One Horizon Group, Inc.
Form 10-Q
November 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2018**

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: **001-36530**

One Horizon Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**46-3561419**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

34 South Molton Street, London
W1K 5RG, UK
(Address of principal executive offices) (Zip Code)

+44(0)20 7409 5248

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer		Accelerated filer
Non-accelerated filer		Smaller reporting company
(Do not check if smaller reporting company)	Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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 14, 2018, 75,901,431 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,” “cou “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 retain customers and attract new customers; our ability to establish and expand strategic alliances; governmental regulation and related actions in our international operations including changes in taxes and currency restrictions; increased market and competitive risks, risks related to the acquisition or integration of future businesses or joint ventures; our ability to obtain or maintain relevant intellectual property rights; 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; fraudulent use of our name or services; our ability to maintain data security; and our ability to obtain additional financing if required; 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.

SPECIAL NOTE REGARDING NASDAQ NOTIFICATION

On May 10, 2018, the Company received written notification from NASDAQ that the minimum bid price per share for its common share was below $1.00 for a period of 30 consecutive business days and that the Company did not meet the minimum bid price requirement set forth in NASDAQ Listing Rule 5550 (a)(2). The notification does not impact the Company’s listing on The Nasdaq Capital Market at this time.

On November 7, 2018 the Company received confirmation from NASDAQ that they have granted a further period of 180 calendar days to regain compliance with NASDAQ’s minimum bid price requirement. To regain compliance, the Company’s common shares must have a closing bid price of at least $1.00 for a minimum of 10 consecutive business days. The Company will work to regain compliance during this 180-day compliance period.

PART I – FINANCIAL INFORMATION

ONE HORIZON GROUP, INC.

Condensed Consolidated Balance Sheets

September 30, 2018 and December 31, 2017

(in thousands, except share data)

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash	$ 535	$ 763
Accounts receivable, net	490	102
Prepaid compensation	550	550
Amounts due from related parties	15	—
Other assets	635	28
Total current assets	2,225	1,443
Property and equipment, net	39	2
Intangible assets, net	16,387	5,340
Goodwill	1,247	—
Prepaid compensation, net of current portion	1,604	2,017
Total assets	$ 21,502	$ 8,802
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$ 354	$ 167
Accrued expenses	70	55
Accrued compensation	318	251
Amount due to related parties	—	32
Convertible notes, net of debt discount	—	45
Total current liabilities	742	550
Long-term liabilities		
Promissory notes, related parties	1,000	1,000

Total liabilities	1,742	1,550
Equity		
Preferred stock:		
$0.0001 par value, authorized 50,000,000; No shares issued and outstanding	—	—
Common stock:		
$0.0001 par value, authorized 200,000,000 shares issued and outstanding 59,353,874 shares as of September 30, 2018 (December 2017 - 30,255,123)	6	3
Additional paid-in capital	63,303	48,356
Accumulated Deficit	(49,150)	(41,085)
Stock subscription receivable	—	—
Accumulated other comprehensive income	(37)	(22)
Total One Horizon Group, Inc., stockholders' equity	14,122	7,252
Non-controlling interest	5,638	—
Total stockholders' equity	19,760	7,252
Total liabilities and equity	$ 21,502	$ 8,802

See accompanying notes to condensed consolidated financial statements.

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ONE HORIZON GROUP, INC.

Condensed Consolidated Statements of Operations

For the three and nine months ended September 30, 2018 and 2017

(in thousands, except per share data)

	Three Months ended September 30,		Nine Months ended September 30,	
	2018 unaudited	**2017 unaudited**	**2018 unaudited**	**2017 unaudited**
Revenue	$317	$ 397	$885	$ 514
Cost of revenue - Software and production costs	177	1	288	1
- Amortization of intangible assets	1,047	405	2,276	449
	1,224	406	2,564	450
Gross margin (deficiency)	(907)	(9)	(1,679)	64
Operating expenses:				
General and administrative	1,544	338	4,147	911
Depreciation	3	2	5	16
Acquisition services	—	—	1,874	—
	1,547	340	6,626	927
Loss from operations	(2,454)	(349)	(8,305)	(863)
Other income and expense:				
Interest expense	(18)	(179)	(408)	(536)
Foreign exchange	(3)	—	(4)	1
	(21)	(179)	(412)	(535)
Loss before income taxes and discontinued items	(2,475)	(528)	(8,717)	(1,398)
Income tax benefit	—	—	—	—
Loss on continuing operations	(2,475)	(528)	(8,717)	(1,398)
Loss from discontinued operations	—	(244)	—	(2,428)

Net loss for the period	(2,475)	(772)	(8,717)	(3,826)
Net loss attributable to non-controlling interest	186	—	652	—
Net loss attributable to One Horizon Group Inc. common stockholders	**$(2,289)**	**$ (772)**	**$(8,065)**	**$ (3,826)**
Earnings per share				
Basic and diluted net loss per share – continuing operations	$(0.05)	$ (0.07)	$(0.21)	$ (0.21)
Basic and diluted net loss per share – discontinued operations	$—	$ (0.03)	$—	$ (0.36)
Weighted average number of shares outstanding Basic and diluted	52,671	7,541	42,275	6,680

See accompanying notes to condensed consolidated financial statements.

ONE HORIZON GROUP, INC.

Condensed Consolidated Statements of Comprehensive Loss

For the three and nine months ended September 30, 2018 and 2017

(in thousands)

	Three Months ended September 30,		Nine Months ended September 30,	
	2018 unaudited	2017 unaudited	2018 unaudited	2017 unaudited
Net loss	$(2,289)	$ (772)	$(8,065)	$ (3,826)
Other comprehensive income:				
Foreign currency translation adjustment loss	(1)	(221)	(15)	(51)
Total Comprehensive loss	$(2,290)	$ (993)	$(8,080)	$ (3,877)

See accompanying notes to condensed consolidated financial statements

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ONE HORIZON GROUP, INC.

