting service agreement. Of the \$63,000, \$60,000 was based on the cost of components and the time allocated to building the products sold, and \$3,000 was based on the cost of the time allocated towards the engineering and consulting service agreement.

##### General and Administrative Expenses

General and administrative expenses are the expenses of operating the business on a daily basis. This includes 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. For the three months ended March 31, 2015, the Company incurred aggregate expense of \$1.5 million, compared to \$1.7 million for the three months ended March 31, 2014, representing a decrease of \$0.2 million or 11%. The decrease is due to decreases in consulting fees associated with sales and marketing of \$0.1 million; \$0.1 in taxes and licenses; \$0.1 million in travel expenses; and \$0.1 in advertising. The decreases were partially offset by increases in consulting fees associated with the Company's listing on the NASDAQ Capital Market of \$0.2 million.

##### Development Expenses

Development expenses consist primarily of salaries, benefit expenses and payroll taxes, as well as costs for prototypes, facilities and travel. For the three months ended March 31, 2015, the Company incurred aggregate expense of \$1.6 million, compared to \$2.5 million for the three months ended March 31, 2014, representing a decrease of \$0.9 million or 37%. The decrease is due to decreases of \$0.3 in materials used for research and development purposes; \$0.3 million in consulting services; \$0.1 million in costs related to maintaining existing patents; and \$0.4 million in additional payroll capitalization. The decreases were partially offset by an increase of \$0.2 million in travel expenses. We expect our development costs to decrease going forward as we implement cost saving measures in 2015 which include a reduction in our current full-time, part-time and contracted workforce.

### Stock Based Compensation

Stock based compensation decreased \$0.08 million from \$0.21 million in the three months ended March 31, 2014 to \$0.13 million in the three months ended March 31, 2015. The decrease arose from the decrease in the number of outstanding options being expensed in the three months ended March 31, 2015 compared to the same period in the three months ended March 31, 2014.

### Amortization and Depreciation

Amortization and depreciation expenses increased \$0.01 million, or 1%, from \$0.95 million in the three months ended March 31, 2014 to \$0.96 million in the three months ended March 31, 2015.

### Other

Interest expense for the three months ended March 31, 2015 was \$0.05 million compared to \$0.05 million for the three months ended March 31, 2014.

### *Net Loss*

For the three months ended March 31, 2015, the Company had a net loss of \$3.5 million, as compared to a net loss of \$5.2 million for the three months ended March 31, 2014, or a decrease of \$1.7 million. The decrease in net loss is due mainly to an increase in revenue and a decrease in development expenses discussed above.

### **Liquidity and Capital Resources**

As of March 31, 2015, the Company has positive working capital of approximately \$2.3 million including \$0.6 million of restricted cash, \$0.2 million of cash and cash equivalents. We have incurred net losses of \$3.5 million in the three months ended March 31, 2015 and \$19.0 million in the year ended December 31, 2014. Additionally, we have incurred negative operating cash flows including cash used in operations of \$1.8 million in the three months ended March 31, 2015 and cash used in operations of \$14.6 million for the year ended December 31, 2014.

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. The Company does not currently have sufficient capital in order to fund operations for the next twelve months from the balance sheet date or to achieve cash flow breakeven. Therefore, the Company is actively evaluating various alternatives of financing in order to obtain additional capital to allow the Company to deliver its products.

### *Cash Flows*

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

#### **For the Three Month Period Ended (In Thousands)**

	<b>March 31, 2015</b>	<b>March 31, 2014</b>
Cash flows used in Operations	\$ (1,824)	\$ (4,523)
Investing Activities	\$ (755)	\$ (277)
Financing Activities	\$ 2,042	\$ 31
Cash at end of period	\$ 221	\$ 686

### *Operating Activities*

Net cash used in operating activities for the three months ended March 31, 2015 totaled \$1.8 million as compared to \$4.5 million for the three months ended March 31, 2014. Of the \$1.8 million, approximately \$0.5 million was related to the increase of our payables and the remaining balance consisted principally of the net loss from operations.

