

**REIGN SAPPHIRE CORPORATION**

**PROSPECTUS SUPPLEMENT NO. 2  
(To Prospectus dated May 4, 2016 (as supplemented))**

This is a prospectus supplement to our prospectus dated May 4, 2016 (as supplemented) relating to the resale from time to time by selling stockholders of up to 3,923,000 shares of our common stock. On August 4, 2016, we filed with the Securities and Exchange Commission a Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2016. The text of the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2016 is attached to and made a part of this prospectus supplement. The exhibits to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2016 are not included with this prospectus supplement and are not incorporated by reference herein.

This Supplement is incorporated by reference into, and should be read in conjunction with, the Prospectus. This Supplement is not complete without, and may not be delivered or utilized except in connection with, the Prospectus, including any amendments or supplements thereto. Any statement contained in the Prospectus shall be deemed to be modified or superseded to the extent that information in this Prospectus Supplement modifies or supersedes such statement. Any statement that is modified or superseded shall not be deemed to constitute a part of the Prospectus except as modified or superseded by this Prospectus Supplement.

**The securities offered by the prospectus involve a high degree of risk. You should carefully consider the “Risk Factors” referenced on page 12 of the prospectus in determining whether to purchase shares of our common stock offered thereunder.**

**The date of this prospectus supplement is August 4, 2016.**

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

FORM 10-Q

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

For the Quarter Ended June 30, 2016

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 333-204486

**REIGN SAPPHIRE CORPORATION**  
(Exact name of registrant as specified in its charter)

**Delaware**  
\_\_\_\_\_  
(State or other jurisdiction of incorporation)

**47-2573116**  
\_\_\_\_\_  
(IRS Employer File Number)

**9465 Wilshire Boulevard, Beverly Hills, California**  
\_\_\_\_\_  
(Address of principal executive offices)

**90212**  
\_\_\_\_\_  
(zip code)

**(213) 457-3772**  
(Registrant's telephone number, including area code)

\_\_\_\_\_  
(Former name or former address, 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 Exchange Act during the past 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 Web site, 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. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

As of August 4, 2016, we had 34,623,000 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

REIGN SAPPHIRE CORPORATION  
CONDENSED BALANCE SHEETS

	June 30, 2016 <u>(unaudited)</u>	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash	\$ 144,391	\$ 638,824
Inventory	732,753	509,788
Prepaid expenses	6,000	13,623
Total current assets	<u>883,144</u>	<u>1,162,235</u>
Equipment, net	6,856	4,761
Intangible assets	268,000	260,000
<b>Total assets</b>	<b><u>\$ 1,158,000</u></b>	<b><u>\$ 1,426,996</u></b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Current liabilities:		
Accounts payable - related party	\$ 399,337	\$ 396,819
Accrued compensation - related party	646,000	516,000
Advance from shareholder	55,504	55,504
Derivative liabilities	315,297	88,983
Warrant liabilities	418,039	439,107
Total current liabilities	<u>1,834,177</u>	<u>1,496,413</u>
Long-term liabilities:		
Convertible notes, less unamortized debt discount of \$563,458 and \$849,909 at June 30, 2016 and December 31, 2015, respectively	299,042	12,591
Total long-term liabilities	<u>299,042</u>	<u>12,591</u>
<b>Total liabilities</b>	<b><u>2,133,219</u></b>	<b><u>1,509,004</u></b>
<b>Commitments and contingencies</b>		
<b>Stockholders' (deficit) equity</b>		
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	-	-
Common stock, \$0.0001 par value, 150,000,000 shares authorized; 34,398,000 and 34,323,000 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	3,440	3,432
Additional paid-in-capital	4,084,860	3,241,137
Accumulated deficit	(5,063,519)	(3,326,577)
Total stockholders' deficit	<u>(975,219)</u>	<u>(82,008)</u>
<b>Total liabilities and stockholders' (deficit) equity</b>	<b><u>\$ 1,158,000</u></b>	<b><u>\$ 1,426,996</u></b>