Condensed Consolidated Statement of Equity

For the nine months ended September 30, 2018

(in thousands)

(unaudited)

	Number of Shares	Amount	Additional Paid-in Capital	Accumulated deficit	Accumulated Other Comprehensive Income (Loss)	Non-controlling interest	Total Equity
Balance December 31, 2017	30,255	$ 3	$ 48,356	$ (41,085)	$ (22)	$ —	$ 7,252
Net loss	—	—	—	(8,065)	—	(652)	(8,717)
Foreign currency translations	—	—	—	—	(15)	—	(15)
Issuance of shares for services	6,095	1	3,799	—	—	—	3,800
Issuance of shares for acquisitions	10,127	1	7,929	—	—	6,290	14,220
Issuance of shares for exercise of convertible promissory notes	677	—	406	—	—	—	406
Issuance of shares for exercise of warrants	4,425	—	1,246	—	—	—	1,246
Increase in service compensation due to change in exercise price			544				544
Conversion benefit on convertible notes	—	—	200	—	—	—	200
Issuance of shares for cash	7,775	1	823	—	—	—	824
Balance September 30, 2018	59,354	$ 6	$ 63,303	$ (49,150)	$ (37)	$ 5,638	$ 19,760

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, 2018 and 2017

(in thousands)

	2018 (unaudited)	2017 (unaudited)
Cash flows from operating activities:		
Net loss for the period	$ (8,717)	$ (1,398)
Adjustment to reconcile net loss for the period to net cash flows from operating activities:		
Depreciation of property and equipment	5	18
Amortization of intangible assets	2,276	449
Amortization of debt issue costs	—	99
Amortization of beneficial conversion feature	355	76
Amortization of debt discount	—	150
Shares issued for services	3,392	—
Warrants issued for services	—	123
Amortization of shares issued for services	872	92
Options issued for services	—	145
Changes in operating assets and liabilities:		
Accounts receivable	(377)	2
Other assets	(114)	12
Accounts payable and accrued expenses	(65)	242
Net cash flows from continuing operating activities	(2,373)	10
Net cash flows from discontinued operating activities	—	(374)
Net cash flows from total operating activities	(2,373)	(364)
Cash used in investing activities:		
Cash consideration on acquisitions (net of cash acquired)	(108)	—
Acquisition of fixed assets	(6)	(1)
Net cash flows from investing activities – continuing operations	(114)	(1)
Net cash flows from investing activities – discontinued operations	—	(261)
Net cash flows from total investing activities	(114)	(262)
Cash flows from financing activities:		
Proceeds from issuance of shares	824	265

Proceeds from exercise of warrants	1,246	146
Proceeds from issuance of convertible notes	200	—
Repayment of advances from related parties (net)	(47)	100
Net cash flows from financing activities	2,223	511
Decrease in cash during the period	(264)	(115)
Foreign exchange effect on cash	36	26
Cash at beginning of the period – continuing operations	763	106
Cash at beginning of the period – discontinued operations	—	153
Cash at end of the period	$ 535	$ 170

Supplementary Information:

	2018	2017
Non-cash financing transactions:		
Common stock issued for business combinations	$ 14,220	$ —
Common stock issued for conversion of debt and accrued interest	$ 406	$ —

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

Note 1. Description of Business, Organization and Principles of Consolidation

Description of Business

One Horizon Group, Inc ("the Company") has four core businesses following the acquisition of 123Wish Inc., Love Media House, Inc (formerly called C-Rod, Inc.) and Banana Whale Studios PTE Ltd in the nine months ended September 30, 2018 (See Note 3). The core trading businesses are:

(i) Secure Messaging – offers digitally secure messaging software and sells licenses primarily into the gaming, security and educational markets.

(ii) 123Wish – an experience based platform where subscribers have a chance to play and win experiences from celebrities, athletes and artists.

(iii) Love Media House (formerly called C-Rod) - a full-service music production, artist representation and digital media business.

(iv) Banana Whale Studios – a B2B software provider in the online gaming industry that develops and supplies online games to Asian gaming platforms.

The Company is based in the United States of America, Hong Kong, Singapore, China and the United Kingdom.

Interim Period Financial Statements

The accompanying unaudited interim condensed 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 condensed 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 condensed 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, 2017, as filed with the Securities and Exchange Commission on April 2, 2018.

Current Structure of the Company

The Company has the following subsidiaries:

Subsidiary name	% Owned
123Wish, Inc.	51%
One Horizon Hong Kong Ltd	100%
Horizon Network Technology Co. Ltd	100%
Love Media House, Inc	100%
Banana Whale Studios PTE Ltd	51%
Browning Production & Entertainment Inc (acquired October 22, 2018)	51%

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

All significant intercompany balances and transactions have been eliminated in consolidation.

Note 2. Summary of Significant Accounting Policies

Liquidity and Capital Resources

Historically, the Company has incurred net losses and negative cash flows from operations. The Company has principally financed these losses from the sale of equity securities and the issuance of debt instruments.

During the nine months ended September 30, 2018 the Company issued additional shares of common stock for cash in the amount of $2,070,000, of which $547,000 was raised in the three months ended September 30, 2018.

The Company may be required to raise additional funds through various sources, such as equity and debt financings. While the Company believes it is probable that such financings could be secured, there can be no assurance the Company will be able to secure additional sources of funds to support its operations, or if such funds are available, that such additional financing will be sufficient to meet the Company's needs or on terms acceptable to us.

At September 30, 2018 the Company had cash of $535,000. Subsequent to September 30, 2018 the Company has raised a further amount of cash totaling $825,000 and is considering raising additional funds in the region of $2.0 million the last quarter of 2018 and the first quarter of 2019 which is expected to give the Company sufficient cash resources to cover forecasted expenditure into 2020.

However, actual results could materially differ from the Company's projections. Accordingly, the Company may be required to raise additional funds through various sources. While the Company believes it is probable that such financings could be secured, there can be no assurance that the Company will be able to secure additional sources of funds to support its operations, or if such funds are available, that such additional financing will be sufficient to meet the Company's needs or on terms acceptable to us.

Foreign Currency Translation

The reporting currency of the Company is the United States dollar. Assets and liabilities other than those denominated in U.S. dollars, primarily in Singapore, 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.

