One Horizon Group, Inc.
Form 10-Q
May 13, 2016

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 **March 31, 2016**

or

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

For the transition period from _____________ to _____________

Commission File Number: **000-10822**

One Horizon Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

+353-61-518477

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 þ 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 (Do not check if smaller reporting	¨	Smaller reporting company	þ

company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ 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 May 13, 2016, 35,045,423 shares of the registrant's common stock, par value $0.0001 per share, were outstanding.

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CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

The statements made in this Report, and in other materials that the Company has filed or may file with the Securities and Exchange Commission, in each case that are not historical facts, contain “forward-looking information” within the meaning of the Private Securities Litigation Reform Act of 1995, and Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, which can be identified by the use of forward-looking terminology such as “may,” “will,” “anticipates,” “expects,” “projects,” “estimates,” “believes,” “seeks,” “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

March 31, 2016 and December 31, 2015

(in thousands, except share data)

(unaudited)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash	$ 1,583	$ 1,772
Accounts receivable (net), current portion	3,058	3,560
Other assets	473	402
Total current assets	5,114	5,734
Property and equipment, net	83	96
Intangible assets, net	9,728	9,823
Investment	18	18
Total assets	$ 14,943	$ 15,671
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 158	$ 223
Accrued expenses	144	220
Accrued compensation	53	18
Income taxes	90	90
Current portion of long-term debt	2	5
Total current liabilities	447	556
Long-term liabilities		
Amount due to related parties, net of current portion	2,354	2,354
Convertible debenture	2,744	2,636
Deferred income taxes	204	215
Mandatorily redeemable preferred shares	80	73
Total liabilities	5,829	5,834

Stockholders' Equity		
Preferred stock:		
$0.0001 par value, authorized 50,000,000; issued and outstanding 170,940 shares (December 2015 - 170,940)	1	1
Common stock:		
$0.0001 par value, authorized 200,000,000 shares issued and outstanding 35,147,283 shares (December 2015 – 35,147,283)	3	3
Additional paid-in capital	36,258	36,070
Retained Earnings (Deficit)	(27,484)	(26,201)
Accumulated other comprehensive income	336	(36)
Total One Horizon Group, Inc., stockholders' equity	9,114	9,837
Total liabilities and stockholders' equity	$ 14,943	$ 15,671

See accompanying notes to condensed consolidated financial statements.

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ONE HORIZON GROUP, INC.

Condensed Consolidated Statements of Operations

For the three months ended March 31, 2016 and 2015

(in thousands, except per share data)

(unaudited)

	Three Months ended March 31, 2016	2015
Revenue	$ 609	$ 745
Cost of revenue - Hardware	26	61
- Amortization of intangibles	512	512
	538	573
Gross margin	71	172
Expenses:		
General and administrative	964	953
Depreciation	15	20
Research and development	188	132
	1,167	1,105
Loss from operations	(1,096)	(933)
Other income and expense:		
Interest expense	(180)	(90)
Foreign exchange	7	85
	(173)	(5)
Loss before income taxes	(1,269)	(938)
Income taxes (recovery) – deferred	(11)	-
Net loss for the period	(1,258)	(938)
Net loss attributable to the non-controlling interest	-	(5)
Net loss for the period attributable to One Horizon Group, Inc.	(1,258)	(933)

Less: Preferred Dividends	(25)	(25)
Net loss attributable to One Horizon Group, Inc. Common stockholders	$ (1,283)	$ (958)
Loss per share attributable to One Horizon Group, Inc. stockholders		
Basic net loss per share	$ (0.04)	$ (0.03)
Diluted net loss per share	$ (0.04)	$ (0.03)
Weighted average number of shares outstanding Basic and diluted	35,147	33,281

See accompanying notes to condensed consolidated financial statements.

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ONE HORIZON GROUP, INC.

Condensed Consolidated Statements of Comprehensive Income (Loss)

For the three months ended March 31, 2016 and 2015

(in thousands)

(unaudited)

	Three Months ended March 31, 2016	2015
Net loss	$ (1,258)	$ (933)
Other comprehensive income:		
Foreign currency translation adjustment gain	372	292
Comprehensive loss	(886)	(641)
Comprehensive loss attributable to the non-controlling interest	-	(5)
Total comprehensive loss	$ (886)	$ (646)

See accompanying notes to condensed consolidated financial statements

ONE HORIZON GROUP, INC.