### *Investing Activities*

Net cash used in investing activities for the three months ended March 31, 2015 was \$0.8 million as compared to \$0.3 million for the three months ended March 31, 2014. This represents capital expenditures primarily associated with the investment in product and technology development and our patent portfolio.

### *Financing Activities*

Our net cash provided by financing activities for the three months ended March 31, 2015 was \$2.0 million as compared to cash provided by financing activities of \$0.03 million for the three months ended March 31, 2014. During the three months ended March 31, 2015, there were cash inflows of \$2.7 million which were partially offset by the increase in restricted cash of \$0.6 million. In the three months ended March 31, 2015, there were net proceeds from the Series B and C Preferred Stock totaling \$2.7 million.

### **2014 and 2015 Financings**

#### *April 2014 Offering*

On April 22, 2014, the Company closed an underwritten public offering of 5,265,000 shares of common stock, at a purchase price to the public of \$1.90 per share, for net proceeds to the Company, after deducting underwriter discounts and offering expenses, of \$8,816,000. Roth Capital Partners and Felt and Company acted as underwriters for the offering.

#### *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 500,000 shares of our common stock to Lincoln Park at a price of \$2.00 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 500,000 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, we entered into a Purchase Agreement (the “\$15M Purchase Agreement”) and a registration rights agreement with Lincoln Park. In consideration for entering into the transaction, we issued 175,000 shares of our common stock to Lincoln Park as a commitment fee upon execution of the \$15M Purchase Agreement. We recorded \$346,000 as a prepaid expense based upon a stock price of \$1.98 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, we may require Lincoln Park to purchase up to 100,000 shares of our common stock (a “Regular Purchase”); provided, however, that (i) a Regular Purchase may be increased to up to 150,000 shares of our common stock provided that the closing sale price of our common stock is not below \$2.00 on the purchase date, (ii) a Regular Purchase may be increased to up to 200,000 shares of our common stock provided that the closing sale price of our common stock is not below \$2.50 on the purchase date and (iii) a Regular Purchase may be increased to up to 250,000 shares of our common stock provided that the closing sale price of our common stock is not below \$3.00 on the purchase date; and provided, further, that the aggregate price of any Regular Purchase shall not exceed \$1,000,000. We 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 \$1.50. 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.

We also have the right, at our sole discretion, to require Lincoln Park to make an accelerated purchase on the business day following the purchase date of a Regular Purchase in an amount up to the lesser of (i) 200% of the number of shares of common stock purchased as a Regular Purchase and (ii) 30% of the trading volume of our common stock on such accelerated purchase date, provided that the closing price of our common stock equals or exceeds \$1.50 on such accelerated purchase date, as reported on the NASDAQ Capital Market. The purchase price per share of common stock for any accelerated purchase will be equal to the lesser of (i) the closing sale price of our common stock on the accelerated purchase date and (ii) 95% of the volume weighted average price of our common stock on the accelerated purchase date.

On October 3, 2014, the Company filed a registration statement on Form S-1 with the SEC to register 4,782,906 shares of the Company's common stock for sale to Lincoln Park under the \$15M Purchase Agreement and the 175,000 shares of common stock issued to Lincoln Park as a commitment fee. On October 20, 2014, the SEC declared this registration statement effective.

As of March 31, 2015, the Company has drawn down \$145,000 and issued 100,000 shares of common stock under the \$15M Purchase Agreement. The prepaid expense for this financing was \$249,000 as of March 31, 2015, representing a decrease of \$97,000 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 500,000 shares of Common Stock at a purchase price of \$1.25 per share, the Affiliate Purchasers purchased 245,984 shares of Common Stock at a purchase price of \$1.37 per share and the Other Investors purchased 295,600 shares of Common Stock at a purchase price of \$1.25 per share pursuant to the Company's Shelf Registration Statement.

#### *Equity Distribution Agreement with Roth Capital Partners, LLC*

On November 18, 2014, we entered into an Equity Distribution Agreement (the "Equity Distribution Agreement") with Roth Capital Partners, LLC ("Roth"), pursuant to which we may sell from time to time up to \$10,000,000 of shares of our 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, we terminated the Equity Distribution Agreement with Roth.

