

One Horizon Group, Inc.
Form 10-K
April 01, 2015

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2014.

OR

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

Commission File Number 000-10822

One Horizon Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

46-3561419
(I.R.S. Employer
Identification No.)

T1-017 Tierney Building,
University of Limerick, Limerick,
Ireland.

(Address of principal executive
offices)

N/A

(Zip Code)

+41-41-7605820
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
n/a	n/a

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

Common Stock, Par Value \$0.0001
(Title of Class)

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

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

No

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 Website, 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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if 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 aggregate market value of the 10,257,625 shares of voting and non-voting common equity stock held by non-affiliates of the registrant was approximately \$ 44.11 million as of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, based on the last sale price of the registrant's common stock on such date of \$4.03 per share, as reported on the OTC.

As of March 25, 2015, 32,933,209 shares of the registrant's common stock, par value \$0.0001, were outstanding.

TABLE OF CONTENTS

Item	Description	Page
	Cautionary Note Regarding Concerning-Looking Statements	2
Part I		
Item 1	Business	3
Item 1A	Risk Factors	15
Item 1B	Unresolved Staff Comments	15
Item 2	Properties	15
Item 3	Legal Proceedings	15
Item 4	Mine Safety Disclosures	15
Part II		
Item 5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	16
Item 6	Selected Financial Data	17
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 7A	Quantitative and Qualitative Disclosures about Market Risk	24
Item 8	Financial Statements and Supplementary Data	24
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	24
Item 9A	Controls and Procedures	25
Item 9B	Other Information	27
Part III		
Item 10	Directors, Executive Officers and Corporate Governance	28
Item 11	Executive Compensation	32
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	33
Item 13	Certain Relationships and Related Transactions, and Director Independence	35
Item 14	Principal Accounting Fees and Services	36
Part IV		
Item 15	Exhibits, Financial Statement Schedules	38
	Signatures	41

Introductory Note

Unless otherwise noted, references to the “Company” in this Report include One Horizon Group, Inc. and all of its subsidiaries.

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

The statements made in this Report, and in other materials that the Company has filed or may file with the Securities and Exchange Commission, in each case that are not historical facts, contain “forward-looking information” within the meaning of the Private Securities Litigation Reform Act of 1995, and Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, which can be identified by the use of forward-looking terminology such as “may,” “will,” “anticipates,” “expects,” “projects,” “estimates,” “believes,” “seeks,” “should,” or “continue,” the negative thereof, and other variations or comparable terminology as well as any statements regarding the evaluation of strategic alternatives. These forward-looking statements are based on the current plans and expectations of management, and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Among these risks and uncertainties are the competition we face; our ability to adapt to rapid changes in the market for voice and messaging services; our ability to retain customers and attract new customers; our ability to establish and expand strategic alliances; governmental regulation and related actions and taxes in our international operations; increased market and competitive risks, including currency restrictions, in our international operations; risks related to the acquisition or integration of future businesses or joint ventures; our ability to obtain or maintain relevant intellectual property rights; intellectual property and other litigation that may be brought against us; failure to protect our trademarks and internally developed software; security breaches and other compromises of information security; our dependence on third party facilities, equipment, systems and services; system disruptions or flaws in our technology and systems; uncertainties relating to regulation of VoIP services; liability under anti-corruption laws; results of regulatory inquiries into our business practices; fraudulent use of our name or services; our ability to maintain data security; our dependence upon key personnel; our dependence on our customers' existing broadband connections; differences between our service and traditional phone services; our ability to obtain additional financing if required; our early history of net losses and our ability to maintain consistent profitability in the future. These and other matters the Company discusses in this Report, or in the documents it incorporates by reference into this Report, may cause actual results to differ from those the Company describes. The Company assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

We develop and license software to telecommunications operators through our wholly-owned subsidiaries Horizon Globex GmbH and Abbey Technology GmbH, each incorporated under the laws of Switzerland (“Horizon Globex” and “Abbey Technology,” respectively). Specifically, Horizon Globex and Abbey Technology develop software application platforms that optimize mobile voice, instant messaging and advertising communications over the internet, collectively, the “Horizon Platform.” Our proprietary software techniques (“SmartPacket™”) use internet bandwidth more efficiently than other techniques that are unable to provide a low-bandwidth solution. The Horizon Platform is a bandwidth-efficient Voice over Internet Protocol (“VoIP”) platform for smartphones and tablets, and also provides optimized data applications including multi-media messaging and mobile advertising. Using our SmartPacket™ platform, we have been able to significantly improve the efficiency by which voice signals are transmitted by radio over the Internet resulting in a 10X reduction in mobile spectrum required to transmit a VoIP call. We license our software solutions to telecommunications network operators and service providers in the mobile, fixed line, cable TV and satellite communications markets. We are an ISO 9001 and ISO 20000-1 certified company with assets and operations in Switzerland, Ireland, the United Kingdom, China, India, Russia, Singapore and Hong Kong.

The Horizon Platform delivers a turnkey mobile VoIP solution to telecommunications operators. We believe that the technology underlying SmartPacket™, is the world’s most bandwidth-efficient VoIP technology. Our VoIP platform allows voice calls over the Internet that use as little as 4kbps of data compared to around 48kbps offered by other optimized VoIP platforms, thereby enabling voice communications over limited bandwidth and congested cellular telecom data networks including 2G, 3G and 4G. The kbps rates above include bi-directional voice communication including IP overhead.

History and Background

(1) Share Exchange

On November 30, 2012, the Company (then known as Intelligent Communication Enterprise Corporation, referred herein below as “ICE Corp.”), and One Horizon Group PLC, a public limited company incorporated in the United Kingdom (“One Horizon UK”), consummated a share exchange (the “Share Exchange”), pursuant to which ICE Corp. acquired One Horizon UK stock from its then existing shareholders in exchange for 17,853,476,138 shares of ICE Corp.’s common stock. Upon completion of this transaction, the shareholders of One Horizon UK controlled approximately 96% of the outstanding stock of ICE Corp. and One Horizon UK became a subsidiary of ICE Corp. The transaction has been accounted for as a reverse acquisition, whereby ICE Corp. is the legal acquirer and One Horizon UK is the legal acquiree and accounting acquirer. On December 27, 2012, the Company changed its name to One Horizon Group, Inc.

To record the accounting effects of the reverse acquisition, the assets and liabilities of One Horizon UK (the accounting acquirer) are recognized and measured at their precombination carrying amounts. The assets and liabilities of ICE Corp. (the accounting acquiree) are recognized and measured consistent with accounting for business combinations, including recognition of fair values, effective as of November 30, 2012, the date of the Share Exchange transaction.

(2) History of ICE Corp before the Share Exchange

ICE Corp was incorporated in Pennsylvania in 1972 as Coratomic, Inc. It changed its name to Biocontrol Technology, Inc. in 1986; BICO, Inc. in 2000; Mobiclear Inc. in 2006; and Intelligent Communication Enterprise Corporation in

2009.

Prior to the Share Exchange, ICE Corp had two operational businesses: Modizo, and Global Integrated Media Limited (GIM). The Modizo business consisted of a celebrity blogging application, while the GIM business consisted of custom publishing, advertising design, brand building, media representation, website design and development and market research programs. These operations had employees and expenses, and generated gross revenue of roughly \$205,000 for the nine months ended September 30, 2012. As the GIM and Modizo businesses did not fit within the Company's business plan after the Share Exchange, both operational businesses were sold on December 31, 2012 for the return of 70,000 shares of the Company's common stock held by the purchaser, which had a fair value of \$420,000.

3

(3) One Horizon UK

One Horizon UK, was incorporated in the United Kingdom on March 8, 2004. Prior to the Share Exchange, the consolidated financial statements of One Horizon UK for its fiscal years ended June 30, 2012 and 2011 consisted of two main business segments: (1) the Horizon Globex business segment including One Horizon UK and two of its subsidiaries, Abbey Technology and Horizon Globex; and (2) the Satcom Global business segment. However, the Satcom Global business was sold on October 25, 2012 as it became unprofitable. On the same day, Abbey Technology sold certain satellite billing software utilized in the Satcom Global business to the same purchaser. The entire purchase price for the software was paid by means of an offset against amounts owed by Abbey Technology and its affiliates to Satcom Global FZE, an entity acquired by the purchaser in connection with the purchase of the Satcom Global business.

(4) Current Shareholding Structure of the Company

Global Phone Credit Ltd, incorporated in Hong Kong on December 15, 2012, is a wholly subsidiary of the Company. One Horizon Group Pte Ltd, incorporated in Singapore on November 28, 2012, is a wholly owned subsidiary of One Horizon UK. One Horizon Hong Kong Ltd is a wholly-owned subsidiary of the Company, and was formed in 2012. One Horizon Hong Kong Ltd currently holds the Company's 75% equity interest in Horizon Network Technology Co., Ltd., a subsidiary incorporated in China during 2013. Horizon Globex Ireland Ltd, an Irish company incorporated on August 7, 2013, is a wholly owned subsidiary of the Company.

In addition to the subsidiaries listed above, Suzhou Aishuo Network Information Co., Ltd ("Suzhou Aishuo") is a limited liability company, organized in China and controlled by us via various contractual arrangements. Suzhou Aishuo is treated as one of our subsidiaries for financial reporting purpose in accordance with generally accepted accounting principles in the United States ("GAAP").

(5) Reverse Stock Split, Change of Domicile and Change of Fiscal Year

On August 29, 2013, our 1-for-600 reverse stock split became effective for purposes of the securities markets. As a result of the reverse stock split, our issued and outstanding shares of common stock decreased from approximately 18.9 billion pre-reverse stock split shares to approximately 31.5 million post-reverse stock split shares.

In addition, our change of domicile from Pennsylvania to Delaware became effective on August 26, 2013. The change of domicile had also been approved by the Board of Directors and by shareholders at our Annual Meeting held on August 6, 2013.

Additional information regarding the reverse stock split and change of domicile can be found in a definitive information statement filed with the Securities and Exchange Commission on June 26, 2013 and which was mailed to all shareholders of record as of July 5, 2013.

On February 13, 2013, we changed the Company's fiscal year end from June 30 to December 31. As a result of this change, the Company filed transition report on Form 10-KT on May 13, 2013 to include the financial information for the six-month transition period from July 1, 2012 to December 31, 2012 (the "Transition Period").

Recent Developments

Business Operation

In February 2015, we announced the rollout of our platform in China, brand named Aishuo. This rollout entails multiple strategies including advertisements, search engine optimization, press releases, event marketing, business-traveler direct marketing, as well as other on and off-line promotions as well as leveraging the brand new One Horizon Sponsored-Call platform. Brand building and technology awareness activities will start in App Stores, Internet forums and social media outlets immediately and will run indefinitely. The Aishuo product has just been delivered to major stores in China app marketplace including Baidu's 91.com and Baidu.com, the Tencent App store MyApp.com, 360 Qihoo store 360.cn and the ever growing Xiaomi store mi.com. The Aishuo smartphone app is expected to drive multiple revenue streams from the supply of its value-added services including the rental of Chinese telephone phone numbers linked to the app, low cost local and international calling plans and sponsorship from advertisers. Subscribers can top up their app credit from major online payment services in China including AliPay (from Alibaba), Union Pay, PayPal and Tenent's WeChat payment service. The service, branded SmartCall, will be available in Google Play later in the year. This service rollout represents yet another tier 1 mobile carrier deployment in Asia. According to a study from Australian market research company Roy Morgan Research, the amount of smartphone ownerships doubled from 12% of the population to 24% in Indonesia during March 2012 to March 2013, which are approximately 60 million.

In December 2014, Tier 1 Telecom operators, including Smartfren Telkom, Tbk in Indonesia, made One Horizon software available to customers as a standard feature upon activation of devices. This gives users the ability to acquire a free virtual SIM, a unique identifier that allows for calls from 'application to application' or 'application to landline/mobile phones', by simply registering the App. Having the App on the device eliminates the step of the user needing to seek out and download the App. It is anticipated that Smartfren Telkom will target to pre-install the smartcall app in more than 4 million units of their Andromax phones in 2015.

During the three months ended September 30, 2014, our One Horizon mobile VoIP app was added by SingTel to their existing One Horizon software platform for mobile satellite services. SingTel is Asia's leading communications group with over 500 million mobile customers in 25 countries, including Bangladesh, India, Indonesia, the Philippines and Thailand.

SingTel AIO Connect is a comprehensive unified communications service for both business users and crew onboard ships. It enables instant messaging, email, Internet surfing, Voice-over-IP (VoIP) and voicemail in a single, integrated application. This service has already succeeded in bringing optimized VoIP, Messaging over IP and compressed Internet surfing to SingTel's mobile satellite subscribers connected using mobile Internet over satellite; the toughest of all mobile Internet environments. This mobile VoIP app can be downloaded from the Apple App Store and Google's Play Store

Our optimized software platform is being used by a pre-paid VoIP Smartphone application launched by Smart Communications, Inc. ("Smart"). Smart is the Philippines' leading wireless services provider with 57.3 million subscribers on its GSM network as of end-June 2013. Smart rolled out its smartphone mobile app, branded Link Plus, as a pre-paid Over The Top ("OTT") Android App that is available to download from the Google Play Store. Once Link Plus is installed on the smartphone, the user's app will receive a new Virtual SIM Filipino telephone number from Smart.

We believe that winning new business with SingTel and Smart demonstrates the acceptance of our carrier-grade technology by tier 1 operators, especially in Asia.

During 2014 fiscal year, we commenced the first phase of its infrastructure rollout in six cities in China: Tianjin, Beijing, Chongqing, Changchun, Nanjing and Shijiazhuang. These initial locations will connect to the national telephone network to commence the commissioning of the VoIP service in China, brand name Aishuo. To date, we have successfully installed eight servers in support of Chinese smart phone app with interconnects to the ALiPay and UnionPay credit card and micro-payments services in China. The smart phone app will be able to provide various optimized internet value added services to its mobile subscribers including but not limited to voice and social media services including text, picture, video and geo-location messaging. These value added services are made possible through the creation of a "Virtual SIM" and One Horizon's proprietary communication software, an industry first. Combined with One Horizon's location aware mobile advertising services, the Aishuo branded smart phone app is expected to drive multiple revenue streams from the supply of its value-added services. The service will seek to acquire 15 million new app subscribers for the smartphone app over a two-year period and expects to achieve industry average revenues per user (ARPU) for similar social media apps.

We continued building up the Chinese core network rollout. The Global Exchange (network control center) was placed in a high availability Data Center in Shanghai and eight (8) Horizon line servers were connected to the telecommunications network. This level of rollout allowed us to issue a preliminary Android Application (App) to a group of Chinese students in Nanjing for them to evaluate the user Interface and the core features of our optimized smartphone App. Based on this feedback the research and development teams in Ireland and China made some adjustments to the Application look and feel service to accommodate this target user community.

On May 20, 2013, we announced the launch of new social networking features in its Horizon Call app on Android, enabling service providers to further differentiate themselves from over-the-top ("OTT") players by offering innovative, integrated mobile Voice, Messaging and Advertising services over Internet Protocol ("IP").

On July 29, 2013, we announced the release of our voice over IP (VoIP) technology as a software-library for smartphone App developers. The Horizon software library allows smartphone app developers to integrate the Horizon VoIP optimizations with their current and their future apps. Apps such as on-line gaming can now carry the gamer's voice in a high-quality and reliable way especially while on wireless networks such as 3G, bringing a new level of mobility to games that benefit from voice communications. Another use for the library is in the plethora of existing VoIP apps that currently employ inefficient SIP protocols. App-based gaming developers can now upgrade their users' voice-communication experience by deploying Horizon and integrating the Horizon software library in their apps.

On September 17, 2013, we opened a new software research and development office in the Nexus Innovation Centre on the campus of the University of Limerick in Ireland employing 3 software engineers. This on campus R&D office is focused on the research of the core software architecture as opposed to the mobile application developments and a lot of engineering and academics surrounding is required. We believe we will benefit from Irish Software Foundation's creative thinking and further advance ourselves in research of our unique mobile VoIP solutions.

On November 4, 2013, we announced that we have further expanded our software suite of products by embedding a GPS location and tracking service into our smart phone App; the service is designed to work in conjunction with its advanced mobile App advertising service.

Offering and Market Related

On December 22, 2014, we closed a private placement of \$3,500,000 in reliance upon the exemption from securities registration afforded by Regulation S ("Regulation S") as promulgated under the Securities Act of 1933, as amended (the "December 2014 Offering"). In connection with the December 2014 Offering, we issued to an investor a convertible debenture that is convertible into 1,555,556 shares of common stock, par value \$0.0001 per share (the "Common Stock"), Class C Warrant (the "Class C Warrant(s)") to purchase 388,889 shares of Common Stock and Class D Warrant (the "Class D Warrant") to purchase 388,889 shares of Common Stock, and Performance Warrants (the "Performance Warrant(s)") to purchase up to 450,000 shares of Common Stock based on our annual reported subscriber numbers, twenty four (24) months after the closing, as is reflected in our Annual Report on Form 10-K for the year ending December 31, 2016 (the "2016 Form 10-K"), if we fail to achieve 15.0 million subscribers at that time. In addition, the placement agent in the offering received placement agent warrant, Class C Warrant and Class D Warrant to purchase 62,222, 15,556 and 15,556 shares of Common Stock, respectively; and a cash fee of \$280,000.

In July 2014, we closed a private placement of \$1,000,000 for a total of 10 units at a purchase price of \$100,000 per unit, each consisting of, (i) 17,094 shares of our Series A Redeemable Convertible Preferred Stock, par value \$0.0001 per share (the "Series A Preferred Stock"), initially convertible into 17,094 shares of Common Stock, and (ii) 10,000 Class B Warrants (the "Class B Warrant(s)"), each exercisable to purchase 1 share of Common Stock at an exercise price of \$4.00 per share (the "July 2014 Offering"). The July 2014 Offering was completed in reliance upon the exemption from securities registration afforded by Regulation S.

Our common stock commenced trading on the NASDAQ Capital Market on July 9, 2014 under the same ticker symbol "OHGI".

