One Horizon Group, Inc.
Form 10-Q
November 14, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

o 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.)
Weststrasse 1, Baar Switzerland (Address of principal executive offices)	CH6340 (Zip Code)

+41-41-7605820
(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 þ No o

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 þ No o

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	o	Accelerated filer	o
Non-accelerated filer (Do not check if smaller reporting company)	o	Smaller reporting company	þ

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

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 10, 2014, 32,921,533 shares of the registrant’s common stock, par value $0.0001, 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 adapt to rapid changes in the market for voice and messaging services; our ability to retain customers and attract new customers; our ability to establish and expand strategic alliances; governmental regulation and related actions and taxes in our international operations; increased market and competitive risks, including currency restrictions, in our international operations; risks related to the acquisition or integration of future businesses or joint ventures; our ability to obtain or maintain relevant intellectual property rights; intellectual property and other litigation that may be brought against us; failure to protect our trademarks and internally developed software; security breaches and other compromises of information security; our dependence on third party facilities, equipment, systems and services; system disruptions or flaws in our technology and systems; uncertainties relating to regulation of VoIP services; liability under anti-corruption laws; results of regulatory inquiries into our business practices; fraudulent use of our name or services; our ability to maintain data security; our dependence upon key personnel; our dependence on our customers' existing broadband connections; differences between our service and traditional phone services; our ability to obtain additional financing if required; our early history of net losses and our ability to maintain consistent profitability in the future. These and other matters the Company discusses in this Report, or in the documents it incorporates by reference into this Report, may cause actual results to differ from those the Company describes. The Company assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

PART I – FINANCIAL INFORMATION

ONE HORIZON GROUP, INC.
Condensed Consolidated Balance Sheets
September 30, 2014 and December 31, 2013
(in thousands, except share data)
(unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash	$ 650	$ 2,070
Accounts receivable	8,916	7,264
Other assets	624	139
Total current assets	10,190	9,473
Property and equipment, net	239	315
Intangible assets, net	11,515	12,760
Investments	20	23
Total assets	$ 21,964	$ 22,571
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 693	$ 661
Accrued expenses	1,248	964
Accrued compensation	14	59
Income taxes	94	117
Amounts due to related parties	3,500	3,500
Current portion of long-term debt	72	65
Total current liabilities	5,621	5,366
Long-term liabilities		
Long term debt, net of current portion	129	184
Deferred income taxes	235	445
Mandatorily redeemable preferred shares	90	90
Total liabilities	6,075	6,085
Stockholders' Equity		
Preferred stock:		
$0.0001 par value; 50,000,000 shares authorized;		
Mandatorily Convertible Preferred Stock, Series A, 170,940 and no shares issued and outstanding respectively	1	-
Common stock:		
$0.0001 par value, authorized 200,000,000 shares		
issued and outstanding 33,035,069 shares (December 2013 32,920,069)	3	3

Additional paid-in capital	30,025	28,269
Deferred compensation	(268)	-
Accumulated deficit	(14,578)	(13,319)
Accumulated other comprehensive income	398	1,137
Total One Horizon Group, Inc. stockholders' equity	15,581	16,090
Non-controlling interest	308	396
Total stockholders' equity	15,889	16,486
Total liabilities and stockholders' equity	$ 21,964	$ 22,571

See accompanying notes to condensed consolidated financial statements.

ONE HORIZON GROUP, INC.
Condensed Consolidated Statements of Operations
For the three and Nine months ended September 30, 2014 and 2013
(in thousands, except share data)
(unaudited)

	Three Months ended September 30, 2014	Three Months ended September 30, 2013	Nine Months ended September 30, 2014	Nine Months ended September 30, 2013
Revenue	$ 1,641	$ 2,517	$ 4,130	$ 5,690
Cost of revenue:				
Hardware	285	34	413	522
Amortization of software development costs	477	509	1,446	1,359
Gross margin	879	1,974	2,271	3,809
Expenses:				
General and administrative	1,259	1,347	3,577	5,041
Depreciation	26	45	120	120
	1,285	1,392	3,697	5,161
Income (loss) from operations	(406)	582	(1,426)	(1,352)
Other income and expense:				
Interest expense	0	(96)	(2)	(108)
Interest expense - related parties	(14)	(50)	(107)	(150)
Foreign exchange	(5)	(38)	(24)	(38)
Interest income	-	-	2	-
	(19)	(184)	(131)	(296)
Income (loss) before income taxes	(425)	398	(1,557)	(1,648)
Income taxes expense (benefit)	(54)	-	(210)	-
Net income (loss) for the period	(371)	398	(1,347)	(1,648)
Loss attributable to the non-controlling interest	(23)	(29)	(88)	(73)
Net income (loss) for the period attributable to One Horizon Group, Inc.	$ (348)	$ 427	$ (1,259)	$ (1,575)
Less: Preferred stock dividends	(19)	-	(19)	-
Net income (loss) attributable to common stockholders	(367)	427	(1,278)	(1,575)
Earnings (loss) per share attributable to One Horizon Group, Inc. shareholders				
Basic and diluted net income (loss) per share	$ (0.01)	$ 0.01	$ (0.04)	$ (0.05)

Weighted average number of shares outstanding				
Basic and Diluted	33,029	31,767	32,966	31,538

See accompanying notes to condensed consolidated financial statements.