Accounts receivable, revenue recognition and concentrations

New Accounting Standard - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("Topic 606"). Topic 606 supersedes the revenue recognition requirements in ASU Topic 605, Revenue Recognition ("Topic 605"), and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the considerations to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 also includes Subtopic 340-40, *Other Assets and Deferred Costs- Contracts with Customers*, which discussed the deferral of incremental costs of obtaining a contract with a customer, including the period of amortization of such costs. The new standard was adopted by the Company in our fiscal year beginning January 1, 2018. The two permitted transition methods under the new standard are the full retrospective method, in which the new standard would be applied to each prior reporting period presented and the cumulative effect of applying the new standard would be recognized at the earliest period shown, or the modified retrospective method, in which the cumulative effect of applying the new standard would be recognized at the date of initial application. Based on our assessment, the impact of the new standard on our revenue recognition in prior periods is not significant; accordingly, while the Company would have used the modified retrospective method of adoption of the new standard, there was no cumulative effect of adoption on January 1, 2018 retained earnings.

Performance Obligations - A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under the new revenue recognition standard. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company's contracts do not typically have variable consideration that needs to be considered when the contract consideration is allocated to each performance obligation.

Revenue Recognition – We recognize revenues from each business segment under ASC 606 as described below:

1. Digital secure messaging revenue involves the sale of user licenses, at a fixed price per license, to the customers, which is our sole performance obligation under the existing licensing agreements. The Company recognizes the revenue from the sale of the user licenses when the valid licenses have been delivered to the customer's server in useable form.

2. 123Wish derives income from user subscriptions, sale of merchandise, sale of tickets for experiences with social media influencers and artists, and the sale of corporate sponsorships, each of which is a separate performance obligation. User subscriptions cover a defined period of time (typically one month) and the revenue is recognized as the Company satisfies the requisite performance obligation (over the defined subscription period). Sale of merchandise and tickets are recognized when the customer has paid for the item and when the merchandise and/or ticket has been delivered to the customer. Corporate sponsorship packages are non-refundable and relate to brand association. The Company has no further service deliverable to the sponsor and the revenue is recognized when the agreement is entered into by both parties and the required marketing materials have been delivered to the corporate sponsor for their use.

3. Love Media House derives income from recording and video services. Income is recognized when the recording and video services are performed and the final customer product is delivered. These revenues are non-refundable.

4. Banana Whale derives income primarily through licensing arrangements with gaming customers. Under these arrangements, Banana Whale provides the customers with a license (functional IP), implementation services and ad-hoc support, which may include unspecified upgrades and enhancements. The Company has determined that these promised goods and services represent one combined performance obligation since the individual promised goods or services are not distinct in the context of the contract. The revenues earned from the arrangements are primarily based on usage-based royalties. As the Company has determined that the license is the predominant item to which the royalty relates, revenues are recognized when the related sale or usage by the customer occurs.

The Company does not have off-balance sheet credit exposure related to its customers. As of September 30, 2018 four customers accounted for 87% of the accounts receivable balance and as of December 31, 2017, one customer accounted for 100% of the accounts receivable balance. Three customers accounted for 46% of the revenue for the nine months ended September 30, 2018 and one customer accounted for 76% of the revenue for the quarter ended September 30, 2018.

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.

Income Taxes

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. Historically the Company has not filed income tax returns and the related required informational filings in the US. Certain informational filings if not filed contain penalties. The Company is currently addressing this issue with advisors to determine the amount, if any, of potential payments due. Given the complexity of the issue the Company is unable to quantify a range of potential loss, if any. Accordingly no liability has been recorded in the accompanying consolidated balance sheets in respect of this matter

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, 2018 and 2017, outstanding 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 period. 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.

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 option pricing model, which includes subjective judgements about the expected life of the awards, forfeiture rates and stock price volatility.

Fair Value Measurements

GAAP establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of fair value hierarchy defined by GAAP are described below:

Level 1 - Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2 - Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 - Pricing inputs that are generally observable inputs and not corroborated by market data.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The Company's Level 3 financial liabilities consist of contingent consideration relating to the acquisition of 123Wish, LMH and Banana Whale which requires significant judgment or estimation (see Note 3).

Note 3. Acquisitions

123Wish, Inc.

On January 31, 2018 the Company completed the acquisition of a 51% controlling interest in 123 Wish, Inc. (formerly Once in a Lifetime LLC) a Delaware corporation in exchange for the issuance of 1,333,334 fully paid and non-assessable shares of common stock with a fair value of $1.39 million. In addition, the Company shall issue fully paid and non-assessable shares of common stock equal to 2.5 times of the net, after tax, earnings of 123 Wish for the nine month period after the date of acquisition and fully paid and non-assessable shares of common stock equal to 4.5 times the net, after tax, earnings of 123 Wish for the second six month period after the date of acquisition. 123 Wish, Inc. has proprietary applications which use the social media aspect of the internet.

The following table summarizes the consideration paid and the fair value of the assets acquired and liabilities assumed as of February 22, 2018 (In thousands):

Consideration Paid:

Common stock	$1,387
Non controlling interest	1,353
	$2,740

Fair values of identifiable assets acquired and liabilities assumed:

Assets acquired:	
Cash	$14
Other intangible assets	2,307
Goodwill	419
Net Assets Acquired	$2,740

The consideration paid was 1,333,334 common shares valued at $1.04 per share. Separately identifiable intangible assets include technology which were valued by management using discounted cash flow and replacement cost approaches. Management's analysis is provisional in nature and is subject to change based on the availability of new information about facts and circumstances that existed as of the acquisition date.

As of September 30, 2018, the Company has estimated that no additional share amounts will need to be issued as contingent consideration and therefore is not included in the Company's allocation of the purchase price in the table above. The financial results of 123 Wish, Inc. have been included in the Company's condensed consolidated financial statements since the date of acquisition, and the amount of stockholders' equity and net loss attributable to the non-controlling interest has been recorded as a separate line item in the accompanying statements of operations and stockholders' equity.

Love Media House, Inc. (formerly C-Rod, Inc.)

On February 26, 2018 the Company completed the acquisition of 100% ownership of Love Media House, Inc. ("LMH") a Florida corporation in exchange for $150,000 cash and 1,376,147 fully paid and non-assessable shares of common stock with a fair value of $1,541,285. LMH is in the music and video content business. The financial statements of LMH have been included in the condensed consolidated financial statements from the date of acquisition.

