

One Horizon Group, Inc.
Form 10-Q
May 20, 2015

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 March 31, 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.)

T1-017 Tierney Building,
University of Limerick,
Limerick, Ireland.
(Address of principal executive
offices)

(Zip Code)

+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 May 15, 2015, 32,921,533 shares of the registrant’s common stock, par value \$0.0001 per share, were outstanding.

TABLE OF CONTENTS

Part I – FINANCIAL INFORMATION

Item 1.	Financial Statements	4
	Management’s Discussion and Analysis of Financial Condition and	22
Item 2.	Results of Operations	
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	26
Item 4.	Controls and Procedures	26

Part II – OTHER INFORMATION

Item 1.	Legal Proceedings	27
Item 1A.	Risk Factors	27
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 3.	Defaults Upon Senior Securities	27
Item 4.	Mine Safety Disclosures	27
Item 5.	Other Information	27
Item 6.	Exhibits	28

SIGNATURES	29
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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
March 31, 2015 and December 31, 2014
(in thousands, except share data)
(unaudited)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash	\$1,923	\$3,172
Accounts receivable (net), current portion	5,879	9,072
Other assets	584	576
Total current assets	8,386	12,820
Accounts receivable (net), net of current portion	3,116	-
Property and equipment, net	138	212
Intangible assets, net	11,004	10,960
Investment	18	19
Debt issue costs	362	395
Total assets	\$23,024	\$24,406
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$113	\$556
Accrued expenses	323	360
Accrued compensation	14	15
Income taxes	94	93
Amounts due to related parties	350	600
Current portion of long-term debt	12	73
Total current liabilities	906	1,697
Long-term liabilities		
Long term debt, net of current portion	-	108
Amount due to related parties	2,578	2,598
Convertible debenture	2,624	2,598
Deferred income taxes	235	235
Mandatorily redeemable preferred shares	90	90
Total liabilities	6,433	7,326
Equity		
Preferred stock:		
\$0.0001 par value, authorized 50,000,000;		

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issued and outstanding 170,940 shares (December 2014 - 170,940)	1	1
Common stock:		
\$0.0001 par value, authorized 200,000,000 shares		
issued and outstanding 33,281,069 shares (December 2014 - 33,281,069)	3	3
Additional paid-in capital	32,292	32,163
Deferred compensation	(161)	(214)
Retained Earnings (Deficit)	(16,185)	(15,227)
Accumulated other comprehensive income	355	63
Total One Horizon Group, Inc., stockholders' equity	16,305	16,789
Non-controlling interest	286	291
Total Equity	16,591	17,080
Total liabilities and equity	\$23,024	\$24,406

See accompanying notes to condensed consolidated financial statements.

ONE HORIZON GROUP, INC.
Condensed Consolidated Statements of Operations
For the three months ended March 31, 2015 and 2014
(in thousands, except per share data)
(unaudited)

	2015	2014
Revenue	\$745	\$1,185
Cost of revenue:		
Hardware	61	62
Amortization of software development costs	512	486
	573	548
Gross margin	172	637
Expenses:		
General and administrative	1,085	1,128
Depreciation	20	48
	1,105	1,176
Loss from operations	(933)	(539)
Other income and expense:		
Interest expense	(90)	(40)
Foreign exchange	85	(9)
Interest income		1
	(5)	(48)
Loss before income taxes	(938)	(587)
Income taxes (recovery) - deferred	-	(156)
Net Loss for the period	(938)	(431)
Loss attributable to non-controlling interest	(5)	(43)
Net Loss for the period attributable to One Horizon Group, Inc.	(933)	(388)
Less: Preferred Dividends	(25)	-
Net loss attributable to One Horizon Group, Inc. Common stockholders	\$(958)	\$(388)
Loss per share		
Basic net loss per share	\$(0.03)	\$(0.01)

Diluted net loss per share	\$ (0.03)	\$ (0.01)
Weighted average number of shares outstanding		
Basic and diluted	33,281	32,934

See accompanying notes to condensed consolidated financial statements.

ONE HORIZON GROUP, INC.