ONE HORIZON GROUP, INC.
Condensed Consolidated Statements of Comprehensive Income (Loss)
For the three and nine months ended September 30, 2014 and 2013
(in thousands)
(unaudited)

	Three Months ended September 30,		Nine Months ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$ (371)	$ 398	$ (1,347)	$ (1,648)
Other comprehensive income (loss):				
Foreign currency translation adjustment gain (loss)	(674)	532	(739)	482
Total comprehensive income (loss)	(1,045)	930	(2,086)	(1,166)
Comprehensive loss attributable to the non-controlling interest	(23)	(29)	(88)	(73)
Comprehensive income (loss) attributable to One Horizon Group, Inc.	$ (1,022)	$ 959	$ (1,998)	$ (1,093)

See accompanying notes to condensed consolidated financial statements

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ONE HORIZON GROUP, INC.
Consolidated Statement of Equity
For the nine months ended September 30, 2014
(in thousands)
(unaudited)

	Preferred Stock		Common Stock							
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Deferred Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
Balance December 31, 2013	-	$ -	32,921	$ 3	$ 28,269	$ -	$ (13,319)	$ 1,137	$ 396	$ 16,486
Net income (loss)							(1,259)		(88)	(1,347)
Foreign currency translations								(739)		(739)
Common Stock issued for services received			15		65					65
Common Stock issued for services to be received in the future			75		323	(323)				
Amortization of deferred compensation						55				55
Options issued for services					387					387
Preferred stock issued for cash, net offering costs of $18	171	1			981					982
Common stock issued for services received			25		108					108
Costs of financing					(108)					(108)

Balance September 30, 2014	171	$1	33,036	$3	$30,025	$(268)	$(14,578)	$398	$308	$15,889

See accompanying notes to consolidated financial statements.

ONE HORIZON GROUP, INC.
Condensed Consolidated Statements of Cash Flows
For the nine months ended September 30, 2014 and 2013
(in thousands)
(unaudited)

	2014	2013
Cash provided by (used in) operating activities:		
Net income (loss) for the period	$ (1,259)	$ (1,575)
Adjustment to reconcile net income (loss) for the period to Net cash provided by (used in) operating activities:		
Depreciation of property and equipment	120	120
Amortization of intangible assets	1,446	1,359
Change in allowance for doubtful accounts	130	-
Common stock issued for services received	120	643
Options issued for services received	387	-
Deferred income taxes	(210)	-
Net income (loss) attributable to non-controlling interest	(88)	(73)
Changes in operating assets and liabilities:		
Accounts receivable	(1,782)	(3,865)
Other assets	(482)	(193)
Accounts payable and accrued expenses	271	997
Net cash provided by (used in) operating activities	(1,347)	(2,587)
Cash used in investing activities:		
Acquisition of intangible assets	(874)	(831)
Acquisition of property and equipment	(48)	(121)
Other assets	-	(196)
Net cash (used in) investing activities	(922)	(1,148)
Cash provided by (used in) financing activities:		
Increase (decrease) in long-term borrowing, net	(48)	(10)
Net proceeds from issuance of preferred stock	982	-
Proceeds from issuance of common stock	-	6,000
Repurchase of common stock	-	(2)
Advances from related parties, net of repayment	-	500

Net cash provided by (used in) financing activities		934		6,488
Increase (decrease) in cash during the period	$	(1,335)	$	2,753
Foreign exchange effect on cash		(85)		-
Cash at beginning of the period		2,070		699
Cash at end of the period	$	650	$	3,452

See accompanying notes to condensed consolidated financial statements.

ONE HORIZON GROUP, INC.
Condensed Consolidated Statements of Cash Flows (continued)
For the nine months ended September 30, 2014 and 2013
(in thousands)
(unaudited)

Supplementary Information:

	2014	2013
Interest paid	$ -	$ -
Income taxes paid	-	-
Non-cash transactions:		
Contribution of software for non-controlling interest in exchange for software with a fair value of $500	-	500

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2014

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, 2013, as filed with the Securities and Exchange Commission on April 15, 2014.