In February 2013, we closed a Reg. S offering whereby we issued an aggregate of 806,451 shares of our common stock and a three-year Class A Warrant (the "Class A Warrant(s)") to purchase 403,225 shares of our Common stock at an exercise price of \$7.44 per share for a total consideration of \$6,000,000 (the "February 2013 Offering"). In August

2013, we amended the offering with the investor in the February 2013 Offering whereby we reduced the exercise price of the Class A Warrant from \$7.44 per share to \$5.94 per share. In July 2014, in connection with and as a consideration to the closing of the July 2014 Offering, we further reduced the exercise price of Class A warrants from \$5.94 to \$4.25 per share and the amount of shares issuable upon exercise of Class A warrants were increased from 403,225 to 1,209,675. In addition, the expiration date of Class A warrants was extended an additional 12 months.

Corporate Governance

On November 10, 2014, as one of our continuous measures to improve our internal control and procedure over the financial reporting and disclosure, our Board of Directors adopted a tracking form which was designed to track related party transactions. Upon adoption, management will review and pre-approve related party transaction and submit the tracking form to the Board for review and ratification on quarterly basis.

On July 28, 2014, we appointed Brian Collins the Chief Executive Officer of the Company. Mr. Collins is the co-inventor of the Horizon Platform, and has over 20 years' experience in the technology sector with a background in software engineering. Mr. Collins brings experience in founding and operating technology companies along with his extensive knowledge of software engineering.

Industry

Rapid Growth in Global Telecommunication Services Market

The global telecommunication services market continues to experience growth. This growth is mainly being driven by the growth in the number of mobile subscribers. Although the mobile VoIP (or "mVoIP") is a small percentage of the total revenue generated by mobile telecommunications providers, Visiongain, an independent business information provider for the telecommunications industry, among others, expects this market to grow significantly as a number of commercial and technological factors alter mobile voice communications ([http://www.visiongain.com/Press_Release/475/The-Voice-Over-Internet-Protocol-\(VoIP\)-Market-2013-2018](http://www.visiongain.com/Press_Release/475/The-Voice-Over-Internet-Protocol-(VoIP)-Market-2013-2018)). These factors include innovative smartphone designs with improved user interfaces and acoustics, increased acceptance of VoIP and overall increases in broadband penetration. According to Visiongain in 2013, "VoIP is poised for explosive growth, underpinned by the widespread adoption of integrated social media based VoIP solutions"; like those provided by One Horizon Group. Visiongain further advises that "it is very important for Operators to embrace VoIP and focus on building viable business models that are mutually beneficial to the VoIP service provider and telecom operator". We are precisely targeting this operator market with our turnkey mobile VoIP solution branded for each of our operator customers.

The growth of smartphones and tablets is a key driver for us in increasing the number of customers and revenue. In 2013, the number of smartphones shipped exceeded one billion according to International Data Corporation (<https://www.idc.com/getdoc.jsp?containerId=prUS24645514>), a provider of market intelligence in the industry. This represents an increase of 38.4% on the number of smartphones shipped in 2012. Smartphones consume 24X more data than the “feature phones” that they replace due to higher usage of data, VoIP, and video services, which creates a significant strain on existing carrier infrastructure and creating potentially severe network congestion issues particularly in high density and high population markets.

The increase in mobile data consumption has been driven by the availability of cheap GSM (global system for mobile communications) data and the massive uptake of smartphones and tablets, devices on which our mobile application, Horizon Call, was designed to run.

In its paper titled “Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2013–2018” Cisco projects global mobile data traffic to increase 13-fold between 2013 and 2018 (source link:http://www.cisco.com/c/en/us/solutions/collateral/service-provider/visual-networking-index-vni/white_paper_c11-520862 to Cisco, at the end of 2012, the number of mobile-connected devices exceeded the number of people on earth, and by 2017, it is expected that there will be 1.4 mobile devices per capita. According to Cisco, in 2017, it is expected that 4G will account for ten percent of connections, but 45 percent of total traffic. Horizon Call addresses the need for efficient data on the next generation networks while tackling the need for efficient data usage on legacy networks in the world’s most populous countries.

Our Technology

Our Technology

We have a very detailed knowledge of these wireless data network issues and have invented a totally new solution to overcome latency and jitter in a way that achieves a much higher likelihood of a packet arriving in time and not being dropped. Our awareness of these problems led us to develop a completely new algorithm for sending and receiving (and ordering) voice packets so as to reduce the likelihood of packet loss due to congestion, we call it SmartPacket™.

SmartPacket™ Technology

The core of the Horizon solution is our truly innovative SmartPacket™ technology. This enables VoIP from only 2 kilobytes/second (kbps) compared to around 8kbps from other VoIP platforms available today. This industry-leading solution has been developed in-house and is fully compatible with digital telecommunications standards. This technology is capable of interconnecting any phone system over IP - on mobile, fixed and satellite networks. Our SmartPacket™ technology is not based on SIP (Session Initiation Protocol) or RTP (Real-time Transport Protocol).

Rather, the Horizon signaling protocol is much simpler and benchmark testing has shown that it consumes significantly less bandwidth. Our SmartPacket™ technology is the world's most bandwidth efficient IP communication platform designed for mobile communications. The technology optimizes packet flow, delivery and playback and delivers excellent call quality, reduced latency and jitter. As a further illustration, the technology is considerably more efficient in the way it handles silence. Traditional VoIP calls send the same amount of data in both directions, regardless of whether or not someone is speaking. SmartPacket™ technology is designed to detect silence and send heartbeats instead of data, reducing cost and enhancing clarity. This results in a better user experience and more flexibility than any other VoIP-based solution.

Our Benchmark Testing: Horizon vs G.729

G.729 is a type of audio compression that is typically used in VoIP. Our testing has shown that Horizon is at least 4 times more efficient, depending on which voice quality you select. As a result, you can talk for at least four times longer.

Proprietary and patent-pending

The Horizon Platform has been developed entirely in-house and is fully compatible with digital telecommunications standards. It is capable of interconnecting any phone system over IP – on mobile, fixed and satellite networks.

The Horizon Platform was initially developed for the mobile satellite market by Abbey Technology to make the best use of the limited wireless bandwidth available, to minimize the amount of data consumed and ultimately to reduce costs for the end-user.

We further developed the Horizon Platform for the broader telecommunications market focusing on the mobile data sector. This sector also benefits from our optimized mobile VoIP software that allows voice calls over new and legacy cellular telecom data networks. With the explosive growth in smartphone sales and increased usage of mobile data services, mobile operators face the challenge of dealing with increasingly congested networks, more dropped calls and rising levels of churn. Since the wireless spectrum is a finite resource, it is not always possible, or can be cost prohibitive, to increase network capacity. For these reasons, we believe that the demand for solutions to optimize the use of IP bandwidth will inevitably increase.

Our Strategy

We have developed a mobile application, “Horizon Call,” that enables highly bandwidth-efficient VoIP calls over a smartphone using a 2G/EDGE, 3G, 4G/LTE, WiFi or WiMax connection. Our Horizon Call application is currently available for the iPhone and for Android handsets.

Unlike the majority of mobile VoIP applications, Horizon Call creates a business-to-business solution for mobile operators, our customers Telecommunications operators are able to license, brand and deploy on a “white-labeled” basis

that they can optimize to their business strategies. The operators decide how to integrate our application within their portfolio, how to offer it commercially and can customize it according to their own branding. Our solution helps them to manage rising traffic volumes while combating the competitive threat to their voice telephony revenues from other mobile VoIP applications by giving its mobile data customers a more efficient mobile VoIP solution that adds value to their mobile data network.

We are positioning ourselves as an operator-enabler by licensing our technology to mobile operators in a manner that can be fully customized to the needs of their subscribers. As shown below, operators are able to offer our platform to deliver branded smartphone applications to their existing customers to reduce lost Voice/Text revenue and minimize customer churn.

By offering Horizon Call to their existing customer base, our customers can offer innovative data-based voice and data services that are different from the existing Over The Top (“OTT”) data applications running on their networks. OTT refers to voice and messaging services that are delivered by a third party to an end user’s smartphone, leaving the mobile network provider responsible only for transporting internet data packets and not the value-added content. The Horizon Call voice services allow mobile operators’ customers to make VoIP calls under mobile operators’ call plans, thereby allowing mobile operators to capture value-added content, including voice calls, text messaging, voice messaging, group messaging, multimedia messaging, and advertising, that would have otherwise gone to the providers of other OTT services.

Horizon Call runs on both smartphone and tablet devices and, as networks become more congested, software services such as Horizon Call become ever more relevant. We believe that although more network capacity will eventually come on stream with 4G/LTE, it, like all other highways, will quickly become congested and this is why we believe that Horizon Call is ideally placed to add value to mobile data networks.

Incumbent mobile operators are suffering a reduction in revenue per user due to the OTT software services on mobile devices. These OTT applications, such as Skype, Viber, WeChat, and WhatsApp, can negatively impact mobile operators’ traditional revenue streams of voice and SMS (short message service). As shown below, the Horizon Platform positions the Company to enable mobile operators to operate their own OTT solution branded in their image allowing use on all mobile data networks.

In addition to delivering new data services to their existing customers, mobile operators can offer their brand of Horizon Call on any other operators' handsets. Because the Horizon Call application can be installed on the smartphone from the Internet, the potential customer base for the operators' data application surpasses the customer base that they can reach through traditional mobile phone SIM card distribution. We believe that this service innovation, coupled with the fact that the Horizon Call application can also use existing mobile operator pre-paid credit redemption and distribution services, presents a very compelling service against OTT services.

We believe that emerging markets represent a key opportunity for Horizon Call because these are significant markets with high population densities, high penetration of mobile phones, congested mobile cellular networks and high growth in the adoption of smartphones. More than one-quarter of the world's population will use smartphones in 2015, and by 2018, over 2.56 billion or one-third of all people worldwide will be smartphone users. Asia-Pacific will account for over half of all smartphone users in 2015, estimated at 951.5 M users. Globally, China is the largest smartphone market with an estimated 574.2 M handsets.

(<http://www.emarketer.com/Article/2-Billion-Consumers-Worldwide-Smartphones-by-2016/1011694>). These factors will put increased pressure on mobile operators to manage their network availability.

In this context, where necessary, we have formed a number of strategic ventures with local partners in regions of various emerging markets to seize upon this opportunity.

Through one subsidiary, One Horizon Hong Kong, we invested \$1.5 million for a 75% equity stake in our joint venture, Horizon Network Technology Co., Ltd, while our partner, ZTE Corporation, the second largest mobile handset manufacturer in the world and the fourth largest telecommunications equipment supplier in the world, holds a 25% equity stake in the joint venture. The Company is not a guarantor of any debt related to this joint venture.

Aishuo in China

To address the explosive growth in China, One Horizon are launching an own-brand smartphone VoIP service, called Aishuo. To facilitate the rollout of the Aishuo solution across during the fiscal year 2014, we commenced the first phase of our infrastructure rollout in six major cities in China: Tianjin, Beijing, Chongqing, Changchun, Nanjing and Shijiazhuang. These initial locations will connect to the national telephone network to commence the commissioning of the VoIP service in China. To date, we have successfully installed eight servers in support of Chinese smart phone app with interconnects to the AliPay and UnionPay credit card and micro-payments services in China. We have also uploaded the App to the biggest smartphone App stores in China including Baidu, Tencent and Qihoo. The smart phone app will be able to provide various optimized internet value added services to its mobile subscribers including but not limited to voice and social media services such as text, picture, video and geo-location messaging. These value added services are made possible through the creation of a "Virtual SIM" and One Horizon's proprietary communication software, an industry first. Combined with One Horizon's location aware mobile advertising services, the Aishuo branded smart phone app is expected to drive multiple revenue streams from the supply of its value-added services. The service will seek to acquire 15 million new app subscribers for the smartphone app over a two-year period and expects to achieve industry average revenues per user (ARPU) for similar social media apps.

Marketing

Our marketing objective is to become a broadly adopted solution in the regions of the world with large concentrations of smartphone users and high network congestion. We aim at becoming the preferred solution for carriers who wish to deploy branded VoIP solutions that enable them to minimize revenue erosion, reduce churn, increase the effective capacity of their network infrastructure and improve user experience. We employ an integrated multi-channel approach to marketing, whereby we evaluate and focus our efforts on selling through Tier 1 and Tier 2 telecommunications companies to enable them to provide the Horizon Platform to their customers. We routinely evaluate our marketing efforts and try to reallocate budgets to identify more effective media mixes.

We conduct marketing research to gain consumer insights into brand, product, and service performance, and utilize those findings to improve our messaging and media plans. Market research is also leveraged in the areas of testing, retention marketing, and product marketing to ensure that we bring compelling products and services to market.

Sales

Direct Sales. Our primary sales channel for the products and services of Horizon Platform is the sale of Horizon Platforms to Tier 1 and Tier 2 telecommunications companies to enable them to provide the product and services to their customers. We continue our efforts to develop new customers in Europe, the Middle East, Asia, Africa, South America, and, in the near future, North America.

Strategic Ventures. In addition to our direct sales channel, we also offer increased sales through our strategic venture channel. In this context, as mentioned above, we are working towards forming a number of strategic ventures in areas where regulatory issues require local representation.

Target Markets. The markets for our primary and joint venture channels will have high population density, high penetration of mobile phones, congested mobile cellular networks and high growth in the adoption of smartphones.

Competition

The Company's direct competitors for its technology primarily consist of systems integrators that combine various elements of SIP (Session Initiation Protocol) dialers and media gateways. Other dial-back solutions exist but they are not IP-based. Because SIP dialers and media gateways currently are unable to provide a low bandwidth solution, they do not currently compete with the Company's technology in those markets in which their high bandwidth needs are unsupported by the existing cellular networks. They do, however, compete in those markets where the cellular networks are accessible by those SIP dialers and gateways.

The Company licenses the Horizon Platform to mobile operators, who in turn may offer the application to their end-user subscribers. The Company's principal competitors for the mobile operators' end-users are Skype, Viber, WeChat, and WhatsApp. Having a mobile operator's subscriber opt to use the operator's (branded) Horizon Call service instead of existing OTT services means that the mobile operator will gain market share of some of the OTT voice and messaging traffic. We are currently unaware of any other companies that seek to license VoIP technology directly to mobile operators.

One of the Company's key competitive advantages is that it is not a threat to mobile operators. Rather, the Company's Horizon Platform is a tool that can be used by mobile operators to compete against the OTT provider's applications that are running on their networks. Through the Horizon Platform, mobile operators are able to compete directly with OTT services that, by their design, divert voice and messaging services away from mobile operators. The solution is delivered completely and is easy to install and operate. This means that a mobile operator has a turnkey mobile voice and messaging solution to deploy to its customer (i.e., the end-user).

The turnkey Horizon software platform and the Horizon SmartPacket™ technology give us a competitive advantage by managing credit, routing, rating, security, performance, billing and monitoring. Horizon SmartPacket™ is the world's lowest bandwidth voice compression and transmission protocol and is 100% developed and owned by the Company. Though other software companies can offer part of this solution space, we believe none offers it in such a complete and integrated fashion as we do. We believe it will take a substantial number of years to copy/replicate the Horizon Platform in its entirety, by which time we believe the Horizon Platform will have improved and further distanced itself from potential competition.

Intellectual Property

Our strategy with respect to our intellectual property is to patent our core software concepts wherever possible. The Company's current software patent application, which is pending in Switzerland, reflects this strategy and protects the Horizon Platform and the central processing service of the Horizon Platform.

The Company endeavors to protect its internally developed systems and technologies. All of our software is developed "in-house," and then licensed to our customers. We take steps, including by contracts, to ensure that any changes, modifications or additions to the Horizon Platform requested by our customers remain the sole intellectual property of the Company.

Research and Development and Software Products

The Company has spent approximately \$1.1 million on capitalizable research and development in the fiscal year 2014.

During 2014, we expanded our Irish software development team with the addition of a new senior software developer at our recently opened software research and development office at the Nexus Innovation Center on the campus of the University of Limerick. As part of this process, we signed an agreement with the Industrial Development Agency (IDA) Ireland whereby IDA granted certain financial assistance toward the cost of establishing and carrying a service undertaking for a software development center in Ireland in connection with our VoIP software platform. The software development center is intended to give employment of up to 25 persons and should allow us to more quickly increase the size of this research and development team. We believe that the further expansion of our Irish development team will allow the further advance of our unique mobile VoIP solutions.

We completed the development and continued to refine the Horizon billing system. The completion of the Horizon Billing System software add-on package allows one Horizon to deliver an additional turn-key element to our customers that will allow our customers to invoice their customers and enterprise on a postpaid monthly basis. This adds greater flexibility and reach to the Horizon platform as offered by our customers to those subscribers that wish to utilize the service on a post paid basis.

We expanded our software development capabilities for China by hiring 4 new junior software developers in our Horizon Nanjing JV, known as Horizon Network Technology Co. Ltd. We believe that the expansion of our software development team at our Chinese joint venture will support the company's strategy of continuing to develop our products in areas with high population density, high penetration of mobile phones, congested mobile cellular networks

and high growth in the adoption of smartphones while working within the constraints of local regulations.

We continued our research and development of the Horizon product platform throughout 2014. The Swiss based team made significant strides towards the next generation of the product suite with particular emphasis going to the User Interface (UI) re-engineering and the new Horizon concept of Sponsored Calls. Sponsored calls allow 3rd parties to display and play a multi-media advertisement for their goods and services to App users and in return for listening to the advertisement, the user gets a free call. Further to the UI the Research and Development for version 2.0, our Irish based team made progress on the latest multi-core solution with a view to releasing this software to our customers in 2015. Further research is on-going in the area of Wi-Fi to 3G [and vice-versa] 'radio handoff' to allow uninterrupted calls when Internet radio signals are arriving and leaving the smartphone. Our concept of multi-ring handsets is also being developed and marks a very exciting new feature to our smartphone offering where our App, a business landline, an assistants phone etc. can all ring at once when a main-number is dialed. The software team in China is working on a new method for Direct Inward Dial number rental for the Chinese marketplace and developing all the interfaces for the Software Development Kits [SDK] required for the Baidu, Tencent and Qihoo App stores.

During the last quarter of 2014, the expansion of the Horizon advertising platform to allow the industry first of User-Selectable-Sponsored-Calls was developed in Switzerland and Ireland R&D centers, and released on the Horizon product suite in China by the Chinese team, brand name Aishuo. A User-Selectable-Sponsored-Calls allows would-be advertisers to sponsor a call or calls to a certain amount in time or price. The user selects their sponsor and then must listen to their audio advertisement prior to the call being placed. Further to this, in Ireland, the R&D team developed a brand new multi-ring solution of our App to be able to receive incoming calls on multiple devices at the same time. This differs from existing app technologies in that it also includes the functionality to receive the call to user's apps, home, office, mobile, all at the same time so a call will never be missed.