Condensed Consolidated Statement of Stockholders' Equity

For the three months ended March 31, 2016

(in thousands)

(unaudited)

	Preferred Stock		Common Stock				Accumulated Other	
	Number of Shares	Amount	Number of Shares	Amount	**Additional Paid-in Capital**	**Retained Earnings (Deficit)**	**Comprehensive Income (Loss)**	**Total Equity**
Balance December 31, 2015	171	$ 1	35,148	$ 3	$ 36,070	$ (26,201)	$ (36)	$ 9,837
Net loss						(1,258)		1,258)
Foreign currency translations							372	372
Preferred dividends						(25)		(25)
Options issued for services					188			188
Balance March 31, 2016	171	$ 1	35,148	$ 3	$ 36,258	$ (27,484)	$ 336	$ 9,114

See accompanying notes to condensed consolidated financial statements

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ONE HORIZON GROUP, INC.

Condensed Consolidated Statements of Cash Flows

For the three months ended March 31, 2016 and 2015

(in thousands)

(unaudited)

	2016	2015
Cash used in operating activities:		
Operating activities:		
Net loss for the period	$(1,258)	$(933)
Adjustment to reconcile net loss for the period to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	15	20
Amortization of intangible assets	512	512
Increase in allowance for doubtful accounts	100	100
Amortization of debt issue costs	33	33
Amortization of beneficial conversion feature	25	26
Amortization of debt discount	50	-
Amortization of deferred compensation	-	53
Gain on settlement of lease	-	36
Options issued for services	188	129
Net loss attributable to non-controlling interest	-	(5)
Changes in operating assets and liabilities:		
Accounts receivable	402	(23)
Other assets	(71)	(8)
Accounts payable and accrued expenses	(106)	(517)
Deferred income taxes	(11)	-
Net cash used in operating activities	(121)	(577)
Cash raised by (used in) investing activities:		
Acquisition of intangible assets	(116)	(289)
Acquisition of property and equipment	(2)	-
Proceeds from disposition of property and equipment	-	32
Net cash (used in) investing activities	(118)	(257)
Cash used in financing activities:		

(Decrease) in long-term borrowing, net	(3)	(169)
Advances from (Repayments to) related parties, net	-	(270)
Dividends paid	(25)	-
Net cash used in financing activities	(28)	(439)
(Decrease) in cash during the period	(267)	(1,273)
Foreign exchange effect on cash	78	24
Cash at beginning of the period	1,772	3,172
Cash at end of the period	$1,583	$1,923

See accompanying notes to condensed consolidated financial statements.

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ONE HORIZON GROUP, INC.

Condensed Consolidated Statements of Cash Flows (continued)

For the three months ended March 31, 2016 and 2015

(in thousands)

(unaudited)

Supplementary Information:

	2016	2015
Interest paid	$ -	$ -
Income taxes paid	-	-

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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. Its subsidiary Horizon Globex GmbH provides our software and hosted VoIP services under perpetual license arrangements on a business to business basis throughout the world to telecommunication companies. OHGI through its Chinese company Suzhou Aishuo Network Information Co. Ltd. provides the Aishuo App to end user customer through App stores based in China. Our Aishuo customers purchase call credits for Public Service Telephone Network (PSTN) access using a variety of Chinese on-line payment services including Union Pay and Apple Pay.

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, 2015, as filed with the Securities and Exchange Commission on March 31, 2016.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of One Horizon Group, Inc. and its wholly owned subsidiaries One Horizon Group plc (OHG), Horizon Globex GmbH, Abbey Technology GmbH, One Horizon Group Pte., Limited, Horizon Globex Ireland Limited, Global Phone Credit Limited and One Horizon Hong Kong Limited, and its wholly-owned subsidiary, Horizon Network Technology Co. Ltd. (HNT). In addition, included in the condensed consolidated financial statements for the three months ended March 31, 2016, are the accounts of Suzhou Aishuo Network Information Co., Ltd. which is controlled by One Horizon Group, Inc. through various contractual arrangements (Note 3).

During the year ended December 31, 2015, the minority parties which held ownership interests in HNT returned their shareholdings to HNT such that HNT is now fully owned by the Company. The amount of consolidated net loss attributable to the Company and the non-controlling interest, up to the time that the shareholdings were returned, are both presented in the face of the Condensed Consolidated Statement of Operations.

Note 2. Summary of Significant Accounting Policies

Reclassification

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 financial presentation. These reclassifications have no impact on net loss.