The following table summarizes the consideration paid and the fair value of the assets acquired and liabilities assumed as of February 26, 2018 (In thousands):

Consideration Paid:

Cash	$150
Common stock	1,541
	$1,691

Fair values of identifiable assets acquired and liabilities assumed:

Assets acquired:	
Cash	$5
Other intangible assets	910
Goodwill	828
Total assets acquired	1,743
Liabilities assumed:	
Accounts payable	52
Total Liabilities Assumed	52
Net Assets Acquired	$1,691

The consideration paid was 1,376,000 common shares plus $150,000 in cash. Separately identifiable intangible assets were customer relationships and were valued by management. The customer relationships were valued using discounted cash flow and replacement cost approaches. Management's analysis is provisional in nature and is subject to change based on the availability of new information about facts and circumstances that existed as of the acquisition date.

As of September 30, 2018, the Company has estimated that no additional share amounts will need to be issued as contingent consideration and therefore is not included in the Company's allocation of the purchase price in the table above. The financial results of LMH have been included in the Company's condensed consolidated financial statements since the date of acquisition.

Banana Whale Studios PTE Ltd

On May 24, 2018 the Company completed the acquisition of 51% ownership of Banana Whale Studios PTE Ltd ("Banana Whale") a Singapore corporation in exchange for an initial allocation of 7,383,000 fully paid shares of common stock with a fair value of $4,983,000. The acquisition of Banana Whale is based on an earnout formula solely and should Banana Whale fail to reach forecasted profit numbers during the first 24 months then some, or all of the shares allocated would be refundable to the Company. Banana Whale develops and supplies online games to Asian gaming platforms on a B2B basis with their revenue generated on a revenue share basis. The financial statements of Banana Whale have been included in the condensed consolidated financial statements from the date of acquisition.

The following table summarizes the consideration paid and the fair value of the assets acquired and liabilities assumed as of May 24, 2018 (In thousands):

Consideration Paid:

Common stock	$4,983
Non-controlling interest	4,937
	$9,920

Fair values of identifiable assets acquired and liabilities assumed:

Assets acquired:	
Cash	$42
Accounts receivable	11
Equipment	37
Other intangible assets	10,118
Total assets acquired	10,208
Liabilities assumed:	
Accounts and advances payable	288
Total Liabilities Assumed	288
Net Assets Acquired	$9,920

The consideration paid was 7,383,000 common shares valued at $0.675 per share. Separately identifiable intangible assets include technology which were valued by management using discounted cash flow and replacement cost approaches. Management's analysis is provisional in nature and is subject to change based on the availability of new information about facts and circumstances that existed as of the acquisition date.

As of September 30, 2018, the Company has estimated that no additional share amounts will need to be issued (or refunded) as contingent consideration and therefore is not included in the Company's allocation of the purchase price in the table above. The financial results of Banana Whale have been included in the Company's condensed consolidated financial statements since the date of acquisition and the amount of stockholders' equity and net loss attributable to the non-controlling interest has been recorded as a separate line item in the accompanying statements of operations and stockholders' equity.

Note 4. Intangible Assets

Intangible assets consist primarily of software development costs, acquired gaming software 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)*

	September 30 2018	December 31 2017

Horizon software	$ 6,527	$ 6,527
Social online application software	2,210	—
Customer lists	997	—
Gaming software	10,118	—
	19,852	6,527
Less accumulated amortization	(3,465)	(1,187)
Intangible assets, net	$ 16,387	$ 5,340

Amortization of intangible assets for each of the next five years is estimated to be $3,900,000 per year.

Note 5. Goodwill

The following is the detail of the Goodwill that arose on acquisitions described in Note 3:

	September 30 2018	**December 31 2017**
123Wish, Inc.	$ 419	$ —
Love Media House, Inc. (formerly C. Rod, Inc.)	828	—
	$ 1,247	$ —

Note 6. Convertible notes

In February 2018 the convertible note holders converted their notes into common stock, together with the interest accrued thereon. The amounts converted at $0.60 per share totaled $405,833 giving rise to 676,389 new shares of common stock.

Note 7. Share Capital

Common Stock

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

During the nine months ended September 30, 2018 the Company:

Issued 225,000 shares of common stock for services with a fair value of $357,750

Issued 1,333,334 shares of common stock, with a fair value of $1.4 million, for the acquisition of 51% of Once in a Lifetime

Issued 100,000 shares of common stock for services provided with a fair value of $204,000

Issued 504,167 shares of common stock for conversion of convertible note and accrued interest in the amount of $302,500

Issued 172,222 shares of common stock for conversion of convertible note and accrued interest in the amount of $103,000

Issued 172,222 shares of common stock for services provided with a fair value of $200,000

Issued 750,000 shares of common stock for exercise of warrants at a price of $0.75 per share.

Issued 50,000 shares of common stock for services provided with a fair value of $80,000.

Issued 1,376,147 shares of common stock, with a fair value of $1,541,285, as part consideration for the acquisition of C-Rod, Inc.

Issued 100,000 shares of common stock for services to be provided with a fair value of $85,000.
Issued 225,000 shares of common stock for services to be provided with a fair value of $168,750
Issued 850,000 shares of common stock for services provided with a fair value of $425,000

Issued 7,383,000 shares of common stock, with a fair value of $4,983,000, for the acquisition of 51% of Banana Whale Studios Pte., Ltd
Issued 1,575,000 shares of common stock for services provided with a fair value of $787,500
Issued 850,000 shares of common stock for exercise of warrants at a price of $0.50 per share
Issued 600,000 shares of common stock for services provided with a fair value of $306,000
Issued 300,000 shares of common stock for services provided with a fair value of $150,000
Issued 1,750,000 shares of common stock for cash of $0.20 per share

Issued 1,850,000 shares of common stock for exercise of warrants at a price of $0.10 per share
Issued 35,000 shares of common stock, with a fair value of $18,200, for an option to acquire an interest in an acquisition target.
Issued 1,525,000 shares of common stock for cash of $114,375
Issued 975,000 shares of common stock for exercise of warrants at a price of $0.075 per share
Issued 4,500,000 shares of common stock for cash of $360,000
Issued 1,000,000 shares of common stock for services provided with fair value of $175,000

Stock Purchase Warrants

As at September 30, 2018, the Company had reserved 330,869 shares of its common stock for the outstanding warrants with weighted average exercise price of $15.88. Such warrants expire at various times up to July 2020.