See accompanying notes to condensed financial statements

**REIGN SAPPHIRE CORPORATION**  
**CONDENSED STATEMENTS OF OPERATIONS**  
(UNAUDITED)

	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2016	2015	2016	2015
<b>Revenues</b>	\$ -	\$ 29,207	\$ -	\$ 18,439
<b>Cost of Sales</b>	-	9,930	-	6,930
<b>Gross Profit</b>	-	19,277	-	11,509
Operating expenses:				
Marketing expenses	43,850	12,500	17,161	-
Stock based compensation -related party	824,981	347,543	306,516	347,543
General and administrative	371,948	283,845	203,206	147,232
Total operating expenses	1,240,779	643,888	526,883	494,775
Loss from operations	(1,240,779)	(624,611)	(526,883)	(483,266)
Other (income) expense:				
Change in fair value of warrant liabilities	(21,068)	-	(13,344)	-
Change in fair value of derivative liabilities	226,314	-	227,302	-
Interest expense	288,117	-	144,059	-
Total other expense	493,363	-	358,017	-
Loss before income taxes	(1,734,142)	(624,611)	(884,900)	(483,266)
Income taxes	(2,800)	-	(800)	-
<b>Net loss</b>	\$ (1,736,942)	\$ (624,611)	\$ (885,700)	\$ (483,266)
Net loss per share, basic and diluted	\$ (0.05)	\$ (0.02)	\$ (0.03)	\$ (0.02)
Weighted average number of shares outstanding				
Basic and diluted	34,360,088	30,090,000	34,397,176	30,195,000

See accompanying notes to condensed financial statements

**REIGN SAPPHIRE CORPORATION**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<b>For the Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,736,942)	\$ (624,611)
Adjustments to reconcile net loss to net cash used in operating activities		
Stock based compensation - related party	824,981	347,543
Depreciation expense	1,188	577
Accretion of debt discount	286,451	-
Change in derivative liabilities	226,314	-
Change in warrant liabilities	(21,068)	-
Amortization of stock issued for future services	-	32,200
Estimated fair market value of stock issued for services	18,750	10,000
Changes in operating assets and liabilities:		
Accounts receivable	-	(29,206)
Inventory	-	9,930
Prepaid expenses	7,623	1,734
Accounts payable	-	5,000
Accounts payable - related party	(220,447)	136,783
Accrued compensation - related party	130,000	110,000
Net cash used in operating activities	<b>(483,150)</b>	<b>(50)</b>
<b>Cash flows from investing activities:</b>		
Purchase of intangible assets	(8,000)	-
Purchases of computer equipment	(3,283)	-
Net cash used in investing activities	<b>(11,283)</b>	<b>-</b>
<b>Net decrease in cash</b>	<b>(494,433)</b>	<b>(50)</b>
Cash at beginning of period	<b>638,824</b>	<b>95</b>
Cash at end of period	<b>\$ 144,391</b>	<b>\$ 45</b>
<b>Non-cash investing and financing activities:</b>		
Inventory purchased for accounts payable - related party	\$ 222,965	\$ -
Stock issued to third party in exchange for intangible	\$ -	\$ 250,000
Intangible acquired for accounts payable	\$ -	\$ 10,000
Inventory samples acquired for accounts payable - related party	\$ -	\$ 30,929
Reduction of advance from shareholder with accounts receivable	\$ -	\$ 37,562
Stock issued for deferred offering costs	\$ -	\$ 75,000

See accompanying notes to condensed financial statements

**REIGN SAPPHIRE CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 31, 2016 AND 2015 (UNAUDITED)**

**NOTE 1 – ORGANIZATION AND PRINCIPAL ACTIVITIES**

*Corporate History and Background*

Reign Sapphire Corporation (the “Company”) was established on December 15, 2014 in the State of Delaware. The Company is a fine jewelry company and its business intends to offer sapphire direct from the mine’s gate to the consumer by processing rough Australian sapphires, overseeing the gem cutting and manufacturing fine jewelry in the USA. The inaugural jewelry collection recently launched includes rings, pendants, bracelets, and cuff links using a variety of metals and finishes.

