

One Horizon Group, Inc.  
Form 10-Q  
November 13, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 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.)
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T1-017 Tierney Building, University of Limerick, Limerick, Ireland. (Address of principal executive offices)	(Zip Code)
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+353-61-518477  
(Registrant's telephone number, including area code)

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

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

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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 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(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

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date. As of November 12, 2015, 35,045,423 shares of the registrant’s common stock, par value \$0.0001 per share, were outstanding.

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### 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,” “could,” “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 – FINANCIAL INFORMATION

ONE HORIZON GROUP, INC.  
Condensed Consolidated Balance Sheets  
September 30, 2015 and December 31, 2014  
(in thousands, except share data)  
(unaudited)

	September 30, 2015	December 31, 2014
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 2,605	\$ 3,172
Accounts receivable (net), current portion	3,811	9,072
Other assets	487	576
<b>Total current assets</b>	<b>6,903</b>	<b>12,820</b>
Accounts receivable (net), net of current portion	5,127	-
Property and equipment, net	108	212
Intangible assets, net	10,417	10,960
Investment	19	19
Debt issue costs	296	395
<b>Total assets</b>	<b>\$ 22,870</b>	<b>\$ 24,406</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 198	\$ 556
Accrued expenses	369	360
Accrued compensation	15	15
Income taxes	94	93
Amounts due to related parties, current portion	-	600
Current portion of long-term debt	7	73
<b>Total current liabilities</b>	<b>683</b>	<b>1,697</b>
<b>Long-term liabilities</b>		
Long term debt, net of current portion	-	108
Amount due to related parties, net of current portion	2,521	2,598
Convertible debenture	2,824	2,598
Deferred income taxes	190	235
Mandatorily redeemable preferred shares	90	90
<b>Total liabilities</b>	<b>6,308</b>	<b>7,326</b>
<b>Equity</b>		
<b>Preferred stock:</b>		
\$0.0001 par value, authorized 50,000,000; issued and outstanding 170,940 shares (December 2014 - 170,940)	1	1

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Common stock:

\$0.0001 par value, authorized 200,000,000 shares issued and outstanding 35,147,283 shares (December 2014 - 33,281,069)	3	3
Additional paid-in capital	35,500	32,163
Deferred compensation	(53)	(214)
Retained Earnings (Deficit)	(19,386)	(15,227)
Accumulated other comprehensive income	256	63
Total One Horizon Group, Inc., stockholders' equity	16,321	16,789
Non-controlling interest	241	291
Total Equity	16,562	17,080
Total liabilities and equity	\$ 22,870	\$ 24,406

See accompanying notes to condensed consolidated financial statements.

ONE HORIZON GROUP, INC.  
Condensed Consolidated Statements of Operations  
For the three and nine months ended September 30, 2015 and 2014  
(in thousands, except per share data)  
(unaudited)

	Three Months ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Revenue	\$ 319	\$ 1,641	\$ 1,172	\$ 4,130
Cost of revenue				
- Hardware	-	285	108	413
- Amortization of software development costs	483	477	1,575	1,446
	483	762	1,683	1,859
Gross margin	(164)	879	(511)	2,271
Expenses:				
General and administrative	1,182	1,134	2,674	3,198
Depreciation	16	26	52	120
Research and development	144	125	466	379
	1,342	1,285	3,192	3,697
Loss from operations	(1,506)	(406)	(3,703)	(1,426)
Other income and expense:				
Interest expense	(177)	-	(551)	(2)
Interest expense - related parties	(1)	(14)	(2)	(107)
Foreign exchange	67	(5)	76	(24)
Interest income	-	-	1	2
	(111)	(19)	(476)	(131)
Loss before income taxes	(1,617)	(425)	(4,179)	(1,557)
Income taxes (recovery) – deferred	(-)	(54)	(45)	(210)
Net loss for the period	(1,617)	(371)	(4,134)	(1,347)
Net loss attributable to the non-controlling interest	(14)	(23)	(50)	(88)
Net loss for the period attributable to One Horizon Group, Inc.	(1,603)	(348)	(4,084)	(1,259)
Less: Preferred Dividends	(25)	(19)	(75)	(19)
Net loss attributable to One Horizon Group, Inc. Common stockholders	\$ (1,628)	\$ (367)	\$ (4,159)	\$ (1,278)

Loss per share attributable to One Horizon Group, Inc.  
stockholders

Basic net loss per share	\$	(0.05)	\$	(0.01)	\$	(0.12)	\$	(0.04)
Diluted net loss per share	\$	(0.05)	\$	(0.01)	\$	(0.12)	\$	(0.04)
Weighted average number of shares outstanding								
Basic and diluted		34,628		33,029		33,608		32,966

See accompanying notes to condensed consolidated financial statements.