#### *\$750,000 Purchase Agreement – Series A Preferred Stock*

On December 30, 2014, we entered into a Securities Purchase Agreement (the "Purchase Agreement") with 31 Group, LLC ("31 Group") pursuant to which we sold to 31 Group, for a purchase price of \$750,000, 750,000 shares of our Series A Convertible Preferred Stock, par value \$0.00001 per share (the "Series A Preferred Stock") and warrants (the "Warrants") to purchase 375,000 shares of our common stock. We also issued to 31 Group 33,142 shares of our common stock in consideration of 31 Group's execution and delivery of the Purchase Agreement (the "Commitment Shares"). The offer and sale of the Series A Preferred Stock, the common stock issuable upon conversion of the Series A Preferred Stock and the Commitment Shares were made pursuant to the Shelf Registration Statement.

As of March 31, 2015, 750,000 shares of the Series A Preferred Stock and 52,500 shares of the Series A Preferred Stock issued as dividends have been converted into 2,392,465 shares of common stock. As of March 31, 2015, all outstanding shares of the Series A Preferred Stock have been fully converted.

The Warrants are exercisable immediately for a period of five years from their issue date. The exercise price with respect to the warrants is \$2.00 per share. 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. Upon certain fundamental events, the warrants could be redeemed by the holders of the warrants at fair market value estimated using Black Scholes.

#### *Short Term Related Party Loans*

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 as a due to related parties on the financial statements.

On January 8, 2015, the Company repaid \$100,000 of the \$245,000 due to related party balance owed to George Schmitt.

On January 29, 2015 and February 13, 2015, the Company received an aggregate of \$700,000 from certain family members of George Schmitt, Chairman of the Board and, effective as of February 17, 2015, Chief Executive Officer. This amount was recorded as a short term loan in due to related parties. On February 23, 2015, George Schmitt transferred the balance of his \$145,000 loan to certain family members bringing the total the Company owed to certain family members to \$845,000. The \$845,000 loan was settled through the issuance of 845,000 shares of Series B Preferred Stock, 53,095 shares of common stock and warrants with respect to 422,500 underlying shares of common stock exercisable for five years at a price of \$2.00 per share. Upon certain fundamental events, the warrants could be redeemed by the holders of the warrants at fair market value estimated using Black Scholes.

#### *\$350,000 Purchase Agreement with 31 Group – Series B Preferred Stock*

On February 11, 2015, the Company entered into a purchase agreement, pursuant to which the Company sold to 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 175,000 shares of the Company's common stock for a purchase price of \$350,000. The Company also issued 24,619 shares of its common stock in consideration of 31 Group's execution and delivery of the purchase agreement (the "Commitment Shares"). The Series B Preferred Stock and the Commitment Shares were issued pursuant to the Company's Shelf Registration Statement.

#### Series B Preferred Stock

As of March 31, 2015, 945,000 shares of the Series B Preferred Stock and 66,150 shares of the Series B Preferred Stock issued as dividends has been converted into 2,677,009 shares of our common stock. As of March 31, 2015, 250,000 shares of the Series B Preferred Stock remains outstanding.

*Ranking.* The Series B 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 our common stock and other classes of capital stock, unless the holders of a majority of the outstanding shares of Series B Preferred Stock consent to the creation of parity stock or senior preferred stock.

*Liquidation Preference of Series B 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 B Preferred Stock are entitled to receive an amount equal to the greater of (i) the stated value of the Series B Preferred Stock or (ii) the amount the holder of Series B 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 B Preferred Stock.* Holders of Series B Preferred Stock shall be entitled to receive from the first date of issuance of the Series A Preferred Stock until the date that is twelve (12) months from the issuance date (the "Maturity Date") 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.