The process begins with sorting rough run-of-mine sapphires procured in bulk from commercial miners in Australia and overseeing the cutting and polishing of the rough stones followed by a design and manufacturing process in the USA.

The Company intends to focus its marketing initiatives on: (1) Business-to-Consumer (“B2C”) marketing to attract customers to the reignsappires.com website, (2) Business-to-Business (“B2B”) marketing and sales efforts, to establish distribution partners such as high-end fashion retailers, and eventually (3) building a strong retail presence to market the products directly to consumers on a retail level. The Company intends to initially focus marketing efforts in the U.S. and upon encountering significant success in the U.S. with online, wholesale, and retail sales, the Company intends to expand its marketing efforts to include Europe and the Middle East.

The Company has begun its planned principal operations, and accordingly, the Company has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

**NOTE 2 – BASIS OF PRESENTATION**

The included (a) condensed balance sheet as of December 31, 2015, which has been derived from audited financial statements, and (b) the unaudited condensed financial statements as of June 30, 2016 and 2015, have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s December 31, 2015 and 2014 audited financial statements filed on Form 10K on March 30, 2016. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for future quarters or for the full year. Notes to the condensed financial statements which substantially duplicate the disclosure contained in the financial statements as reported in the Annual Report on Form 10-K for the year ended December 31, 2015 as filed on March 30, 2016, have been omitted.

The Company currently operates in one business segment. The Company is not organized by market and is managed and operated as one business. A single management team reports to the chief operating decision maker, the Chief Executive Officer, who comprehensively manages the entire business. The Company does not currently operate any separate lines of businesses or separate business entities.

*Going Concern*

The accompanying condensed unaudited financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. The Company had an accumulated deficit of approximately \$5,063,500 at June 30, 2016, had a net loss of approximately \$1,736,900 and \$624,600 for the six months ended June 30, 2016 and 2015, respectively, and approximately \$885,700 and \$483,300 for the three months ended June 30, 2016 and 2015, respectively, and net cash used in operating activities of approximately \$483,200 and \$100 for the six months ended June 30, 2016 and 2015, respectively, with limited revenue earned since inception, and a lack of operational history. These matters raise substantial doubt about our ability to continue as a going concern.

While the Company is attempting to expand operations and increase revenues, the Company's cash position may not be significant enough to support the Company's daily operations. Management intends to raise additional funds by way of a public or private offering. Management believes that the actions presently being taken to further implement its business plan and generate revenues provide the opportunity for the Company to continue as a going concern. While the Company believes in the viability of its strategy to generate revenues and in its ability to raise additional funds, there can be no assurances to that effect. The ability of the Company to continue as a going concern is dependent upon the Company's ability to further implement its business plan and generate revenues. Our current burn rate to maintain the minimal level of operations for us to be in a position to execute our business plan upon funding is anticipated to be no greater than \$25,000 per month in cash. Joseph Segelman, our President and CEO, has agreed to underwrite these costs, if necessary, until we are then able to begin execution of our business plan. In addition, until we begin execution of our business plan, we will continue to defer and accrue salaries and thus will not require cash to make payments under employment agreements.

The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

### **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Company is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to GAAP and have been consistently applied in the preparation of the financial statements.

#### **Use of Estimates**

The preparation of these financial statements in accordance with accounting principles generally accepted in the United States of America 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 dates of the financial statements and the reported amounts of net sales and expenses during the reported periods. Actual results may differ from those estimates and such differences may be material to the financial statements. The more significant estimates and assumptions by management include among others: inventory valuation, warrant liability valuation, derivative liability valuation, common stock and option valuation, and the recoverability of intangibles. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

#### **Comprehensive Income**

The Company reports comprehensive income in accordance with FASB ASC Topic 220 "Comprehensive Income," which established standards for reporting and displaying comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements.