ONE HORIZON GROUP, INC.  
 Condensed Consolidated Statements of Comprehensive Income  
 For the three and nine months ended September 30, 2015 and 2014  
 (in thousands)  
 (unaudited)

	Three Months ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Net income (loss)	\$ (1,617)	\$ (371)	\$ (4,134)	\$ (1,347)
Other comprehensive income:				
Foreign currency translation adjustment gain (loss)	(450)	(674)	193	(739)
Comprehensive income (loss)	(2,067)	(1,045)	(3,941)	(2,086)
Comprehensive income (loss) attributable to the non-controlling interest	(14)	(23)	(50)	(88)
Total comprehensive income (loss)	\$ (2,053)	\$ (1,022)	\$ (3,891)	\$ (1,998)

See accompanying notes to condensed consolidated financial statements

ONE HORIZON GROUP, INC.  
Consolidated Statement of Equity  
For the nine months ended September 30, 2015  
(in thousands)  
(unaudited)

	Preferred Stock Number of Shares	Preferred Stock Amount	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
Balance December 31, 2014	171	\$ 1	33,282	\$ 3	\$ 32,163	\$ (214)	\$ (15,227)	\$ 63	\$ 291	\$ 17,080
Net loss							(4,084)		(50)	(4,134)
Foreign currency translations								193		193
Preferred dividends							(75)			(75)
Amortization of deferred compensation						161				161
Issuance of common stock for cash			1,866	-	3,266					3,266
Options issued for services					462					462
Costs to raising of share issuance					(391)					(391)
Balance September 30, 2015	171	\$ 1	35,148	\$ 3	\$ 35,500	\$ (53)	\$ (19,386)	\$ 256	\$ 241	\$ 16,562

See accompanying notes to condensed consolidated financial statements

ONE HORIZON GROUP, INC.  
Condensed Consolidated Statements of Cash Flows  
For the nine months ended September 30, 2015 and 2014  
(in thousands)  
(unaudited)

	2015	2014
Cash provided by (used in) operating activities:		
Operating activities:		
Net loss for the period	\$ (4,084)	\$ (1,259)
Adjustment to reconcile net loss for the period to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	52	120
Amortization of intangible assets	1,575	1,446
Increase in allowance for doubtful accounts	200	130
Amortization of debt issue costs	99	-
Amortization of beneficial conversion feature	76	-
Amortization of debt discount	150	-
Amortization of deferred compensation	161	-
Common shares issued for services received	-	120
Options issued for services	462	387
Net loss attributable to non-controlling interest	(50)	(88)
Changes in operating assets and liabilities:		
Accounts receivable	(66)	(1,782)
Other assets	89	(482)
Accounts payable and accrued expenses	(349)	1,590
Deferred income taxes	(45)	(210)
Net cash (used in) operating activities	(1,730)	(28)
Cash raised by (used in) investing activities:		
Acquisition of intangible assets	(844)	(874)
Acquisition of property and equipment	(1)	(48)
Proceeds from disposition of property and equipment	32	-
Net cash (used in) investing activities	(813)	(922)
Cash provided by (used in) financing activities:		
(Decrease) in long-term borrowing, net	(174)	(48)
Proceeds from issuance of preferred stock	-	982
Proceeds from issuance of common stock, net of costs	2,875	-
(Repayments to) related parties, net	(677)	(1,319)
Dividends paid	(75)	-
Net cash provided by (used in) financing activities	1,949	(385)

(Decrease) in cash during the period	(594)	(1,335)
Foreign exchange effect on cash	27	(85)
Cash at beginning of the period	3,172	2,070
Cash at end of the period	\$ 2,605	\$ 650

See accompanying notes to condensed consolidated financial statements.

ONE HORIZON GROUP, INC.  
Condensed Consolidated Statements of Cash Flows (continued)  
For the nine months ended September 30, 2015 and 2014  
(in thousands)  
(unaudited)

Supplementary Information:

	2015	2014
Interest paid	\$ 146	\$ -
Income taxes paid	-	-

See accompanying notes to condensed consolidated financial statements.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

### Note 1. Description of Business, Organization 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 to telecommunication companies under perpetual license arrangements (“Master License”) throughout the world. In addition, the Company either sells related user licenses and software maintenance services to or enters into revenue sharing agreements with telecommunication companies. In the second quarter of 2015, the company commenced a retail VoIP service in China, branded Aishuo.

#### Interim Period Financial Statements

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information and with the Securities and Exchange Commission’ instructions. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and, in the opinion of management, are necessary for a fair presentation of the results for such interim period. The results reported in these interim consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain information and note disclosure normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the Securities and Exchange Commission’s rules and regulations. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on April 1, 2015.

#### Principles of Consolidation

The September 30, 2015 and 2014 consolidated financial statements include the accounts of One Horizon Group, Inc. and its wholly owned subsidiaries One Horizon Group plc, 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, Ireland, 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 sale of software and licenses to customers and are recorded at their principal amounts. The categories of sales and receivables and their terms of payment are as follows:

- a) Master License Agreement (“Agreement”) deposits – these deposits are payable in accordance with the terms of the Agreement. The deposits are invoiced and recognized when the Agreement is signed providing the deposits are due to be received within 12 months. When the deposits under the Agreement are due in later periods, the later deposits are invoiced when they are due.
- b) Maintenance and operational fees and end user licenses fees– these charges are invoiced and recognized when a customer is due to pay them under the Agreement. In some Agreements, the charges are invoiced and payable when the service/licenses have been delivered by the Company. In the other cases, the Company has agreed to payments on revenue share basis whereby the Company will receive an agreed proportion of a customer’s revenue from its operation of the Horizon service. On revenue share basis, the income for maintenance and operational fees together with end user licenses fees are not recognized until these charges are invoiced and due. In 2014, the Company reported that it had converted a significant number of its customers to a revenue share basis of collection (see note in Revenue Recognition) and the balance outstanding at the point of conversion for those customers will be collected prior to the commencement of recognizing income on revenue share basis. In addition, on revenue share basis, the Company also offers a hosted service where a customer can buy vouchers for resale of minutes to be used over the Public Service Telephone Network ("PTSN"). These voucher sales are recognized when invoiced and payment terms are 30 days.
- c) Software consultancy fees – When customers require customization of software, the Company quotes a flat project amount or a daily rate for the work. When a Customer has confirmed their approval of the quote and the work has been undertaken, the Company will invoice consultancy fee and recognize the revenue. The terms of payment are fixed terms and normally 30 days of the date of the invoice.
- d) Hardware fees– Hardware fees represent the fees the Company charges for the supply of ancillary equipment which customers occasionally ask us to source and supply. The Company quotes the price prior to the delivery and upon delivery, invoices the customer with payment due within stated terms, normally 30 days from the date of the invoice.