Condensed Consolidated Statements of Comprehensive Loss

For the three months ended March 31, 2015 and 2014

(in thousands)

(unaudited)

	2015	2014
Net loss	\$(933)	\$(388)
Other comprehensive income:		
Foreign currency translation adjustment gain	292	19
	(641)	(369)
Comprehensive loss attributable to the non-controlling interest	(5)	(43)
Total comprehensive loss	\$(646)	\$(412)

See accompanying notes to condensed consolidated financial statements

ONE HORIZON GROUP, INC.
Consolidated Statement of Equity
For the three months ended March 31, 2015
(in thousands)
(unaudited)

	Preferred Stock		Common Stock		Additional	Deferred	Retained	Accumulated	Other	Non-controlling	Total
	Number of Shares	Amount	Number of Shares	Amount	Paid-in Capital	Compensation	Earnings (Deficit)	Income (Loss)	Comprehensive	Interest	Equity
Balance December 31, 2014	171	\$ 1	33,282	\$ 3	\$ 32,163	\$ (214)	\$ (15,227)	\$ 63		\$ 291	\$ 17,080
Net loss							(933)			(5)	(938)
Foreign currency translations								292			292
Preferred dividends							(25)				(25)
Amortization of deferred compensation						53					53
Options issued for services					129						129
Balance March 31, 2015	171	\$ 1	33,282	\$ 3	\$ 32,292	\$ (161)	\$ (16,185)	\$ 355		\$ 286	\$ 16,591

See accompanying notes to consolidated financial statements.

ONE HORIZON GROUP, INC.
Condensed Consolidated Statements of Cash Flows
For the three months ended March 31, 2015 and 2014
(in thousands)
(unaudited)

	2015	2014
Cash provided by (used in) operating activities:		
Operating activities:		
Net income for the period	\$(933)	\$(388)
Adjustment to reconcile net income for the period to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	20	48
Amortization of intangible assets	512	486
Increase in allowance for doubtful debts	100	-
Amortization of debt issue costs	33	-
Amortization of beneficial conversion feature	26	-
Amortization of deferred compensation	53	-
Common shares issued for services received	-	65
Options issued for services	129	129
Net income (loss) attributable to non-controlling interest	(5)	(43)
Changes in operating assets and liabilities:		
Accounts receivable	(23)	50
Other assets	(8)	(612)
Accounts payable and accrued expenses	(481)	(400)
Deferred income taxes	-	(156)
Net cash provided by (used in) operating activities	(577)	(821)
Cash used in investing activities:		
Acquisition of intangible assets	(289)	(350)
Acquisition of property and equipment	-	(48)
Proceeds from disposition of property and equipment	32	-
Net cash (used in) investing activities	(257)	(398)
Cash flow from financing activities:		
Increase (decrease) in long-term borrowing, net	(169)	(15)
Advances from (repayments to) related parties, net	(270)	-
Net cash provided by (used in) financing activities	(439)	(15)

Increase (decrease) in cash during the period	(1,273)	(1,234)
Foreign exchange effect on cash	24	(47)
Cash at beginning of the period	3,172	2,070
Cash at end of the period	\$1,923	\$789

See accompanying notes to condensed consolidated financial statements.

ONE HORIZON GROUP, INC.

Condensed Consolidated Statements of Cash Flows (continued)

For the three months ended March 31, 2015 and 2014

(in thousands)

(unaudited)

Supplementary Information:

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

Non-cash transactions:

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 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 under perpetual license arrangements (“Master License”) throughout the world. The Company sells related user licenses and software maintenance services as well.

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’s 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 and Combination

The March 31, 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, 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 other income and expense.

