

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2018**

or

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

For the transition period from _____ to _____

Commission File Number: **001-36530**

One Horizon Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

46-3561419

(State or other jurisdiction of incorporation
or organization)

(I.R.S. Employer Identification No.)

**34 South Molton Street, London
UK**

W1K 5RG

(Address of principal executive offices) (Zip Code)

+44(0)20 7409 5248

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of May 08, 2018, 35,412,067 shares of the registrant's common stock, par value \$0.0001 per share, were outstanding.

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CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

The statements made in this Report, and in other materials that the Company has filed or may file with the Securities and Exchange Commission, in each case that are not historical facts, contain “forward-looking information” within the meaning of the Private Securities Litigation Reform Act of 1995, and Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, which can be identified by the use of forward-looking terminology such as “may,” “will,” “anticipates,” “expects,” “projects,” “estimates,” “believes,” “seeks,” “could,” “should,” or “continue,” the negative thereof, and other variations or comparable terminology as well as any statements regarding the evaluation of strategic alternatives. These forward-looking statements are based on the current plans and expectations of management, and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. These risks include, but are not limited to, risks and uncertainties relating to our current cash position and our need to raise additional capital in order to be able to continue to fund our operations; the potential delisting of our common stock from The NASDAQ Capital Market; our ability to retain our managerial personnel and to attract additional personnel; competition; our ability to protect intellectual property rights, and any and other factors, including the risk factors identified in the documents we have filed, or will file, with the Securities and Exchange Commission.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this report or in any document incorporated herein by reference might not occur. Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the respective dates of this report or the date of the document incorporated by reference in this report. We expressly disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by federal securities laws.

These and other matters the Company discusses in this Report, or in the documents it incorporates by reference into this Report, may cause actual results to differ from those the Company describes. The Company assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

SPECIAL NOTE REGARDING REVERSE STOCK SPLIT

Effective April 14, 2017, we completed a reverse stock split in which each six (6) shares of our common stock were automatically combined into and became one (1) share of our common stock. As of the effective date of the reverse stock split, the per share exercise price of, and the number of shares of common stock underlying, any stock options, warrants and other derivative securities issued by us were automatically proportionally adjusted, based on the one-for-six reverse split ratio, in accordance with the terms of such options, warrants or other derivative securities, as the case may be. All share numbers, stock option numbers, warrant numbers, other derivative security numbers and exercise prices appearing in this Report on Form 10-Q have been adjusted to give effect to this reverse stock split, unless otherwise indicated or unless the context suggests otherwise.

PART I – FINANCIAL INFORMATION

ONE HORIZON GROUP, INC.

Condensed Consolidated Balance Sheets

March 31, 2018 and December 31, 2017

(in thousands, except share data)

(unaudited)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash	\$788	\$763
Accounts receivable	272	102
Prepaid compensation	550	550
Other assets	514	28
Total current assets	2,124	1,443
Property and equipment, net	2	2
Intangible assets, net	8,141	5,340
Goodwill	802	—
Prepaid compensation, net of current portion	1,879	2,017
Total assets	\$12,948	\$8,802
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$385	\$167
Common stock payable	780	-
Accrued expenses	45	55
Accrued compensation	191	251
Amount due to related parties	34	32
Convertible notes, net of debt discount	—	45
Total current liabilities	1,435	550
Long-term liabilities		
Promissory notes, related parties	1,000	1,000
Total liabilities	2,435	1,550

Stockholders' Equity

Preferred stock:

\$0.0001 par value, authorized 50,000,000 shares; nil issued and outstanding shares — —

Common stock:

\$0.0001 par value, authorized 200,000,000 shares; issued and outstanding 34,662,067 shares as of March 31, 2018 (December 2017 – 30,255,123) 3 3

Additional paid-in capital 52,959 48,356

Accumulated deficit (43,659) (41,085)

Accumulated other comprehensive income (loss) (23) (22)

Total One Horizon Group, Inc. stockholders' equity 9,280 7,252

Equity attributable to non-controlling interest 1,233 —

Total Stockholders' Equity 10,513 7,252

Total liabilities and stockholders' equity \$12,948 \$8,802

See accompanying notes to condensed consolidated financial statements.