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. The Company has strong collection history in all categories above except category b), and does not believe that an allowance for doubtful accounts for these categories except category b) is necessary. For receivables in category b), when the Company becomes aware of a customer’s inability to meet its financial obligations, such as in the case of bankruptcy or deterioration in the customer’s operating results, financial position, or credit rating, the Company records a specific reserve for bad debts to reduce the related receivable to the amount it believes to be collectable. There was an allowance of \$692,000 and



\$492,000 for doubtful accounts at September 30, 2015 and December 31, 2014, respectively. Receivables are generally unsecured. Account balances are charged off against the allowance when the Company determines that certain receivable will probably not be recovered. The Company does not have off-balance sheet credit exposure related to its customers. As of September 30, 2015 and December 31, 2014, two customers accounted for 21% and 28%, respectively, of the accounts receivable balance.

When a portion of the receivable balances of certain customers, under category b) above, is expected to be received in more than 12 months, the relevant balances are shown as a non-current asset. A provision for a discount for the deferred payments totaling \$200,000 has been recorded, averaging approximately 3.9% per annum for payments expected to be received beyond 12 months.

#### 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.

The Company expenses all costs related to the development of internal-use software as incurred, other than those incurred during the application development stage, after achievement of technological feasibility. Costs incurred in the application development stage are capitalized and amortized over the estimated useful life of the software. Internally developed software costs are amortized on a straight-line basis over the estimated useful life of the software. The Company performs periodic reviews of its capitalized software development costs to determine if the assets have continuing value to the Company. Costs for assets that are determined to be of no continuing value are written off. The amortization of these costs is included in cost of revenue over the estimated life of the products.

During the nine months ended September 30, 2015 and 2014, software development costs of \$844,000 and \$874,000, 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 nine months ended September 30, 2015 and 2014, 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 a customer and that a delivery has occurred or services have been rendered, the price is fixed and determinable, and collectability is reasonably assured.

Software and licenses – revenue from sales of perpetual licenses to telecom entities is recognized at the date of invoices raised for installments due under the agreement, unless payment terms exceed one year, as described below, presuming all other relevant revenue recognition criteria are met. Revenue from sales of perpetual licenses to other entities is recognized over the agreed collection period.

Revenues for user licenses purchased by customers are recognized when the user license is delivered.

Revenues for maintenance services are recognized over the period of delivery of the services.

Effective 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. Hosted services are offered to customers on revenue share arrangements whereby the Company will support and operate the customers' global exchange providing fully terminated services and the Company then sells vouchers to the customer for usage for the customer to resell. Sales for this service and vouchers are recognized when the supply is made and the invoice raised.

Effective October 1, 2014, revenue has been 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 as 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 are recorded only after existing accounts receivable balances are fully collected.

Revenues from Aishuo retail sales are recognized when the PSTN calls and texts are made.

We enter into arrangements with telecommunication entities 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 multiple deliverable 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.

#### Advertising Expenses

It is the Company's policy to expense advertising costs as incurred. Advertising and promotion costs incurred during the three and nine month periods ended September 30, 2015 were \$12,000 and \$24,000 respectively, and \$nil in 2014.

#### Research and Development Expenses

Research and development expenses include all direct costs, primarily salaries for Company personnel and outside consultants, costs 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.

#### 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.

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 three and nine month periods ended September 30, 2015 and 2014, 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 loss, foreign currency translation adjustments, 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, determining fair values of assets acquired and liabilities assumed in business combinations, 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 value 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 stock-based awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock options is determined using the Black-Scholes valuation model, which includes subjective judgments 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.

The original effective date for ASU 2014-09 would have required the Company to adopt beginning in its first quarter 2017. In July 2015, the FASB voted to amend ASU 2014-09 by approving a one year deferral of the effective date as well as providing the option to early adopt the standard on the original effective date. Accordingly, the Company may adopt the standard in either its first quarter of 2017 or 2018. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The

Company is currently evaluating the timing of its adoption and the impact of adopting the new revenue standard on its consolidated financial statements.

In April 2015, the FASB issued ASU2015-03, Imputation of Interest, requiring entities to present debt issuance costs related to a debt liability as a reduction of the carrying amount of the liability. In August 2015, the FASB issued ASU 2015-15 to provide additional guidance related to debt issuance costs related to line-of-credit arrangements. The guidance is effective for annual and interim periods beginning after December 15, 2015, and early adoption is permitted. The Company is evaluating the impact, if any, that the adoption of this guidance will have on the Company's consolidated financial statements and related disclosures.