Basis of Accounting and Presentation

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

Foreign Currency Translation

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

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

Cash

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

Accounts Receivable

Accounts receivable result primarily from sale of software and licenses to customers and are recorded at their principal amounts. The categories of sales and receivables and their terms of payment are as follows:

a) Master License Agreement ("Agreement") deposits – these deposits are payable in accordance with the terms of the Agreement. The deposits are invoiced and recognized when the Agreement is signed providing the deposits are due to be received within 12 months. When the deposits under the Agreement are due in later periods, the later deposits are invoiced when they are due.

b) Maintenance and operational fees and end user licenses fees– these charges are invoiced and recognized when a customer is due to pay them under the Agreement. In some Agreements, the charges are invoiced and payable when the service/licenses have been delivered by the Company. In the other cases, the Company has agreed to payments on revenue share basis whereby the Company will receive an agreed proportion of a customer's revenue from its operation of the Horizon service. On revenue share basis, the income for maintenance and operational fees together with end user licenses fees are not recognized until these charges are invoiced and due. In September 2014, the Company reported that it had converted a significant number of its customers to a revenue share basis of collection (prior revenue was recognized in accordance with revenue recognition policies - see note in Revenue Recognition) and the balance outstanding at the point of conversion for those customers will be collected prior to the commencement of recognizing income on revenue share basis. In addition, on revenue share basis, the Company also offers a hosted service where a customer can buy vouchers for resale of minutes to be used over the Public Service Telephone Network ("PTSN"). These voucher sales are recognized when invoiced and payment terms are 30 days.

Accounts receivable balances from certain customers arose from revenue recognised prior to September 30, 2014. The effective date as of which many of the company's customers entered into revenue sharing arrangements. Those revenue sharing arrangements changed the basis under which the customers would pay their existing balances, as described, effective starting as early as October 1, 2014.

Revenue that has been recognized under category b), prior to the Company's conversion of Tier 2 customers to revenue share arrangements on October 1, 2014, was based on invoices provided to customers as payments became due. As of March 31, 2016 and December 31, 2015, a significant portion of those receivables remain uncollected, which management attributes in part to the Company's conversion of those customers to a revenue share arrangement. Considering the effects of the revenue share arrangements on collection of accounts receivable and the timing of those collections, along with other factors, management has estimated the amounts they expect to collect within 12 months of the balance sheet date from those customers operating under revenue share arrangements. The portion of the receivable balance expected to be received in more than 12 months is considered a non-current receivable. The Company maintains its belief that current and non-current accounts receivable continue to be due from their customers. Further, management is of the belief that its customers are contractually obligated to pay the full amount due as provided under the Master License Agreements executed by each of its customers. Regardless, management has considered the collectability of those receivables classified as long-term in terms of providing an appropriate allowance for the slow-paying nature of these accounts. For receivables classified as long-term, management believes there is general uncertainty in the collection of those balances and the timing of those collections, taken as a whole, and has increased the general provision for doubtful accounts to cover accounts receivable balances expected to be collected beyond 12 months from the balance sheet date. The slow-pay uncertainties arise from a number of factors, including the effects of revenue share arrangements, the extended time customers are talking to generate significant revenue under revenue share arrangements, and general technological changes in the industry.

c) Software consultancy fees – When customers require customization of software, the Company quotes a flat project amount or a daily rate for the work. When a Customer has confirmed their approval of the quote and the work has been undertaken, the Company will invoice consultancy fee and recognize the revenue. The terms of payment are fixed terms and normally 30 days of the date of the invoice.

d) Hardware fees– Hardware fees represent the fees the Company charges for the supply of ancillary equipment which customers occasionally ask us to source and supply. The Company quotes the price prior to the delivery and upon delivery, invoices the customer with payment due within stated terms, normally 30 days from the date of the invoice.

When necessary, the Company provides an allowance for doubtful accounts that is based on a review of outstanding receivables, historical collection information, and current economic conditions. The Company has strong collection history in all categories above except category b), and generally does not believe that an allowance for doubtful accounts for these categories except category b) is necessary. For receivables in category b), when the Company becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy or deterioration in the customer's operating results, financial position, or credit rating, the Company records a specific reserve for bad debts to reduce the related receivable to the amount it believes to be collectable. The Company records a general allowance for doubtful collections for those accounts receivable considered to be slow paying, on the basis described above for accounts receivable balances of customers under category (b) above. There was an allowance of $6,155,000 and $6,055,000 for doubtful accounts at March 31, 2016 and December 31, 2015, respectively. Receivables are generally unsecured. Account balances are charged off against the allowance when the Company determines that certain receivable will probably not be recovered. The Company does not have off-balance sheet credit exposure related to its customers. As of March 31, 2016 and December 31, 2015, two customers accounted for 44% and 45%, respectively, of the accounts receivable balance.

When a portion of the receivable balances of certain customers under category (b) above, is expected to be received in more than 12 months, the relevant balances are shown as a non current asset. Due to an uncertainty in the timing of the receipt of these balances the Company has decided to provide a general provision covering these balances. The Company retains it belief that the balances are recoverable and when recovery is achieved the appropriate reduction in the general provision will be shown.

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.