ONE HORIZON GROUP, INC.
Condensed Consolidated Statements of Operations
For the three months ended March 31, 2018 and 2017
(in thousands, except per share data)
(unaudited)

	Three Months ended March 31,	
	2018	2017
Revenue	\$274	\$7
Cost of revenue - Amortization of intangibles	405	22
Gross margin	(131)	(15)
Expenses:		
General and administrative	2,170	308
Depreciation	20	7
	2,190	315
Loss from operations	(2,321)	(330)
Other income and expense:		
Interest expense	(373)	(179)
Foreign exchange	—	1
	(373)	(178)
Loss from continuing operations	(2,694)	(508)
Loss from discontinued operations	—	(776)
Net loss for the period	(2,694)	(1,284)
Net loss attributable to non-controlling interest	120	—
Net loss attributable to One Horizon Group, Inc. Common stockholders	\$(2,574)	\$(1,284)
Loss per share attributable to One Horizon Group, Inc. stockholders		
Basic and diluted net loss per share – continuing operations	\$(0.07)	\$(0.08)
Basic and diluted net loss per share – discontinued operations	—	(0.13)

Weighted average number of shares outstanding		
Basic and diluted	32,080	6,176

See accompanying notes to condensed consolidated financial statements.

ONE HORIZON GROUP, INC.

Condensed Consolidated Statements of Comprehensive Income (Loss)

For the three months ended March 31, 2018 and 2017

(in thousands)

(unaudited)

	Three Months ended March 31, 2018 2017	
Net loss	\$(2,574)	\$(1,284)
Other comprehensive income (loss):		
Foreign currency translation adjustment gain (loss)	(1)	(170)
Total comprehensive loss	\$(2,575)	\$(1,454)

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, 2018****(in thousands)****(unaudited)**

	Common Stock					Accumulated Other Comprehensive Income (Loss)	Non-controlling interest	Total Equity
	Number of Shares	Amount	Additional Paid-in Capital	Accumulated deficit				
Balance December 31, 2017	30,255	\$3	\$48,356	\$(41,085	)	\$(22	) \$—	\$7,252
Net loss	—	—	—	(2,574	)	—	(120	) (2,694)
Foreign currency translations	—	—	—	—		(1	) —	(1)
Issuance of shares for services	647	—	927	—		—	—	927
Issuance of shares for acquisitions	2,333	—	2,507	—		—	1,353	3,860
Issuance of shares for exercise of convertible promissory notes	677	—	406	—		—	—	406
Issuance of shares for conversion of warrants	750	—	563	—		—	—	563
Conversion benefit on convertible notes	—	—	200	—		—	—	200

Balance								
March 31, 2018	34,662	\$3	\$52,959	\$(43,659	) \$(23	) \$1,233		\$10,513

See accompanying notes to condensed consolidated financial statements

ONE HORIZON GROUP, INC.**Condensed Consolidated Statements of Cash Flows****For the three months ended March 31, 2018 and 2017****(in thousands)****(unaudited)**

	2018		2017	
Cash flows from operating activities:				
Net loss for the period	\$	(2,694)	)	\$ (508)
Adjustment to reconcile net loss for the period to net cash flows from operating activities:				
Depreciation of property and equipment		20		7
Amortization of intangible assets		405		22
Amortization of debt issue costs		—		34
Amortization of debt discount		355		75
Amortization of shares issued for services		14		22
Shares issued for services		404		—
Warrants issued for services		—		123
Options issued for services		—		59
Changes in operating assets and liabilities:				
Accounts receivable		(170))	—
Other assets		168		(36)
Accounts payable and accrued expenses		907		156
Net cash flows from continuing operating activities		(591)	)	(46)
		—		196