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 licenses, hardware and consultancy fees 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 recognised 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 then the later deposits are invoiced when the later deposits are due to be paid.
- b) Maintenance and operational fees and end user licenses – these charges are invoiced and recognized when the 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 remaining cases the Company has agreed a Revenue Share basis of payment whereby the Company receives an agreed proportion of the Customer’s revenue from its operation of the Horizon service. In this circumstances the income for Maintenance and operational fees together with End user licenses are not recognized until the income is invoiced and due. In 2014 the Company reported that it has converted a significant number of its customers to a Revenue Share basis of collection (see note in Revenue Recognition note) and the balance outstanding at the point of conversion will be collected first before further revenue of this category is recognized in the future.
- c) Software consultancy – When customers require customization of software then the Company quotes a fixed project amount or a day rate for the work. When the Customer has confirmed their approval and the work has been undertaken then the Consultancy is invoiced and the revenue recognized. The terms of payment are that the fee is payable within the stated terms, normally 30 days from date of invoice.
- d) Hardware – this comprises of the supply of ancillary equipment which on occasional basis customers ask us to source and supply. The Company quotes the price for delivery and upon delivery invoices the Customer with payment due within stated terms, normally within 30 days of 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 except category b) and does not believe an allowance for doubtful accounts for these categories is necessary. For receivables in category b), when we become aware of a specific 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, we record a specific reserve for bad debt to reduce the related receivable to the amount we believed to be collectible. There was an allowance of \$592,000 and \$492,000 for doubtful accounts at March 31, 2015 and December 31, 2014, respectively. Receivables are generally unsecured. The Company does not have off-balance sheet credit exposure related to its customers. As at March 31, 2015 and December 31, 2014, two customers accounted for 20% and 28%, respectively, of the accounts receivable balance.

Where the Company considers the receivable balances of certain customers, under category (b) above 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 \$100,000 averaging approximately to a discount of 1.5% 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 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 three months ended March 31, 2015 and 2014 software development costs of \$289,000 and \$350,000, 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 three months ended March 31, 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 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.

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 three month periods ended March 31, 2015 and 2014.

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. In addition to the expenditure capitalized within Intangible Assets the Company incurred research and development costs in the three month periods ended March 31, 2015 and 2014 of \$135,000 and \$nil, 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.

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 month periods ended March 31, 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 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, accounts receivable aging, 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. 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.

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)

	March 31 2015	December 31 2014
Leasehold improvements	\$-	\$265
Motor vehicle	-	120
Equipment	290	348
	290	733
Less accumulated depreciation	(152)	(521)
Property and equipment, net	\$138	\$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 over the greater of straight-line or the related asset’s pattern of economic benefit. (in thousands)

	March 31 2015	December 31 2014
Horizon software	\$17,669	\$16,936
ZTEsoft Telecom software	498	495
Contractual relationships	885	885
	19,004	18,316
Less accumulated amortization	(8,048)	(7,356)
Intangible assets, net	\$11,004	\$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 are shown below (in thousands).

	March 31 2015	December 31 2014
Vehicle loan	\$-	\$32
Equipment loan	12	15
Office term loan	-	134
	12	181
Less current portion	(12)	(73)
Balance	\$-	\$108

During the quarter 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 Administration expenses.

Note 7. Convertible Debenture

On December 22, 2014 the Company closed a financing of \$3.5 million pursuant to which the Company issued to one investor i) a convertible debenture that is convertible into 1,555,556 shares of common stock, at any time, at a price of \$2.25 per share; ii) 388,889 Class C warrants entitling the holder to purchase 388,889 shares of common stock at a price of \$3.00 per share; iii) 388,889 Class D warrants entitling the holder to purchase 388,889 share of common stock at a price of \$3.50 per share and iv) 450,000 performance warrants which are potential exercisable based on the Company's annual reported subscriber numbers, twenty four (24) months after December 22, 2014 as reflected in the Company's Annual Report on Form 10-K for the year ending December 31, 2016.

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 either in 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, each entitling the holders to purchase shares of common stock for cash at the then current market price per share, are exercisable dependent on the number of subscribers the Company has as at December 31, 2016. The Company issued 450,000 performance warrants which can be exercised in full if there is no less than 5 million subscribers, pro-rated if there is more than 5 million but less than 15 million subscriber, or in zero if there are more than 15 million subscribers.

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)

	March 31 2015	December 31 2014
Loans due to stockholders (current and former officers and directors)		
Due within one year	\$350	\$600
Long-term	2,578	2,598
	\$2,928	\$3,198

At March 31, 2015, \$2,928,000 of related party debt was outstanding. \$350,000 is interest free and will be repaid during 2015. The remaining balance of \$2,578,000 matures on April 1, 2016 and carries an annual interest rate of 0.21%.

During the quarter ending March 31, 2015 the Company entered into a sales contract, in the normal course of business with a customer (Horizon Latin America) in which the Company holds an equity interest. The customer purchased perpetual software license \$500,000, which has been recognized in the first quarter of 2015. The Company owns a cost based investment interest of 19% in the customer with no voting rights or board representation therein.