Principles of Consolidation

The September 30, 2014 and 2013 consolidated financial statements include the accounts of One Horizon Group, Inc. and its wholly owned subsidiaries OHG, Horizon Globex GmbH, Abbey Technology GmbH, One Horizon Hong Kong Limited, Horizon Globex Ireland Limited, Global Phone Credit Limited, One Horizon Group Pte., Limited and Ishuo 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

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

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

Cash

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

Accounts Receivable

Accounts receivable result primarily from sale of software and licenses to customers and are recorded at their principal amounts. Receivables are considered past due once they exceed the terms of the sales transaction. When necessary, the Company provides an allowance for doubtful accounts that is based on a review of outstanding receivables, historical collection information, and current economic conditions. There was an allowance of $342,000 and $212,000 for doubtful accounts at September 30, 2014 and December 31, 2013, respectively. Receivables are generally unsecured. Account balances are charged off against the allowance when the Company determines it is probable the receivable will not be recovered. The Company does not have off-balance sheet credit exposure related to its customers. As at September 30, 2014 and December 31, 2013, two customers accounted for 22% and two customers accounted for 26%, respectively, of the accounts receivable balance.

Property and Equipment

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

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

Fair Value Measurements

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

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

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

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

Intangible Assets

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

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 nine months ended September 30, 2014 and 2013 software development costs of $874,000 and $831,000, respectively, have been capitalized.

Impairment of Other Long-Lived Assets

The Company evaluates the recoverability of its property and equipment and other long-lived assets whenever events or changes in circumstances indicate impairment may have occurred. An impairment loss is recognized when the net book value of such assets exceeds the estimated future undiscounted cash flows attributed to the assets or the business to which the assets relate. Impairment losses, if any, are measured as the amount by which the carrying value exceeds the fair value of the assets. During the nine months ended September 30, 2014 and 2013 the Company identified no impairment losses related to the Company's long-lived assets.

Revenue Recognition

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

Software and licenses – revenue from sales of perpetual licenses to customers when payments 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 payment from the customer becomes due. Revenue from sales of perpetual licenses are payable over a period exceeding a year, and those payments are variable based upon customer usage are recognized as payments from customers become due.

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

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

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 if the company's historical experience is based on sufficiently similar arrangements, the Company considers the various factors including the types of customers and products, product life cycle, elements included in the arrangement, length of payment terms and economics of license arrangement.

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

Leases

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

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

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

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

Advertising Expenses

It is the Company's policy to expense advertising costs as incurred. No advertising costs were incurred during the three and nine months ended September 30, 2014 and 2013.

Research and Development Expenses

Research and development expenses include all direct costs, primarily salaries for Company personnel and outside consultants, related to the development of new products, significant enhancements to existing products, and the portion of costs of development of internal-use software required to be expensed. Research and development costs are charged to operations as incurred with the exception of those software development costs that may qualify for capitalization. The Company incurred no research and development costs in the three and nine months ended September 30, 2014 and 2013.

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

For the quarter ended September 30, 2013, there were no potential issuable shares included in the diluted earnings per share calculation as the conversion price of those instruments was all out-of-the-money. For the nine months period ended September 30, 2013, potential issuable shares were not included in the computation of diluted earnings per share under the treasury stock method because their effect would be anti-dilutive due to net losses incurred. For the three and nine months ended September 30, 2014, options, warrants and convertible debt were not included in the computation of diluted earnings per share because their effect would be anti-dilutive due to net losses incurred under the treasury stock method.

Accumulated Other Comprehensive Income (Loss)

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

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the fiscal year. The Company makes estimates for, among other items, useful lives for depreciation and amortization, determination of future cash flows associated with impairment testing for long-lived assets, determination of the fair value of stock options and warrants, 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 Company has the following financial instruments: cash, amounts due to related parties and long-term debt. The carrying value of these financial instruments approximates their fair value due to their liquidity or their short-term nature valued consistent with the use of level 2 inputs. The fair value of amounts due to related parties is not determinable.

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 is consistent with the Company's valuation techniques previously utilized for options in footnote disclosures.