### Note 3. China Operations

The Company has control of two Chinese entities: Horizon Network Technology Co. Ltd ("HNT") and Suzhou Aishuo Network Information Co. Limited ("AISHUO")

The results of operations, assets, liabilities and cash flows of HNT and AISHUO have been consolidated in the accompanying condensed consolidated financial statements as the Company owns a controlling interest in HNT, and also has full control of AISHUO through contracts in place. 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)

	September 30 2015	December 31 2014
Leasehold improvements	\$ -	\$ 265
Motor vehicle	-	120
Equipment	288	348
	288	733
Less accumulated depreciation	(180)	(521)
Property and equipment, net	\$ 108	\$ 212

## 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 straight line over the related asset's pattern of economic benefit. (in thousands)

	September 30 2015	December 31 2014
Horizon software	\$ 18,081	\$ 16,936
ZTEsoft Telecom software	477	495
Contractual relationships	885	885
	19,443	18,316
Less accumulated amortization	(9,026)	(7,356)
Intangible assets, net	\$ 10,417	\$ 10,960

Amortization of intangible assets for each of the next five years is estimated to be \$2,000,000 per year

## Note 6. Long-term Debt

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

	September 30 2015	December 31 2014
Vehicle loan	\$ -	\$ 32
Equipment loan	7	15
Office term loan	-	134
	7	181
Less current portion	(7)	(73)

BalaBalance	\$	-	\$	108
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During the nine months ended September 30, 2015, the Company negotiated early settlement of the office term loan balance. As a result, a gain of \$37,000 was realized and reflected under the General and Administrative expenses.

Note 7. Convertible Debenture

In December 2014, the Company 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 the Company fails to achieve 15.0 million subscribers at that time.

The unsecured 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.

The Performance Warrants are exercisable based on the Company's annual reported subscriber numbers, twenty four (24) months after December 22, 2014, as is reflected in our 2014 Form 10-K. After 24 months, if the Company fails to achieve 5.0 million subscribers, 450,000 Performance Warrants should vest and become exercisable to purchase 450,000 shares of Common Stock. If the Company achieves subscriber numbers between 5.0 million and 15.0 million, a pro rata number of Performance Warrants will vest based on 450,000 Performance Warrants for 5.0 million subscribers and 0 Performance Warrants for 15.0 million subscribers. If the Company achieves more than 15.0 million subscribers, no Performance Warrants should vest and become exercisable.

Proceeds received from the convertible debentures were allocated between the convertible debenture and 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 life 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 1,555,556 shares of common stock have been reserved for the potential conversion of the convertible debenture.

Note 8. Related-Party Transactions

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

	September 30 2015	December 31 2014
Loans due to stockholders (current and former officers and directors)		

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Due within one year	\$	-	\$	600
Long-term		2,521		2,598
	\$	2,521	\$	3,198

At September 30, 2015, \$2,521,000 of related party debt was outstanding and will mature on April 1, 2017, which is unsecured and carries an annual interest rate of 0.21%.

During the nine months ended September 30, 2015, the Company entered into a sales contract, in the ordinary course of business, with a customer (Horizon Latin America) in which the Company holds an equity interest. The customer purchased a perpetual software license, requiring initial payments of \$500,000, which has been recognized as revenue in the nine months ended September 30, 2015. The Company owns a cost based investment interest of 19% in the customer with no voting rights or board representation therein. The purchase price of the Global Exchange was determined based on market price and the Company's costs.

Note 9. Share Capital

Preferred Stock

The Company's authorized capital includes 50,000,000 shares of preferred stock of \$0.0001 par value per share. 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.

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 September 30, 2015.

#### Mandatorily Redeemable Preferred Shares (Deferred Stock)

The Company's subsidiary One Horizon Group Plc 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 per share.

On August 10, 2015, in connection with an Underwriting Agreement dated August 4, 2015 (the "Underwriting Agreement") with Aegis Capital Corp. ("Aegis"), as representative of the several underwriters named therein (the "Underwriters"), the Company closed a firm commitment underwritten public offering of 1,714,286 shares of Common Stock, and warrants to purchase up to an aggregate of 857,143 shares of Common Stock at a combined offering price of \$1.75 per share and accompany warrant. Pursuant to the Underwriting Agreement, the Underwriters exercised an option to purchase 151,928 additional shares of Common Stock and 75,964 additional warrants. The net proceeds of the offering were approximately \$2.89 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

The warrants offered have a per share exercise price of \$2.50 (subject to adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting our Common Stock and also upon any distributions of assets, including cash, stock or other property to our stockholder), are exercisable immediately and will expire three years from the date of issuance. Subject to applicable laws, the warrants

may be offered for sale, sold, transferred or assigned without our consent.

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 with a fair value of \$322,500

issued 246,000 shares of common stock in settlement of amounts owing of \$553,500

## Stock Purchase Warrants

At September 30, 2015, the Company had reserved 3,743,746 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
857,143	2.50	August 2018
75,964	2.50	September 2018

\*450,000 warrants are exercisable based on the Company's annual reported subscriber numbers, twenty four (24) months after December 22, 2014 as reflected in the 2016 Form 10-K at an exercise price of the daily value weighted average price for the Common Stock for the 30 trading day period ending the day prior the date the 2016 Form 10-K is reported.

There were 933,107 warrants issued and none exercised during the nine months ended September 30, 2015.