Net cash flows from
discontinued operations

Net cash flows from total activities	(591)	150
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Cash flows from
investing activities:

Cash consideration of acquisition of business	(150)	—
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Net cash flows from continuing investing activities	(150)	—
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Net cash flows from discontinued operations	—	(131)
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Net cash flows from total investing activities	(150)	(131)
---	--------	--------

Cash flows from
financing activities:

Proceeds from issue of common stock	563	—
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Proceeds from convertible notes	200	—
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Advances from related parties, net	2	—
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Net cash flows from financing activities	765	—
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Increase in cash during the period	24	19
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Foreign exchange effect on cash	1	(17)
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Cash at beginning of the period	763	260
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Cash at end of the period	\$ 788	\$ 262
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Non-cash financing
transactions:

Common stock issued for services	927	—
-------------------------------------	-----	---

	3,860	—
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Common stock issued
for business
combinations

Common stock issued
for conversion of debt

406

—

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

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

Description of Business

One Horizon Group, Inc (“the Company”) has three core businesses following the acquisition of 123Wish Inc. and C-Rod, Inc in the three months ended March 31, 2018 (See Note 3). The core trading businesses are:

- (i) Secure Messaging – offers digitally secure messaging software and sells licenses primarily into the gaming, security and educational markets.
- (ii) 123Wish – an experience based platform where subscribers have a chance to play and win experiences from celebrities, athletes and artists.
- (iii) C-Rod - a full-service music production, artist representation and digital media business

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

Interim Period Financial Statements

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information and with the Securities and Exchange Commission’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, 2017, as filed with the Securities and Exchange Commission on April 2, 2018.

Current Structure of the Company

The Company has the following wholly owned subsidiaries: (except for 123Wish, Inc. which is 51% owned)

123Wish, Inc.
Global Phone Credit Ltd
One Horizon Hong Kong Ltd
Horizon Network Technology Co. Ltd
C-Rod, Inc.

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

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

Note 2. Summary of Significant Accounting Policies

Foreign Currency Translation

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

Liquidity and Capital Resources

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

During the three months ended March 31, 2018 the Company issued an additional \$200,000 of convertible notes, which together with the \$200,000 of similar notes issued in 2017, were converted into common stock.

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

At March 31, 2018 the Company had cash of \$788,000. In addition, the Company expects to receive further investment from the exercise of additional common stock warrants in the second quarter of 2018 for net proceeds of approximately \$723,000. Together with the cash on hand as a result of these transactions and based on the Company's current operational plan and budget, the Company believes that it is probable that it will have sufficient cash to fund its operations into at least the second quarter of 2019.

Accounts receivable, revenue recognition and concentrations

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

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

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

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

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

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

The Company does not have off-balance sheet credit exposure related to its customers. As of March 31, 2018 two customers accounted for 73.5% of the accounts receivable balance and as of December 31, 2017, one customer accounted for 100% of the accounts receivable balance. Two customers accounted for 73.0% of the revenue for the quarter ended March 31, 2018 and one customer accounted for 100% of the revenue for the quarter ended March 31, 2017.

Income taxes

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

Because tax laws are complex and subject to different interpretations, significant judgment is required. As a result, the Company makes certain estimates and assumptions in: (1) calculating its income tax expense, deferred tax assets, and deferred tax liabilities; (2) determining any valuation allowance recorded against deferred tax assets; and (3) evaluating the amount of unrecognized tax benefits, as well as the interest and penalties related to such uncertain tax positions. The Company's estimates and assumptions may differ significantly from tax benefits ultimately realized. Historically the Company has not filed income tax returns and the related required informational filings in the US. Certain informational filings if not filed contain penalties. The Company is currently addressing this issue with advisors to determine the amount, if any, of potential payments due. Given the complexity of the issue the Company is unable to quantify a range of potential loss, if any. Accordingly no liability has been recorded in the accompanying consolidated balance sheets in respect of this matter

Net Loss per Share

Basic net loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. Diluted loss per share takes into consideration common shares outstanding (computed under basic loss per share) and potentially dilutive securities. For the three month periods ended March 31, 2018 and 2017 all outstanding warrants and shares underlying 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.