Employees

As of December 31, 2014, we had 25 employees, all of whom were full-time employees.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We do not currently own any real property. In March 2015, we leased offices of approximately 840 square feet with a monthly rent of \$1,600 in Ireland as our new principal executive offices. We have offices consist of approximately 2,600 square feet of leased space in Baar, Switzerland, for which we pay \$5,600 a month. We also have an office consisting of approximately 400 square feet in London, United Kingdom, for which we pay \$2,500 a month.

Executive Offices

Our offices are located at T1-017 Tierney Building, University of Limerick, Limerick, Ireland.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings and no material legal proceedings have been threatened by us or, to the best of our knowledge, against us except the following:

In 2012, we sold certain former subsidiaries engaged in provision of satellite service in 2012 to Broadband Satellite Services (“BSS”), a company incorporated under laws of England and Wales. Horizon Globex, a company incorporated in Switzerland and a subsidiary of us, had provided these subsidiary companies with software and IT services. In connection with its acquisition of our former subsidiary companies, BSS entered into three agreements with Horizon Globex pursuant to which BSS continued to use Horizon Globex to supply software and IT services. Notwithstanding the fact that Horizon Globex has provided such ongoing software and IT services, BSS has failed to pay our fees pursuant to the agreements. As a result, on December 23, 2014, we initiated legal proceedings in the High Court, Queens Bench Division, Commercial Court No. 2014 folio 1560 against BSS in the United Kingdom to collect such fees in the amount of \$640,000. Subsequently, BSS asserted counter claims in the amount of \$5.8 million, alleging among other claims, civil fraud in connection with the sale of subsidiary companies. Based on the timing of these claims, which were never raised until we filed our action against BSS, it is our position that these claims are specious and represent nothing more than an attempt to improve BSS's negotiating position with regard to our legitimate claims against it. As a result, we plan to continue to carry out our claims against BSS to the fullest extent possible and to defend BSS's counter-claims vigorously. We note further that several of BSS's counter claims may be time barred by applicable sections of the contracts and plan to assert the same as an affirmative defense to such counter claim. Notwithstanding our views with regard to our claims against BSS and BSS's counterclaims, litigation is by its nature unpredictable and therefore we cannot guarantee with certainty the outcome of our dispute with BSS.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

15

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted on the NASDAQ Capital Market under the symbol OHGI. Prior to July 9, 2014, our common stock was quoted on the OTCBB under the symbol OHGI. Prior to January 31, 2013, our common stock was quoted under the symbol ICMC.

The following table sets forth the high and low bid information, as reported by Nasdaq on its website, www.nasdaq.com, for our common stock for each quarterly period in 2014, 2013 and 2012. Prior to November 30, 2012, the bid information reflects bid information of the Company prior to the Share Exchange. The information reflects inter-dealer prices reflecting a reverse split on a 1 for 600 basis effective August 29, 2013, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	Low	High
Fiscal year ending December 31, 2014:		
Quarter ended December 31	\$ 1.91	\$ 3.20
Quarter ended September 30	1.55	4.85
Quarter ended June 30	3.50	5.91
Quarter ended March 31	4.00	6.50
Fiscal year ending December 31, 2013:		
Quarter ended December 31	\$ 3.75	\$ 6.75
Quarter ended September 30	6.50	6.75
Quarter ended June 30	6.00	11.40
Quarter ended March 31	3.60	21.60
Fiscal year ended December 31, 2012:		
Quarter ended December 31	\$ 3.12	\$ 36.00
Quarter ended September 30	3.06	11.94
Quarter ending June 30	0.00	16.80
Quarter ended March 31	6.00	18.00

As of March 25, 2015, the closing bid price of the common stock was \$1.64 and we had approximately 205 record holders of our common stock. This number excludes any estimate by us of the number of beneficial owners of shares held in street name, the accuracy of which cannot be guaranteed.

As of December 31, 2014, there are 1,084,650 options issued to employees and none exercised. We issued 116,760 warrants with an exercise price of \$0.86 per share to an investor in 2012. In February 2013 Offering, we issued 403,225 Class A Warrant with an exercise price of 5.94 per share to purchase 403,225 shares of Common Stock to an investor as part of the \$6.0 million subscription agreement signed. In July 2014 Offering, we issued 170,940 shares of Series A Preferred Stock convertible into 170,940 shares of Common Stock, 100,000 Class B Warrants to purchase up to 100,000 shares of Common Stock at a price of \$4.00 per share; and we also issued 25,000 shares of Common Stock to the placement agent. In connection with and as a consideration to the closing of the July 2014 Offering, we reduced the exercise price of Class A Warrants issued in the February 2013 Offering from \$5.94 to \$4.25 per share and increased the amount of shares issuable upon exercise of Class A warrants from 403,225 to 1,209,675. In

December 2014 Offering, we issued a convertible debenture that is convertible into 1,555,556 shares of Common Stock, Class C Warrant to purchase 388,889 shares of Common Stock, Class D Warrant to purchase 388,889 shares of Common Stock and Performance Warrant to purchase up to 450,000 shares of Common Stock. In addition, the placement agent in the December 2014 Offering received placement agent warrant, Class C Warrant and Class D Warrant to purchase 62,222, 15,556 and 15,556 shares of Common Stock respectively.

Effective August 11, 1993, the SEC adopted Rule 15g-9, which established the definition of a "penny stock," for purposes relevant to the Company, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require: (i) that a broker or dealer approve a person's account for transactions in penny stocks; and (ii) that the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased. In order to approve a person's account for transactions in penny stocks, the broker or dealer must (i) obtain financial information and investment experience and objectives of the person; and (ii) make a reasonable determination that the transactions in penny stocks are suitable for that person and that person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks. The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prepared by the Commission relating to the penny stock market, which, in highlight form, (i) sets forth the basis on which the broker or dealer made the suitability determination; and (ii) states that the broker or dealer received a signed, written agreement from the investor prior to the transaction. Disclosure also has to be made about the risks of investing in penny stock in both public offerings and in secondary trading, and about commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Dividend Policy

The payment of cash dividends by us is within the discretion of our board of directors and depends in part upon our earnings levels, capital requirements, financial condition, any restrictive loan covenants, and other factors our board considers relevant. Since the share exchange in 2012, we have not declared or paid any dividends on our common stock and we do not anticipate paying such dividends in the foreseeable future. We intend to retain earnings, if any, to finance our operations and expansion.

Description of Equity Compensation Plans Approved By Shareholders

Prior to the Share Exchange, One Horizon UK had authorized securities for issuance under equity compensation plans that have not been approved by the stockholders, but none under equity compensation plans that were approved by the stockholders. The following table shows the aggregate amount of securities authorized for issuance under all equity compensation plans as of December 31, 2014:

Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	500,000	3,500,000
Equity compensation plans not approved by security holders	584,650 \$	0
Total	1,084,650 \$	3,500,000

The securities referenced in the table above reflect stock options granted beginning in 2005 pursuant to individual compensation arrangements with the Company's employees. 292,750 of such options are fully vested and 291,900 of such options vest on December 31, 2015. 850 of such options are expiring in 2015; 291,900 are expiring in 2020; and 291,900 are expiring in 2022. The number of options in the table above reflect a conversion that occurred in connection with the Share Exchange, whereby the number of options (to purchase One Horizon UK shares) held by each employee was increased by 175.14 times and the exercise price was decreased by the option exercise price divided by 175.14, and additionally reflect a 1-for-600 reverse stock split effected as of August 6, 2013.

Recent Sales of Unregistered Equity Securities

Information regarding any equity securities we have sold during the periods covered by this Report that were not registered under the Securities Act of 1933, as amended, are included in a previously filed Quarterly Report on Form 10-Q or in a Current Report on Form 8-K except the follows:

On September 11, 2014, we entered into two mutual release agreement with each of two creditors of One Horizon Group Plc pursuant to which we issued a total of 123,000 shares of Common Stock to each of those two creditors in exchange of their agreements to waive their outstanding loans in a total amount of \$276,750 each . The issuance was made in reliance on the exemption from registration as set forth in Section 4(a)(2) of the Securities Act.

We also issued 62,452 shares of Common Stock to Tripoint Global Equities LLC ("Tripoint") pursuant to an advisory agreement dated April 15, 2013 between Tripoint and us, and 75,000 shares of Common Stock pursuant to an advisory agreement dated July 1, 2014 between Tripoint and us.

Repurchases of Equity Securities

We have not repurchased any equity securities during the periods covered by this Report.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read along with our audited condensed consolidated financial statements and notes for the fiscal years ended December 31, 2014 and 2013. The following discussion and analysis contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Our actual results may differ significantly from the results, expectations and plans discussed in these forward-looking statements. We use words such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "shall" and similar expressions to identify forward-looking statements.

See "Cautionary Note Concerning Forward-Looking Statements."

Overview

Operating through our wholly-owned subsidiaries, Horizon Globex GmbH and Abbey Technology GmbH, our operations include the licensing of software to telecommunications operators and the development of software application platforms that optimize mobile voice, instant messaging and advertising communications over the Internet. Both subsidiaries do this by using proprietary software techniques that use internet bandwidth more efficiently than other technologies that are unable to provide a low-bandwidth solution. The Horizon Platform is a bandwidth-efficient Voice over Internet Protocol platform for smartphones and also provides optimized data applications including messaging and mobile advertising. We license our software solutions to telecommunications network operators and service providers in the mobile, fixed line and satellite communications markets. We are an ISO 9001 and ISO 20000-1 certified company with assets and operations in Switzerland, the United Kingdom, China, India, Singapore and Hong Kong.

We have developed a mobile application, "Horizon Call," which enables highly bandwidth-efficient VoIP calls over a smartphone using a 2G/EDGE, 3G, 4G/LTE, WiFi or WiMax connection. Our Horizon Call application is currently available for iPhones and for Android handsets.

Unlike other mobile VoIP applications, Horizon Call creates a business-to-business solution for mobile operators. It is a software solution that telecommunications operators license, brand and deploy. Mobile operators decide how to integrate Horizon Call within their portfolio and how to offer it commercially. Horizon Call can be customized according to each mobile operators' own branding. It helps them to manage rising traffic volumes while combating the competitive threat to their voice telephony revenues from other mobile VoIP applications by giving its mobile data customers a more efficient mobile VoIP solution that adds value to their mobile data network.

We believe that emerging markets represent a key opportunity for Horizon Call because there are significant markets with high population density, high penetration of mobile phones, congested mobile cellular networks and high growth in the adoption of smartphones. These factors will put increased pressure on mobile operators to manage their network availability.

In this context, the Company has entered into some strategic relationships with local partners in certain regions to seize upon this opportunity. As of the date of this report, we have formed strategic relationships in India, Russia and China.

We plan to continue to develop our products in areas with high population density, high penetration of mobile phones, congested mobile cellular networks and high growth in the adoption of smartphones. We expect to form strategic relationships when local regulations prevent us from accessing a particular market directly.

We plan to fund this proposed expansion through debt financing, cash from operations and potential equity financing. However, we may not be able to obtain additional financing at acceptable terms, or at all, and, as a result, our ability to continue to improve and expand our software products and to expand our business could be adversely affected.

Recent Developments

Business Operation

In February 2015, we announced the rollout of our platform in China, brand named, Aishuo. The Aishuo platform provides VoIP services, a Value Added Virtual SIM solution delivered through a PRC entity controlled by us via various contractual arrangements, Suzhou Aishuo. The Aishuo product has been delivered to the major stores in Chinese App marketplace including Baidu's 91.com and Baidu.com, the Tencent App store MyApp.com, 360 Qihoo store 360.cn and the every growing Xiaomi store mi.com. The Aishuo smartphone app is expected to drive multiple revenue streams from the supply of its value-added services including the rental of Chinese telephone phone numbers linked to the app, low cost local and international calling plans and sponsorship from advertisers. Subscribers can top up their app credit from the biggest online payment services in China including AliPay (from Alibaba), Union Pay, PayPal and Tenent's WeChat payment service.

The official rollout of Aishuo brand followed the first phase of our Chinese infrastructure rollout that commenced in 2014 in six major cities in China: Tianjin, Beijing, Chongqing, Changchun, Nanjing and Shijiazhuang. These initial locations will connect to the national telephone network to our Aishuo brand. The smart phone app will be able to provide various optimized internet value added services to its mobile subscribers including but not limited to voice and social media services such as text, picture, video and geo-location messaging. Combined with One Horizon's location aware mobile advertising services, the Aishuo branded smart phone app is expected to drive multiple revenue streams from the supply of its value-added services. The service will seek to acquire 15 million new app subscribers for the smartphone app over a two-year period and expects to achieve industry average revenues per user (ARPU) for similar social media apps.

In 2014, we continued building up the Chinese core network. The Global Exchange (network control center) was placed in a data center with high availability in Shanghai and eight (8) Horizon line servers were connected to the telecommunications network. This level of rollout allowed us to issue a preliminary Android Application (App) to a group of Chinese students in Nanjing for them to evaluate the user interface and the core features of our optimized smartphone App. Based on feedback the research and development teams in Ireland and China made some adjustments to the Application look and feel service to accommodate this target user community.

In December 2014, Tier 1 Telecom operators, including Smartfren Telcom, Tbk in Indonesia and the Philippines, made One Horizon software available to customers as a standard feature upon activation of devices. It gives users the ability to acquire a free virtual SIM, a unique identifier that allows for calls from 'application to application' or 'application to landline/mobile phones', by simply registering the App. Having the App on the device eliminates the step of the user needing to seek out and download the App. It is anticipated that Smartfren Telcom will target to pre-install the smartcall app in more than 4 million units of their Andromax phones in 2015

In September 2014, our One Horizon mobile VoIP app was added by SingTel to their existing One Horizon software platform for mobile satellite services. SingTel is Asia's leading communications group with over 500 million mobile customers in 25 countries, including Bangladesh, India, Indonesia, the Philippines and Thailand.

SingTel AIO Connect is a comprehensive unified communications service for both business users and crew onboard ships. It enables instant messaging, email, Internet surfing, Voice-over-IP (VoIP) and voicemail in a single, integrated application. This service has already succeeded in bringing optimized VoIP, Messaging over IP and compressed Internet surfing to SingTel's mobile satellite subscribers connected using mobile Internet over satellite; the toughest of all mobile Internet environments. This mobile VoIP app can be downloaded from the Apple App Store and Google's Play Store.

Our optimized software platform is being used by a pre-paid VoIP Smartphone application launched by Smart Communications, Inc, ("Smart"). Smart is the Philippines' leading wireless services provider with 57.3 million subscribers on its GSM network as of end-June 2013. Smart rolled out its smartphone mobile app, branded Link Plus, as a pre-paid Over The Top ("OTT") Android App that is available to download from the Google Play Store. Once Link Plus is installed on the smartphone, the user's app will receive a new Virtual SIM Filipino telephone number from Smart. We believe that winning new business with SingTel and Smart demonstrates the acceptance of our carrier-grade technology by tier 1 operators, especially in Asia.

In 2014, we continued our product refinement and commercial integration efforts with Smartfren Telecom, Tbk of Indonesia. The service, branded SmartCall, will be available in Google Play later in the year. This service rollout represents yet another tier 1 mobile carrier deployment in Asia. According to a study from Australian market research company Roy Morgan Research, the amount of smartphone ownerships doubled from 12% of the population to 24% in Indonesia during March 2012 to March 2013, which is approximately 60 million. Delivered by the worldwide tier 1 operators, the One Horizon Solution shows its innovation making a new virtual SIM service available to all Indonesians at home and abroad.

Offering and Market Related

In July 2014, we received approval by NASDAQ's Listing Qualifications Department to list our common stock on the NASDAQ Capital Market. Our common stock commenced trading on the NASDAQ Capital Market on July 9, 2014 under the same ticker symbol "OHGI".

In July 2014, we closed a Reg. S private placement of \$1,000,000 for a total of 10 units at a purchase price of \$100,000 per Unit, each consisting of, (i) 17,094 shares of Series A Preferred Stock, initially convertible into 17,094 shares of Common Stock, and (ii) 10,000 Class B Warrants, each exercisable to purchase 1 share of Common Stock at an exercise price of \$4.00 per share.

In December 2014, we closed a private placement of \$3,500,000 under Regulation S whereby we issued to an investor a convertible debenture that is convertible into 1,555,556 shares of Common Stock, Class C Warrant to purchase 388,889 shares of Common Stock, Class D Warrant to purchase 388,889 shares of Common Stock and Performance Warrant to purchase up to 450,000 shares of Common Stock based on our annual reported subscriber numbers, twenty four (24) months after the Closing, as is reflected in our Annual Report on Form 10-K for the year ending December 31, 2016, if we fail to achieve 15.0 million subscribers at that time.

Corporate Governance

In July 2014, we appointed Brian Collins the Chief Executive Officer of the Company. Mr. Collins is the co-inventor of the Horizon Platform, and has over 20 years' experience in the technology sector with a background in software engineering. Mr. Collins brings experience in founding and operating technology companies along with his extensive knowledge of software engineering.

In November 2014, as one of our continuous measures to improve our internal control and procedure over the financial reporting and disclosure, our Board of Directors adopted a tracking form which was designed to track related party transactions. Upon adoption, management will review and pre-approve related party transaction and submit the tracking form to the Board for review and ratification on quarterly basis.

Research & Development

The Company has spent approximately \$1.1 million on capitalizable research and development in the fiscal year 2014.

During 2014, we expanded our Irish software development team with the addition of a new senior software developer at our recently opened software research and development office at the Nexus Innovation Center on the campus of the University of Limerick. As part of this process, we signed an agreement with the Industrial Development Agency (IDA) Ireland whereby IDA granted certain financial assistance toward the cost of establishing and carrying a service undertaking for a software development center in Ireland in connection with our VoIP software platform. The software development center is intended to give employment of up to 25 persons and should allow us to more quickly increase the size of this research and development team. We believe that the further expansion of our Irish development team will allow the further advance of our unique mobile VoIP solutions.

We completed the development and continued to refine the Horizon billing system. The completion of the Horizon Billing System software add-on package allows one Horizon to deliver an additional turn-key element to our customers that will allow our customers to invoice their customers and enterprise on a postpaid monthly basis. This adds greater flexibility and reach to the Horizon platform as offered by our customers to those subscribers that wish to utilize the service on a post paid basis.