Note 9. Share Capital

Preferred Stock

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

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 March 31, 2015.

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 per share. 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.

During the three months ended March 31, 2015, no share of common stock was issued.

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 March 31, 2015, 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

There were no warrants issued or exercised during the three months ended March 31, 2015.

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 share, until January 15, 2024. 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.

A summary of the Company's 2013 Equity Incentive Plan as of March 31, 2015, is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2014	500,000	\$4.54
Options issued	-	-
Outstanding at March 31, 2015	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 \$129,000 has been recognized during the three months ended March 31, 2015. As at March 31, 2015 there was unrecognized compensation expense of approximately \$900,000 to be recognized over a period of 1.75 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 March 31, 2015, is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2014	584,650	\$0.53
Options forfeited	-	-
Outstanding at March 31, 2015	584,650	\$0.53

There were no options issued, exercised or forfeited during the three months ended March 31, 2015.

The following table summarizes stock options outstanding at March 31, 2015:

Exercise Price	Number Outstanding at March 31, 2015	Average Remaining Contractual Life (Years)	Number Exercisable at March 31, 2015	Intrinsic Value at March 31, 2015
\$0.51	850	0.58	850	\$917
0.53	291,900	5.25	291,900	312,333
0.53	291,900	7.75	291,900	312,333
4.54	500,000	8.75	166,667	-

At March 31, 2015, 5,584,650 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.

Note 11. Commitments and Contingencies

The Company has an agreement with a consultant 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 \$21,000 and \$42,000, respectively, for the three month periods ended March 31, 2015 and 2014.

Minimum contractual commitments, as of March 31, 2015, are as follows:

	Operating leases	Long-term Financing
2015	\$19,000	\$9,000
2016	-	3,000

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 three months ended March 31, 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

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. By the end of March 31, 2015, we had over 1.6 million downloads of Aishuo smartphone app already and as of the date of this report, we have more than 3 million downloads.

In addition to the developments in the rollout of Aishuo smartphone app brand in mainland China, we have commenced our penetration into 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)).

Meanwhile, our major three tier-1 carriers are progressing with their rollouts as planned:

Smart Communications, Inc. in the Philippines continued its rollout of the Horizon App branded LinkPlus. It has installed this service in over 125 vessels to date and observed significant growth on the data consumption and voice over IP call revenues from its solution.

Singapore Telecommunications continued its rollout of the Horizon App branded AIO Mobile and has commenced the first phase of its marketing activities around this Over-The-Top "OTT" solution.

Smartfren Telekom Tbk in Indonesia continued its rollout of the Horizon App branded SmartCall and has commenced the first phase of its marketing activities around this Over-The-Top "OTT" solution.

In 2014 the Company has negotiated with some tier-2 customers to change the contractual billing arrangements from fixed price for licenses and maintenance services supplied, to a revenue share arrangement where the Company receives a percentage of all future revenue generated by the customers from services to their subscribers using the Horizon platform. In the medium to long term this is expected to generate greater recurring income over a longer term especially with customers operating in niche areas with limited subscriber numbers with high Average Revenue Per User.

Research & Development

During the first quarter of 2015, we have spent approximately \$289,000 on capitalizable research and development together with \$135,000 on expensed research and development.

During the three months end March 31, 2015, we continued with our drive for innovation and our research and development teams brought us a brand new call handoff solution whereby a call that is in progress on Wi-Fi will automatically transfer to 2G/3G/4G when Wi-Fi signal becomes too weak. Similarly, when a call is in progress over 2G/3G/4G and a known Wi-Fi signal is detected then the call will automatically transfer to the 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 for the us.

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 such as a smartphone and tablet at the same time but also ring a users landline, their mobile, their home, their remote office etc. so a single incoming call can be answered in the most convenient way for the end users. Whilst others have partially solved this issue of simultaneous ringing with just the App, Horizon has solved this for all phone types and we believe that this will open up other mobile VoIP opportunities for the Company.