During the nine months ended September 30, 2018, 155,518 warrants were forfeited, 4,425,000 warrants were exercised, for proceeds of $1,246,000.

After September 30, 2018, the Company sold 4,250,000 units, each consisting of one share of common stock and one warrant to purchase an additional share of common stock for total proceeds of $425,000 and issued 2,000,000 shares of common stock that were exercised for total proceeds of $400,000

During the nine months ended September 30, 2018, the Company agreed to reduce the exercise price on 6.5 million outstanding warrants, which resulted in additional compensation cost of $544,000, in order to obtain additional funding.

Note 8. Segment Information

The Company has the following business segments for the nine months ended September 30, 2018 and 2017.

The Company's revenues were generated in the following business segments (in thousands)

	September 30, 2018	**September 30, 2017**
Sale of secure messaging licenses	$ 228	$ 514
123Wish (from January 2018)	108	—
Love Media House (from March 2018)	405	—
Banana Whale (from May 2018)	144	—
Total	$ 885	$ 514

The following is a detail of the Company's general and administrative expenses by business segment:

	September 30, 2018	September 30, 2017
Sale of secure messaging licenses	$ 136	$ —
123Wish (from January 2018)	732	—
Love Media House (from March 2018)	322	—
Banana Whale (from May 2018)	272	—
Corporate costs	3,285	911
Total	$ (4,475)	$ 911

The following is a detail of the net income (loss) by business segment:

	September 30, 2018	September 30, 2017
Sale of secure messaging licenses	$ (1,059)	$ 102
123Wish (from January 2018)	(623)	—
Love Media House (from March 2018)	52	—
Banana Whale Studios (from May 2018)	(355)	—
Corporate costs, discontinued operations and acquisition costs	(6,320)	(3,156)
Total	$ (8,305)	$ (3,054)

Note 9. Employment Agreements

In connection with the acquisitions described in Note 3, the Company has entered into Employment Agreements (the "Agreements") with three members of management of 123Wish and C-Rod. The Agreements have an initial employment period of two years and are automatically renewed annually thereafter. The Agreements entitle the members of management to a fixed base salary, along with incentive compensation that is calculated using pre-tax earnings and is payable in shares of the Company's common stock.

Note 10. Legal proceedings

On May 30, 2018, Zhanming Wu ("Wu"), the record owner of 15,000,000 shares of common stock of One Horizon Group, Inc. (the "Company"), commenced an action in the Court of Chancery of the State of Delaware [Case No.2018-0387-JRS; the "Injunction Action"] against the Company and its directors and officers (collectively, the "Director Defendants") alleging multiple breaches of contract between the Company and Wu, and seeking (i) damages; (ii) to enjoin the Company from issuing, offering, selling or granting any shares of its common stock to any person or entity, or consummate any merger, acquisition or similar transaction without the prior approval of Wu, and to prevent the Individual Defendants from undermining that right by engaging in any further transactions designed to entrench themselves as directors and officers of the Company and to dilute Wu's stock ownership below 30% of the outstanding shares of the Company, (iii) to enforce Wu's right to appoint four directors to the Company's Board of Directors, (iv) to rescind the issuance of 7,383,000 shares to the former stockholders of Banana Whale Studios Pte. Ltd ("Banana Whale") in exchange for 51% of the outstanding shares of Banana Whale (the "Banana Whale Acquisition"), (iv) to obtain a declaration that the Individual Defendants have breached their fiduciary duty of loyalty by taking actions to entrench themselves on the Company's Board of Directors; and (v) seeking an award of attorneys' fees and costs in connection with the litigation and such other relief as the Court deems fair and equitable.

On June 11, 2018, Wu commenced a second action in the Court of Chancery of the State of Delaware [Case No.2018-0427-JRS; the "225 Action"] under Section 225 of the Delaware General Corporation Law seeking (i) to appoint four directors to the Company's Board of Directors, (ii) to enjoin the Company and its affiliates from issuing, offering, selling or granting any shares of the Company's common stock to any person or entity, or consummate any merger, acquisition or similar transaction without the prior approval of Wu during the pendency of the action and (iii) seeking an award of attorneys' fees and costs in connection with the litigation and such other relief as the Court deems fair and equitable.

On October 15, 2018, the parties entered into an agreement (the "Settlement Agreement") which provides for the immediate cessation of all activities in the two actions and which will result in the dismissal of the two actions upon the fulfillment by the Company of certain conditions. Among the conditions to dismissal which the Company is required to meet to obtain the complete dismissal of the actions are the issuance of 354,409 shares to Wu to reimburse a portion of the expenses incurred in connection with the actions, the nomination and election to the Company's Board of Directors of up to two individuals designated by Wu, the redemption of up to approximately 850,000 shares of common stock at $0.65 each, from certain investors whom Wu recommended to invest in the Company (the "Additional Investors") should they request that the Company do so and the facilitation of the sale of shares of the Company's common stock by Wu, including the registration of such shares for sale under the Securities Act. Based on ASC 840, which requires that conditionally redeemable securities be classified outside of permanent stockholders' equity, $552,500 was reclassified as mezzanine equity effective October 15, 2018. Pending the re-election of Wu's nominees to the Board of Directors at the Company's 2018 Annual Meeting of Stockholders, the Company will continue to comply with the terms of the Status Quo Order issued in July in connection with the 225 Action. The 225 Action will be dismissed and the Company will no longer be obliged to comply with the Status Quo Order upon the re-election of Wu's nominees to the Board of Directors at the Company's 2018 Annual Meeting of Stockholders.

A Stipulation of Dismissal in respect of the Injunction Action will be filed and the parties will exchange releases upon the fulfillment of certain conditions, including the registration of Wu's shares and the removal of the restrictive legend from Wu's shares and the shares held by the Additional Investors. Notwithstanding such dismissal, should the registration of Wu's shares lapse for any reason prior to October 1, 2019, Wu shall be entitled to enforce his rights under the side letters which were the basis of many of his claims, which letters are deemed to be a part of the Settlement Agreement as if set forth therein. If the Dismissal Stipulation has been filed in the Injunction Action and Wu's shares have remained continuously registered until October 1, 2019, the side letters shall be deemed of no force and effect.