Total comprehensive income is defined as all changes in stockholders' equity during a period, other than those resulting from investments by and distributions to stockholders (i.e., issuance of equity securities and dividends). Generally, for the Company, total comprehensive income (loss) equals net income (loss) plus or minus adjustments for currency translation. As of June 30, 2016 and December 31, 2015, the Company has no items other than net loss affecting comprehensive loss.



### **Foreign Currency - Functional and Presentation Currency**

The functional currency represents the currency of the primary economic environment in which the entity operates. Management has determined the functional currency of the Company to be the USD, as sales prices and major costs of operating expenses are primarily influenced by fluctuations in the USD, and with its Chief Executive Officer and director ("CEO"), and employees of the Company headquartered and operating in the United States.

The results of transactions in foreign currency are remeasured into the functional currency at the average rate of exchange during the reporting period. Aggregate net foreign currency remeasurements included in general and administrative expenses in the accompanying statements of operations was a loss of approximately \$0 and \$0 for the three and six months ended June 30, 2016 and 2015, respectively.

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the Company's reporting currency of USD at the exchange rates prevailing at the balance sheet date. All translation adjustments resulting from the translation of the financial statements into the reporting currency at USD are dealt with as a separate component within stockholders' equity. The Company had no translation adjustments for the three and six months ended June 30, 2016 and 2015.

As of June 30, 2016 and 2015, the exchange rate was AUD 1.3468 and 1.2968, per USD, respectively. The average exchange rate for the six months ended June 30, 2016 and 2015 was AUD 1.3640 and 1.2794, respectively.

### **Long-lived Assets**

The Company's long-lived assets and other assets (consisting of purchased intangible assets with finite useful lives) are reviewed for impairment annually in accordance with the guidance of the FASB Topic ASC 360, *Property, Plant, and Equipment*, and FASB ASC Topic 205 *Presentation of Financial Statements*. The Company tests for impairment losses on long-lived assets used in operations whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Impairment evaluations involve management's estimates on asset useful lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management which could have a material effect on our reporting results and financial positions. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Through June 30, 2016, the Company had not experienced any impairment losses.

### **Intangible Assets**

Acquired intangible assets other than goodwill are amortized over their useful lives unless the lives are determined to be indefinite. Acquired intangible assets are carried at cost, less accumulated amortization. For intangible assets purchased in a business combination or received in a nonmonetary exchange, the estimated fair values of the assets received (or, for non-monetary exchanges, the estimated fair values of the assets transferred if more clearly evident) are used to establish the cost basis, except when neither of the values of the assets received or the assets transferred in non-monetary exchanges are determinable within reasonable limits. Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value. Amortization of finite-lived intangible assets is computed over an estimated three year useful life.

Intangible include website development costs. Certain direct development costs associated with internal-use website development are capitalized in accordance with the guidance of the FASB Topic ASC 350-50, *Website Development Costs*, and include external direct costs of services principally related to software coding, designing system interfaces, graphics, and content, and installation and testing of the software. These costs are recorded as intangible assets and are considered to have a three year useful life.

Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred.

#### **Advertising**

Advertising expenses are recorded as marketing expenses when they are incurred. Advertising expense was approximately \$17,200 and \$0, and \$43,900 and \$12,500, for the three and six months ended June 30, 2016 and 2015, respectively.

#### **Fair Value of Financial Instruments**

The Company applies the provisions of accounting guidance, FASB Topic ASC 825 that requires all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the balance sheet, for which it is practicable to estimate fair value, and defines fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. As of June 30, 2016 and December 31, 2015, the fair value of cash, accounts receivable, accounts payable and accrued expenses approximated carrying value due to the short maturity of the instruments, quoted market prices or interest rates which fluctuate with market rates.