We expanded our software development capabilities for China by hiring 4 new junior software developers in our Horizon Nanjing JV, known as Horizon Network Technology Co. Ltd. We believe that the expansion of our software development team at our Chinese joint venture will support the company's strategy of continuing to develop our products in areas with high population density, high penetration of mobile phones, congested mobile cellular networks and high growth in the adoption of smartphones while working within the constraints of local regulations.

We continued our research and development of the Horizon product platform throughout 2014. The Swiss based team made significant strides towards the next generation of the product suite with particular emphasis going to the User Interface (UI) re-engineering and the new Horizon concept of Sponsored Calls. Sponsored calls allow 3rd parties to display and play a multi-media advertisement for their goods and services to App users and in return for listening to the advertisement, the user gets a free call. Further to the UI the Research and Development for version 2.0, our Irish based team made progress on the latest multi-core solution with a view to releasing this software to our customers in 2015. Further research is on-going in the area of Wi-Fi to 3G [and vice-versa] 'radio handoff' to allow uninterrupted calls when Internet radio signals are arriving and leaving the smartphone. Our concept of multi-ring handsets is also being developed and marks a very exciting new feature to our smartphone offering where our App, a business landline, an assistants phone etc. can all ring at once when a main-number is dialed. The software team in China is working on a new method for Direct Inward Dial number rental for the Chinese marketplace and developing all the interfaces for the Software Development Kits [SDK] required for the Baidu, Tencent and Qihoo App stores.

During the last quarter of 2014, the expansion of the Horizon advertising platform to allow the industry first of User-Selectable-Sponsored-Calls was developed in Switzerland and Ireland R&D centers, and released on the Horizon product suite in China by the Chinese team, brand name Aishuo. A User-Selectable-Sponsored-Calls allows would-be advertisers to sponsor a call or calls to a certain amount in time or price. The user selects their sponsor and then must listen to their audio advertisement prior to the call being placed. Further to this, in Ireland, the R&D team developed a brand new multi-ring solution of our App to be able to receive incoming calls on multiple devices at the same time. This differs from existing app technologies in that it also includes the functionality to receive the call to user's apps, home, office, mobile, all at the same time so a call will never be missed.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. Our significant accounting policies are described in notes accompanying the consolidated financial statements. The preparation of the consolidated financial statements requires our management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. Estimates are based on information available as of the date of the financial statements, and accordingly, actual results in future periods could differ from these estimates. Significant judgments and estimates used in the preparation of the consolidated financial statements apply critical accounting policies described in the notes to our consolidated financial statements.

We consider our recognition of revenues, accounting for the consolidation of operations, accounting for stock-based compensation, accounting for intangible assets and related impairment analyses and accounting for equity transactions, to be most critical in understanding the judgments that are involved in the preparation of our consolidated financial statements.

Additionally, we consider certain judgments and estimates to be significant, including those relating to the timing of revenue recognition from the sales of perpetual licenses to certain Tier 1 and Tier 2 telecom entities, those relating to the determination of vendor specific objective evidence (“VSOE”) for purposes of revenue recognition, useful lives for amortization of intangibles, determination of future cash flows associated with impairment testing of long-lived assets, determination of the fair value of stock options and other assessments of fair value. We base our estimates on historical experience, current conditions and on other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates and assumptions.

Our significant accounting policies are summarized in Note 2 of our audited financial statements as of December 31, 2014.

Revenue Recognition

The Company recognizes revenue when it is realized or realizable and earned. The Company establishes persuasive evidence of a sales arrangement for each type of revenue transaction based on a signed contract with the customer and that delivery has occurred or services have been rendered, price is fixed and determinable, and collectability is reasonably assured.

Software and licenses – revenue from sales of perpetual licenses to customers when payments for the licenses are fixed is recognized at the inception of the arrangement, unless the payment term exceeds one year and then only if the presumption that the license fee is not fixed or determinable can be overcome, presuming all other relevant revenue recognition criteria are met. If the presumption cannot be overcome, revenue is recognized as payments from the customer become due. Revenue from sales of perpetual licenses when payments for the licenses are payable over a period exceeding a year and those payments are variable based on customer usage is recognized as payments from the customer become due.

Revenue for user licenses purchased by customers is recognized when the user license is delivered except as set out below.

Revenue for maintenance services is recognized over the period of delivery of the services except as set out below.

Effective as of October 1, 2014, the Company amended certain existing customer contracts with respect to the terms under which those customers would pay the Company for perpetual licenses, user licenses and maintenance services provided by the Company. Existing customer contracts required payments for maintenance services to be made based on contractually specified fixed amounts, which were billed regularly through September 2014. Through that date the Company recorded revenue for licenses and maintenance services when those licenses and services were billed. Revenue for user licenses was recorded as earned and revenue for maintenance services was recorded based on a fixed annual fee, billed quarterly. The Company has modified the payment terms under certain of those existing customer contracts by entering into Revenue Sharing agreements with those customers. Under the terms of these Revenue Sharing agreements, future payments will be due from the customer when that customer has generated revenue from its customers who subscribe to use the Horizon products and services. Effective October 1, 2014 revenue will be recorded by the Company when it invoices the customer for the revenue share due to the Company. Certain customers who entered into revenue sharing arrangements had outstanding balances due to the Company as of September 30, 2014, which balances were included in accounts receivable at that date. Payments received after September 30, 2014, from those customers under revenue sharing agreements have been applied to the customer's existing accounts receivable balances first. For those customers having balances due at September 30, 2014, revenue related to perpetual and user licenses and maintenance services will be recorded only after existing accounts receivable balances are fully collected.

Where the Company has entered into a Revenue Share with the customer then all future revenue from granting of user licenses and for maintenance services will be recognized when the Company has delivered user licenses and is entitled to invoice.

We enter into arrangements in which a customer purchases a combination of software licenses, maintenance services and post-contract customer support ("PCS"). As a result, judgment is sometimes required to determine the appropriate accounting, including how the price should be allocated among the deliverable elements if there are multiple elements. PCS may include rights to upgrades, when and if available, support, updates and enhancements. When vendor specific objective evidence ("VSOE") of fair value exists for all elements in a multiple element arrangement, revenue is allocated to each element based on the relative fair value of each of the elements. VSOE of fair value is established by the price charged when the same element is sold separately. Accordingly, the judgments involved in assessing the fair values of various elements of an agreement can impact the recognition of revenue in each period. Changes in the allocation of the sales price between deliverables might impact the timing of revenue recognition, but would not change the total revenue recognized on the contract. When elements such as software and services are contained in a single arrangement, or in related arrangements with the same customer, we allocate revenue to each element based on its relative fair value, provided that such element meets the criteria for treatment as a separate unit of accounting. In the absence of fair value for a delivered element, revenue is first allocated to the fair value of the undelivered elements and then allocated to the residual delivered elements. In the absence of fair value for an undelivered element, the arrangement is accounted for as a single unit of accounting, resulting in a delay of revenue recognition for the delivered elements until the undelivered elements are fulfilled. No sales arrangements to date include undelivered elements for which VSOE does not exist.

For purposes of revenue recognition for perpetual licenses, the Company considers payment terms exceeding one year as a presumption that the fee in the transaction is not fixed and determinable. This presumption however, may be overcome if persuasive evidence demonstrates that the Company has a business practice of extending payment terms and has been successful in collecting under the original terms, without providing any concessions. In doing so, the

Company considers if the arrangement is sufficiently similar to historical arrangements in terms of similar customers and products is assessing whether there is evidence of a history of successful collection.

In order to determine the company's historical experience is based on sufficiently similar arrangements, the Company considers the various factor including the types of customers and products, product life cycle, elements Included in the arrangement, length of payment terms and economics of license arrangement.

If the presumption cannot be overcome due to a lack of such evidence, revenue should be recognized as payments become due, assuming all other revenue recognition criteria has been met.

Results of Operations

The following table sets forth information from our statements of operations for the year ended December 31, 2014 and 2013.

Comparison of year ended December 31, 2014 and 2013 (in thousands)

	For the Year Ended		Year to Year Comparison	
	December 31, 2014 (audited)	December 31, 2013 (audited)	Increase/ (decrease)	Percentage Change
Revenue	\$5,122	\$9,106	\$(3,984)	(44 %)
Cost of revenue				
Hardware	362	545	(183)	(34 %)
Amortization of software development costs	1,890	1,908	(18)	(1 %)
	2,252	2,453		
Gross margin	2,870	6,653	(3,783)	(57 %)
Operating Expenses				
General and administrative	4,933	6,706	(1,773)	(26 %)
Depreciation	146	166	(20)	(12 %)
Total Operating Expenses	5,079	6,872	(1,793)	(26 %)
Loss from Operations	(2,209)	(219)	(1,990)	(908 %)
Other Income(Expense)				
Interest expense	20	(322)	(342)	106 %
Foreign Exchange (loss) gain , net	8	(158)	(166)	105 %
Interest income	2	1	1	100 %
Loss for continuing operations before income taxes	(2,179)	(698)	(1,481)	(212 %)
Income taxes (recovery)	(210)	-	(210)	N/A
Net Loss for the year	(1,969)	(698)	(1,271)	(182 %)

Revenue: Our revenue for the year ended December 31, 2014 was approximately \$5.1 million as compared to approximately \$9.1 million for the year ended December 31, 2013, a decrease of roughly \$4.0 million or 44%. The decrease was primarily due to revenue generated in 2013 for the maintenance of a banking software which is now no longer supported by One Horizon, and licenses for a customer booked in January 2013 which were due for renewal in

December 2013 and consequently issued and invoiced in December 2013, two of which accounted for approximately \$700,000 in revenue. In addition there were revenues recognized in the comparative period on a Global Exchange sale to a major tier one telecommunications company based in Asia of \$0.5 million and amounts under contracts signed in prior periods which were recognized in the comparative period in 2013. The Company expects revenue to increase as more customers launch their service using the Horizon products. The Company has in 2014 spent time in developing the B2C network and system in China to diversify our long term growth away from purely B2B business where the decisions on roll out of the product depend on the customer's priorities within their portfolio of products, over which we have limited or no influence. We undertook considerable work in 2014 and launched our App on B2C network in February 2015. As of the date of this report, our App has been downloaded by over 1 million subscribers.

Cost of Revenue: Cost of revenue for hardware was approximately \$0.4 million for the year ended December 31, 2014, compared to approximately \$0.5 million for the year ended December 31, 2013. Our cost of sales is primarily composed of the costs of ancillary hardware sold with the Horizon Platform together with the amortization of software development costs. In addition, we recognize costs relating to the provision of hardware when a customer acquires such ancillary hardware.

Gross Profit: Gross profit for the year ended December 31, 2014 was approximately \$2.9 million as compared to \$6.7 million for the year ended December 31, 2013. Our gross profits decreased by 57% from 2013 to 2014. The decrease was mainly due to the reduced revenue as set forth above herein. However, management anticipate gross profit to increase with the growth of our business and the global smartphone market as well as our established expansion plan of entering into markets with high population density, high penetration of mobile phones, congested mobile cellular networks and high adoption of smartphones.

Operating Expenses: Operating expenses, including general and administrative expenses and depreciation were approximately \$5.1 million, or 99% of sales for the year ended December 31, 2014 as compared to approximately \$6.9 million, or 75% of sales for the same period in 2013, a decrease of approximately \$1.8 million. The decrease was mainly due to reduced accounting and legal costs for the year ended December 31, 2014 as well as the reduced staff cost in 2014. For the same period in 2013, we incurred higher accounting and legal costs following the share exchange between and among Intelligent Communication Enterprise Corp. and One Horizon Group PLC closed on November 20, 2012. In addition, our staff cost decreased in 2014 because we transitioned certain development positions from Switzerland to Ireland and China. Going forward, management expects operating costs to rise due to various public company-related expenses including share-based compensation, and various legal, accounting and consulting services. Despite the expected increase in operating costs, management believes that operating costs as a percentage of sales will drop as sales of the Horizon Platform solution are expected to grow.

Net Loss: Net loss for the year ended December 31, 2014 was approximately \$2.0 million as compared to a net loss of \$0.7 million for the same period in 2013. Going forward, management expects to generate net income provided that the company continuously execute its expansion plan by entering areas with high population density, high penetration of mobile phones, congested mobile cellular networks and high growth in the adoption of smartphones.

Non-Controlling Interest:

The non-controlling interest holders in our China joint venture were attributed their 25% share of the net loss of the joint venture in the amount of \$105,000 for the year ended December 31, 2014. The remaining portion of net loss of \$1.9 million for the twelve months ended December 31, 2014 was attributable to the stockholders of the Company.

Going forward, management believes the Company will continue to grow the business and increase profitability if we are successful in selling the Horizon Platform solution to new telecommunications company customers globally.

Foreign Currency Translation Adjustment: Our reporting currency is the U.S. dollar. Our local currencies, Swiss Francs, Euro, British pounds and Chinese Renminbi, are our functional currencies. Results of operations and cash flow are translated at average exchange rates during the period, and assets and liabilities are translated at the unified exchange rate as quoted by <http://www.oanda.com/currency/historical-rates/> at the end of the period. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of shareholders' equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Currency translation adjustments resulting from this process are included in accumulated other comprehensive income in the consolidated statement of shareholders' equity and amounted to approximately \$1,074,000 for the year ended

December 31, 2014.

The following table sets forth information from our statements of operations for the years ended December 31, 2014 and 2013.

Liquidity and Capital Resources

23

Years Ended December 31, 2014 and December 31, 2013

The following table sets forth a summary of our approximate cash flows for the periods indicated:

	For the Years Ended December 31 (in thousands)	
	2014	2013
Net cash used in operating activities	(1,755)	(3,760)
Net cash used in investing activities	(1,167)	(1,365)
Net cash provided by financing activities	4,083	6,496

Net cash used by operating activities was approximately \$1.75 million for the year ended December 31, 2014 as compared to approximately \$3.8 million for the same period in 2013. The decrease in cash used by operations was primarily due to the increase in cash generated from sales and reduction in operating expenditure, which offset (and reduced) the overall cash used by operating activities.

Net cash used in investing activities was approximately \$1.2 million and \$1.4 million for the years ended December 31, 2014 and 2013, respectively. Net cash used in investing activities was primarily focused on investment in software development costs.

Net cash provided by financing activities amounted to approximately \$4.1 million for 2014 and \$6.5 million for 2013. Cash provided by financing activities in 2014 primarily from the sale of preferred shares and convertible stock in July and December 2014. Cash provided by financing activities in 2013 was primarily due to the advances from related parties and proceeds from the sale of common stock. Cash used by financing activities in 2013 was primarily due to proceeds from sale of common stock and loan from related parties.

Our working capital as of December 31, 2014, was approximately \$11.1 million, as compared to working capital of approximately \$4.1 million for the same period in 2013.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements, including the independent registered public accounting firm's report on our financial statements, are included beginning at page F-1 immediately following the signature page of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

(a) Dismissal of Independent Certifying Accountant.

None during our two most recent fiscal years.

24

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this Report, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our current chief executive officer and chief financial officer (our "Certifying Officers"), the effectiveness of our disclosure controls and procedures as of December 31, 2014, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of December 31, 2014, our disclosure controls and procedures were not effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Our internal control over financial reporting is a process designed under the supervision of our Certifying Officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Management, under the supervision and with the participation of our Certifying Officers, evaluated the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013 Internal Control-Integrated Framework.

Based on our evaluation and the material weaknesses described below, management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2014 because of a material weakness caused by a lack of in-house US GAAP expertise, was identified in connection with the evaluation. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. This Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Because we are a smaller reporting company, management's report was not subject to attestation by our independent registered public accounting firm.

Changes in Internal Control over Financial Reporting

As disclosed in our 2013 Annual Report on Form 10K, we reported material weaknesses in our internal controls over financial reporting as of December 31, 2013 as discussed below

- (i) Lack of sufficient independent directors. During the six months ended June 30, 2013, we had two independent directors on our board, which was comprised of five directors. These two independent directors, however, would not currently be deemed independent under NASDAQ for audit committee purposes.
- (ii) Insufficient corporate governance policies. Although we have a code of ethics that provides broad guidelines for corporate governance, our corporate governance activities and processes are not always formally documented. Specifically, decisions made by the board to be carried out by management should be documented and communicated on a timely basis to reduce the likelihood of any misunderstandings regarding key decisions affecting our operations

and management.

(iii) Insufficient segregation of duties in our finance and accounting functions due to limited personnel. During the year ended December 31, 2013 we had 6 on staff who performed nearly all aspects of our financial reporting process, including access to the underlying accounting records and systems, the ability to post and record journal entries, and responsibility for the preparation of the financial statements. This creates certain incompatible duties and a lack of review over the financial reporting process that would likely result in a failure to detect errors in spreadsheets, calculations, or assumptions used to compile the financial statements and related disclosures as filed with the Securities and Exchange Commission. These control deficiencies could result in a material misstatement to our interim or annual consolidated financial statements that would not be prevented or detected.

(iv) Lack of in-house US GAAP Expertise. Currently we do not have sufficient in-house expertise in US GAAP reporting. Instead, we rely very much on the expertise and knowledge of external financial advisors in US GAAP conversion.

(v) Maintenance of Accounting Records. We did not maintain a comprehensive set of financial records for the three months ended March 31, 2013. Certain receipts, disbursements and other transactions were recorded in the general ledger; however account reconciliations, journal entry forms or other supporting schedules were either missing or incomplete. Without adequate financial records, we may be unable to provide timely financial reporting and/or report inaccurate information.

(vi) Revenue Recognition. In connection with the preparation of our financial statements for the year ended December 31, 2013, we identified a material weakness in the design and operating effectiveness of our internal controls over financial reporting relating to correctly recording the time of revenue recognition for certain license fees. Specifically, our policy of revenue recognition did not meet all the requirements of the relevant generally accepted accounting principles applicable to software sales. Consequently, effective controls did not to ensure that revenue for these types of software sales were appropriately recorded.

Remediation of Material Weaknesses

As soon as we learned of the material weakness (identified above) related to revenue recognition, we began taking steps intended to remediate this material weakness and to improve our control process and procedures with respect to revenue recognition and in general as part of our efforts to become compliant with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. These activities included:

- Conducting a comprehensive review and implementing a revised accounting policy for our revenue recognition of certain software license fees;

- Hiring outside consultants with specific expertise with revenue recognition to assist with a review of both current future and licensing agreements;

- Establishing new policies, procedures and controls to ensure that the new revenue recognition policy is properly administered;

- To the extent necessary, evaluating the proper organizational structure and accounting personnel to ensure that we have the requisite knowledge and expertise of revenue recognition under standards of U.S. GAAP.