Investment

Cost-based investments includes investments in companies for which we do not have the ability to exercise significant influence. The cost-based investments are analyzed for impairment based on current market and other factors relevant to the investments. No impairment was considered necessary as of March 31, 2016. As of March 31, 2016 and December 31, 2015, we had $18,000 of cost-based investments on our balance sheet.

Fair Value Measurements

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

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

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

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

Intangible Assets

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

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

During the three months ended March 31, 2016 and 2015, software development costs of $116,000 and $289,000, respectively, have been capitalized.

Impairment of Other Long-Lived Assets

The Company evaluates the recoverability of its property and equipment and other long-lived assets whenever events or changes in circumstances indicate impairment may have occurred. An impairment loss is recognized when the net book value of such assets exceeds the estimated future undiscounted cash flows attributed to the assets or the business to which the assets relate. Impairment losses, if any, are measured as the amount by which the carrying value exceeds the fair value of the assets. During the three months ended March 31, 2016 and 2015, the Company identified no impairment losses related to the Company’s long-lived assets.

Revenue Recognition

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

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

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

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

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

- Revenues from Aishuo retail sales are recognized when the PSTN calls and texts are made by the end user.

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

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

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

In order to determine the company’s historical experience is based on sufficiently similar arrangements, the Company considers the various 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.

During the three months ended March 31, 2016, $523,000 or 86% of the Company’s revenue was concentrated in the hands of one major customer. In the three months ended March 31, 2015 the equivalent amount was $500,000 or 67% of the revenue.

Advertising Expenses

It is the Company's policy to expense advertising costs as incurred. Advertising and promotion costs totaling $22,000 and $nil were incurred during the respective three months ended March 31, 2016 and 2015.

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. The Company incurred research and development costs of $188,000 and $132,000 in the three months ended March 31, 2016 and 2015, respectively.

Debt Issue Costs

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

Income Taxes

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

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

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

Net Loss per Share

Basic net loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. Diluted loss per share takes into consideration common shares outstanding (computed under basic loss per share) and potentially dilutive securities. For the three month periods ended March 31, 2016 and 2015, outstanding stock options, warrants and convertible debt are antidilutive because of net losses, and as such, their effect has not been included in the calculation of diluted net loss per share. Common shares issuable are considered outstanding as of the original approval date for purposes of earnings per share computations.

Accumulated Other Comprehensive Income (Loss)

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

Use of Estimates

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

Financial Instruments

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

Share-Based Compensation

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

Recently Issued Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09 – Revenue From Contracts with Customers, which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principal of this ASU is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

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

Recently Issued Accounting Standards Adopted

There have been no significant changes to the Company's significant accounting policies as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. During the three months ended March 31, 2016, the Company adopted Accounting Standards Update ("ASU") ASU 2015-03, S*implifying the Presentation of Debt Issuance Cost.* Which requires entities to present debt issuance costs related to a debt liability as a direct deduction from the carrying amount of that debt liability on the balance sheet as opposed to being presented as a deferred charge. For all periods presented in this Form 10-Q for the quarter ended March 31, 2016, unamortized debt issuance costs related to the Company's convertible senior notes are reported as the Consolidated Balance Sheets as a reduction of the carrying value of the related debt. Prior to adoption, the Company reported the unamortized debt issuance costs in "other Assets" on the Consolidated Balance Sheets. As at December 31, 2015, the change in presentation resulted in a reduction of "other Assets" of $261,000 and a corresponding decrease in "Convertible Senior Notes" with no impact on the Company's Consolidated Statements of operations.

Note 3. Suzhou Aishuo Network Information Co. Ltd.

The Company has control of a Chinese entity Suzhou Aishuo Network Information Co. Ltd.("Aishuo") through various contractual arrangements in place. As a result of this control, one hundred percent of the operations, assets, liabilities and cash flows of Aishuo have been consolidated in the accompanying consolidated financial statements.

Summarized assets, liabilities and results of operations of Aishuo are as follows: *(in thousands)*

	March 31 2016	December 31 2015
Assets	$ 13	$ 43
Intercompany receivables/(payables)	(186)	(123)
Other liabilities	(28)	(60)
Revenue	60	56
Net Loss	(61)	(286)

Note 4. Property and Equipment, net

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

	March 31 2016	December 31 2015
Equipment	$ 294	$ 291
Less accumulated depreciation	(211)	(195)
Property and equipment, net	$ 83	$ 96

Note 5. Intangible Assets

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

	March 31 2016	December 31 2015
Horizon software	$ 18,589	$ 17,879
ZTEsoft Telecom software	470	469
Contractual relationships	885	885
	19,944	19,233
Less accumulated amortization	(10,216)	(9,410)
Intangible assets, net	$ 9,728	$ 9,823

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

Note 6. Long-term Debt

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

	March 31 2016	December 31 2015
Equipment loan	$ 2	$ 5
Less current portion	(2)	(5)
Balance	$ -	$ -

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Note 7. Convertible Debenture

In December 2014, the Company closed a private placement of $3,500,000 under Regulation S whereby we issued to an investor a convertible debenture that is convertible into 1,555,556 shares of Common Stock, Class C Warrant to purchase 388,889 shares of Common Stock, Class D Warrant to purchase 388,889 shares of Common Stock and the potential for performance warrants.