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.

Share-Based Compensation

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

Fair Value Measurements

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

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

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

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

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

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

Note 3. Acquisitions

123Wish, Inc.

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

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

Consideration Paid:

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

Fair values of identifiable assets acquired and liabilities assumed:

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

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

As of March 31, 2018, the Company has estimated that no additional share amounts will need to be issued as contingent consideration and therefore is not included in the Company's allocation of the purchase price in the table above. The financial statements of 123 Wish, Inc. have been included in the Company's condensed consolidated financial statements and the amount of stockholders' equity and net loss attributable to the non-controlling interest has been recorded as a separate line item in the accompanying statements of operations and stockholders' equity.

C-Rod Inc.

On February 26, 2018 the Company completed the acquisition of 100% ownership of C-Rod Inc. a Florida corporation in exchange for \$150,000 cash and 1,000,000 fully paid and non-assessable shares of common stock with a fair value of \$1,120,000. C-Rod, Inc. is in the music and video content business. The financial statements of C-Rod, Inc. have been included in the condensed consolidated financial statements from the date of acquisition.

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

Consideration Paid:

Cash	\$ 150
Common stock	1,120
	\$ 1,270

Fair values of identifiable assets acquired and liabilities assumed:

Assets acquired:	
Cash	\$5
Other intangible assets	910
Goodwill	383
Total assets acquired	1,298

Liabilities assumed:	
Accounts payable	28
Total Liabilities Assumed	157

Net Assets Acquired	\$ 1,270
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The consideration paid was 1,000,000 common shares valued at \$1.12 per share. Separately identifiable intangible assets were customer relationships and were valued by management. The customer relationships were valued using discounted cash flow and replacement cost approaches. Management's analysis is provisional in nature and is subject to change based on the availability of new information about facts and circumstances that existed as of the acquisition

date.

As of March 31, 2018, the Company has estimated that no additional share amounts will need to be issued as contingent consideration and therefore is not included in the Company's allocation of the purchase price in the table above. The financial statements of C-Rod, Inc. have been included in the Company's condensed consolidated financial statements and the amount of stockholders' equity and net loss attributable to the non-controlling interest has been recorded as a separate line item in the accompanying statements of operations and stockholders' equity.

Note 4. Intangible Assets

Intangible assets consist primarily of software development costs which are amortized over the estimated useful life, generally on a straight-line basis, acquired intellectual property, customer lists, contracts and goodwill. *(in thousands)*

	March 31 2018	December 31 2017
Horizon secure messaging software	\$6,527	\$ 6,527
Social online application software	2,210	—
Customer lists	997	—
	9,734	6,527
Less accumulated amortization	(1,593)	(1,187)
Intangible assets, net	\$8,141	\$ 5,340

Amortization of software development costs, customer lists, and contracts for each of the next four years is estimated to be approximately \$1,500,000 per year

Note 5. Goodwill

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

	March 31 2018	March 31 2017
123Wish, Inc.	\$ 419	—
C. Rod, Inc.	383	—
	\$ 802	—

Note 6. Convertible notes

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

Note 7. Share Capital

The Company is authorized to issue 200 million shares of common stock, par value of \$0.0001 per share, after giving effect to the reverse split.

During the three months ended March 31, 2018 the Company:

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

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

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

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

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

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

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

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

Issued 1,000,000 shares of common stock, with a fair value of \$1,120,000, as part consideration for the acquisition of C-Rod, Inc.

Issued 100,000 shares of common stock for services to be provided with a fair value of \$85,000.