If, at the time of exercise of warrants issued pursuant to the financing of August 2015, wherein a total of 933,107 warrants were issued, that the shares issued upon exercise are not able to be included in a registration statement then the holder may request that the warrants so exercised be done on a cashless basis.

## 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. On January 1, 2015, the number of shares available for granting awards under the 2013 Equity Incentive Plan was increased by 1,000,000 shares.

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, until January 15, 2024.

During the nine months ended September 30, 2015, the Company issued options to purchase 564,000 shares of common stock under the 2013 Equity Incentive Plan. The fair value of the options issued, using the Black-Scholes option pricing model is estimated to be \$370,000 prior to a point that forfeiture rate has been applied. The options have an exercise price of \$1.09 and vest over three years.



A summary of the Company's 2013 Equity Incentive Plan as of September 30, 2015, is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2014	500,000	\$ 4.54
Options issued	564,000	1.09
Options forfeited	(120,000)	4.54
Outstanding at September 30, 2015	944,000	2.48

The fair value of these options, using the Black-Scholes option-pricing model, is estimated to be \$2,576,000. This expense, less an estimated forfeiture rate of 30%, will be recognized over the three year vesting periods. The amount of \$430,000 has been recognized during the nine months ended September 30, 2015. As at September 30, 2015 there was unrecognized compensation expense of approximately \$857,000 to be recognized over a period of 3 years.

For the 2013 Equity Incentive Plan there were 564,000 options issued and 120,000 were forfeited and none were exercised during the nine months ended September 30, 2015.

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 September 30, 2015, is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2014	584,650	\$ 0.53
Options issued	291,900	0.53
Options forfeited	(850)	0.51
Outstanding at September 30, 2015	875,700	\$ 0.53

The fair value of the options issued, using the Black-Scholes option-pricing model, is estimated to be \$255,000. This expense is being recognized over the 2 year vesting period. The amount of \$32,000 has been recognized during the nine months ended September 30, 2015. As at September 30, 2015, there was unrecognized compensation expense of approximately \$223,000 to be recognized over the remaining vesting period.

There were 291,900 options issued, no options exercised and 850 options forfeited during the nine months ended September 30, 2015.

The following table summarizes stock options outstanding at September 30, 2015:

Exercise Price	Number Outstanding at September 30, 2015	Average Remaining Contractual Life (Years)	Number Exercisable at September 30, 2015	Intrinsic Value at September 30, 2015
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\$	0.53	291,900	5.00	291,900	764,778
	0.53	291,900	7.00	291,900	764,778
	0.53	291,900	10.00	-	-
	4.54	380,000	8.25	-	-
	1.09	564,000	10.00	-	-

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At September 30, 2015, 5,875,700 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.

#### Contractual Commitments

The Company incurred total rent expense of \$58,000 and \$81,000, respectively, for the nine month periods ended September 30, 2015 and 2014.

Minimum contractual commitments, as of September 30, 2015, is as follows:

	Operating leases	Long-term Financing
2015	\$ 12,000	\$ 3,000
2016	3,000	4,000

#### 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 the 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, Queen’s 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 carry out our claims against BSS to the fullest extent possible and to defend BSS’s counter-claims vigorously. We note further that several BSS 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 counter-claims, litigation is by its nature unpredictable and therefore we cannot guarantee with certainty the outcome of our dispute with BSS.

## ITEM 2. 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 unaudited condensed consolidated financial statements for the nine months ended September 30, 2015 and 2014 and notes thereto contained elsewhere in this Report, and our annual report on Form 10-K for the twelve months ended December 31, 2014 and 2013 including the consolidated financial statements and notes thereto. The following discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results, expectations and plans discussed in these forward-looking statements. See "Cautionary Note Concerning Forward-Looking Statements."

### Overview

### 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, Latin America, China, India, Russia, Singapore and Hong Kong.

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 People's Republic of China ("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, Apple's iTunes 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 the biggest online payment services in China including AliPay (from Alibaba), Union Pay, PayPal and Tencent's WeChat payment service.

In the second quarter of 2015 (the first quarter since the commercial launch of Aishuo) the Company recorded approximately \$7,000 of revenue. In the three month ending September 30, 2015, the revenue from Aishuo grew to approximately \$16,000 for the quarter. The management expect this revenue to continue to increase along with the Chinese user base grows.

The official rollout of the 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 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. By the end of September 30, 2015, we had over 9 million downloads of Aishuo smartphone app. And as of the date of this report, we have more than 11 million downloads.

During the three months end September 30, 2015, Aishuo was released on Apple's iTunes App store with support for mobile In App Purchases and we signed a commercial license with a smartphone manufacturer to pre-install the Aishuo smartphone App on the handsets prior to leaving the factory.

In August 2015, a Chinese based Satellite operator, KeyIdea, commenced the launch of its mobile Voice over IP solution targeting its VSAT customers in China. We expect this revenue share based co-operation to contribute to our revenues as the rollout of the numerous KeyIdeas earth stations and customer increases in the next few years.

In addition to the developments in the rollout of Aishuo smartphone app brand in mainland China, we have commenced our penetration into the Latin American market by signing a Horizon license contract with a regional operator. We consider Latin America a huge and growing market for mobile apps as Latin America growth is forecast to be in line with the global average and is also forecasting very significant VoIP revenues growing to \$12.8bn by 2018 according to Vision Gain VoIP Market Forecast ([https://www.visiongain.com/Report/1107/The-Voice-Over-Internet-Protocol-\(VoIP\)-Market-2013-2018](https://www.visiongain.com/Report/1107/The-Voice-Over-Internet-Protocol-(VoIP)-Market-2013-2018)).