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 principle 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 2018. Early adoption is not permitted. The ASU allows for either full retrospective or modified retrospective adoption. The Company are evaluating the transaction method that will be elected and the potential effects of the adoption of this ASU on its 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)

	September 30 2014	December 31 2013
Leasehold improvements	$265	$265
Motor vehicle	120	120
Equipment	351	310
	736	695
Less accumulated depreciation	(497)	(380)
Property and equipment, net	$239	$315

Note 5. Intangible Assets

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

	September 30 2014	December 31 2013
Horizon software	$17,332	$17,599
ZTEsoft Telecom software	494	497
Contractual relationships	885	885
	18,711	18,981
Less accumulated amortization	(7,196)	(6,221)
Intangible assets, net	$11,515	$12,760

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

Note 6. Long-term Debt

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

	September 30 2014	December 31 2013
Vehicle loan	$39	$51
Equipment loan	18	27
Office term loan	144	171
	201	249
Less current portion	(72)	(65)
Balance	$129	$184

Note 7. Related-Party Transactions

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

	September 30 2014	December 31 2013
Loans due to stockholders	$3,500	$3,500

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Loans due to stockholders include:

- Balance of loans, advanced during 2011, of $1,500,000 which are unsecured and have an interest rate of 10%. During the nine months ended September 30, 2014 and 2013 interest of $107,000 and $150,000, respectively, has been accrued.
- Loans advanced by an officer and director together with a former officer and director during 2012 totaling $1,500,000 which is unsecured and has an interest rate of 0.21%. The loan is due on or before December 31, 2014 and can be repaid in cash or shares of ordinary shares of OHG at an exchange price of $5.14 per share.
- Convertible loans advanced in January 2013 from an officer and director together with a former officer and director in the amount of $250,000 each. These convertible loans bear an interest rate of 0.21% and is repayable on or before January 22, 2015. The Company has the option to repay the loans at any time, without penalty, at any time in cash or shares of common stock of the Company at a price of $5.14 per share. If the Company elects to repay the convertible loan in full by the issuance of shares the Company will issue 48,650 shares of common stock for repayment of the loan.

During the year ended June 30, 2011, the Company entered into a sales contract, in the normal course of business with a customer in which the Company holds an equity interest. The customer purchased perpetual software license with total commitment of $2.0 million, of which $45,000 and $nil has been recognized in the nine months ended September 30, 2014 and 2013, respectively. The Company owns a cost based investment interest of 18% of the voting capital of the customer.

Note 8. Share Capital

Preferred Stock

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

On July 21, 2014, the Company completed a private placement of 170,940 shares of Series A Preferred Stock that also included 100,000 Class B warrants convertible into common stock on a one-to-one basis at an exercise price of $4.00 per share. The net proceeds of the offering were $982,000 after deducting offering costs.

Unless converted earlier, each share of the Mandatorily Convertible Series A Preferred Stock will automatically convert on July 20, 2016, into common stock at a conversion price of $5.85 per share, subject to anti-dilution adjustments. Subject to certain restrictions, at any time prior to July 20, 2016, holders of the Mandatorily Convertible Series A Preferred Stock may elect to convert all or a portion of their shares into common stock at the conversion rate.

The holders of Mandatorily Convertible 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 Mandatorily Convertible Series A 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 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 July 20, 2016, the Series A Preferred Stock will be redeemed at a price equal to the original purchase price plus all accrued but unpaid dividends.

170,940 shares of Series A preferred stock are issued and outstanding as of September 30, 2014.

Mandatorily Redeemable Preferred Shares (Deferred Stock)

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

Common Stock

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

During the nine months ended September 30, 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 to be received with a fair value of $322,500

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

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

Stock Purchase Warrants

At September 30, 2014, the Company had reserved 1,426,435 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

During the nine months ended September 30, 2014 there were 100,000 warrants issued in connection with the $1 million private placement. In connection with and as a consideration of closing of the $1 million private placement, 403,225 warrants issued in the financing of February 2013 were increased to 1,209,675 warrants; and the exercise price was reduced to $4.25 per share and the exercise period was extended to January 2019. There were no warrants exercised during the nine months ended September 30, 2014.

Note 9. 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 nine months ended September 30, 2014, the Company issued options to purchase 500,000 shares of common stock under the 2013 Equity Incentive Plan. The options become fully vested on January 15, 2017 and are exercisable, at an exercise price of $4.54 per common share, to January 15, 2024. On January 1, 2014, the number of shares available for granting awards under the 2013 Equity Incentive Plan was increased by 1,000,000 shares.

A summary of the Company's 2013 Equity Incentive Plan as of June 30, 2014, is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2013	-	$
Options issued	500,000	4.54
Outstanding at September 30, 2014	500,000	4.54

The fair value of these options, using the Black-Scholes option-pricing model, is estimated to be $2,200,000. This expense, less an estimated forfeiture rate of 30%, will be recognized over the three year vesting period. The amount of $387,000 has been recognized during the nine months ended September 30, 2014. As at September 30, 2014, there was unrecognized compensation expense of approximately $1.2 million to be recognized over a period of 2.25 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 September 30, 2014, is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2013	584,650	$0.53
Options forfeited	-	-
Outstanding at September 30, 2014	584,650	$0.53

Other than the options to purchase 500,000 common shares under the 2013 Equity Incentive Plan, there were no options issued, exercised or forfeited during the nine months ended September 30, 2014.