Note 11. Subsequent Events

On October 22, 2018, the Company entered into an Exchange Agreement pursuant to which we acquired a majority of the outstanding shares (the "Control Shares") of Browning Productions & Entertainment, Inc ., a Florida corporation ("Browning"), from William J. Browning, the sole stockholder of Browning. Browning produces television programs which have aired internationally as well as nationally.

In exchange for the controlling interest in Browning, the Company paid Mr. Browning $10,000 and issued to him 150,000 shares of common stock, and agreed to issue to him an additional 150,000 shares of common stock following completion of the audit of Browning's financial statements, plus an additional number of shares of common stock determined by dividing two and a half times the net after tax earnings of Browning during the twelve month period ending December 31, 2019 by the average of the closing price of our common stock during the ten consecutive trading days immediately preceding the end of 2019. To the extent the number of shares which the Company is obligated to issue to Mr. Browning exceeds 13,553,506 shares, representing 19.99% of the Company's outstanding shares of common stock immediately prior to the acquisition (the "Excess Shares"), instead of issuing the Excess Shares to Mr. Browning the Company will pay him an amount in cash for the Excess Shares. The Company had previously paid Mr. Browning $10,000 and issued 35,000 shares of common stock to him upon execution of a non-binding letter of intent for the acquisition of Browning on May 10, 2018.

The Company has agreed to register for resale the initial 150,000 shares issued to Mr. Browning.

The Company has a right of first refusal to purchase the remaining shares of Browning.

In the event the Company's common stock is delisted from NASDAQ, Mr. Browning has the right to request that we return to him the Control Shares, provided that he has not disposed of one-half of the shares issued and issuable to him in connection with the acquisition.

The Company also has agreed to provide Browning with a working capital loan in an initial amount of $150,000, which is to be repaid out of the post-closing net profit of Browning.

On October 9, 2018, the Company acquired a direct eighty percent ownership interest in the software, source code and other intellectual property underpinning the 123Wish experience marketplace platform operated by its subsidiary, 123Wish. In exchange for this ownership the Company issued 3,000,000 shares of its common stock and lent an additional $100,000 in working capital to 123Wish.

In October and November 2018 the Company issued an aggregate of 4,550,000 shares of its common stock to consultants for services provided.

On November 15, 2018, the Company issued and sold 9,500,000 shares of its common stock to two accredited investors, for a purchase price of $1,425,000.

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 and nine months ended September 30, 2018 and 2017 and notes thereto contained elsewhere in this Report, and our annual report on Form 10-K for the twelve months ended December 31, 2017 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

In October 2018 the Company executed the acquisition of a majority of Browning Production and Entertainment, Inc. a Florida based television production company.

This addition to the Company increases its group of digitally based software and media businesses based in Asia and the United States of America.

Results of Operations

Comparison of three months ended September 30, 2018 and 2017

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

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

	Three Months Ended September 30,		Change	
	2018	2017	Increase/ (decrease)	Percentage Change
Revenue	$317	$397	$(80)	(20.2)
Cost of revenue	1,224	406	818	201.5
Gross margin	(907)	(9)	(898)	(9,977.8)
Operating expenses:				
General and administrative	1,544	338	1,206	356.8
Depreciation	3	2	1	50.0
Acquisition costs	—	—	—	N/A
Total operating expenses	1,547	340	1,207	355.0
Loss from operations	(2,454)	(349)	(2,105)	(603.2)
Other expense	(21)	(179)	158	88.3
Loss for the period for continuing operations	(2,475)	(528)	(1,947)	(368.8)
Loss for discontinued operations	—	(244)	244	N/A
Total net loss	(2,475)	(772)	(1,703)	(220.6)

Revenue: Our revenue for the three months ended September 30, 2018 was split between our operations as follows:

Secure messaging - $50,000 for the sale of user licenses

123Wish - $3,000 for subscriptions and sponsorships

LMH - $144,000 for music and video production services

Banana Whale - $120,000 for B2B software provided in the online gaming industry.

***Gross Margin*:** Gross margin deficit, for the three months ended September 30, 2018 was approximately $907,000 as compared to $9,000 margin deficit for the three months ended September 30, 2017, due to the increase in amortization of software development costs, offset by increased revenues.

Operating Expenses: General and administrative expenses and depreciation were approximately $1.6 million and $0.34 million during the three months ended September 30, 2018 and 2017, respectively. The major costs included in the three months ended September 30, 2018 were consulting costs including due diligence and advisory costs incurred in the acquisitions strategy of the Company.

Net Loss: Net Loss from continuing operations, for the three months ended September 30, 2018 was approximately $2.5 million as compared to net loss of approximately $0.5 million for the same period in 2017. The increase in the losses is attributable to the increase in General and Administrative expenses, offset by an increase in revenue, as discussed above.

Comparison of nine months ended September 30, 2018 and 2017

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)

	Nine Months Ended September 30,		Change	
	2018	2017	Increase/ (decrease)	Percentage Change
Revenue	$885	$514	$371	72.2
Cost of revenue	2,564	450	2,114	469.8
Gross margin	(1,679)	64	(1,743)	(2,723.4)
Operating expenses:				
General and administrative	4,147	911	3,236	355.2
Acquisition costs	1,874	—	1,874	N/A
Depreciation	5	16	(11)	(68.8)
Total operating expenses	6,626	927	5,699	614.8
Loss from operations	(8,305)	(863)	(7,442)	(862.3)
Other income (expense)	(412)	(535)	123	23.0
Loss for the period for continuing operations	(8,717)	(1,398)	(7,317)	523.5
Loss for discontinued operations	—	(2,428)	2,428	N/A
Net loss	(8,717)	(3,826)	(4,891)	(127.8)

Revenue: Our revenue for the nine months ended September 30, 2018 was approximately $0.9 million as compared to approximately $0.5 million for the nine months ended September 30, 2017, an increase of approximately $0.4 million, or 72.2%. The increase was due to the increases in revenue generated by the newly acquired subsidiaries.

Cost of Revenue: Cost of revenue was approximately $2. 6 million for the nine months ending September 30, 2018 as compared to $0. 5 million for the nine months ended September 30, 2017. The main reason for the increase was the amortization charge of $1.8 million relating to software development costs.