*Redemption of Series B Preferred Stock.* Upon the occurrence of certain triggering events (including 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

*Redemption of Series B Preferred Stock.* Upon the occurrence of certain triggering events (including 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 the Company shall not be dismissed in thirty (30) days or the voluntary commencement of such proceedings by the Company), the holder 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 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 B Preferred Stock.

Upon the occurrence of a change in control of the Company, a holder of Series B Preferred Stock shall have the right to require the Company to redeem all or any portion of the Series B Preferred Stock at a price equal to 125% of the stated value of the Series B 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 B Preferred Stock), then the Company shall have the right to redeem all, but not less than all, of the Series B Preferred Stock outstanding in cash at a price equal to the sum of (i) 125% of the stated value of the Series B 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 B Preferred Stock may require the Company to redeem all or any number of Series B Preferred Shares held by such holder at a purchase price equal to 105% of the conversion amount of such Series B Preferred Shares.

*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) \$2.00 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).

*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 B Preferred Stock shall have the right to require the Company to redeem all or any portion of the Series B 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.

*Voting Rights.* Except with respect to certain material changes in the terms of the Series B Preferred Stock and certain other matters, and except as may be required by Delaware law, holders of Series B Preferred Stock shall have no voting rights. The approval of a majority of the holders of the Series B Preferred Stock is required to amend the Certificate of Designations.

#### Warrants

The Warrants are exercisable immediately for a period of five years from their issue date. The exercise price with respect to the warrants is \$2.00 per share. 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. Upon certain fundamental events, the warrants could be redeemed by the holders of the warrants at fair market value estimated using Black Scholes.

### *\$1,800,000 Purchase Agreement – Series C 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 900,000 shares of the Company's common stock for a purchase price of \$1,800,000. The Company also issued 118,631 shares of its common stock in consideration of the investors' execution and delivery of the purchase agreement (the "Commitment Shares"). The Series C Preferred Stock and the Commitment Shares were issued pursuant to the Company's Shelf Registration Statement.

#### Series C Preferred Stock

As of March 31, 2015, 210,280 shares of the Series C Preferred Stock and 14,720 shares of the Series C Preferred Stock issued as dividends have been converted into 882,502 shares of our common stock. As of March 31, 2015, 1,589,720 shares of the Series C Preferred Stock remains outstanding.

The Series C Preferred Stock rank *pari passu* with 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 B Preferred Stock except for the following:

*Conversion Rights of Series C Preferred Stock.* Upon the occurrence of certain triggering events (including the Preferred Stock or common stock underlying the 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 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) \$2.00 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 Preferred Stock.

On each of March 12, 2015, March 24, 2015, April 12, 2015 and April 24, 2015, upon the Company's failure to met certain conditions (including the Company's common stock failing to maintain a minimum trading price and the common stock failing to maintain certain trading volumes) during the period between the initial issuance date of the Preferred Stock and the relevant determination date, the holders of Preferred Stock shall have the right to require the Company, by written notice, to redeem in cash up to \$300,000 of the Preferred Stock, at a price equal to the sum of (i) the stated value of Preferred Stock to be redeemed multiplied by 105% (for redemptions occurring within the first thirty days of the initial issuance date) or 110% (for redemptions occurring during the period between thirty and sixty days of the initial issuance date) plus (ii) all accrued and unpaid dividends thereon until the date of the redemption. On both March 12, 2015, and March 24, 2015, the Company met all conditions.

#### Warrants

The Warrants are exercisable immediately for a period of five years from their issue date. The exercise price with respect to the warrants is \$2.00 per share. 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. Upon certain fundamental events, the warrants could be redeemed by the holders of the warrants at fair market value estimated using Black Scholes.

### **Off-Balance Sheet Arrangements**

We do not currently have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our stockholders.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this Item.

### **Item 4. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that such 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. Our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), does not expect that our disclosure controls and procedures will prevent all errors 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. Further, 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 our Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

As of March 31, 2015, we carried out an evaluation, under the supervision and with the participation of our management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13 (a)-15(e) under the Exchange Act. Based on this evaluation, management concluded that as of March 31, 2015, our disclosure controls and procedures were not effective.