The following table summarizes stock options outstanding at September 30, 2014:

Exercise Price	Number Outstanding at September 30, 2014	Average Remaining Contractual Life (Years)	Number Exercisable at September 30, 2014	Intrinsic Value at September 30, 2014
$0.51	850	1.08	850	$1,666
0.53	291,900	5.75	291,900	566,286
0.53	291,900	8.25	-	-
4.54	500,000	9.25	-	-

At September 30, 2014, 4,584,650 shares of common stock were reserved for all outstanding options and future commitments under the 2013 Equity Incentive Plan.

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

Note 10. Commitments and Contingencies

The Company has an agreement with an employee to pay for certain services 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 $81,000 and $166,147, respectively, for the nine months ended September 30, 2014 and 2013.

Minimum contractual commitments, as of September 30, 2014, are as follows:

	Operating leases	Long-term Financing
2014	$ 64,000	$ 18,000
2015	75,000	87,000
2016	75,000	48,000
2017	75,000	45,000
2018	-	4,000

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 September30, 2014 and 2013 and notes thereto contained elsewhere in this Report, and our annual report on Form 10-K for the twelve months ended December 31, 2013 and 2012 including the consolidated financial statements and notes thereto. The following discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results, expectations and plans discussed in these forward-looking statements. See "Cautionary Note Concerning Forward-Looking Statements."

Overview

Business

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

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

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 is forming a number of joint ventures with local partners in the regions of interest to seize upon this opportunity. We expect to form joint ventures when local regulations prevent us from accessing a particular market directly. As of the date of this report, we have formed joint ventures in India, Russia and China.

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

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

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

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

We believe that winning new business with SingTel and Smart demonstrates the acceptance of our carrier-grade technology by tier 1 operators, especially in Asia. Our current contract backlog of $65.81 million, of which only $9.65 million was recognized through September 30, 2014, which indicates great potential of our existing contracts.

During the first nine months of 2014 fiscal year, Chongqing Leixin Network Technology (“Leixin”), a joint venture with Leiqiang Telecommunications Co. Ltd (“Leiqiang”) through a PRC entity controlled by us delivering a Value Added Virtual SIM solution smartphones throughout China, commenced the first phase of its infrastructure rollout in six cities in China: Tianjin, Beijing, Chongqing, Changchun, Nanjing and Shijiazhuang. These initial locations will connect to the national telephone network to commence the commissioning of the Leixin VoIP service in China, brand name Aishuo. To date, we have successfully installed eight servers in support of Chinese smart phone app with interconnecgs to the ALiPay and UnionPay credit card and micro-payments services in China. The smart phone app will be able to provide various optimized internet value added services to its mobile subscribers including but not limited to voice and social media services including text, picture, video and geo-location messaging. These value added services are made possible through the creation of a "Virtual SIM" and One Horizon's proprietary communication software, an industry first. Combined with One Horizon's location aware mobile advertising services, the Aishuo branded smart phone app is expected to drive multiple revenue streams from the supply of its value-added services. The service will seek to acquire 100 million new app subscribers for the smartphone app over a three-year period and expects to achieve industry average revenues per user (ARPU) for similar social media apps.

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

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

Offering and Market Related

During the three months ended September 30, 2014, we received approval by NASDAQ's Listing Qualifications Department to list our common stock on the NASDAQ Capital Market. Our common stock commenced trading on the NASDAQ Capital Market on July 9, 2014 under the same ticker symbol "OHGI". We also closed a private placement of $1,000,000 for a total of 10 units at a purchase price of $100,000 per Unit, each consisting of, (i) 17,094 shares of the Company's Series A Redeemable Convertible Preferred Stock, par value $0.0001 per share, initially convertible into 17,094 shares of the Company's common stock, par value $0.0001 per share, and (ii) 10,000 Class B Warrants, each exercisable to purchase 1 share of Common Stock at an exercise price of $4.00 per share. The Financing was completed in reliance upon the exemption from securities registration afforded by Regulation S ("Regulation S") as promulgated under the Securities Act of 1933.

Corporate Governance

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

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

Research & Development

During the nine months ended September 30, 2014, we expanded our Irish software development team with the addition of a new senior software developer at our recently opened software research and development office at the Nexus Innovation Center on the campus of the University of Limerick. As part of this process, we signed an agreement with the Industrial Development Agency (IDA) Ireland whereby IDA granted certain financial assistance toward the cost of establishing and carrying a service undertaking for a software development center in Ireland in connection with our VoIP software platform. The software development center is intended to give employment of 25 persons and could allow us to more quickly increase the size of this research and development team. We believe that the further expansion of our Irish development team will allow the further advance of our unique mobile VoIP solutions.