- Adding two accounting employees to ensure sufficient segregation of duties in our finance and accounting functions due to limited personnel

- Appointing additional independent directors. As a result, we currently have four independent directors on our board, which is comprised of six directors. These four independent directors are deemed independent under Nasdaq Rule 5605(a)(2) and one of them qualifies as an “audit committee financial expert” as such term is defined in Regulation S-K Item 407(d)(5)(ii). In addition, we formed audit, compensation and nominating committees that would meet NASDAQ rules and guidelines.

- Adopting a tracking form which was designed to track related party transactions. Upon adoption, management will review and pre-approve related party transaction and submit the tracking form to the Board for review and ratification on quarterly basis.

Management’s Review

In conjunction with the preparation of our financial statements for the year ended December 31, 2014, Management reviewed the material weaknesses in our internal controls and procedures identified as of December 31, 2013 which led to the remediation measures listed above. Specifically, we addressed the material weaknesses listed above as follows:

(i) Appointment of additional independent directors. As a result of the appointment of independent directors (in the last six months of December 31, 2013 and the fiscal year ended December 31, 2014) and resignation of one director during our fiscal year ended December 31, 2014, we now have an independent board comprised of six (6) directors with four (4) independent directors. In addition (and as described above), we formed audit, compensation and nominating board committees in September 2013 that meet NASDAQ rules and regulations. Accordingly, we believe that the formation of this independent board of directors in conjunction with the additional oversight from our new committee has effectively eliminated this deficiency. Specifically, the independent audit committee will increase board oversight and help us have better oversight of our financial reporting.

(ii) Introduction of new corporate governance policies. In September 2013, we chartered and formed three (3) new board committees. During fiscal year 2014, three committees met on quarterly basis and provided additional oversight of management decisions. We believe that these new committees will address certain corporate governance activities and processes that were not always formally documented in the past. Specifically, the audit, compensation and nominating committees will provide the proper corporate structure for the documentation of decisions made by the board of directors and the communications of those decisions to management. As a result, we believe that we have taken material steps to eliminate this deficiency.

(iii) Introduction of new accounting personnel to address insufficient segregation of duties in our finance and accounting functions due to limited personnel. During the fiscal year ended December 31, 2014, we added two (2) new accounting employees to ensure sufficient segregation of duties in our finance and accounting functions. We believe that the addition of this additional accounting staff will allow us to achieve much greater segregation of duties within our financial reporting process and its underlying accounting records and systems. Accordingly, this will allow us to provide a more comprehensive review over the financial reporting process that should minimize previous problems that could have resulted in failures to detect errors in spreadsheets, calculations, or assumptions used to compile the financial statements and related disclosures as filed with the Securities and Exchange Commission. Although, management believes that the addition of new staff members will help us control deficiencies could result in a material misstatement to our interim or annual consolidated financial statements, we will continue to monitor and evaluation our overall accounting staff and segregation of duties as operations and accounting transactions increase.

(iv) Improving our in-house US GAAP Expertise. During the year ended December 31, 2014, we began the process of evaluation of a proper organization structure and accounting personnel to ensure that we have greater internal US GAAP expertise. Part of this process included adding staff members as described above. Though we did not have sufficient in house expertise in 2014, we engaged certain external financial advisors to assist us with reviewing certain accounting policies with the goal of enhancing our US GAAP expertise. Although Management believes that the company has taken significant steps towards improving our in-house US GAAP expertise, we will continue using suitable external consultant(s) in 2015 until we identify and hire qualified in-house US GAAP expertise.

(v) Improving Maintenance of Accounting Records. During the second half of 2013 and throughout 2014, we introduced monthly ledger maintenance controls including key reconciliations over bank accounts, tax control accounts, AR ledgers and AP ledgers.

(vi) Revenue Recognition. As soon as we learned of the material weakness related to revenue recognition, we began taking steps intended to remediate this material weakness and to improve our control process and procedures with respect to revenue recognition in general as part of our efforts to become compliant with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. These activities included:

- Conducting a comprehensive review and implementing a revised accounting policy for our revenue recognition of certain software license fees;
- Hiring outside consultants with specific expertise with revenue recognition to assist with a review of both current future and licensing agreements;
- Establishing new policies, procedures and controls to ensure that the new revenue recognition policy is properly administered;
- To the extent necessary, evaluating the proper organizational structure and accounting personnel to ensure that we have the requisite knowledge and expertise of revenue recognition under standards of U.S. GAAP.

As a result of the above mentioned remediation measures, we have substantially improved our corporate governance and internal control policies, but still have a material weakness as it relates to in-house US GAAP expertise. As a result, we concluded that we did not maintain effective internal control over financial reporting as of December 31, 2014 and management will continue to take steps to remediate this material weakness in 2015 and to improve our control process and procedures with respect to US GAAP expertise and in general as part of our continuing efforts to become compliant with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. These activities will include engaging outside consultants with US GAAP expertise while working to locate and hire accounting personnel with sufficient US GAAP expertise.

Except as disclosed above in our discussion of the restatement of revenues, there were no changes in our internal controls over financial reporting during the period ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

27

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The following table and text set forth the names and ages of all directors and executive officers as of March 28, 2015. There are no family relationships among our directors and executive officers. Each director is elected at our annual meeting of shareholders and holds office until the next annual meeting of shareholders, or until his successor is elected and qualified. Also provided herein are brief descriptions of the business experience of each director, executive officer and advisor during the past five years and an indication of directorships held by each director in other companies subject to the reporting requirements under the Federal securities laws. None of our officers or directors is a party adverse to us or has a material interest adverse to us. Each director has been elected to the term indicated. Directors whose term of office ends in 2014 shall serve until the next Annual Meeting of Stockholders and until their successors are elected and qualified.

Name	Age	Principal Occupation or Employment	First Became Director	Current Board Term Expires
Brian Collins	47	President, Chief Financial Officer, Chief Technology Officer, Director	12/10/12	2015
Martin Ward	57	Chief Financial Officer, Director	12/10/12	2015
Nicholas Carpinello	65	Owner, Carpinello Enterprises LLC, Director	3/7/13	Until the date of removal or resignation
Richard Vos	69	Director	8/21/2013	Until the date of removal or resignation
Robert Law	64	Director	8/28/2013	Until the date of removal or resignation
Robert Vogler	64	Director	1/8/14	Until the date of removal or resignation

Brian Collins

Mr. Collins was appointed as the Chief Executive Office and President on July 28, 2014. Mr. Collins also acts as the Chairman of the Board of the Company upon his appointment as the Chief Executive Officer of the Company. Mr. Collins was earlier appointed as Vice President and Chief Technology Officer on November 30, 2012 and director on December 10, 2012. Prior to his appointment as Vice President and Chief Technology Officer, Mr. Collins had served as Chief Technology Officer of One Horizon Group, PLC since 2010, following the acquisition by One Horizon Group of Abbey Technology GmbH, a company that was founded by, and employed, Mr. Collins in 1999, and which became a subsidiary of One Horizon Group upon its acquisition. He is the co-inventor of the Horizon Platform, and

has over 20 years' experience in the technology sector with a background in software engineering. Abbey Technology developed software systems for the Swiss banking industry. Prior to his employment at Abbey, he worked as a software engineer for Credit Suisse First Boston Equities in Zurich. Earlier in his career, between 1993 and 1996, he worked as a software engineer for Sybase, an information technology company, in California and Amsterdam. Mr. Collins graduated in 1990 with a BSc Hons in Computer Systems from the University of Limerick, Ireland. He also undertook further software research and development at International Computers Limited between 1990 and 1993. Mr. Collins brings experience founding and working at technology companies along with extensive knowledge of software engineering.

Martin Ward

Mr. Ward was appointed Chief Financial Officer on November 30, 2012 and director on December 10, 2012. Prior to his appointment as Chief Financial Officer, Mr. Ward had served as the Chief Financial Officer and Company Secretary of One Horizon Group, PLC since 2004. Prior to joining One Horizon Group, Mr. Ward was a partner at Langdowns DFK, a United Kingdom-based chartered accountancy practice. Earlier in his career, between 1983 and 1987, he worked for PricewaterhouseCoopers as an Audit Manager. Mr. Ward is a fellow of the Institute of Chartered Accountants of England and Wales. Mr. Ward brings significant experience in accounting, corporate finance and public company reporting.

Nicholas Carpinello

Mr. Carpinello was appointed as a director on March 7, 2013. He has been the owner of Carpinello Enterprises LLC d/b/a Cottman Transmission Center, a national auto service franchise, since 2004 and also has worked as a consultant to SatCom Distribution Inc. ("SDI"), assisting in various business, tax and financial matters of US operations of UK-based distributors of satellite communication hardware and airtime, since 2005. Prior to November 2012, SDI was a subsidiary of One Horizon Group PLC. Mr. Carpinello's years of professional experience are extensive, and include experience as CFO and Treasurer with multinational public and private manufacturers of armored vehicles and, later in his career, CFO of privately-held companies in the computer science field. He is a Certified Public Accountant, an alumnus of Arthur Andersen & Co., and holds a BA degree in Accounting from the University of Cincinnati. The Board decided that Mr. Carpinello should serve as a director because of his significant U.S. public company experience, as well as years of experience as a certified public accountant.

Richard Vos

Mr. Vos was appointed as a director on August 28, 2013. Mr. Vos has been a non-executive director since 2007 of Avanti Communications Group plc, a public company listed on the London Stock Exchange (LSE:AVN). He is chairman of its remuneration committee and past chairman of its audit committee. In addition, since 2001, Mr. Vos has been a non-executive director of NSSC Operations Ltd., which operates the National Space Centre in the United Kingdom. He is the chairman of its audit committee. From June 2005 to June 2010, Mr. Vos was a director of our United Kingdom subsidiary, One Horizon Group plc (formerly SatCom Group Holdings plc) (“One Horizon UK”), and from October 2006 to June 2010 was also Chairman. From July 2005 to March 2010, One Horizon UK was listed on the Alternative Investment Market of the London Stock Exchange (AIM: SGH). From October 2008 to October 2010, Mr. Vos served as a director of TerreStar Europe Ltd., a former start-up business seeking to provide mobile satellite services in Europe. From April 2003 to 2009, Mr. Vos was chairman of the Telecommunications and Navigation Advisory Board of the British National Space Centre (subsequently replaced by the United Kingdom Space Agency).

From September 2006 to June 2009, Mr. Vos was a director of Avanti Screenmedia Group plc, formerly listed on the London Stock Exchange (LSE:ASG), which provided satellite and other services. Mr. Vos obtained his Bachelor of Arts with Honors in Modern Languages from University of London in 1968, and his Diploma in Management Studies from Kingston Polytechnic in 1973. He is a member of the Institute of Directors

Robert Law

Mr. Law was appointed as a director on August 28, 2013. Since 1990, Mr. Law has served as chief executive officer of Langdowns DFK Limited (“Langdowns”), a United Kingdom-based accounting, tax and business advisory firm, and since 1979 has served as a director of Langdowns. Also, since 1990, Mr. Law has been the chief executive officer of Southern Business Advisers LLP (“Southern Business Advisers”), a United Kingdom-based business associated with Langdowns that also offers accounting, tax and business advisory services, and has been a member of Southern Business Advisers since 1979. Mr. Law is a Fellow of the Institute of Chartered Accountants in England and Wales (“ICAEW”), and is a member of the Valuation and Information Technology Faculties of the ICAEW. Mr. Law qualified as an ICAEW Chartered Accountant in 1976.

Robert Vogler

Mr. Vogler was appointed as a director on January 8, 2014. He has a long-standing history as a successful executive and business owner. He also has extensive experiences and practices as an accounting specialist. Mr. Vogler has been the owner and Chairman of the Board of Kreivo AG, an accounting and bookkeeping company serving Swiss companies in a variety of industries with operations throughout Europe since 1974. Mr. Vogler has served on the Boards of other Swiss accounting firms such as RV Revisions AG, Impe Zug AG and also served as President of Lüfta Baar, a HVAC Company also based in Switzerland. Mr. Vogler is not a director of any public companies except One Horizon.

Significant Employees

Claude Dziedzic

Mr. Dziedzic, aged 41, was appointed Chief Horizon Architect on November 30, 2012 and is the co-inventor of the Horizon software platform. Mr. Dziedzic was employed by Abbey Technology GmbH, which was subsequently acquired by the One Horizon Group, PLC, and which became a subsidiary thereof, in 2010. Mr. Dziedzic had been employed as the chief architect and in the design and development department of the Abbey Technology software platforms from 2001 to 2009. During that time, he also participated in the design and development of the Horizon software platform and the software design and development for software and messaging systems for the Swiss

banking industry. Mr. Dziedzic had worked for UBS AG in Switzerland from 1997 to 2001 and DataSign AG from 1997 to 1999. Mr. Dziedzic worked in software research and development during his work for USB AG and DataSign AG. Mr. Dziedzic graduated from Ecole Supérieure des Science Appliquées pour l'Ingenieur de Mulhouse with a Masters Engineer Degree in Industrial IT and Automatics in 1997. In 1994, he achieved a general degree in Science & Structure of the Matter (specializing in Industrial IT, Automatics and Electronics) from the University of Alsace, and in 1992 he was awarded a Bachelor's Degree in Mathematics and Physics from the Academy of Strasbourg.

Qingsong Li

Mr. Li, aged 39, was appointed the General Manager of Horizon Network Technology Co., Ltd at the end of 2012. Mr. Li was the Deputy General Manager of Nanjing ZTEsoft CO., Ltd, in charge of international marketing and national business development from 2008 to 2012. Before that period, he was a Software Engineer(2002-2003), Chief of International Development Team(2003-2004), Deputy Head of International Sales Department(2004-2005) and Head of International Sales Department(2006-2007) of Nanjing ZTEsoft Co., Ltd. Mr. Li graduated from Southeast University, Nanjing with a master degree in System Engineering and Hefei University of Technology with a bachelor degree in Accounting and minor in Computer Science.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act and the rules thereunder require our officers and directors, and persons that own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and to furnish us with copies. Based solely on our review of the copies of the Section 16(a) forms received by us, or written representations from certain reporting persons, we believe that none of our officers, directors, and greater than 10% beneficial owners filed on a timely basis reports required by Section 16(a) of the Exchange Act prior to the Share Exchange on November 30, 2012 during the fiscal year ended December 31, 2012. After the Share Exchange, we believe that none of our officers, directors, and greater than 10% beneficial owners failed to file on a timely basis reports required by Section 16(a) of the Exchange Act during the fiscal year ended December 31, 2014.

Board Committees

Committees of the Board of Directors

Audit Committee

Our Audit Committee consists of Nicholas Carpinello, Robert Law and Richard Vos, each of whom is independent. The Audit Committee assists the Board of Directors oversight of (i) the integrity of the our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence, and (iv) the performance of our internal audit function and independent auditor, and prepares the report that the Securities and Exchange Commission requires to be included in our annual proxy statement. The audit committee operates under a written charter. Mr. Carpinello is the Chairman of our audit committee.

The Board of Directors determined that Mr. Carpinello possesses accounting or related financial management experience that qualifies him as financially sophisticated within the meaning of Rule 4350(d)(2)(A) of the Nasdaq Marketplace Rules and that he is an "audit committee financial expert" as defined by the rules and regulations of the SEC.

A copy of current charter of Audit Committee is available on the Company's website <http://content.stockpr.com/onehorizongroup/media/6f6926ac07f2526da1eaa0d94f84c6d7.pdf>

Nominating and Corporate Governance Committee

The purpose of the Nominating and Corporate Governance Committee is to assist the Board of Directors in identifying qualified individuals to become members of our Board of Directors, in determining the composition of the Board of Directors and in monitoring the process to assess Board effectiveness. Each of Nicholas Carpinello, Robert Law and Richard Vos are members of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee operates under a written charter. Mr. Richard Vos is the Chairman of the Nominating and Corporate Governance Committee.

Our Nominating and Corporate Governance Committee has, among the others, the following authority and responsibilities:

To determine and recommend to the Board, the criteria to be considered in selecting nominees for the director;

Edgar Filing: One Horizon Group, Inc. - Form 10-K

To identify and screen candidate consistent with such criteria and consider any candidates recommended by our stockholders pursuant to the procedures described in our proxy statement or in accordance with applicable laws, rules and regulations and provisions of our charter documents.

To select and approve the nominees for director to be submitted to a stockholder vote at the annual meeting of stockholders.

A copy of current charter of Nominating and Corporate Governance Committee is available on the Company's website <http://content.stockpr.com/onehorizongroup/media/8eccadeceb1ccc10b249cc5ab2456058.pdf>

Compensation Committee

The Compensation Committee is responsible for overseeing and, as appropriate, making recommendations to the Board of Directors regarding the annual salaries and other compensation of our executive officers and general employees and other policies, and for providing assistance and recommendations with respect to our compensation policies and practices. Each of Nicholas Carpinello, Robert Law and Richard Vos are members of the Compensation Committee. The Compensation Committee operates under a written charter. Mr. Robert Law is the Chairman of Compensation Committee.

As required by Rule 10C-1(b)(2), (3) and (4)(i)-(vi) under the Securities Exchange Act of 1934 (the “Act”) , our Compensation Committee has, among the others, the following responsibilities and authority.

The compensation committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, legal counsel or other adviser.

The compensation committee shall be directly responsible for the appointment, compensation and oversight of the work of any compensation consultant, legal counsel and other adviser retained by the compensation committee or said group.

The Company must provide for appropriate funding, as determined by the compensation committee, for payment of reasonable compensation to a compensation consultant, legal counsel or any other adviser retained by the compensation committee or said group.

The compensation committee select, or receive advice from, a compensation consultant, legal counsel or other adviser to the compensation committee or said group, other than in-house legal counsel, only after conducting an independence assessment with respect to the adviser as provided for in the Act.

A copy of current Charter of Compensation Committee is available on the Company’s website <http://content.stockpr.com/onehorizongroup/media/abf14232f92dbd65d5ee4c83d7b1fa3b.pdf>

Code of Ethics

Our board of directors has adopted a Policy Statement on Business Ethics and Conflicts of Interest (“Code of Ethics”) applicable to all employees, including the Company’s chief executive officer and chief financial officer. A copy of the Code of Ethics and Business Conduct is available on the Company’s website <http://content.stockpr.com/onehorizongroup/media/250c1db923f658aca6cc69dfc35c7f89.pdf>

Board Leadership Structure and the Board’s Role in Risk Oversight.