In September 2015, a US based operator, Roam Frii, commenced the launch of its mobile Voice over IP solution targeting free Wi-Fi mobile hotspots throughout New York City. We expect this revenue share based co-operation to contribute to our revenues as the rollout of the numerous New York based Wi-Fi solutions increases in the next few years.

## Research & Development

During the first nine months of 2015, we have spent approximately \$884,000 on capitalizable research and development together with approximately \$470,000 on expensed research and development.

During the nine months end September 30, 2015, we continued with our focus on innovation and our research and development teams brought us a brand new call handoff solution. Applying this new call handoff solution, a call that is in progress on Wi-Fi will automatically transfer to 2G/3G/4G when Wi-Fi signal becomes too weak. Vice versa when a call is in progress over 2G/3G/4G and a known Wi-Fi signal is detected, the call will automatically transfer to a stronger signal. Whilst others have partially solved this issue of radio-handoff, the Horizon solution works for all handset types on Android and on Apple's iOS and we believe that this will open up other mobile VoIP opportunities.

During the nine months ended September 30, 2015, the R&D also delivered the only service in the world with a combo multi-installation App joined to a shared/peer landline or mobile. Using these features, especially for business, an App will ring on multiple devices at the same time not only on a smartphone and tablet but also ring a land line, mobile, and remote office etc. In this case, an end user can choose the most convenient way to answer a call. Whilst our competitors have partially solved this issue of simultaneous ringing with just the App, we have solved this for all phone types and we believe that this will open up other mobile VoIP opportunities for the Company.

Our R&D also focused on further enhancing our VoIP technology to detect and tune optimized voice quality on Xiaomi phones. Xiaomi is China's biggest selling smartphone vendor (source: IDC <http://www.idc.com/getdoc.jsp?containerId=prHK25437515>). We plan to continue our R&D focus on optimizing our application and service on Xiaomi smartphones given the expansion of the Xiaomi brand in China, India and South East Asia in order to keep the Aishuo App as the top performing retail VoIP service across the other top four brands in China's smartphone marketplace including Samsung, Lenovo, Huawei and Coolpad.

Furthermore, during the three months ended September 30, 2015, the R&D team delivered a brand new mobile VoIP app Voicemail concept and Ringback Tune concept. The new Voicemail solution means that when subscribers rent telephone numbers on Horizon, they will automatically have the facility of a personalized Voicemail service for them when they are busy or out of Internet coverage. Voicemails can be left by the calling party, optimized for efficient delivery and delivered to the App as audio messages. The user does not have to go through the cumbersome steps of dialing into a messaging service, our App delivers the voicemail directly to the App, complete with caller ID of the caller. The new Ringback Tune solution allows the App user to record, usually fun, audio track to be played to the person calling them while their phone is ringing. Ringback is sold on a monthly basis by mobile operators throughout Asia and our new method for doing this in our technology means that further service revenues can be derived by our licensee by offering new and fun features within our mobile Apps.

Further and deeper integration with the Google Wallet and Apple In-App Purchase solutions was also carried out by our R&D teams. Both of these payment service solutions were released in the second quarter of 2015 and provided more payment options to our B2B and B2C subscribers. And we continue to research the ever changing realm of on-line payment services for our customers by getting our In App Payment service for iTunes deployed for use in mainland China for Aishuo and our new KeyIdeas and LinRen licensees.

## Capital Market Related

On August 10, 2015, in connection with an Underwriting Agreement dated August 4, 2015 (the "Underwriting Agreement") with Aegis Capital Corp. ("Aegis"), as representative of the several underwriters named therein (the "Underwriters"), we closed a firm commitment underwritten public offering of 1,714,286 shares of Common Stock, and warrants to purchase up to an aggregate of 857,143 shares of Common Stock at a combined offering price of \$1.75 per

share and accompany Warrant. Pursuant to the Underwriting Agreement, the Underwriters exercised an option to purchase 151,928 additional shares of Common Stock and 75,964 additional warrants. The net proceeds from the offering were approximately \$2.89 million, after deducting underwriting discounts and commissions and estimated Offering expenses payable by us.

The warrants offered have a per share exercise price of \$2.50 (subject to adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting our Common Stock and also upon any distributions of assets, including cash, stock or other property to our stockholder), are exercisable immediately and will expire three years from the date of issuance. Subject to applicable laws, the warrants may be offered for sale, sold, transferred or assigned without our consent.

## Results of Operations

Comparison of three months ended September 30, 2015 and 2014

The following table sets forth key components of our results of operations for the periods indicated.