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

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

Performance Warrants associated with the convertible debenture were potentially issuable and exercisable based on the Company's annual reported subscriber numbers, twenty-four (24) months after December 22, 2014, as reflected in our 2014 Form 10-K. In the first quarter of 2016 the Company announced it has achieved the required number subscriber downloads and therefore the additional performance warrants are not issuable by the Company.

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

A total of 1,555,556 shares of common stock have been reserved for the potential conversion of the convertible debenture.

Note 8. Related-Party Transactions

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

	March 31 2016	December 31 2015
Loans due to stockholders (current officers and directors)	$ 2,354	$ 2,354

At March 31, 2016, $2,354,000 of related party debt was outstanding and will mature on April 1, 2017, and is interest free.

Note 9. Share Capital

Preferred Stock

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

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

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

Shares of Series A Preferred Stock are convertible in whole or in part, at the option of the holders, into shares of common stock at $5.85 per share prior to the Maturity, and all outstanding shares of Series A Preferred Stock shall automatically convert to shares of common stock upon maturity, provided however, at no time may holders convert shares of Series A Preferred Stock if the number of shares of common stock to be issued pursuant to such conversion would cause the number of shares of common stock beneficially owned by such holder and its affiliates to exceed 9.99% of the then issued and outstanding shares of common stock outstanding at such time, unless the holder provides us with a waiver notice in such form and with such content specified in the Series A Certificate of Designation.

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

170,940 shares of Series A preferred stock are issued and outstanding as of March 31, 2016.

Mandatorily Redeemable Preferred Shares (Deferred Stock)

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

Common Stock

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

During the year ended December 31, 2015, on August 10, 2015, in connection with an Underwriting Agreement dated August 4, 2015 (the “Underwriting Agreement”) with Aegis Capital Corp. (“Aegis”), as representative of the several underwriters named therein (the “Underwriters”), the Company closed a firm commitment underwritten public offering of 1,714,286 shares of Common Stock, and warrants to purchase up to an aggregate of 857,143 shares of Common Stock at a combined offering price of $1.75 per share and accompanying warrants. Pursuant to the Underwriting Agreement, the Underwriters exercised an option to purchase 151,928 additional shares of Common Stock and 75,964 additional warrants. The Company allocated $2.5 million of the proceeds of the common stock and $0.8 million to the warrants to purchase common stock. This allocation was based on the relative fair value of each security on the date of issuance.

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

Stock Purchase Warrants

At March 31, 2016, the Company had reserved 3,294,716 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
68,850	2.25	December 2018
403,786	3.00	December 2018
402,568	3.50	December 2018
857,143	2.50	August 2018
75,964	2.50	September 2018

During the three months ended March 31, 2016, 60,000 warrants were forfeited, no warrants issued and none exercised.

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

Note 10. Stock-Based Compensation

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

There are 3,000,000 shares of common stock available for granting awards under the plan. Each year, commencing 2014, until 2016, the number of shares of common stock available for granting awards shall be increased by the lesser of 1,000,000 shares of common stock and 5% of the total number of shares of common stock outstanding. On each of January 1, 2014, 2015 and 2016 the number of shares available for granting awards under the 2013 Equity Incentive

Plan has been increased by 1,000,000 shares.

During the year ended December 31, 2014 the Company issued options to purchase 500,000 shares of common stock under the 2013 Equity Incentive Plan. The options become fully vested on January 15, 2017 and are exercisable, at an exercise price of $4.54 per common share, to January 15, 2024. During the year ended December 31, 2015 the Company issued options to purchase 564,000 shares of common stock under the 2013 Equity Incentive Plan. These options become fully vested on May 12, 2018 and are exercisable, at an exercise price of $1.09 per common share, to May 12, 2025.