The Board of Directors currently does not have a Chairman. Our Chief Executive Officer acts as the Chairman of the Board. The Board determined that in the best interest of the Company the most effective leadership structure at this time is not to separate the roles of Chairman and Chief Executive Officer. A combined structure provides the Company with a single leader who represents the company to our stockholders, regulators, business partners and other stakeholders, among other reasons set forth below. Should the Board conclude otherwise, the Board will separate the roles and appoint an independent Chairman.

This structure creates efficiency in the preparation of the meeting agendas and related Board materials as the Company’s Chief Executive Officer works directly with those individuals preparing

the necessary Board materials and is more connected to the overall daily operations of the Company. Agendas are also prepared with the permitted input of the full Board of Directors allowing for any concerns or risks of any individual director to be discussed as deemed appropriate. The Board believes that the Company has benefited from this structure, and Mr. Collin's continuation in the combined role of the Acting Chairman and Chief Executive Officer is in the best interest of the stockholders.

The Company believes that the combined structure is necessary and allows for efficient and effective oversight, given the Company's relatively small size, its corporate strategy and focus.

The Board of Directors does not have a specific role in risk oversight of the Company. The Chairman, President and Chief Executive Officer and other executive officers and employees of the Company provide the Board of Directors with information regarding the Company's risks.

ITEM 11. EXECUTIVE COMPENSATION

The following tables set forth, for each of the last two completed fiscal years of the Company, the total compensation awarded to, earned by or paid to any person who was a principal executive officer during the preceding fiscal year and every other highest compensated executive officers earning more than \$100,000 during the last fiscal year (together, the “Named Executive Officers”).

Summary Compensation Table: Executives

Name and Principal Position (a)	Period (b)	Salary (\$) (c)	Bonus (\$) (d)	Stock Award(s) (\$) (e)	Option Awards (\$) (f)	Non- Equity Incentive Plan Compensation (g)	Non- Qualified Deferred Compen- sation Earnings (h)	All Other Compensation (i)	Total (\$) (j)
Mark White, Former CEO(1)	Year ended 12/31/14	358,750	0	0	0	0	0	0	358,750
	Year ended 12/31/13	676,000	0	0	0	0	0	0	676,000
Brian Collins, CEO (2)	Year ended 12/31/14	615,000	0	0	0	0	0	0	615,000
	Year ended 12/31/13	676,000	0	0	0	0	0	0	676,000
Martin Ward, CFO(3)	Year ended 12/31/14	292,330	0	0	0	0	0	0	292,330
	Year ended 12/31/13	311,000	0	0	0	0	0	0	311,000

(1) Mr. White was appointed our chief executive officer effective November 30, 2012 and resigned on July 24, 2014 due to personal reasons. Mr. White was paid in Swiss Francs, with a conversion rates of CHF 1.00 = \$1.12, which rate represents the average exchange rate for that period, as represented

by <http://www.oanda.com/currency/historical-rates/>.

(2) Mr. Collins was appointed our chief executive officer effective July 28, 2014 and our chief technology officer effective November 30, 2012. For the period ended December 31, 2013, Mr. Collins was paid in Swiss Francs, with a conversion rate of CHF 1.00 = \$1.12, which rate represents the average exchange rate for that period, as represented by <http://www.oanda.com/currency/historical-rates/>.

(3) Mr. Ward was appointed our chief financial officer effective November 30, 2012. For the period ended December 31, 2013, Mr. Ward was paid in pounds sterling, with conversion rate of £1.00 = \$1.56, which rate represents the average exchange rate for that period, as represented by <http://www.oanda.com/currency/historical-rates/>. For the period ended December 31, 2014, Mr. Ward was paid in British pounds (GBP 1 = USD 1.5571).

Pension Benefit

None during the periods covered in this Report

Nonqualified Deferred Compensation

None during the periods covered in this Report

Retirement/Resignation Plans

None during the periods covered in this Report

Outstanding Equity Awards at 2014 Year-End

As of the year ended December 31, 2014, there were no unexercised options, stock that has not vested or equity incentive plan awards held by any of the Company's named executive officers.

Compensation of Directors

Our directors are reimbursed for expenses incurred by them in connection with attending Board of Directors' meetings.. The following table sets forth all cash compensation paid by us, as well as certain other compensation paid or accrued, in 2014, to each of the following named directors.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compen- sation (\$)	Total (\$)
Nicholas Carpinello	18,000	0	0	0	0	0	18,000
Brian Collins	615,000	0	0	0	0	0	615,000
Robert Law	18,000	0	0	0	0	0	18,000
Richard Vos	18,000	0	0	0	0	0	18,000
Martin Ward	292,330	0	0	0	0	0	292,330
Mark White(1)	358,750	0	0	0	0	0	358,750
Robert Vogler	18,000	0	0	0	0	0	18,000

(1) Mark White resigned as a director of the Board effective July 24, 2014 due to personal reasons

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding beneficial ownership of our Common Stock as of April 14, 2014 by (i) each person (or group of affiliated persons) who is known by us to own more than five percent (5%) of the outstanding shares of our Common Stock, (ii) each director, executive officer and director nominee, and (iii) all of our directors, executive officers and director nominees as a group. As of March 25, 2015, we had 32,933,209 shares of Common Stock issued and outstanding.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. For purposes of this table, a person or group of persons is deemed to have “beneficial ownership” of any shares of common stock that such person has the right to acquire within 60 days of March 25, 2015. For purposes of computing the percentage of outstanding shares of our common stock held by each person or group of persons named above, any shares that such person or persons has the right to acquire within 60 days of March 25, 2015 is deemed to be outstanding for such person, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. The inclusion herein of any shares listed as beneficially owned does not constitute an admission of beneficial ownership.

Name of Person or Group	Amount And Nature of Beneficial Ownership(1)	Percent	
Principal Stockholders:			
Alexandra Mary Johnson 11 Washern Close Wilton Salisbury, SP2 0LX United Kingdom	1,819,666	5.53	%
Adam Christe Thompson 547A Wellington Road Crisfield, MD 21817	1,819,666	5.53	%
Mark White(2)	5,744,011	17.44	%
Named Executive Officers and Directors:			
Brian Collins	6,069,011	18.43	%
Martin Ward	2,919,666	8.87	%
Richard Vos	9,729	*	
Nicholas Carpinello	16	*	
Robert Vogler	194,600	*	
All Executive Officers and Directors as a Group (6 persons):	12,737,033	38.68	%

* Less than 1%.

(1) Except as otherwise indicated, each of the stockholders listed above has sole voting and investment power over the shares beneficially owned.

(2) Mr. White was appointed our chief executive officer effective November 30, 2012 and resigned on July 24, 2014 due to personal reasons.

Equity Compensation Plan

Prior to the Share Exchange, One Horizon UK had authorized securities for issuance under equity compensation plans that have not been approved by the stockholders, but none under equity compensation plans that were approved by the stockholders. The following table shows the aggregate amount of securities authorized for issuance under all equity compensation plans as of December 31, 2014:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	500,000	4.54	3,500,000
Equity compensation plans not approved by security holders	584,650	\$ 0.53	0
Total	1,084,650	\$ 2.38	3,500,000

The securities referenced in the table above reflect stock options granted beginning in 2005 pursuant to individual compensation arrangements with the Company's employees. 292,750 of such options are fully vested with 850 expiring in 2015; and 291,600 expiring in 2020. The number of options reflected in the table above reflect a conversion that occurred in connection with the Share Exchange, whereby the number of options (to purchase One Horizon UK shares) held by each employee was increased by 175.14 times and the exercise price was decreased by the option exercise price divided by 175.14 and a reverse split of 1-for-600 that went effective on August 29, 2013, whereby the number of options held by each employee was decreased by 600 times and the exercise price was increased by the option exercise price multiplied by 600. Also included in the table above are options to purchase 291,900 shares of the Company's common stock, which options were issued to an employee on December 31, 2012 and vest on December 31, 2015.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Related Party Transactions

Amounts due to related parties include the following: (in thousands)

	December 31, 2014	December 31, 2013
Loans due to stockholders		
Due within one year	\$ 600	\$ 3,500

Long-term	2,598	-
	\$3,198	\$3,500

At December 31, 2014, \$3,198,000 of related party debt was outstanding. \$600,000 is interest free and will be repaid during 2015. The remaining balance of \$2,598,000 matures on April 1, 2016 and carries an annual rate of interest of 0.21%.

During 2014 the Company settled a total of \$1,672,000 approximately of related party debt, by a combination of:

- i. paying \$250,000
- ii. issuing a new note payable of \$600,000 to be repaid in 2015
- iii. Issuing 246,000 new shares of common stock

The difference between the amount of related party debt eliminated and the fair value of consideration paid by the company is considered a capital transaction and resulted in an increase of \$269,000 to additional paid in capital.

Promoters and Certain Control Persons

None of our management or other control persons were “promoters” (within the meaning of Rule 405 under the Securities Act), and none of such persons took the initiative in the formation of our business or received any of our debt or equity securities or any of the proceeds from the sale of such securities in exchange for the contribution of property or services, during the last five years.

Director Independence

Presently, we are not required to comply with the director independence requirements of any securities exchange since we are listed on OTC markets, which does not have any such listing standards. In determining whether our directors are independent, however, we intend to comply with the rules of the Nasdaq. The Board of Directors also will consult with counsel to ensure that the Board of Directors’ determinations are consistent with those rules and all relevant securities and other laws and regulations regarding the independence of directors, including those adopted under the Sarbanes-Oxley Act of 2002 with respect to the independence of audit committee members. The Nasdaq listing standards define an “independent director” generally as a person, other than an officer of a company, who does not have a relationship with the company that would interfere with the director’s exercise of independent judgment.

Under the definition of independent directors found in Nasdaq Rule 5605(a)(2), we currently have four independent directors, Nicholas Carpinello, Robert Law, Robert Vogler and Richard Vos.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Aggregate fees for professional services rendered to the Company by Peterson Sullivan LLP for the years ended December 31, 2014 and 2013 were as follows:

Services Provided	2014	2013
Audit Fees	\$ 80,000	\$ 60,000
Audit Related Fees	100,000	0
Tax Fees	0	0
All Other Fees	0	0
Total	\$ 180,000	\$ 60,000

Audit Fees

Audit fees billed by Peterson Sullivan, the Company’s independent registered public accounting firm, were for the audit of our annual consolidated financial statements, including any fees related to other filings with the SEC.

Audit-Related Fees

Audit-related fees billed during the 2014 were for the work undertaken in respect of the restatement of the 2013 consolidated financial statements and prior years together with the interim financial statements on Form 10Q.

Tax Fees

There were no tax fees billed or accrued during the Reported Periods.

All Other Fees

There were no other fees billed or accrued during the Reported Periods.

Preapproval Policies and Procedures

Before the independent registered accountants are engaged to render audit services or nonaudit activities, the engagement is approved by the audit committee.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Exhibit Number	Title of Document	Location
Item 2	Plan of acquisition, reorganization, arrangement, liquidation or succession	
2.1	Agreement and Plan of Merger effective as of August 26, 2013	Incorporated by reference from Definitive Information Statement on Form 14C Appendix C filed May 26, 2013
Item 3	Articles of Incorporation and Bylaws	
3.1	Amendment to Articles of Incorporation as filed December 27, 2012, with the Pennsylvania Department of State Corporate Bureau	Incorporated by reference from the Current Report on Form 10-K filed May 13, 2013
3.2	Amendment to Articles of Incorporation as filed, with the Pennsylvania Department of State Corporate Bureau	Incorporated by reference from Definitive Information Statement on Form 14C Appendix B filed May 26, 2013
3.3	Amended and restated articles of incorporation of BICO, Inc as filed, with the Pennsylvania Department of State Corporate Bureau	Incorporated by reference from Definitive Information Statement on Form 14C Appendix F filed May 26, 2013
3.4	Bylaws of BICO, Inc. as filed, with the Pennsylvania Department of State Corporate Bureau	Incorporated by reference from Definitive Information Statement on Form 14C Appendix G filed May 26, 2013
3.5	Certificate of incorporation of One Horizon Group, Inc., as filed, with Delaware Secretary of State	Incorporated by reference from Definitive Information Statement on Form 14C Appendix D filed May 26, 2013
3.6	Bylaws of One Horizon Group, Inc., as filed, with Delaware Secretary of State	Incorporated by reference from Definitive Information Statement on Form 14C Appendix E filed May 26, 2013

Edgar Filing: One Horizon Group, Inc. - Form 10-K

Exhibit Number	Title of Document	Location
Item 10	Material Contracts	
10.1	Loan Agreement dated January 22, 2013 between the Company and Mark White	Incorporated by reference to the Quarterly Report on Form 10-Q/A filed on May 30, 2013
10.2	Loan Agreement dated January 22, 2013 between the Company and Brian Collins	Incorporated by reference to the Quarterly Report on Form 10-Q/A filed on May 30, 2013
10.3	Subscription Agreement, as amended, dated as of February 18, 2013, between the Company and Patrick Schildknecht	Incorporated by reference to the Quarterly Report on Form 10-Q/A filed on May 30, 2013
10.4	Warrant Agreement, dated as of February 18, 2013, between the Company and Patrick Schildknecht	Incorporated by reference from the Current Report on Form 10-8K filed September 5, 2013
10.5	Advisory Agreement dated as of April 15, 2013 between the Company and TriPoint Global Equities, LLC	Incorporated by reference to the Quarterly Report on Form 10-Q/A filed on May 30, 2013
	Common Stock Purchase Warrant dated May 1, 2013	
10.6	Amended and Restated Subscription Agreement, dated as of August 30, 2013, between the Company and Patrick Schildknecht	Incorporated by reference from the Current Report on Form 10-8K filed September 5, 2013
10.7	Amended and Restated Warrant Agreement, dated as of August 30, 2013, between the Company and Patrick Schildknecht	Incorporated by reference from the Current Report on Form 8-K filed September 5, 2013
10.8	Form of Independent Director Agreement between the Company and Richard Vos/Nicholas Carpinello/Robert Law	Incorporated by reference from the Current Report on Form 8-K filed August 22, 2013
10.9	Form of Indemnification Agreement between the Company and Richard Vos/Nicholas Carpinello/Robert Law	Incorporated by reference from the Current Report on Form 8-K filed August 22, 2013
10.10	Agreement, dated November 29, 2013, between One Horizon Group, Inc. and Newport Coast Securities, Inc.	Incorporated by reference from the Current Report on Form 8-K filed December 3, 2013
10.11		

Edgar Filing: One Horizon Group, Inc. - Form 10-K

	Director Agreement between the Company and Robert Vogler dated January 8, 2014	Incorporated by reference from the Current Report on Form 8-K filed January 13, 2014
10.12	Securities Purchase Agreement dated July 21, 2014	Incorporated by reference from the Current Report on Form 8-K filed on July 25, 2014
10.13	Form of Class B Warrant	Incorporated by reference from the Current Report on Form 8-K filed on July 25, 2014
10.14	Form of Class A Warrant	Incorporated by reference from the Current Report on Form 8-K filed on July 25, 2014
10.15	Amendment to Certain Transaction Documents dated August 15, 2014	Incorporated by reference from the Current Report on Form 8-K filed on August 8, 2014
10.16	Securities Purchase Agreement dated December 22, 2014	Incorporated by reference from the Current Report on Form 8-K filed on December 29, 2014
10.17	Form of Convertible Debenture	Incorporated by reference from the Current Report on Form 8-K filed on December 29, 2014
10.18	Registration Rights Agreement dated December 22, 2014	Incorporated by reference from the Current Report on Form 8-K filed on December 29, 2014
10.19	Form of Amended and Restated Class C Warrant	Incorporated by reference from the Current Report on Form 8-K filed on January 23, 2015
10.20	Form of Amended and Restated Class D Warrant	Incorporated by reference from the Current Report on Form 8-K filed on January 23, 2015
10.21	Form of Amended and Restated Performance Warrant	Incorporated by reference from the Current Report on Form 8-K filed on January 23, 2015
10.22	Form of Amended and Restated Placement Agent Warrant	Incorporated by reference from the Current Report on Form 8-K filed on January 23, 2015
10.23	Indemnification Agreement between the Company and Brian Collins	Filed herein as a part of this Report

10.24 Indemnification Agreement between the Company and Martin Ward dated
Filed herein as a part of this Report

39

Exhibit Number	Title of Document	Location
Item 14.	Code of Ethics	
14.1	Policy Statement on Business Ethics and Conflicts of Interest	Incorporated by reference from the Annual Report on Form 10-KSB for the year ended December 31, 2004, filed May 23, 2005
14.2	Insider Trading Policy	Incorporated by reference from the Registration Statement on Form S-1 filed February 5, 2015
Item 31.	Rule 13a-14(a)/15d-14(a) Certifications	
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14	Filed as part of this report
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14	Filed as part of this report
Item 32.	Section 1350 Certifications	
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed as part of this report
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed as part of this report

SIGNATURES

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

ONE HORIZON GROUP, INC.

Date: March 31 , 2015

By: /s/ Brian Collins
Brian Collins
President and Principal Executive
Officer

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

Dated: March 31, 2015

By: /s/ Brian Collins
Brian Collins
President, Chief Executive Officer, and
Director

By: /s/ Martin Ward
Martin Ward
Chief Financial Officer, Principal
Finance and Accounting Officer and
Director

By: /s/ Robert Vogler
Robert Vogler
Director

By: /s/ Nicholas Carpinello
Nicholas Carpinello
Director

By: /s/ Robert Law
Robert Law
Director

By: /s/ Richard Vos
Richard Vos
Director

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
One Horizon Group, Inc.
Limerick, Ireland

We have audited the accompanying consolidated balance sheets of One Horizon Group, Inc. ("the Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity (deficit), and cash flows for the years ended December 31, 2014, and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of One Horizon Group, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years ended December 31, 2014 and 2013, in conformity with accounting principles generally accepted in the United States.