Results of Operations

Comparison of three months ended March 31, 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 March 31,		Change	
	2015	2014	Increase/ (decrease)	Percentage Change
Revenue	\$ 745	\$ 1,185	\$ (440)	(37.1)
Cost of revenue	573	548	25	4.6
Gross margin	172	637	(465)	(73.0)
Operating expenses:				
General and administrative	1,085	1,176	(91)	(7.7)
Depreciation	20	48	(28)	(58.3)
Total operating expenses	1,105	1,176	(71)	(6.0)
Loss from operations	(933)	(587)	(346)	(58.9)
Other expense	(5)	(48)	(43)	(90.0)
Loss before income taxes	(938)	(587)	(351)	(60.0)
Income taxes (recovery)	(0)	(156)	(156)	100.0
Net Loss for period	(938)	(431)	(507)	(117.6)
Loss attributable to non-controlling interest	(5)	(43)	(38)	(88.4)
Loss attributable to One Horizon Group, Inc.	(933)	(388)	(545)	(140.5)

Revenue: Our revenue for the three months ended March 31, 2015 was approximately \$0.745 million as compared to approximately \$1.185 million for the three months ended March 31, 2014, a decrease of roughly \$0.44 million, or 37.1%. The decrease was primarily due to revenue of \$0.5 million recognized during the first quarter of 2014 on a Global Exchange installment invoiced in January 2014, which was recognized in the fourth quarter of 2014 instead of

the first quarter of 2015 because the invoice was raised and received a month earlier than previous year.

Cost of Revenue: Cost of revenue was approximately \$573,000 or 47.3% of sales for the three months ended March 31, 2015, compared to cost of revenue of \$548,000 or 21.6% of sales for the three months ended March 31, 2014. Our cost of sales is primarily composed of the amortization of software development costs. In addition, when a customer requires ancillary hardware, there are costs relating to the provision of that hardware. The increase in cost of sales was mainly attributed to an increase of \$26,000 in amortization of software development costs during the three months ended March 31, 2015 as compared to the same quarter in 2014.

Gross Profit: Gross profit for the three months ended March 31, 2015 was approximately \$172,000 as compared to \$637,000 for the three months ended March 31, 2014, a decrease of approximately 73.0%. 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 and the smartphone market globally, as well as the Company's ability to capitalize on market opportunities by entering areas with high population density, high penetration of mobile phones, congested mobile cellular networks and high growth in the adoption of smartphones.

Operating Expenses: Operating expenses, including general and administrative expenses and depreciation were approximately \$1.1 million and \$1.2 million during the three months ended March 31, 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 March 31, 2015 was approximately \$938,000 as compared to loss of approximately \$431,000 for the same period in 2014. The decrease was primarily due to reduction in revenue mentioned above. Management believe the net loss will decrease and eventually become net income going forward with our growth in the sales and operations; provided that we are able to successfully sell Horizon Platform solution to new telecommunications companies globally and therefore increase the number of end users globally.

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 \$5,000 for the three months ended March 31, 2015. The remaining portion of net loss of \$933,000 for the three months ended March 31, 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 \$43,000 for the three months ended March 31, 2014. The remaining portion of net loss of \$388,000 for the three months ended March 31, 2014 was attributable to the stockholders of the Company.

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

Liquidity and Capital Resources

Three Months Ended March 31, 2015 and March 31, 2014

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

	For the Three Months Ended March 31 (in thousands)	
	2015	2014
Net cash provided by (used in) operating activities	(577)	(821)
Net cash (used in) investing activities	(257)	(398)
Net cash provided by (used in) financing activities	(439)	(15)

Net cash used in operating activities was approximately \$577,000 for the three months ended March 31, 2015 as compared to net cash used in operating activities of approximately \$821,000 for the same period in 2014. The decrease in cash used in operations was primarily due to reduction in cash spent on general and administration during the first quarter of 2015 as compared to the same period in 2014.

Net cash used in investing activities was approximately \$257,000 and \$398,000 for the three months ended March 31, 2015 and 2014, respectively. Net cash used in investing activities was primarily focused on development of software.

Net cash used in financing activities was \$439,000 for the three months ended March 31, 2015 as compared to net cash used in financing activities of \$15,000 for the three months ended March 31, 2014. Cash used by financing activities in 2015 and 2014 was primarily due to 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 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.

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 certain material weaknesses 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.

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

27

ITEM 6. EXHIBITS

Exhibit

Number	Description
<u>31.1</u>	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2</u>	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1+</u>	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.
<u>32.2+</u>	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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

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: May 19, 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