A summary of the Company's 2013 Equity Incentive Plan as of March 31, 2016, is as follows:

	Number of Options	**Weighted Average** Exercise Price
Outstanding at December 31, 2014	500,000	$ 4.54
Options issued	564,000	1.09
Options forfeited	(120,000)	4.54
Outstanding at December 31, 2015 and March 31, 2016	944,000	2.48

The grant date fair value of these options, using the Black-Scholes option-pricing model, is estimated to be $2,576,000. This expense, less an estimated forfeiture rate of 30%, is being recognized over the 3 year vesting periods. The amount of $156,000 and $129,000 has been recognized during the three months ended March 31, 2016 and 2015, respectively. As at March 31, 2016 there was unrecognized compensation expense of approximately $567,000 to be recognized over the remaining vesting periods.

For the 2013 Equity Incentive Plan there were no options issued, exercised or forfeited during the three months ended March 31, 2016.

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

A summary of the Company's other stock options as of March 31, 2016, is as follows:

	Number of Options	**Weighted Average Exercise Price**
Outstanding at December 31, 2013 and December 31, 2014	584,650	$ 0.53
Options issued	291,900	0.53
Options forfeited	(850)	0.51
Outstanding at December 31, 2015 and March 31, 2016	875,700	$ 0.53

The grant date fair value of the options issued, using the Black-Scholes option-pricing model, is estimated to be $255,000. This expense is being recognized over the 2 year vesting period. The amount of $32,000 and $nil has been recognized during the three months ended March 31, 2016 and 2015, respectively. As at March 31, 2016 there was unrecognized compensation expense of approximately $159,000 to be recognized over the remaining vesting period.

There were no options issued, exercised or forfeited during the three months ended March 31, 2016.

The following table summarizes stock options outstanding at March 31, 2016:

Exercise Price	**Number Outstanding at March 31,** 2016	Average Remaining Contractual Life (Years)	**Number Exercisable at March 31,** 2016	**Intrinsic Value at March 31,** 2016
$ 0.53	291,900	4.25	291,900	85,570
0.53	291,900	6.25	291,900	85,570
0.53	291,900	9.50	-	-
4.54	380,000	7.75	-	-
1.09	564,000	9.25	-	-

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At March 31, 2016, 6,875,700 shares of common stock were reserved for all outstanding options and future commitments under the 2013 Equity Incentive Plan.

Note 11. Contractual Commitments

The Company incurred total rent expense of $16,000 and $21,000, respectively, for the three month periods ended March 31, 2016 and 2015.

Minimum contractual commitments, as of March 31, 2016, is as follows:

	Operating leases	Long-term Financing
2016	$ 16,000	$ 2,000

Legal Proceedings

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

Note 12. Segment Information

The Company has two business segments, both of which involve the development and licensing of software for mobile VoIP. One for business to business line and one for business to consumer line, primarily represented by Aishuo for the three months ended March 31, 2016 and 2015 activity in the business to consumer line is not material for separate segment presentation.

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

	March 31 2016	March 31 2015
China	$60,000	$4,000
Rest of Asia	$548,000	$214,000
Europe and Russia	$1,000	$1,000
The Americas	$0	$526,000
Total	$609,000	$745,000

Note 13. Subsequent Event

On March 2, 2016, the Company received a written alert from Nasdaq Listing Qualifications that our closing bid price for the last 30 consecutive days was less than $1.00 per share. As a result the Company is below the continued listing requirement to maintain a minimum bid price of $1.00 per share as set forth in Nasdaq Listing Rule 5550(a). However, Nasdaq Listing Rule 581 (c) (3)(A) provides us a compliance period of 180 calendar days to regain compliance. If at any time during this 180 day period the closing bid price is at least $1.00 for a minimum of 10 consecutive business days, we will regain compliance.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read along with our unaudited condensed consolidated financial statements for the three months ended March 31, 2016 and 2015 and notes thereto contained elsewhere in this Report, and our annual report on Form 10-K for the twelve months ended December 31, 2015 and 2014 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

One Horizon Group, Inc. and its Subsidiaries (the "Company") is the inventor of the patented SmartPacket™ Voice over Internet Protocol ("VoIP") platform. Our software is designed to capitalize on numerous industry trends, including the rapid adoption of smartphones, the adoption of cloud based Internet services, the migration towards all IP voice networks and the expansion of enterprise bring-your-own-device to work programs.

The Company designs, develops and sells white label SmartPacket™ software and services to large Tier-1 telecommunications operators. Our licensees deliver an operator-branded mobile Internet communication solution to smartphones including VoIP, multi-media messaging, video, and mobile advertising; and the **Business to Business** ("B2B") business. Current licensees include some of the world's largest operators such as Singapore Telecommunications, Philippines Smart Communication and Indonesia Smartfren Tbk.