/S/ Peterson Sullivan LLP

Seattle, Washington
March 31, 2015

ONE HORIZON GROUP, INC.
 Consolidated Balance Sheets
 December 31, 2014 and 2013
 (in thousands, except share data)

	2014	2013
Assets		
Current assets:		
Cash	\$3,172	\$2,070
Accounts receivable, net	9,072	7,264
Other assets	576	139
Total current assets	12,820	9,473
Property and equipment, net	212	315
Intangible assets, net	10,960	12,760
Investment	19	23
Debt issue costs	395	-
Total assets	\$24,406	\$22,571
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$556	\$661
Accrued expenses	360	964
Accrued compensation	15	59
Income taxes	93	117
Amount due to related parties	600	3,500
Current portion of long-term debt	73	65
Total current liabilities	1,697	5,366
Long-term liabilities		
Long term debt	108	184
Amount due to related parties	2,598	-
Convertible debenture	2,598	-
Deferred income taxes	235	445
Mandatorily redeemable preferred shares	90	90
Total liabilities	7,326	6,085
Equity		
One Horizon Group, Inc. stockholders' equity		
Preferred stock:		
\$0.0001 par value, authorized 50,000,000;		
issued and outstanding 170,940 shares (2013 - nil)	1	-
Common stock:		
\$0.0001 par value, authorized 200,000,000 shares		
issued and outstanding 33,281,069 shares (2013 32,920,069);	3	3

Edgar Filing: One Horizon Group, Inc. - Form 10-K

Additional paid-in capital	32,163	28,269
Deferred Compensation	(214)	-
Retained Earnings (Deficit)	(15,227)	(13,319)
Accumulated other comprehensive income	63	1,137
Total One Horizon Group, Inc. shareholders' equity	16,789	16,090
Non-controlling interest	291	396
Total equity	17,080	16,486
Total liabilities and equity	\$24,406	\$22,571

See accompanying notes to consolidated financial statements.

F-1

ONE HORIZON GROUP, INC.
Consolidated Statements of Operations
For the years ended December 31, 2014 and 2013
(in thousands, except per share data)

	Year ended December 31,	
	2014	2013
Revenue	\$5,122	\$9,106
Cost of revenue		
Hardware	362	545
Amortization of intangibles	1,890	1,908
	2,252	2,453
Gross margin	2,870	6,653
Expenses:		
General and administrative	4,933	6,706
Depreciation	146	166
	5,079	6,872
Loss from operations	(2,209)	(219)
Other income and expense:		
Interest expense	(16)	(25)
Interest expense - related parties, net	36	(297)
Foreign exchange	8	(158)
Interest income	2	1
	30	(479)
Loss from continuing operations before income taxes	(2,179)	(698)
Income taxes (recovery)	(210)	-
Net loss for the year	(1,969)	(698)
Loss attributable to non-controlling interest	(105)	(104)
Net loss for the year attributable to One Horizon Group, Inc.	(1,864)	(594)
Less: Preferred dividends	(44)	-
Net loss attributable to One Horizon Group, Inc. Common stockholders	\$(1,908)	\$(594)
Earnings per share		
Basic net loss per share	\$(0.06)	\$(0.02)
Diluted net loss per share	\$(0.06)	\$(0.02)
Weighted average number of shares outstanding		

Basic and diluted

32,981

31,661

See accompanying notes to consolidated financial statements.

F-2

ONE HORIZON GROUP, INC.

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2014 and 2013

(in thousands)

	Year ended December 31,	
	2014	2013
Net income (loss)	\$(1,969)	\$(698)
Other comprehensive income:		
Foreign currency translation adjustment gain (loss)	(1,074)	682
Comprehensive income (loss)	(3,043)	(16)
Comprehensive income (loss) attributable to the non-controlling interest	(105)	(104)
Total comprehensive income (loss)	\$(2,938)	\$88

See accompanying notes to consolidated financial statements.

ONE HORIZON GROUP, INC.

Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2014 and 2013
(in thousands)

	Preferred Stock Number of Shares	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Deferred Compensation	Retained Earnings (Deficit)	Subscriptions Receivable	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Stockholders' Equity
Balance December 31, 2012	-	30,846	\$3	\$21,630	\$-	\$(12,725)	\$(500)	\$455	\$-	\$8,863
Sale of subsidiary shares to non-controlling interest									500	500
Net Income		-	-	-		(594)		-	(104)	(698)
Foreign currency translations		-	-	-		-		682		682
Receipt of subscription receivable by offset against shareholder loan							500			500
Common stock issued for cash		807	-	6,000						6,000
Common stock issued for services received		101	-	643						643
Common stock repurchased		(1)	-	(4)						(4)
Common stock issued on exercise of warrants		1,168	-	-						-

Edgar Filing: One Horizon Group, Inc. - Form 10-K

Balance December 31, 2013	-	-	32,921	\$3	\$28,269	\$-	\$(13,319)	\$-	\$1,137	\$396	\$16,486
Net income (loss)							(1,864)			(105)	(1,969)
Foreign currency translations									(1,074)		(1,074)
Preferred dividends							(44)				(44)
Common stock issued for services received			15		65						65
Common stock issued for services to be received in the future			75		323		(323)				
Amortization of deferred compensation							109				109
Options issued for services					516						516
Preferred Stock issued for cash	171	1			981						982
Common stock issued for services received			25		108						108
Costs of financing							(108)				(108)
Common stock issued in settlement of debt			246	-	822						822
Fair value of warrants issued for services received					187						187
Issuance of warrants in connection with convertible					599						599

debt												
Beneficial conversion feature in connection with convertible debt					303							303
Warrants issued as part of debt issue costs					98							98
Balance December 31, 2014	171	\$1	33,282	\$3	\$32,163	\$(214)	\$(15,227))	\$-	\$63	\$291	\$17,080

See accompanying notes to consolidated financial statements.

ONE HORIZON GROUP, INC.
Consolidated Statements of Cash Flows
For the years ended December 31, 2014 and 2013
(in thousands)

	Year ended December 31,	
	2014	2013
Cash provided by (used in) operating activities:		
Operating activities:		
Loss for the year	\$(1,864)	\$(594)
Adjustment to reconcile net income (loss) for the year to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	146	166
Amortization of intangible assets	1,890	1,908
Increase in allowance for doubtful accounts	180	-
Options issued for services received	516	-
Warrants issued for services	187	-
Common shares issued for services received	174	643
Net income (loss) attributable to non-controlling interest	(105)	(104)
Changes in operating assets and liabilities net of effects of acquisitions:		
Accounts receivable	(1,988)	(6,287)
Other assets	(437)	(3)
Accounts payable and accrued expenses	(244)	488
Income taxes	-	23
Deferred income taxes	(210)	-
Net cash provided by (used in) operating activities	(1,755)	(3,760)
Cash used in investing activities:		
Acquisition of intangible assets	(1,122)	(1,211)
Acquisition of property and equipment	(49)	(131)
Other assets	4	(23)
Net cash provided by (used in) investing activities	(1,167)	(1,365)
Cash flow from financing activities:		
Increase (decrease) in long-term borrowing, net	(68)	-
Cash proceeds from issuance of common stock	-	6,000
Proceeds from issuance of preferred stock, net	982	-
Proceeds from issuance of convertible debenture, net	3,202	-
Repurchase of common stock	-	(4)
Advances from related parties, net of repayment	(33)	500

Edgar Filing: One Horizon Group, Inc. - Form 10-K

Net cash provided by financing activities	4,083	6,496
Increase in cash during the year	1,161	1,371
Foreign exchange effect on cash	(59)	-
Cash at beginning of the year	2,070	699
Cash at end of the year	\$3,172	\$2,070

See accompanying notes to consolidated financial statements.

F-5

ONE HORIZON GROUP, INC.
 Consolidated Statements of Cash Flows (continued)
 For the years ended December 31, 2014 and 2013
 (in thousands)

	Year ended December 31,	
	2014	2013
Interest paid	\$-	\$-
Income taxes paid	-	-
Non-cash transactions:		
Common stock issued for services received	65	643
Settlement of subscription receivable through partial repayment of loan payable	-	500
Common stock issued for settlement of debt	822	-
Common stock issued for services to be received in the future	323	-
Fair value of warrants issued for services received	187	-

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

Note 1. Description of Business and Principles of Consolidation

Description of Business

One Horizon Group, Inc., (the “Company” or “Horizon”) develops proprietary software primarily in the Voice over Internet Protocol (VoIP) and bandwidth optimization markets (“Horizon Globex”) and provides it under perpetual license arrangements (“Master License”) throughout the world. The Company sells related user licenses and software maintenance services as well.

Principles of Consolidation

The December 31, 2014 and 2013 consolidated financial statements include the accounts of One Horizon Group, Inc. and its wholly owned subsidiaries OHG, Horizon Globex GmbH, Abbey Technology GmbH, One Horizon Hong Kong Limited, Horizon Globex Ireland Limited, Global Phone Credit Limited, One Horizon Group Pte., Limited and Aishuo Network Information Co., Ltd. together with Horizon Network Technology Co. Ltd. which is a 75% owned subsidiary.

All significant intercompany balances and transactions have been eliminated.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States

Foreign Currency Translation

The reporting currency of the Company is the United States dollar. Assets and liabilities of operations other than those denominated in U.S. dollars, primarily in Switzerland, the United Kingdom and China, are translated into United States dollars at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the average rate of exchange throughout the period. Gains or losses from these translations are reported as a separate component of other comprehensive income (loss) until all or a part of the investment in the subsidiaries is sold or liquidated. The translation adjustments do not recognize the effect of income tax because the Company expects to reinvest the amounts indefinitely in operations.

Transaction gains and losses that arise from exchange-rate fluctuations on transactions denominated in a currency other than the functional currency are included in general and administrative expenses.

Cash

Cash and cash equivalents include bank demand deposit accounts and highly liquid short term investments with maturities of three months or less when purchased. Cash consists of checking accounts held at financial institutions in the United Kingdom, Switzerland, Ireland, Singapore, Hong Kong and China which, at times, balances may exceed insured limits. The Company has not experienced any losses related to these balances, and management believes the credit risk to be minimal.

Accounts Receivable

Accounts receivable result primarily from sales of software, user licenses and maintenance services to customers and are recorded at their principal amounts. Receivables are considered past due once they exceed the terms of the sales transaction. When necessary, the Company provides an allowance for doubtful accounts that is based on a review of outstanding receivables, historical collection information, and current economic conditions. There was an allowance of \$492,000 and \$212,000 for doubtful accounts at December 31, 2014 and 2013, respectively. Receivables are generally unsecured. Account balances are charged off against the allowance when the Company determines it is probable the receivable will not be recovered. The Company does not have off-balance sheet credit exposure related to its customers. As at December 31, 2014 and December 31, 2013, two customers accounted for 28% and three customers accounted for 22%, respectively, of the accounts receivable balance.

Property and Equipment

Property and equipment is primarily comprised of leasehold property improvements, motor vehicles and equipment that are recorded at cost and depreciated or amortized using the straight-line method over their estimated useful lives as follows: motor vehicles – 5 years, equipment – between 3 and 5 years, leasehold property improvements, over the lesser of the estimated remaining useful life of the asset or the remaining term of the lease.

Repairs and maintenance are charged to expense as incurred. Expenditures that substantially increase the useful lives of existing assets are capitalized.

Fair Value Measurements

Fair value is defined as the exchange price that will be received for an asset or paid to transfer a liability (an exit price) in the principal. Valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs. To measure fair value, the Company uses the following fair value hierarchy based on three levels of inputs, of which the first two are considered to be observable and the third unobservable:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Intangible Assets

Intangible assets include software development costs and customer lists and are amortized on a straight-line basis over the estimated useful lives of five years for customer lists and ten years for software development. The Company periodically evaluates whether changes have occurred that would require revision of the remaining estimated useful life. The Company performs periodic reviews of its capitalized intangible assets to determine if the assets have continuing value to the Company.

F-8

The Company expenses software development costs as incurred until technological feasibility has been established, at which time those costs are capitalized until the product is available for general release to customers. Judgement is required in determining when technological feasibility of a product is established. The Company has determined that after technological feasibility for software products is reached, the Company continues to address all high risk development issues through coding and testing prior to the release of the products to customers. The amortization of these costs is included in cost of revenue over the estimated life of the products.

During the years ended December 31, 2014 and 2013 software development costs of \$1,122,000 and \$1,211,000, respectively, have been capitalized.

Impairment of Other Long-Lived Assets

The Company evaluates the recoverability of its property and equipment and other long-lived assets whenever events or changes in circumstances indicate impairment may have occurred. An impairment loss is recognized when the net book value of such assets exceeds the estimated future undiscounted cash flows attributed to the assets or the business to which the assets relate. Impairment losses, if any, are measured as the amount by which the carrying value exceeds the fair value of the assets. During the years ended December 31, 2014 and 2013 the Company identified no impairment losses related to the Company's long-lived assets.

Revenue Recognition

The Company recognizes revenue when it is realized or realizable and earned. The Company establishes persuasive evidence of a sales arrangement for each type of revenue transaction based on a signed contract with the customer and that delivery has occurred or services have been rendered, price is fixed and determinable, and collectability is reasonably assured.

Software and licenses – revenue from sales of perpetual licenses to customers when payments for the licenses are fixed is recognized at the inception of the arrangement, unless the payment term exceeds one year and then only if the presumption that the license fee is not fixed or determinable can be overcome, presuming all other relevant revenue recognition criteria are met. If the presumption cannot be overcome, revenue is recognized as payments from the customer become due. Revenue from sales of perpetual licenses when payments for the licenses are payable over a period exceeding a year and those payments are variable based on customer usage is recognized as payments from the customer become due.

Revenue for user licenses purchased by customers is recognized when the user license is delivered except as set out below.

Revenue for maintenance services is recognized over the period of delivery of the services except as set out below.

Effective as of October 1, 2014, the Company amended certain existing customer contracts with respect to the terms under which those customers would pay the Company for perpetual licenses, user licenses and maintenance services provided by the Company. Existing customer contracts required payments for maintenance services to be made based on contractually specified fixed amounts, which were billed regularly through September 2014. Through that date the Company recorded revenue for licenses and maintenance services when those licenses and services were billed. Revenue for user licenses was recorded as earned and revenue for maintenance services was

recorded based on a fixed annual fee, billed quarterly. The Company has modified the payment terms under certain of those existing customer contracts by entering into Revenue Sharing agreements with those customers. Under the terms of these Revenue Sharing agreements, future payments will be due from the customer when that customer has generated revenue from its customers who subscribe to use the Horizon products and services. Effective October 1, 2014 revenue will be recorded by the Company when it invoices the customer for the revenue share due to the Company. Certain customers who entered into revenue sharing arrangements had outstanding balances due to the Company as of September 30, 2014, which balances were included in accounts receivable at that date. Payments received after September 30, 2014, from those customers under revenue sharing agreements have been applied to the customer's existing accounts receivable balances first. For those customers having balances due at September 30, 2014, revenue related to perpetual and user licences and maintenance services will be recorded only after existing accounts receivable balances are fully collected.

Where the Company has entered into a Revenue Share with the customer then all future revenue from granting of user licenses and for maintenance services will be recognized when the Company has delivered user licenses and is entitled to invoice.

We enter into arrangements in which a customer purchases a combination of software licenses, maintenance services and post-contract customer support ("PCS"). As a result, judgment is sometimes required to determine the appropriate accounting, including how the price should be allocated among the deliverable elements if there are multiple elements. PCS may include rights to upgrades, when and if available, support, updates and enhancements. When vendor specific objective evidence ("VSOE") of fair value exists for all elements in a multiple element arrangement, revenue is allocated to each element based on the relative fair value of each of the elements. VSOE of fair value is established by the price charged when the same element is sold separately. Accordingly, the judgments involved in assessing the fair values of various elements of an agreement can impact the recognition of revenue in each period. Changes in the allocation of the sales price between deliverables might impact the timing of revenue recognition, but would not change the total revenue recognized on the contract. When elements such as software and services are contained in a single arrangement, or in related arrangements with the same customer, we allocate revenue to each element based on its relative fair value, provided that such element meets the criteria for treatment as a separate unit of accounting. In the absence of fair value for a delivered element, revenue is first allocated to the fair value of the undelivered elements and then allocated to the residual delivered elements. In the absence of fair value for an undelivered element, the arrangement is accounted for as a single unit of accounting, resulting in a delay of revenue recognition for the delivered elements until the undelivered elements are fulfilled. No sales arrangements to date include undelivered elements for which VSOE does not exist.

For purposes of revenue recognition for perpetual licenses, the Company considers payment terms exceeding one year as a presumption that the fee in the transaction is not fixed and determinable. This presumption however, may be overcome if persuasive evidence demonstrates that the Company has a business practice of extending payment terms and has been successful in collecting under the original terms, without providing any concessions. In doing so, the Company considers if the arrangement is sufficiently similar to historical arrangements in terms of similar customers and products is assessing whether there is evidence of a history of successful collection.

In order to determine the company's historical experience is based on sufficiently similar arrangements, the Company considers the various factor including the types of customers and products, product life cycle, elements Included in the arrangement, length of payment terms and economics of license arrangement.

If the presumption cannot be overcome due to a lack of such evidence, revenue should be recognized as payments become due, assuming all other revenue recognition criteria has been met.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Advertising Expenses

It is the Company's policy to expense advertising costs as incurred. No advertising costs were incurred during the years ended December 31, 2014 and 2013.

Research and Development Expenses

Research and development expenses include all direct costs, primarily salaries for Company personnel and outside consultants, related to the development of new products, significant enhancements to existing products, and the portion of costs of development of internal-use software required to be expensed. Research and development costs are charged to operations as incurred with the exception of those software development costs that may qualify for capitalization. The Company incurred research and development costs that are included in general and administration expenses in the amount of \$703,000 and \$739,000 in the years ended December 31, 2014 and 2013 respectively.

Debt Issue Costs

Debt issue costs related to long-term debt are capitalized and amortized over the term of the related debt using the effective interest method.

Income Taxes

Deferred income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, operating loss, and tax credit carryforwards, and are measured using the enacted income tax rates and laws that will be in effect when the differences are expected to be recovered or settled. Realization of certain deferred income tax assets is dependent upon generating sufficient taxable income in the appropriate jurisdiction. The Company records a valuation allowance to reduce deferred income tax assets to amounts that are more likely than not to be realized. The initial recording and any subsequent changes to valuation allowances are based on a number of factors (positive and negative evidence). The Company considers its actual historical results to have a stronger weight than other, more subjective, indicators when considering whether to

establish or reduce a valuation allowance.

The Company continually evaluates its uncertain income tax positions and may record a liability for any unrecognized tax benefits resulting from uncertain income tax positions taken or expected to be taken in an income tax return. Estimated interest and penalties are recorded as a component of interest expense and other expense, respectively.