Gross Margin**:** Gross margin deficit for the nine months ended September 30, 2018 was approximately $1.7 million as compared to a gain of $0.1 million for the nine months ended September 30, 2017, a decrease of approximately $1.7 million. The decrease was mainly due to the amortization charge of $1.83 million, offset by increased revenues, as set forth above herein.

Operating Expenses: Operating expenses, including general and administrative expenses, depreciation and acquisition costs were approximately $6.6 million and $0.9 million during the nine months ended September 30, 2018 and 2017, respectively. The Company incurred the increased costs as a result of the strategy of business acquisitions and the operational costs relating thereto.

Net Loss: Net Loss after discontinued operations, for the nine months ended September 30, 2018 was approximately $8.7 million as compared to loss of approximately $3.8 million for the same period in 2017. The increase in loss was primarily due to the increase in non-cash general and administrative expenses, and acquisition costs offset by an increase in revenues mentioned above.

Liquidity and Capital Resources

Nine Months Ended September 30, 2018 and September 30, 2017

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

	For the Nine Months Ended September 30, (in thousands)	
	2018	**2017**
Net cash flows from total operating operations	(2,373)	(364)
Net cash flows from total investing activities	(114)	(262)
Net cash flows from total financing activities	2,223	511

Net cash used by operating activities was approximately $2.37 million for the nine months ended September 30, 2018 as compared to net cash used in operating activities of approximately $0.36 million for the same period in 2017. The increase in cash used by operations was primarily due to the cost of pursuing the acquisition strategy.

Net cash used in investing activities was approximately $0.11 million and $0.26 million for the nine months ended September 30, 2018 and 2017, respectively. Net cash used in investing activities for the nine months ended September 30, 2018 related to cash consideration in the acquisition of LMH offset by the cash acquired in the Banana Whale acquisition.

Net cash generated in financing activities was approximately $2.22 million for the nine months ended September 30, 2018 as compared to $0.51 million for the nine months ended September 30, 2017. The cash generated from financing activities was primarily from the proceeds from the sale of new shares of common stock, the exercise of common stock warrants and proceeds from convertible debt during the nine months ended September 30, 2018.

At September 30, 2018 the Company had cash of $0.54 million.

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, 2018, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of September 30, 2018, our disclosure controls and procedures were not effective. This was due to certain deficiencies in our controls over financial reporting. In particular a lack of accounting personnel has resulted in an inability to segregate various accounting functions

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

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

On May 30, 2018, Zhanming Wu (“Wu”), the record owner of 15,000,000 shares of common stock of One Horizon Group, Inc. (the “Company”), commenced an action in the Court of Chancery of the State of Delaware [Case No.2018-0387-JRS; the “Injunction Action”] against the Company and its directors and officers (collectively, the “Director Defendants”) alleging multiple breaches of contract between the Company and Wu, and seeking (i) damages; (ii) to enjoin the Company from issuing, offering, selling or granting any shares of its common stock to any person or entity, or consummate any merger, acquisition or similar transaction without the prior approval of Wu, and to prevent the Individual Defendants from undermining that right by engaging in any further transactions designed to entrench themselves as directors and officers of the Company and to dilute Wu’s stock ownership below 30% of the outstanding shares of the Company, (iii) to enforce Wu’s right to appoint four directors to the Company’s Board of Directors, (iv) to rescind the issuance of 7,383,000 shares to the former stockholders of Banana Whale Studios Pte. Ltd (“Banana Whale”) in exchange for 51% of the outstanding shares of Banana Whale (the “Banana Whale Acquisition”), (iv) to obtain a declaration that the Individual Defendants have breached their fiduciary duty of loyalty by taking actions to entrench themselves on the Company’s Board of Directors; and (v) seeking an award of attorneys’ fees and costs in connection with the litigation and such other relief as the Court deems fair and equitable.

On June 11, 2018, Wu commenced a second action in the Court of Chancery of the State of Delaware [Case No.2018-0427-JRS; the “225 Action”] under Section 225 of the Delaware General Corporation Law seeking (i) to appoint four directors to the Company’s Board of Directors, (ii) to enjoin the Company and its affiliates from issuing, offering, selling or granting any shares of the Company’s common stock to any person or entity, or consummate any merger, acquisition or similar transaction without the prior approval of Wu during the pendency of the action and (iii) seeking an award of attorneys’ fees and costs in connection with the litigation and such other relief as the Court deems fair and equitable.

On October 15, 2018, the parties entered into an agreement (the “Settlement Agreement”) which provides for the immediate cessation of all activities in the two actions and which will result in the dismissal of the two actions upon the fulfillment by the Company of certain conditions. Among the conditions to dismissal which the Company is required to meet to obtain the complete dismissal of the actions are the issuance of 354,409 shares to Wu to reimburse a portion of the expenses incurred in connection with the actions, the nomination and election to the Company’s Board of Directors of up to two individuals designated by Wu, the redemption of up to approximately 850,000 shares of common stock at $0.65 each, from certain investors whom Wu recommended to invest in the Company (the “Additional Investors”) should they request that the Company do so and the facilitation of the sale of shares of the Company’s common stock by Wu, including the registration of such shares for sale under the Securities Act. Pending the re-election of Wu’s nominees to the Board of Directors at the Company’s 2018 Annual Meeting of Stockholders, the Company will continue to comply with the terms of the Status Quo Order issued in July in connection with the 225 Action. The 225 Action will be dismissed and the Company will no longer be obliged to comply with the Status Quo

Order upon the re-election of Wu’s nominees to the Board of Directors at the Company’s 2018 Annual Meeting of Stockholders.

A Stipulation of Dismissal in respect of the Injunction Action will be filed and the parties will exchange releases upon the fulfillment of certain conditions, including the registration of Wu’s shares and the removal of the restrictive legend from Wu’s shares and the shares held by the Additional Investors. Notwithstanding such dismissal, should the registration of Wu’s shares lapse for any reason prior to October 1, 2019, Wu shall be entitled to enforce his rights under the side letters which were the basis of many of his claims, which letters are deemed to be a part of the Settlement Agreement as if set forth therein. If the Dismissal Stipulation has been filed in the Injunction Action and Wu’s shares have remained continuously registered until October 1, 2019, the side letters shall be deemed of no force and effect.