(All amounts, other than percentages, in thousands of U.S. dollars)

	Three Months Ended September 30,		Change	
	2015	2014	Increase/ (decrease)	Percentage Change
Revenue	\$ 319	\$ 1,641	\$ (1,322)	(80)
Cost of revenue	483	762	(279)	(36.6)
Gross margin	(164)	879	(1,043)	(118.7)
Operating expenses:				
General and administrative	1,182	1,134	48	4.2
Depreciation	16	26	(10)	(38.5)
Research and development	144	125	19	15.2
Total operating expenses	1,342	1,285	57	4.4
Loss from operations	(1,506)	(406)	(1,100)	(270.9)
Other expense	(111)	(19)	(92)	(484.2)
Loss before income taxes	(1,617)	(425)	(1,192)	(280.5)
Income taxes (recovery)	-	(54)	(54)	N/A
Net Loss for period	(1,617)	(371)	(1,246)	(335.8)
Loss attributable to non-controlling interest	(14)	(23)	(9)	(39.1)
Loss attributable to One Horizon Group, Inc.	(1,603)	(348)	(1,255)	(360.6)

Revenue: Our revenue for the three months ended September 30, 2015 was approximately \$0.319 million as compared to approximately \$1.641 million for the three months ended September 30, 2014, a decrease of roughly \$1,322 million, or 80.5%. The decrease was primarily due to shift in the business to concentrate on the roll out of the B2C business in China through the Aishuo app. This roll out has gained us over 11 million downloads since its launch in February 2015 through the date of this report. It has greatly increased our exposure and overall recognition which allows us to take market share and acquire customers in what the Company believes will be an increasingly competitive user marketplace. During the quarter ended September 30, 2015, revenue generated by Aishuo grew to \$16,000 approximately, as compared to \$7,000 approximately in the previous quarter. The management expects further growth in this sector of revenue.



The Business to Business ("B2B") business continues but no new global exchanges were sold in the quarter. We have converted most of the B2B partnership into a revenue share basis and is starting to see some payments from these operating companies. For customers with existing accounts receivable balances, revenue share basis payments are first applied to reduce their receivable balance before additional revenue is recorded. The strategic shift being executed by the Company is in-line with longer term development goals and management believes it will position the Company for a greater long-term shareholder value creation.

Cost of Revenue: Cost of revenue excluding amortization of software development costs, was approximately \$nil or 0.00% of sales for the three months ended September 30, 2015, compared to cost of revenue of \$285,000 or 17.37% of sales for the three months ended September 30, 2014. Our cost of sales excluding amortization of software development costs, is composed of cost of ancillary hardware equipment sold. The reduction during the three months ended September 30, 2015 in cost of sales was attributed to the fact that no hardware was sold in the three months ended September 30, 2015 in comparison to \$491,000 hardware sold in the same quarter in 2014.

Gross Profit: Gross profit for the three months ended September 30, 2015 was approximately \$(164,000) as compared to \$879,000 for the three months ended September 30, 2014, a decrease of approximately 118.7%. The decrease was mainly due to the reduced revenue as set forth above herein. Moving forward, management expects that gross margin will begin to increase with the growth of our business in Asia.

Operating Expenses: Operating expenses, including general and administrative expenses, depreciation and research and development were approximately \$1.342 million and \$1.285 million during the three months ended September 30, 2015 and 2014, respectively. Going forward, management does not expect operating costs to rise significantly until revenue grows following the increase of end users.

Net Loss: Net Loss for the three months ended September 30, 2015 was approximately \$1,617,000 as compared to net loss of approximately \$371,000 for the same period in 2014. The decrease was primarily due to reduction in revenue mentioned above. Management believes the net loss will decrease and eventually become net income going forward with our growth in the business in China and also elsewhere in the world.

Non-Controlling Interest: The non-controlling interest holders in our Chinese subsidiary Horizon Network Technology Co Ltd attributed their 25% share of the net loss of the Company in the amount of \$14,000 for the three months ended September 30, 2015. The remaining portion of net loss of \$1,603,000 for the three months ended September 30, 2015 was attributable to the stockholders of the Company. The non-controlling interest holders in our China joint venture attributed their 25% share of the net loss of the joint venture in the amount of \$23,000 for the three months ended September 30, 2014. The remaining portion of net loss of \$348,000 for the three months ended September 30, 2014 was attributable to the stockholders of the Company.

Comparison of nine months ended September 30, 2015 and 2014

The following table sets forth key components of our results of operations for the periods indicated above.

(All amounts, other than percentages, in thousands of U.S. dollars)

	Nine Months Ended September 30,		Change	
	2015	2014	Increase/ (decrease)	Percentage Change
Revenue	\$ 1,172	\$ 4,130	\$ (2,958)	(71.6)
Cost of revenue	1,683	1,859	176	(9.5)
Gross margin	(511)	2,271	(2,782)	(122.5)
Operating expenses:				
General and administrative	2,674	3,198	(524)	(16.4)
Depreciation	52	120	(68)	(56.7)
Research and development	466	379	87	23.0
Total operating expenses	3,192	3,697	(505)	(13.7)
Loss from operations	(3,703)	(1,426)	(2,277)	(159.7)
Other income (expense)	(476)	(131)	(345)	(263.4)
Income (Loss) before income taxes	(4,179)	(1,557)	(2,622)	(168.4)
Income taxes (recovery)	(45)	(210)	165	(78.6)

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Net Loss for period	(4,134)	(1,347)	(2,787)	(206.9)
Net loss attributable to non-controlling interest	(50)	(88)	38	43.2
Net loss attributable to One Horizon Group, Inc.	(4,084)	(1,259)	(2,825)	(224.4)

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**Revenue:** Our revenue for the nine months ended September 30, 2015 was approximately \$1.17 million as compared to approximately \$4.13 million for the nine months ended September 30, 2014, a decrease of roughly \$2.96 million, or 71.6%. The decrease was primarily due to shift of our focus on the B2C roll out in China which the management believe in the long run will generate more revenue and net income. We commenced Aishuo roll out in China in February 2015 and as of the date of this report, it has over 11 million downloads. It has greatly increased our exposure and overall recognition which allows us to take market share and acquire customers in what the Company believes will be an increasingly competitive user marketplace. During the quarter ended September 30, 2015, revenue generated by Aishuo grew to \$16,000 approximately as compared to \$7,000 approximately in the previous quarter. The revenue from China for the nine months ending September 30, 2015 was approximately \$23,000 while the revenue in the comparative period in 2014 was \$0.