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

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

We continued our research and development of the Horizon product platform. The Swiss based team made significant strides towards the next generation of the product suite with particular emphasis going to the User Interface (UI) re-engineering. Further to the UI the Research and Development for version 2.0, our Irish based team made progress on the latest multi-core solution with a view to releasing this software in the third quarter of 2014. The software team in China is pushing ahead with integrating the user feedback garnered from Chinese students using our Application on the smartphone and also working on a new and exciting method for Direct Inward Dial number rental for the Chinese marketplace.

Results of Operations

Comparison of three months ended September 30, 2014 and 2013

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

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

	Three Months Ended September 30,		Change	
	2014	2013	Increase/ (decrease)	Percentage Change
Revenue	$ 1,641	$ 2,517	$ (876)	(34.8%)
Cost of revenue	762	543	219	40.3
Gross margin	879	1,974	(1,095)	(55.5)
Operating expenses:				
General and administrative	1,259	1,347	(88)	6.5
Depreciation	26	45	(19)	(42.2)
Total operating expenses	1,285	1,392	(107)	(7.7)
Income (loss) from operations	(406)	582	(988)	(30.2)
Other income (expense)	(19)	(184)	165	(90.0)
Income (Loss) before income taxes	(425)	398	(823)	(206.8)
Income taxes (recovery)	(54)	-	(54)	-
Net income (loss) for period	(371)	398	(769)	
Net (loss) attributable to non-controlling interest	(23)	(29)	6	
Net income (loss) attributable to One Horizon Group, Inc.	(348)	427	(775)	

Revenue: Our revenue for the three months ended September 30, 2014 was approximately $1.641 million as compared to approximately $2.517 million for the three months ended September 30, 2013, a decrease of roughly $0.88 million, or 34.8%. The decrease was primarily due to revenue recognized on a Global Exchange sale to a major tier one telecommunications company based in Asia of $0.5 million and also amounts under contracts signed in prior periods which were recognized in the comparative period. Going forward, the Company expects this trend to reverse as more companies have signed up for the Horizon Platform.

As of September 30, 2014, the following table sets forth the value of all existing contracts as it related to master licenses and the amount of revenue recognized to date as well as the revenue recognized during the three months ended September 30, 2014. This table represents the contract value for the sale of the master license, excluding other revenues recognized under the terms of the contract for maintenance, user licenses, and other sales.

Customer Type	Contract Value	Master License Balance to be recognized	Revenue Recognized to date	Revenue for 3 months ending 9/30/2014
Tier 1	$ 13,815,000	$ 9,300,000	$ 4,515,000	$ 602,500
Tier 2	52,000,000	46,861,419	5,138,581	-
Total	$ 65,815,000	$ 56,161,919	$ 9,653,581	$ 602,500

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In addition to the above revenue recognized from Master Licenses of approximately $602,000, the Company also recognized approximately $1,039,000 from the sale of hardware, user licenses, consultancy and maintenance services during the three months ended September 30, 2014.

Cost of Revenue: Cost of revenue was approximately $762,000 or 47.3% of sales for the three months ended September 30, 2014, compared to cost of revenue of $543,000 or 21.6% of sales for the three months ended September 30, 2013. 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 in sales of ancillary hardware and the associated cost of sale during the three months ended September 30, 2014 as compared to the same quarter in 2013.

Gross Profit: Gross profit for the three months ended September 30, 2014 was approximately $879,000 as compared to $1.97 million for the three months ended September 30, 2013, a decrease of approximately 55.5%. The decrease was mainly due to the reduced revenue as set forth above herein. Moving forward, management expects that gross profit will begin increasing with the growth in business 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 $1.29 million and $1.39 million during the three months ended September 30, 2014 and 2013, respectively. The operating expenses reduced by approximately $88,000 from the same three month period in the previous year. In the quarter to September 30, 2013 the Company incurred compensation of $50,000 relating to the issue of 33,333 restricted shares. This represented a one-time non cash change related to management efforts to develop corporate governance and capital market strategies as well as investor and public relations program for the Company's entry into the U.S. public markets.

Net income (Loss): Net Loss for the three months ended September 30, 2014 was approximately $371,000 as compared to net income of approximately $398,000 for the same period in 2013. The decrease was primarily due to revenue recognized under amended Revenue Recognition policy on Master Licenses during the quarter ended September 30, 2013 from contracts signed in 2011, 2012 and 2013 totaling $1.55 million of which only $0.71 million related to contracts signed in the actual quarter coupled with a slight increase in cost of sales as a result of an increase in the sales of ancillary hardware and the associated cost of sale. 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.