The **SmartPacket™** platform, significantly improves the efficiency by which voice signals are transmitted from smartphones over the Internet resulting in a 10X reduction in mobile bandwidth and battery usage required to transmit a smartphone VoIP call. This is of commercial interest to operators that wish to have a high quality VoIP call on congested metropolitan 4G networks and on legacy 2G and 3G cellular networks. The following diagram shows the global penetration of mobile broadband and with the Company's patented technology being one of the leading mobile VoIP solution for all mobile network types management believes that this represents a very large opportunity for future growth in sales.

By leveraging its SmartPacket™ solution, the Company is also a VoIP as a Service ("VaaS") cloud communications leader for hosted smartphone VoIP that run globally on the Microsoft Azure cloud. The Company sells its software, branding, hosting and operator services to smaller telecommunications operators, enterprises, operators in fixed line telephony, cable TV operators and to the satellite communications sector; and the "**VaaS**" business. Our existing licensees come from around the world including USA, China, United Kingdom, Singapore, Canada and Hong Kong.

Based on the SmartPacket™ solution, the Company is the sole owner and operator its own branded retail smartphone VoIP, messaging and advertising service in the People's Republic of China called Aishuo™; the "**Aishuo**" business. Since its inception in the second quarter of 2015 Aishuo has been downloaded over 12 million times in 2015 and has doubled its revenues for the last 3 consecutive quarters of 2015. Aishuo offers subscribers very competitive telephone call rates and a virtual number rental service plus lots of innovative smartphone social media features. Aishuo has been made available to users across 25 Chinese Android app stores and through iTunes. Aishuo subscribers pay for VoIP or can have a free VoIP call sponsored by advertisers. Aishuo supports top-up payment services inside the smartphone app including China UnionPay, Apple In-App Purchases, Alibaba's Alipay and Tencent's Wechat Wallet.

Our business model is focused on winning new **B2B** Tier-1 telecommunications operators, winning new **VaaS** subscribers and driving **Aishuo** retail revenues. We are also commercially focused on expanding sales of new and existing licensed products and services to existing customers, and renewing subscriptions and software support agreements. We target customers of all sizes and across a broad range of industries.

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, Hong Kong and Latin America.

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

In the second quarter of 2015 (the first quarter since the commercial launch of Aishuo) the Company recorded approximately **$7,000** of revenue. In the three month ending September 30, 2015, the revenue from Aishuo grew to approximately **$16,000** for the quarter. In the three month ending December 31, 2015, the revenue from Aishuo grew to approximately **$30,000** for the quarter. In the three month ending March 31, 2016, the revenue from Aishuo grew to approximately **$60,000** for the quarter. The management expect this revenue to continue to increase as the Chinese user base continues its growth.

Aishuo sought to acquire 15 million new app subscribers for the smartphone app over a two-year period and expects to achieve industry average revenues per user (ARPU) for similar social media apps. By the end of March 31, 2016, we had exceeded our 15 million two year target and grew to 17 million downloads of Aishuo smartphone app.

In addition to the developments in the rollout of Aishuo smartphone app brand in mainland China, we delivered a data roaming VoIP solution with, Smart Communications, the Philippines' leading wireless service provider with an estimated 55 million prepaid subscribers. For the first time ever, prepaid subscribers that travel abroad are now able to call home on their operators' data roaming service free from roaming fees (http://smart.com.ph/smartroamer). The management expect this commercial rollout of an optimized data voice solution for roamers to drive further mobile operator interest in the Company’s products and to drive revenues from its rollout to Filipinos throughout 2016.

Research & Development

During the first three months of 2016, we spent approximately $116,000 on capitalizable research and development together with approximately $188,000 on expensed research and development.

During the three months ended March 31st 2016 we continued with our drive for innovation and our research and development teams brought us the software that allows our service to directly connect to an operators Unstructured Supplementary Service Data (USSD) service thereby allowing all mobile prepaid subscribers to add credit to their mobile account in a traditional way and then allowing this USSD top up to be applied to a mobile VoIP smartphone app, an industry first.

The expanded R&D team also delivered a cyber-secure VoIP service that leverages the low bandwidth benefits of Company’s patented technology to allow VoIP over the strongest security protocols on the Internet. By leveraging the power of Virtual Private Networks (VPN) native client on the smartphone the Company’s VoIP protocols work where other traditional VoIP solutions cannot due to call quality issues with high data consumption protocols. Customer trials commenced and management expect this platform to drive a new revenue stream for Cyber Secure VoIP.