F-10

Because tax laws are complex and subject to different interpretations, significant judgment is required. As a result, the Company makes certain estimates and assumptions in: (1) calculating its income tax expense, deferred tax assets, and deferred tax liabilities; (2) determining any valuation allowance recorded against deferred tax assets; and (3) evaluating the amount of unrecognized tax benefits, as well as the interest and penalties related to such uncertain tax positions. The Company's estimates and assumptions may differ significantly from tax benefits ultimately realized.

Net Loss per Share

Basic net loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. Diluted loss per share takes into consideration common shares outstanding (computed under basic loss per share) and potentially dilutive securities. For the years ended December 31, 2014 and 2013, outstanding stock options and warrants are antidilutive because of net losses, and as such, their effect has not been included in the calculation of diluted net loss per share. Common shares issuable are considered outstanding as of the original approval date for purposes of earnings per share computations.

Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss), as defined, includes net income, foreign currency translation adjustment, and all changes in equity (net assets) during a period from non-owner sources. To date, the Company has not had any significant transactions that are required to be reported in other comprehensive income (loss), except for foreign currency translation adjustments.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the fiscal year. The Company makes estimates for, among other items, useful lives for depreciation and amortization, determination of future cash flows associated with impairment testing for long-lived assets, determination of the fair value of stock options and warrants, valuation allowance for deferred tax assets, allowances for doubtful accounts, and potential income tax assessments and other contingencies. The Company bases its estimates on historical experience, current conditions, and other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from those estimates and assumptions.

Financial Instruments

The carrying amounts of our financial assets and liabilities such as cash, accounts receivable and accounts payable approximate their fair values based on level 1 inputs in the fair value hierarchy because of the short maturity of these instruments. Due to the conversion features and other terms, it is not practical to estimate the fair value of amounts due to related parties and long term debt.

Share-Based Compensation

The Company accounts for share-based awards at fair value on date of grant and recognizes compensation over the service period for awards expected to vest. The fair value of stock options is determined using the Black-Scholes option pricing model, which includes subjective judgements about the expected life of the awards, forfeiture rates and stock price volatility.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-09 – Revenue from Contracts with Customers, which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principal of this ASU is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This ASU will be effective for us in our first quarter of 2017. Early adoption is not permitted. The ASU allows for either full retrospective or modified retrospective adoption. We are evaluating the transaction method that will be elected and the potential effects of the adoption of this ASU on our financial statements.

F-11

Note 3. China Operations

During the year ended December 31, 2013 the Company established a subsidiary in China, Horizon Network Technology Co. Ltd. (“HNT”). The establishment of HNT is part of the Company’s strategic plan to expand the application of mobile software and related marketing efforts into emerging markets. The Company contributed \$1.5 million for a 75% ownership interest in HNT. The remaining 25% ownership interest in HNT was acquired by non-related parties through the transfer of noncash assets with a fair value of \$500,000.

The results of operations, assets, liabilities and cash flows of HNT have been consolidated in the accompanying condensed consolidated financial statements as the Company owns a controlling interest. The ownership interests in HNT held by parties other than the Company are presented separately from the Company’s equity on the Consolidated Balance Sheet. The amount of consolidated net loss attributable to the Company and the non-controlling interest are both presented on the face of the Consolidated Statement of Operations.

Note 4. Property and Equipment, net

Property and equipment consist of the following: (in thousands)

	December 2014	December 31 2013
Leasehold improvements	\$265	\$265
Motor vehicle	120	120
Equipment	348	310
	733	695
Less accumulated depreciation	(521)	(380)
Property and equipment, net	\$212	\$315

Note 5. Intangible Assets

Intangible assets consist primarily of software development costs and customer and reseller relationships which are amortized over the estimated useful life, generally on a straight-line basis with the exception of customer relationships, which are generally amortized over the greater of straight-line or the related asset’s pattern of economic benefit. (in thousands)

	December 2014	December 31 2013
Horizon software	\$16,936	\$17,599
ZTEsoft Telecom software	495	497
Contractual relationships	885	885
	18,316	18,981
Less accumulated amortization	(7,356)	(6,221)
Intangible assets, net	\$10,960	\$12,760

Amortization of intangible assets for each of the next five years is estimated to be \$1,900,000 per year

F-12

Note 6. Long-term Debt

Long – term liabilities consist of the following (in thousands)

	December 2014	December 31 2013
Vehicle loan	\$32	\$51
Equipment loan	15	27
Office term loan	134	171
	181	249
Less current portion	(73)	(65)
Balance	\$108	\$184

Note 7. Convertible Debenture

On December 22, 2014 the Company closed a financing of \$3.5 million consisting of 1,555,556 units, whereby each unit included i) the right to convert, at any time, into one share of common stock at a price of \$2.25; ii) one Class C warrant entitling the holder to purchase one share of common stock at a price of \$3.00; iii) one Class D warrant entitling the holder to purchase one share of common stock at a price of \$3.50 and iv) a pro-rata share of potential performance warrants.

The convertible debenture is for a term of three years from the date of issue and has an interest rate of 8% per annum, payable quarterly in arrears in either cash, shares of common stock, or a combination of cash and shares of common stock. The Company has the right to repurchase the convertible debenture upon notice at any time after the first twelve months.

The Class C and Class D warrants have a term of four years and are each entitled to purchase one-fourth of a share of common stock. In total the Company issued 388,889 Class C warrants and 388,889 Class D warrants related to the convertible debenture.

The Company will issue a maximum of 450,000 performance warrants, each entitling the holders to purchase shares of common stock for cash at the then current market price, dependent on the number of subscribers the Company has as at December 31, 2016. The number of performance warrants issued will be a ratio with 450,000 performance warrants being issued if there is less than 5 million subscribers and no performance warrants if there are more than 15 million subscribers.

Proceeds received from the convertible debentures were allocated between the convertible debenture and the warrants based on their relative fair values. The resulting discount for the warrants is amortized using the effective interest method over the life of the debentures. The relative fair value of Class C and Class D warrants resulted in a discount of \$598,500 at the date of issuance. After allocating a portion of the proceeds to the warrants, the effective conversion price of the convertible debentures was determined to result in a beneficial conversion feature. The beneficial conversion feature has a relative fair value of \$302,994 at the date of issuance and will be amortized over the term of the convertible debenture. The beneficial conversion feature discount is amortized using the effective interest method over the life of the debentures. The amortization of the debt discount is included as interest expense in the consolidated statement of operations.

A total of 1,711,112 share of common stock have been reserved for the potential conversion of the convertible debenture.

F-13

Note 8. Related-Party Transactions

Amounts due to related parties include the following: (in thousands)

	December 31 2014	December 31 2013
Loans due to stockholders (current and former officers and directors)		
Due within one year	\$ 600	\$ 3,500
Long-term	2,598	-
	\$ 3,198	\$ 3,500

At December 31, 2014, \$3,198,000 of related party debt was outstanding. \$600,000 is interest free and will be repaid during 2015. The remaining balance of \$2,598,000 matures on April 1, 2016 and carries an annual rate of interest of 0.21%.

During 2014 the Company settled a total of \$1,672,000 approximately of related party debt, by a combination of:

- i. paying \$250,000
- ii. issuing a new note payable of \$600,000 to be repaid in 2015
- iii. Issuing 246,000 new shares of common stock

The difference between the amount of related party debt eliminated and the fair value of consideration paid by the company is considered a capital transaction and resulted in an increase of \$269,000 to additional paid in capital.

Note 9. Share Capital

Preferred Stock

The Company's authorized capital includes 50,000,000 shares of preferred stock of \$0.0001 par value. The designation of rights including voting powers, preferences, and restrictions shall be determined by the Board of Directors before the issuance of any shares.

On July 21, 2014 the Company completed a private placement of 170,940 shares of mandatorily convertible Series A Preferred Stock that also included 100,000 Class B warrants, each warrant convertible to one share of common stock at an exercise price of \$4 per share. The net proceeds of the offering were \$982,000 after deducting offering costs.

The holders of Series A Preferred Stock are entitled to receive cumulative dividends during a period of twenty-four (24) months from and after the Issuance Date (the "Dividend Period"). During the Dividend Period for each outstanding share of Series Preferred Stock, dividends shall be payable quarterly in cash, at the rate of 10% per annum on or before each ninety (90) day period following the Issuance Date (each a "Dividend Payment Date"), with the first Dividend Payment Date to occur promptly following the three month period following the Issuance Date, and continuing until the end of the Dividend Period. Following the expiration of the Dividend Period, the holders of Series A Preferred Stock shall not be entitled to any additional dividend payment or coupon rate.

Shares of Series A Preferred Stock are convertible in whole or in part, at the option of the holders, into shares of common stock at \$5.85 per share prior to the Maturity, and all outstanding shares of Series A Preferred Stock shall automatically convert to shares of common stock upon Maturity, provided however, at no time may holders convert

shares of Series A Preferred Stock if the number of shares of common stock to be issued pursuant to such conversion would cause the number of shares of common stock beneficially owned by such holder and its affiliates to exceed 9.99% of the then issued and outstanding shares of common stock outstanding at such time, unless the holder provides us with a waiver notice in such form and with such content specified in the Series A Certificate of Designation.

F-14

Shares of Series A Preferred Stock are redeemable, at the option of the holders commencing any time after 12 months from and after the closing at a price equal to the original purchase price plus all accrued but unpaid dividends. In the event that the Company completes a financing of \$10 million or greater prior to Maturity, the Series A Preferred Stock will be redeemed at a price equal to the original purchase price plus all accrued but unpaid dividends.

170,940 shares of Series A preferred stock are issued and outstanding as of December 31, 2014.

Mandatorily Redeemable Preferred Shares (Deferred Stock)

The Company's subsidiary OHG is authorized to issue 50,000 shares of deferred stock, par value of £1. These shares are non-voting, non-participating, redeemable and have been presented as a long-term liability.

Common Stock

The Company is authorized to issue 200 million shares of common stock, par value of \$0.0001.

During the year ended December 31, 2014, the Company:

- issued 15,000 shares of common stock for services received with a fair value of \$64,500.
- issued 25,000 shares of common stock for services received, in connection with the \$1 million private placement, with a fair value of \$107,500
 - issued 75,000 shares of common stock for services received in the future with a fair value of \$322,500
 - issued 246,000 shares of common stock in settlement of amounts owing of \$553,500

During the year ended December 31, 2013, the Company:

- issued 5,000 shares of common stock for services received with a fair value of \$30,000
- issued 62,543 shares of common stock for services received with a fair value of \$562,891.
 - issued 806,452 shares of common stock for \$6 million cash.
- issued 33,333 shares of common stock for services received with a fair value of \$50,000.
- issued 1,167,600 shares of common stock upon the exercise of warrants with an exercise price of \$nil

Stock Purchase Warrants

At December 31, 2014, the Company had reserved 2,811,642 shares of its common stock for the following outstanding warrants:

Number of Warrants	Exercise Price	Expiry
116,760	\$ 0.86	no expiry date
1,209,675	4.25	January 2019
100,000	4.00	July 2016
60,000	6.55	December 2015
68,850	2.25	

		December 2018
402,786	3.00	December 2018
402,568	3.50	December 2018
450,000	-	May 2017

During the year ended December 31, 2014 there were 100,000 warrants issued in connection with the \$1 million private placement and 805,354 warrants issued in connection with the \$3.5 million convertible debenture. An additional 450,000 performance warrants have been issued in connection with the \$3.5 convertible debenture with the number of warrants, and exercise price, to be determined upon completion of the December 31, 2016 fiscal year. In addition there was an additional warrants issued to the holders of each of the 403,226 warrants issued in connection with the financing of February, 2013 such that there are now 1,209,675 warrants outstanding related to this financing. Further the exercise price for these warrants was reduced to \$4.25 per share and the exercise period extended to January 2019. There were no warrants exercised during the year ended December 31, 2014.

Note 10. Stock-Based Compensation

The shareholders approved a stock option plan on August 6, 2013, the 2013 Equity Incentive Plan. This stock option plan is for the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalents, cash bonuses and other stock-based awards to employees, directors and consultants of the Company.

There are 3,000,000 shares of common stock available for granting awards under the plan. Each year, commencing 2014, until 2016, the number of shares of common stock available for granting awards shall be increased by the lesser of 1,000,000 shares of common stock and 5% of the total number of shares of common stock outstanding.

During the year ended December 31, 2014 the Company issued options to purchase 500,000 shares of common stock under the 2013 Equity Incentive Plan. The options become fully vested on January 15, 2017 and are exercisable, at an exercise price of \$4.54 per common share, to January 15, 2024. On January 1, 2014 the number of shares available for granting awards under the 2013 Equity Incentive Plan was increased by 1,000,000 shares.

A summary of the Company's 2013 Equity Incentive Plan as of December 31, 2014, is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2013	-	\$-
Options issued	500,000	4.54
Outstanding at December 31, 2014	500,000	4.54

The fair value of these options, using the Black-Scholes option-pricing model, is estimated to be \$2,200,000. This expense, less an estimated forfeiture rate of 30%, will be recognized over the three year vesting period. The amount of \$516,000 has been recognized during the year ended December 31, 2014. As at December 31, 2014 there was unrecognized compensation expense of approximately \$1.03 million to be recognized over a period of 2 years.

Prior to the 2013 Equity Incentive Plan the Company issued stock options to directors, employees, advisors, and consultants.

A summary of the Company's other stock options as of December 31, 2014, is as follows:

	Number of Options	Weighted Average
--	----------------------	---------------------

		Exercise Price
Outstanding at December 31, 2013	584,650	\$0.53
Options forfeited	-	-
Outstanding at December 31, 2014	584,650	\$0.53

F-16

Other than the options to purchase 500,000 common shares under the 2013 Equity Incentive Plan, there were no options issued, exercised or forfeited during the year ended December 31, 2014.

The following table summarizes stock options outstanding at December 31, 2014:

Exercise Price	Number Outstanding at December 31, 2014	Average Remaining Contractual Life (Years)	Number Exercisable at December 31, 2014	Intrinsic Value at December 31, 2014
\$0.51	850	0.83	850	\$1,258
0.53	291,900	5.50	291,900	426,174
0.53	291,900	8.00	-	-
4.54	500,000	9.00	-	-

At December 31, 2014, 4,584,650 shares of common stock were reserved for all outstanding options and future commitments under the 2013 Equity Incentive Plan.

The fair value of each option granted is estimated at the date of grant using the Black-Scholes option-pricing model. The assumptions used in calculating the fair value of the options granted were: risk-free interest rate of 1.68%, a 3 year expected life, a dividend yield of 0.0%, and a stock price volatility factor of 192%

Note 11. Income Taxes

Income taxes are recognized for the amount of taxes payable for the current year and for the impact of deferred tax assets and liabilities, which represent consequences of events that have been recognized differently in the financial statements under GAAP than for tax purposes.

Income (loss) before income taxes consisted of the following (in thousands):

	December 31	
	2014	2013
United States	\$ (943)	\$(1,474)
International	(607)	466
Total	\$ (1,550)	\$(1,008)

Deferred Tax Assets

As of December 31, 2014, the Company had federal net operating losses of \$2.4 million available for future deduction from taxable income derived in the United States. The Company's United Kingdom subsidiary has non-capital losses of approximately \$13.0 million available for future deductions from taxable income derived in the United Kingdom, which do not expire. The potential benefit of net operating loss carryforwards has not been recognized in the combined financial statements since the Company cannot determine that it is more likely than not that such benefit will be utilized in future years. The tax years 2006 through 2013 remain open to examination by federal authorities and other jurisdictions in which the Company operates. The components of the net deferred tax asset and the amount of the valuation allowance are as follows: (in thousands)

	December 31	
	2014	2013
Deferred tax assets		
Net operating loss carryforwards - United States	\$ 829	\$ 508
Net operating loss carryforwards - International	3,249	2,924
Valuation allowance	(4,078)	(3,432)
Net deferred tax assets	\$ -	\$ -

The increase in the valuation allowance was \$646,000 for the year ended December 31, 2014 and \$922,000 for the year ended December 31, 2013.

Note 12. Commitments and Contingencies

The Company has an agreement with an employee to pay for certain services provided during 2013 by the issuance of options to purchase 291,900 shares of common stock of the Company.

Contractual Commitments

The Company incurred total rent expense of \$100,000 and \$200,000, respectively, for the years ended December 31, 2014 and 2013.

Minimum contractual commitments, as of December 31, 2014, is as follows:

	Operating leases	Long-term Financing
2015	\$ 112,000	\$ 73,000
2016	67,000	53,000
2017	67,000	40,000
2018	67,000	15,000

Legal Proceedings

In 2012, we sold certain former subsidiaries engaged in provision of satellite service in 2012 to Broadband Satellite Services ("BSS"), a company incorporated under laws of England and Wales. Horizon Globex, a company incorporated in Switzerland and a subsidiary of us, had provided these subsidiary companies with software and IT services. In connection with its acquisition of our former subsidiary companies, BSS entered into three agreements with Horizon

Globex pursuant to which BSS continued to use Horizon Globex to supply software and IT services. Notwithstanding the fact that Horizon Globex has provided such ongoing software and IT services, BSS has failed to pay our fees pursuant to the agreements. As a result, on December 23, 2014, we initiated legal proceedings in the High Court, Queens Bench Division, Commercial Court No. 2014 folio 1560 against BSS in the United Kingdom to collect such fees in the amount of \$640,000. Subsequently, BSS asserted counter claims in the amount of \$5.8 million, alleging among other claims, civil fraud in connection with the sale of subsidiary companies. Based on the timing of these claims, which were never raised until we filed our action against BSS, it is our position that these claims are specious and represent nothing more than an attempt to improve BSS's negotiating position with regard to our legitimate claims against it. As a result, we plan to continue to carry out our claims against BSS to the fullest extent possible and to defend BSS's counter-claims vigorously. We note further that several of BSS's counter claims may be time barred by applicable sections of the contracts and plan to assert the same as an affirmative defense to such counter claim. Notwithstanding our views with regard to our claims against BSS and BSS's counterclaims, litigation is by its nature unpredictable and therefore we cannot guarantee with certainty the outcome of our dispute with BSS.

Note 13. Segment Information

The Company has one business segment, which is the development of software for licensing to the telecommunications industry.

The Company's revenues were generated in the following geographic areas:

	2014	2013
Europe	\$0.7 million	\$3.7 million
Asia	\$3.7 million	\$4.7 million
Russia	\$0.1 million	\$0.4 million
USA	\$0.6 million	\$0.3 million

F-19