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 $23,000 for the three months ended September 30, 2014. The remaining portion of net loss of $237,000 for the three months ended September 30, 2014 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 $29,000 for the three months ended September 30, 2013. The remaining portion of net income of $427,000 for the three months ended September 30, 2013 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.

Comparison of nine months ended September 30, 2014 and 2013

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

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

	Nine Months Ended September 30,		Change	
	2014	2013	Increase/ (decrease)	Percentage Change
Revenue	$ 4,130	$ 5,690	$ (1,560)	(27.4%)
Cost of revenue	1,859	1,881	(22)	(1.2)
Gross margin	2,271	3,809	(1,538)	(40.4)
Operating expenses:				
General and administrative	3,577	5,041	(1,464)	(29.0)
Depreciation	120	120	-	-
Total operating expenses	3,697	5,161	(1,464)	(28.4)
Loss from operations	(1,426)	(1,352)	(74)	(5.5)
Other income (expense)				
Income (Loss) before income taxes	(131)	(296)	(165)	-
Income taxes (recovery)	(210)	-	210	-
Net Loss for period	(1,347)	(1,648)	(301)	(18.3)
Net loss attributable to non-controlling interest	(88)	(73)	(15)	-
Net loss attributable to One Horizon Group, Inc.	(1,259)	(1,575)	(316)	(20.0)

Revenue: Our revenue for the nine months ended September 30, 2014 was approximately $4.13 million as compared to approximately $5.69 million for the nine months ended September 30, 2013, a decrease of roughly $1.56 million, or 27.4%. The decrease was primarily due to revenue generated in 2013 for the maintenance of a banking software which is now no longer supported by One Horizon, and licenses for a customer booked in January 2013 which were due for renewal in December 2013 and consequently issued and invoiced in December 2013, two of which accounted for approximately $700,000 in revenue. In addition there were revenues recognized in the comparative period on a Global Exchange sale to a major tier one telecommunications company based in Asia of $0.5 million and also amounts under contracts signed in prior periods which were also recognized in the comparative period The Company expects revenue to increase as we have new companies signed up for Horizon Platform.

The following table sets forth the value of all existing contracts as it related to master licenses and the amount of revenue recognized as of September 30, 2014 as well as the revenue recognized during the 6 months ended June 30, 2014. This table represents the contract value for the sale of the master license, excluding other revenues recognized under the terms of the contract for maintenance, user licenses, and other sales.

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Customer Type	Contract Value	Master License Balance to be recognized	Revenue recognized to date	Revenue for 9 months ending 9/30/2014
Tier 1	$ 13,815,000	$ 9,300,000	$ 4,515,000	$ 1,102,500
Tier 2	52,000,000	46,861,419	5,138,581	660,000
Total	$ 65,815,000	$ 56,161,419	$ 9,653,581	$ 1,762,500

In addition to the revenue recognized from Master Licenses of approximately $1,762,500, we also recognized an amount of approximately $2,368,000 from the sale of user licenses, consultancy and maintenance services for the nine months ended September 30, 2014.

Cost of Revenue: Cost of revenue was approximately 1.86 million for the nine months ended September 30, 2014, or 45.0% of sales, compared to cost of revenue of $1.88 million, or 33.0% of sales for the nine months ended September 30, 2013. Our cost of sales is primarily composed of the amortization of software development costs. In addition, we recognize costs relating to the provision of hardware when a customer requires such ancillary hardware.

Gross Profit: Gross profit for the nine months ended September 30, 2014 was approximately $2.27 million as compared to $3.81 million for the nine months ended September 30, 2013, a decrease of roughly $1.54 million or 40.4%. The decrease was mainly due to the reduced revenue as set forth above herein. However, management anticipate gross profit to increase with the growth of our business and the global smartphone market as well as our established expansion plan of entering into markets with high population density, high penetration of mobile phones, congested mobile cellular networks and high adoption of smartphones.

Operating Expenses: Operating expenses including general and administrative expenses and depreciation were approximately $3.70 million and $5.16 million during the nine months ended September 30, 2014 and 2013, respectively. Operating expenses represented 86.7% of sales for the nine months ended September 30, 2014 as compared to 90.7% of sales for the same period in 2013. The decrease was mainly due to reduced accounting and legal costs for the nine months ended September 30, 2014. For the same period in 2013, we incurred higher accounting and legal costs following the share exchange between and among Intelligent Communication Enterprise Corp. and One Horizon Group PLC closed on November 20, 2012. The decrease was also partially due to reduced staff cost in 2014 as we transited certain development positions from Switzerland to Ireland and China. Going forward, management expects operating costs to rise due to various public company-related expenses including share-based compensation, and various legal, accounting and consulting services. Despite the expected increase in operating costs, management believes that operating costs as a percentage of sales will drop as sales of the Horizon Platform solution are expected to continue to grow.