Our management has previously identified a material weakness regarding inadequate accounting resources due to the need to hire accounting personnel with the requisite knowledge of U.S. generally accepted accounting principles. The Company made progress to remedy this deficiency through the hiring of a financial controller to support the accounting personnel. The financial controller began employment in September 2013 and has now been fully integrated into the Company's control process. However, due to the recent loss of accounting personnel through cost cutting measures and the need to deal with complex accounting transactions, we believe that our disclosure controls are not effective.

#### **Changes in Internal Controls**

During the fiscal quarter ended March 31, 2015, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## **PART II: OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

From time to time, we are a party to litigation and subject to claims incident to the ordinary course of business. Future litigation may be necessary to defend ourselves and our customers by determining the scope, enforceability and validity of third party proprietary rights or to establish our proprietary rights.

As of March 31, 2015, we do not have any litigation matters pending.

### **Item 1A. Risk Factors.**

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this Item.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

#### **Unregistered Sales of Securities**

On February 23, 2015, the Company settled an \$845,000 loan with family members of George Schmitt, our Chief Executive Officer, through the issuance of 845,000 shares of Series B Preferred Stock, 53,095 shares of common stock and warrants with respect to 422,500 underlying shares of common stock exercisable for five years at a price of \$2.00 per share.

These shares of Series B Preferred Stock, shares of common stock and warrants were offered and sold, and the common stock issuable upon conversion of the Warrants and Series B Convertible Preferred Stock will be offered and sold, in reliance upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D. The Company made this determination based on the representations of the Purchasers which included, in pertinent part, that each Purchaser is an "accredited investor" within the meaning of Rule 501 of Regulation D and upon such further representations from each Purchaser that (i) each Purchaser is acquiring the securities for his, her or its own account for investment and not for the account of any other person and not with a view to or for distribution, assignment or resale in connection with any distribution within the meaning of the Securities Act, (ii) each Purchaser agrees not to sell or otherwise transfer the purchased shares unless they are registered under the Securities Act and any applicable state securities laws, or an exemption or exemptions from such registration are available, (iii) each Purchaser has knowledge and experience in financial and business matters such that it is capable of evaluating the merits and risks of an investment in the Company, (iv) each Purchaser had access to all of the Company's documents, records, and books pertaining to the investment and was provided the opportunity to ask questions and receive answers regarding the terms and conditions of the offering and to obtain any additional information which the Company possessed or was able to acquire without unreasonable effort and expense, and (v) each Purchaser has no need for the liquidity in its investment in the Company and could afford the complete loss of such investment. In addition, there was no general solicitation or advertising for securities issued in reliance upon Regulation D.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

There have been no material changes to the procedures by which security holders may recommend nominees to our Board of Directors.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
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.

## SIGNATURES

Pursuant to the requirements 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.**

Date: May 15, 2015

By: /s/ George Schmitt  
George Schmitt  
Chief Executive Officer and Chairman of the Board  
(Duly Authorized Officer and Principal Executive Officer)

Date: May 15, 2015

By: /s/ Roger Branton  
Roger G. Branton  
Chief Financial Officer  
(Duly Authorized Officer and Principal Financial Officer)

## EXHIBIT INDEX

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

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**Exhibit 31.1**

**CERTIFICATION  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, George Schmitt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of xG Technology, Inc. (the “registrant”):
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 15, 2015

/s/ George Schmitt  
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George Schmitt  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Roger G. Branton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of xG Technology, Inc. (the “registrant”):
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 15, 2015

/s/ Roger G. Branton  
Roger G. Branton  
Chief Financial Officer  
(Principal Financial Officer)

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of xG Technology, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2015 (the "Report"), I, George Schmitt, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2015

/s/ George Schmitt

George Schmitt  
Chief Executive Officer  
(Principal Executive Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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**Exhibit 32.2**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of xG Technology, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2015 (the "Report"), I, Roger G. Branton, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2015

/s/ Roger G. Branton

Roger G. Branton  
Chief Financial Officer  
(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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