Results of Operations

Comparison of three months ended March 31, 2016 and 2015

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

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

	Three Months Ended March 31,		Change	
	2016	2015	**Increase/ (decrease)**	**Percentage Change**
Revenue	$ 609	$ 745	$ (136)	(18.3)
Cost of revenue	538	573	(35)	(6.1)
Gross margin	71	172	(101)	(58.7)
Operating expenses:				
General and administrative	964	953	11	1.2
Depreciation	15	20	(5)	(25.0)
Research and development	188	135	53	39.2
Total operating expenses	1,167	1,108	59	5.3
Loss from operations	(1,096)	(936)	(160)	(17.1)
Other expense	(173)	(2)	(171)	(855.0)
Loss before income taxes	(1,269)	(938)	(331)	(35.3)
Income taxes (recovery)	(11)	-	(11)	N/A
Net Loss for period	(1,258)	(938)	(320)	(34.1)

Revenue: Our revenue for the three months ended March 31, 2016 was approximately $609,000 as compared to approximately $745,000 for the three months ended March 31, 2015, a decrease of roughly $136,000, or 18.3%. The decrease in revenue a lost due to Business to Business (“B2B”) sales involving hardware and some consultancy in the three months ended March 31, 2015 not repeated in the same period in 2016. The Business to Customer (“B2C”) revenue through the Aishuo continued to grow in the three months ended March 31, 2016 when compared to both the three months ended December 31, 2015 as well as the three months ended March 31, 2015. The downloads of the Aishuo App continues to grew strongly. It has greatly increased our exposure and overall recognition which allows us to take market share and acquire customers in what the Company believes will be an increasingly competitive user marketplace. During the quarter ended March 31, 2016, revenue generated by Aishuo grew to $60,000 approximately, as compared to $30,000 approximately in the previous quarter. The management expects further growth in this sector of revenue.

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

Cost of Revenue: Cost of revenue excluding amortization of software development costs, was approximately $26,000 or 0.04% of sales for the three months ended March 31, 2016, compared to cost of revenue of $61,000 or 8.18% of sales for the three months ended March 31, 2015. Our cost of sales excluding amortization of software development costs, is composed of cost of ancillary hardware equipment sold, PSTN breakout and system network changes incurred. The reduction in cost of revenue amounted to $35,000 in the three months ended March 31, 2016 compared to the same period in 2015. This reduction arose due to the fall in sales of ancillary hardware and the consequential reduction in the costs of hardware related thereto.

***Gross Profit*: ** Gross profit excluding amortization of software development costs, for the three months ended March 31, 2016 was approximately $583,000 as compared to $684,000 for the three months ended March 31, 2015, a decrease of approximately 14.8%. This fall in gross profit arose due to the reduction in revenue reported above.

Operating Expenses: Operating expenses, including general and administrative expenses, depreciation and research and development were approximately $1,167 million and $1,108 million during the three months ended March 31, 2016 and 2015, respectively. Going forward, management does not expect operating costs to rise significantly until revenue grows following the increase of end users.

Net Loss: Net Loss for the three months ended March 31, 2016 was approximately $1,258,000 as compared to net loss of approximately $938,000 for the same period in 2015. The increase was partly due to reduction in revenue mentioned above together with additional research and development expensed. Management believes the net loss will decrease and eventually become net income going forward with our growth in the business in China and also elsewhere in the world.

Liquidity and Capital Resources

Three Months Ended March 31, 2016 and March 31, 2015

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

	For the Three Months Ended March 31 (in thousands)	
	2016	2015
Net cash used in operating activities	(121)	(577)
Net cash used in investing activities	(118)	(289)
Net cash provided by (used in) financing activities	(28)	(407)

Net cash used in operating activities was approximately $121,000 for the three months ended March 31, 2016 as compared to net cash used in operating activities of approximately $577,000 for the same period in 2015. The decrease in cash used in operations was primarily due to the increase in cash collected from customers during the three months ended March 31, 2016 as compared to the same period in 2015.

Net cash used in investing activities was approximately $118,000 and $289,000 for the three months ended March 31, 2016 and 2015, respectively. Net cash used in investing activities was primarily focused on development of software.

Net cash used in financing activities was approximately $28,000 for the three months ended March 31, 2016 as compared to net cash used in financing activities of $407,000 for the three months ended March 31, 2015. Cash used by financing activities in the three months ended March 31, 2016 was primarily due to the payment of preferred dividends. Cash used in financing activities in the three months ended March 31, 2015 was primarily due to the repayment of long term debt and net repayments to related parties.

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 March 31, 2016, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of March 31, 2016, our disclosure controls and procedures were not effective.

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

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter covered by this report that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 1A. RISK FACTORS

Not applicable.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

SIGNATURES

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

		ONE HORIZON GROUP, INC.
Date:	May 13, 2016	By: /s/ Brian Collins Brian Collins President, Chief Executive Officer and Director
		By: /s/ Martin Ward Martin Ward Chief Financial Officer, Principal Finance and Accounting Officer and Director