Stock Purchase Warrants

As at March 31, 2018, the Company had reserved 3,186,388 shares of its common stock for the outstanding warrants with weighted average exercise price of \$2.44. Such warrants expire at various times up to July 2020. Some 2,885,169 warrants have a total intrinsic value of \$1,361,101 as at March 31, 2018.

During the three months ended March 31, 2018, no warrants were forfeited, or issued, and 750,000 warrants were exercised.

Note 8. Segment Information

The Company has the following business segments for the three months ended March 31, 2018 and 2017.

The Company's revenues were generated in the following business segments:

	March 31 2018	March 31 2017
Sale of secure messaging licenses	\$100,000	\$7,000
123Wish (from January 2018)	102,000	—
C-Rod Music (from March 2018)	72,000	—
Total	\$274,000	\$7,000

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

	March 31 2018	March 31 2017
Sale of secure messaging licenses	\$49,000	\$—
123Wish (from January 2018)	345,000	—
C-Rod Music (from March 2018)	33,000	—
Corporate costs	1,743,000	308,000
Total	\$2,170,000	\$308,000

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

	March 31 2018	March 31 2017
Sale of secure messaging licenses	\$51,000	\$7,000
123Wish (from January 2018)	(243,000)	—
C-Rod Music (from March 2018)	39,000	—
Corporate costs and amortization	(2,541,000)	(1,291,000)

Total	\$(2,694,000)	\$(1,284,000)
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Note 9. Employment Agreements

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

Note 10. Subsequent Event

On May 9th, 2018 the Company announced it had entered into a term sheet to acquire a majority interest in Banana Whale Studios PTE Limited (“BWS”) Singapore. BWS is a business to business software provider in the online gaming industry.

The Company is paying for the acquisition with One Horizon Group Inc shares, with the price being determined by post acquisition earnings of BWS.

The acquisition is expected to be completed in the second quarter 2018.

On May 8, 2018 the Company issued 750,000 shares of Common Stock in respect of the work undertaken by First Choice International Company, Inc. (“FCIC”) on the acquisition of 123Wish, Inc., which was recorded as a common stock payable as of March 31, 2018 and the related expense of \$780,000 is included in general and administrative expenses in the accompanying condensed consolidated 2018 statement of operations.

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, 2018 and 2017 and notes thereto contained elsewhere in this Report, and our annual report on Form 10-K for the twelve months ended December 31, 2017 including the consolidated financial statements and notes thereto. The following discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results, expectations and plans discussed in these forward-looking statements. See "Cautionary Note Concerning Forward-Looking Statements."

Overview

Business

During the three months ended March 31, 2018 the Company executed the following acquisitions:

1. Majority interest in Wish123, Inc. a company that is a subscription based, experience market place allowing fans a chance to enjoy experiences with social media influencers, athletes, artists and celebrities.
2. a 100% stake in C-Rod, Inc. a music production company along with its record label Velveteen Entertainment and its media contest division music media.

In addition to the two acquisitions the Company has an Asian based digitally secure messaging software business that sells user licenses primarily to companies in the security, gaming and education sectors. The results of the above divisions are shown in Note 8.

Results of Operations***Comparison of three months ended March 31, 2018 and 2017***

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

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

	Three Months Ended		Change	
	March 31, 2018	2017	Increase/ (decrease)	Percentage Change
Revenue	\$274	\$7	\$267	3,814.0
Cost of revenue – amortization of intangible asset	405	22	383	1741.0
Gross margin	(131)	(15)	(126)	(840.0)
Operating expenses:				
General and administrative	2,170	308	1,862	604.5
Depreciation	20	7	13	185.7
Total operating expenses	2,190	315	1,875	595.2
Loss from operations	(2,321)	(330)	(1,991)	(603.3)
Other expense	(373)	(178)	(195)	(109.6)
Loss from continuing operations	(2,694)	(508)	(2,186)	(430.3)
Loss from discontinued operations	—	(776)	(776)	N/A
Net loss for the period	(2,694)	(1,284)	(1,410)	(109.8)
Net loss attributable to non-controlling interest	(120)	—	(120)	N/A
Net Loss attributable to One Horizon Group, Inc	\$(2,574)	\$(1,284)	(1,290)	(100.5)