The B2B business continues but no new global exchanges were sold in the quarter. We have converted most of the B2B partners into a revenue share basis and is starting to see some payments from these operating companies. For customers with existing accounts receivable balances, revenue share basis payments are first applied to reduce their receivable balance before additional revenue is recorded.

**Cost of Revenue:**

Cost of revenue excluding amortization of software development costs, was approximately \$108,000 or 9.2% of sales for the nine months ended September 30, 2015, compared to cost of revenue of \$413,000 or 10.0% of sales for the nine months ended September 30, 2014. Our cost of sales excluding amortization of software development costs, is composed of cost of ancillary hardware equipment sold.

**Gross Profit:** Gross profit for the nine months ended September 30, 2015 was approximately \$(511,000) as compared to \$2,271,000 for the nine months ended September 30, 2014, a decrease of approximately 122.5%. The decrease was mainly due to the reduced revenue as set forth above herein. Moving forward, management expects that gross profit will begin increasing with the growth in business in China.

**Operating Expenses:** Operating expenses, including general and administrative expenses, depreciation and research and development were approximately \$3.2 million and \$3.7 million during the nine months ended September 30, 2015 and 2014, respectively. Going forward, management does not expect operating costs to rise significantly until revenue grows following the increase of end users.

**Net Loss:** Net Loss for the nine months ended September 30, 2015 was approximately \$4,134,000 as compared to loss of approximately \$1,347,000 for the same period in 2014. The decrease was primarily due to reduction in revenue mentioned above. Management believes the net loss will decrease and eventually become net income going forward with our growth in the business in China and also elsewhere in the world

**Non-Controlling Interest:** The non-controlling interest holders in our Chinese subsidiary Horizon Network Technology Co Ltd were attributed their 25% share of the net loss of the Company in the amount of \$50,000 for the nine months ended September 30, 2015. The remaining portion of net loss of \$4,084,000 for the nine months ended September 30, 2015 was attributable to the stockholders of the Company. 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 \$88,000 for the nine months ended September 30, 2014. The remaining portion of net loss of \$1,259,000 for the nine months ended September 30, 2014 was attributable to the stockholders of the Company.

## Liquidity and Capital Resources

Nine Months Ended September 30, 2015 and September 30, 2014

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

	For the Nine Months Ended September 30 (in thousands)	
	2015	2014
Net cash provided by (used in) operating activities	(1,730)	(28)
Net cash (used in) investing activities	(813)	(922)
Net cash provided by (used in) financing activities	1,949	(385)

Net cash used in operating activities was approximately \$1,730,000 for the nine months ended September 30, 2015 as compared to net cash used in operating activities of approximately \$28,000 for the same period in 2014. The increase in cash used in operations was primarily due to the reduction in revenue and consequent increase in trading losses during the nine months ended September 30, 2015 as compared to the same period in 2014.

Net cash used in investing activities was approximately \$813,000 and \$922,000 for the nine months ended September 30, 2015 and 2014, respectively. Net cash used in investing activities was primarily focused on development of software.

Net cash raised in financing activities was \$1,949,000 for the nine months ended September 30, 2015 as compared to net cash used in financing activities of \$385,000 for the nine months ended September 30, 2014. Cash raised by financing activities in 2015 and 2014 was primarily due to issue of preferred and common stock. Cash used in financing activities in 2015 and 2014 was primarily due to the repayment of long term debt.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

### ITEM 4. CONTROLS AND PROCEDURES.

#### (a) 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 September 30, 2015, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of September 30, 2015, our disclosure controls and procedures were not effective.



We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

(b) Changes in Internal Control over Financial Reporting

In connection with the preparation of our financial statements for the fiscal year ended December 31, 2014, the management determined that our internal control environment is not properly designed due to the existence of a certain material weakness and that it did not operate effectively to ensure that the Company's financial statements (and related financial statement disclosures) were prepared in accordance with US generally accepted accounting principles (US GAAP). We have established a number of remediation measures, which we believe will remediate the material weaknesses identified, if such measures are effectively implemented and maintained. As of the end of the period covered by the report, we continue the process of implementing and maintaining the remediation measures, but we cannot assure when or if we will be able to successfully implement these remedial measures. For more information regarding our controls and procedures, please refer to Item 9A. Controls and Procedures in our Annual Report on Form 10-K for fiscal year ended December 31, 2014, filed with the SEC on April 1, 2015).

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter covered by this report that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting except that, as one of our continuous methods to remediate the material weakness identified in connection with the evaluation of disclosure controls and procedures as of December 31, 2014, we have engaged an external US GAAP consultant to advise the Company.

## PART II – OTHER INFORMATION

### ITEM 1. 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 1A. RISK FACTORS

Not applicable.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None



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: , 2015

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

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