ITEM 1A. RISK FACTORS

Reference is made to the risks and uncertainties disclosed in Item 1A (“Risk Factors”) of our Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Form 10-K”) and under the caption “Risk Factors” in our Registration Statement on Form S-3 (Registration No. 333-225945) filed on September 28, 2018 and declared effective on August 7, 2018, which sections are incorporated by reference into this report. Prospective investors are encouraged to consider the risks described in our 2017 Form 10-K, the Registration Statement, our Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in this Report and other information publicly disclosed or contained in documents we file with the Securities and Exchange Commission before purchasing our securities.

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

Except as previously reported in the reports we have filed under the Exchange Act, during the period covered by this report, we have not issued or sold any unregistered equity securities other than:

1. 850,000 shares of common stock to an accredited investor, upon exercise of warrants at an exercise price of $0.50 per share. The issuance of the shares was exempt from the registration requirements of the Securities Act under Rule 506 of Regulation D and Section 4(a)(2) of the Securities Act. The certificates representing the shares were endorsed with the customary Securities Act legend.

2. 225,000 shares of common stock to a consultant for services having a fair value of $168,750. The issuance of the shares was exempt from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act. The certificates representing the shares were endorsed with the customary Securities Act legend.

3. 850,000 shares of common stock to a consultant for services having a fair value of $425,000. The issuance of the shares was exempt from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act. The certificates representing the shares were endorsed with the customary Securities Act legend.

4. 1,575,000 shares of common stock to a consultant for services having a fair value of $787,500. The issuance of the shares was exempt from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act. The certificates representing the shares were endorsed with the customary Securities Act legend.

5. 300,000 shares of common stock to a consultant for services having a fair value of $150,000. The issuance of the shares was exempt from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act. The certificates representing the shares were endorsed with the customary Securities Act legend.

6. 600,000 shares of common stock to a consultant for services provided with a fair value of $306,000. The issuance of the shares was exempt from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act. The certificates representing the shares were endorsed with the customary Securities Act legend.

7. 500,000 shares of common stock to a consultant for services rendered having a fair value of $265,000 pursuant to a Documentary Rights Agreement. The issuance of the shares was exempt from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act. The certificates representing the shares were endorsed with the customary Securities Act legend.

8. 1,750,000 shares of our common stock to an accredited investor for gross proceeds of $350,000. The issuance and sale of the shares were exempt from the registration requirements of the Securities Act under Rule 506 of Regulation D and Section 4(a)(2) of the Securities Act. The certificates representing the shares were endorsed with the customary Securities Act legend.

9. 1,850,000 shares of common stock to an accredited investor, upon exercise of warrants at an exercise price of $0.10 per share. The issuance of the shares was exempt from the registration requirements of the Securities Act under Rule 506 of Regulation D and Section 4(a)(2) of the Securities Act. The certificates representing the shares were endorsed with the customary Securities Act legend.

10. 35,000 shares of common stock having a fair value of $18,200 for an option to acquire an interest in an acquisition target. The issuance of the shares was exempt from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act. The certificates representing the shares were endorsed with the customary Securities Act legend.

Subsequent to the period covered by this report, we issued the following unregistered equity securities:

In October 2016, we issued, (i) 500,000 shares of common stock having a fair value of $76,500 to Maxim Partners, LLC for extending the term of its M&A Agreement; (ii) 3,000,000 shares of common stock having a fair value of $459,000 in connection with the transfer to us of an eighty percent ownership interest in the software and source code and all other intellectual property underpinning the 123Wish experience marketplace platform operated by our subsidiary, 123Wish; and (iii) 500,000 shares of common stock having a fair value of $76,500 and 350,000 shares of common stock having a fair value of $53,550 for services rendered.

In November 2018, we issued (i) 1,250,000 shares of common stock having a fair value of $225,000 to One Percent Investments Inc. pursuant to Consulting Agreement; (ii) 1,300,000 shares of common stock having a fair value of $234,000 to BK Consulting Group, LLC for consulting services; (iii) 500,000 shares of common stock having a fair value of $90,000 to Bespoke Growth Partners, Inc. in reimbursement of expenses; (iv) a total of 650,000 shares of common stock having a fair value of $117,000 for consulting services; and (v) a total of 9,500,000 shares of common stock to Bespoke Growth Partners, Inc. and BK Consulting Group, LLC for a total purchase price of $1,425,000, pursuant to Securities Purchase Agreements.

The issuance of the foregoing shares were exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) of the Securities Act. The certificates representing the foregoing shares were endorsed with the customary Securities Act restrictive legend.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Item 6. Exhibits

10.1	Subscription Agreement with First Choice International Company, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-3 (Registration No. 333-227247) filed on September 10, 2018 and declared effective on September 14, 2018).
10.2	Settlement Agreement relating to the Wu Litigation (incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-3 (Registration No. 333-227971) filed on October 24, 2018 and declared effective on November 2, 2018).
10.3	Exchange Agreement with Browning Productions & Entertainments, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 24, 2018).
10.4	Subscription Agreement with Bespoke Growth Partners, Inc. (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on September 21, 2018).
10.5	Securities Purchase Agreement with First Choice International Company, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 19, 2018).
10.6	Consulting Agreement with One Percent Investments, Inc.
10.7	Securities Purchase Agreement with Bespoke Growth Partners, Inc.
10.8	Securities Purchase Agreement with BK Consulting Group, LLC.
31.1	Certification of principal executive officer pursuant to Rule 13a-14 or Rule 15d-14 of Exchange Act. Exchange Act of 1934.
31.2	Certification of principal financial officer pursuant to Rule 13a-14 or Rule 15d-14 of the Exchange Act.
32.1	Certification of principal executive officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.2	Certification of principal financial officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation
101.DEF XBRL Taxonomy Extension Definition
101.LAB XBRL Taxonomy Extension Label
101.PRE XBRL Taxonomy Extension Presentation

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: November 16, 2018	By: /s/ Mark White Mark White President, Chief Executive Officer and Director
	By: /s/ Martin Ward Martin Ward Chief Financial Officer, Principal Finance and Accounting Officer and Director

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