Revenue: Our revenue for the three months ended March 31, 2018 was split between our operations as follows:

Secure messaging - \$100,000 for the sale of user licenses

123Wish - \$102,000 for subscriptions and sponsorships

C-Rod - \$72,000 for music and video production services

Gross Profit: Gross profit excluding amortization of software development costs, for the three months ended March 31, 2018 was approximately \$274,000 as compared to \$7,000 for the three months ended March 31, 2017, an increase of approximately \$267,000.

Operating Expenses: Operating expenses, including general and administrative expenses and depreciation were approximately \$2.2 million and \$0.3 million during the three months ended March 31, 2018 and 2017, respectively. The major costs included in the three months ended March 31, 2018 were consulting costs including due diligence and legal costs incurred in the acquisitions strategy of the Company

Net Loss: Net Loss for the three months ended March 31, 2018 was approximately \$2.7 million as compared to net loss of approximately \$1.3 million for the same period in 2017. The increase in the losses is attributable to the increase in G&A expenses, offset by an increase in revenue, as discussed above.

Liquidity and Capital Resources

Three Months Ended March 31, 2018 and March 31, 2017

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

	For the Three Months Ended	
	March 31	
	(in thousands)	
	2018	2017
Net cash flows from continuing operations	(591)	(46)
Net cash flows from investing activities	(150)	—
Net cash flows from financing activities	765	—

Net cash used by operating activities was approximately \$591,000 for the three months ended March 31, 2018 as compared to net cash used in operating activities of approximately \$46,000 for the same period in 2017. The increase in cash used by operations was primarily due to the cost of pursuing the acquisition strategy.

Net cash used in investing activities was approximately \$150,000 and \$0 for the three months ended March 31, 2018 and 2017, respectively. Net cash used in investing activities related to cash consideration in the acquisition of C Rod, Inc.

Net cash generated in financing activities was approximately \$765,000 for the three months ended March 31, 2018 as compared to \$0 for the three months ended March 31, 2017. The cash generated from financing activities was primarily from the proceeds from the sale of new shares of common stock and proceeds from convertible debt during the three months ended March 31, 2018.

At March 31, 2018 the Company had cash of \$788,000. In addition, the Company expects to receive further investment from the exercise of additional common stock warrants in the second quarter of 2018 for net proceeds of approximately \$723,000. Together with the cash on hand as a result of these transactions and based on the Company's

current operational plan and budget, the Company believes that it is probable that it has will have sufficient cash to fund its operations into at least the second quarter of 2019.

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, 2018, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of March 31, 2018, our disclosure controls and procedures were not effective. This was due to certain deficiencies in our controls over financial reporting. In particular a lack of accounting personnel has resulted in an inability to segregate various accounting functions.

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

(b) Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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.

ITEM 1A. RISK FACTORS

Reference is made to the risks and uncertainties disclosed in Item 1A (“Risk Factors”) of our Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Form 10-K”) and under the caption “Risk Factors” in our Registration Statement on Form S-3/A (Amendment No. 1) (Registration No. 333-223607) filed on May 3, 2018 (the “Registration Statement”) and declared effective on May 8, 2018, which sections are incorporated by reference into this report. Prospective investors are encouraged to consider the risks described in our 2017 Form 10-K, the Registration Statement, the our Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in this Report and other information publicly disclosed or contained in documents we file with the Securities and Exchange Commission before purchasing our securities.

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

Exhibit No. Description

<u>31.1</u>	<u>Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	<u>Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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 15, 2018 By: /s/ Mark White

Mark White

President, Chief Executive Officer and Director

By: /s/ Martin Ward

Martin Ward

Chief Financial Officer, Principal

Finance and Accounting Officer and Director