Net Loss: Net Loss for the nine months ended September 30, 2014 was approximately $1.35 million as compared to net loss of approximately $1.65 million for the same period in 2014. The decrease in net loss reflected a reduction in operating expenses for reasons set out above herein. We showed a breakeven position when adjusted for non cash items of depreciation and amortization. Management believes that the net loss will continuously decrease with our business growth, particularly as our customers roll out the service using Horizon software provided that we continue to sell the Horizon Platform solution to new telecommunications company customers globally.

Non-Controlling Interest: The non-controlling interest holders in our Chinese subsidiary were attributed their 25% share of the net loss of the Company in the amount of $88,000 for the nine months ended September 30, 2014. The remaining portion of net loss of $73,000 for the nine months ended September 30, 2014 was attributable to the stockholders of the Company.

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

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

Currency translation adjustments resulting from this process are included in accumulated other comprehensive income in the consolidated statement of shareholders' equity and amounted to approximately $739,000 for the nine months ended September 30, 2014.

Liquidity and Capital Resources

Nine Months Ended September 30, 2014 and September 30, 2013

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

	For the Nine Months Ended September 30 (in thousands)	
	2014	2013
Net cash provided by (used in) operating activities	$ (1,347)	$ (2,587)
Net cash (used in) investing activities	$ (922)	$ (1,148)
Net cash provided by (used in) financing activities	$ 934	$ 6,488

Net cash used by operating activities was approximately $1.35 million for the nine months ended September 30, 2014 as compared to net cash used of approximately $2.59 million for the same period in 2013. The decrease in cash used by operations was primarily due to an increase in cash collected from customers as they move forward with the roll out of the Horizon service.

Net cash used in investing activities was approximately $0.92 million and $1.15 million for the nine months ended September 30, 2014 and 2013, respectively. Net cash used in investing activities was primarily focused on acquisitions of intangible assets and property and equipment.

Net cash provided in financing activities was $0.93 million for the nine months ended September 30, 2014 as compared to net cash provided by financing activities of $6.49 million for the nine months ended September 30, 2013. Cash provided by financing activities in 2014 was primarily due to proceeds from issuance of preferred stock. Cash provided by financing activities in 2013 was primarily due to proceeds from the issuance of common stock.

Our working capital as of September 30, 2014 was approximately $4.7 million. Our working capital as of December 31, 2013 was approximately $4.1 million.

ITEM 3.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4.CONTROLS AND PROCEDURES.

(a)Evaluation of Disclosure Controls and Procedures

Our management maintains disclosure controls and procedures designed to provide reasonable assurance that material information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that the information is accumulated and communicated to our management, including our current chief executive officer and chief financial officer (our "Certifying Officers"), as appropriate to allow timely decisions regarding required disclosure. We performed an evaluation, under the supervision and with the participation of our management, including our Certifying Officers, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Certifying Officers have concluded that our disclosure controls and procedures were ineffective in ensuring that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission, and were ineffective in providing reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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, 2013, 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, 2013, filed with the SEC on April 15, 2014)

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

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. We are currently not aware of any legal proceedings or claims that would require disclosure under Item 103 of Regulation S-K. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

ITEM 1A. RISK FACTORS

Not applicable.

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

In July 2014, We also closed a private placement of $1,000,000 for a total of 10 units at a purchase price of $100,000 per Unit, each consisting of, (i) 17,094 shares of the Company's Series A Redeemable Convertible Preferred Stock, par value $0.0001 per share, initially convertible into 17,094 shares of the Company's common stock, par value $0.0001 per share, and (ii) 10,000 Class B Warrants, each exercisable to purchase 1 share of Common Stock at an exercise price of $4.00 per share. The Financings were completed in reliance upon the exemption from securities registration afforded by Regulation S ("Regulation S") as promulgated under the Securities Act of 1933.

In connection with and as a consideration to the closing of the $1M private placement, on the same day, we amended the Class A warrants issued in a $6M offering closed in February 2013 whereby the exercise price of Class A warrants was reduced from $5.94 to $4.25 per share and the amount of shares issuable upon exercise of Class A warrants were increased from 403,225 to 1,209,675. In addition, the expiration date of Class A warrants was extended an additional 12 months.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	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.
31.2	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.
32.1+	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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

** Furnished herewith. XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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

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 14, 2014	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