#### **Fair Value Measurements**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, as follows:

- 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 that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities

The carrying value of financial assets and liabilities recorded at fair value is measured on a recurring or nonrecurring basis. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. The Company had no financial assets or liabilities carried and measured on a nonrecurring basis during the reporting periods. Financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared. The warrant and the embedded derivative liabilities are recognized at fair value on a recurring basis at June 30, 2016 and are Level 3 measurements (see Note 7). There have been no transfers between levels.

#### **Concentrations, Risks, and Uncertainties**

##### Business Risk

The Company is subject to the substantial business risks and uncertainties inherent to such an entity, including the potential risk of business failure.

The Company is headquartered and operates in the United States. To date, the Company has generated limited revenues from operations. As the Company generates significant revenues from operations, business activities will also include Australia and Asia and geographic segment reporting will be provided. There can be no assurance that the Company will be able to successfully continue to manufacture its products and failure to do so would have a material adverse effect on the Company's financial position, results of operations and cash flows. Also, the success of the Company's operations is subject to numerous contingencies, some of which are beyond management's control. These contingencies include general economic conditions, price of raw material, competition, governmental and political conditions, and changes in regulations. Because the Company is dependent on foreign trade in Australia and Asia, the Company is subject to various additional political, economic and other uncertainties. Among other risks, the Company's operations will be subject to risk of restrictions on transfer of funds, domestic and international customs, changing taxation policies, foreign exchange restrictions, and political and governmental regulations.

The Company has business activities in Australia and Asia, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between USD and the Australian currency AUD. The results of operations denominated in foreign currency are translated at the average rate of exchange during the reporting period. Aggregate net foreign currency transactions included in the income statement was immaterial for the three and six months ended June 30, 2016 and 2015.

#### Interest rate risk

Financial assets and liabilities do not have material interest rate risk.

#### Credit risk

The Company is exposed to credit risk from its cash in bank and accounts receivable. The credit risk on cash in banks is limited because the counterparties are recognized financial institutions.

The Company had no customers that accounted for 10% or more of total revenue for the three and six months ended June 30, 2016. The Company had one customer that accounted for 10% or more of total revenue, comprising 100.0% of total revenue, for the three and six months ended June 30, 2015. The Company had no accounts receivable at June 30, 2016 and December 31, 2015.

#### Foreign currency risk

The Company has transactions settled in AUD. Thus, the Company has foreign currency risk exposure.

#### **Recent Accounting Pronouncements**

In November 2015, the FASB issued ASU 2015-17, *Income Taxes*, which simplifies the presentation of deferred tax assets and liabilities on the balance sheet. Previous GAAP required an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts on the balance sheet. The amendment requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. This ASU is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The Company is in the process of evaluating the impact of this ASU on its financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which amends existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as non-current on the balance sheet. The Company is required to adopt this ASU no later than January 1, 2018, with early adoption permitted, and the guidance may be applied either prospectively or retrospectively. The Company does not expect this ASU to have a material impact on its financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The amendment to the standard is effective for the Company beginning on June 1, 2018. The Company does not expect this ASU to have a material impact on its financial statements.

In February 2016, the FASB issued ASU 2016-02 - *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this ASU on its financial statements.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. The ASU does not change the core principle of the guidance in the aforementioned ASU 2014-09, instead, the amendments in this Update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations and whether an entity reports revenue on a gross or net basis. ASU 2016-08 will have the same effective date and transition requirements as ASU 2014-09. The Company is in the process of evaluating the impact of this ASU on its financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. For public companies, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is in the process of evaluating the impact of this ASU on its financial statements.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*. The amendments in this Update affect the guidance in the aforementioned ASU 2014-09 by clarifying two aspects: identifying performance obligations and the licensing implementation guidance. ASU 2016-10 will have the same effective date and transition requirements as the ASU 2014-09. The Company is in the process of evaluating the impact of this ASU on its financial statements.

#### **NOTE 4 – INVENTORY**

Inventories consist of loose sapphire jewels that meet rigorous grading criteria and are of cuts and sizes most commonly used in the jewelry industry and sapphire jewels in jewelry settings. Inventories are stated at the lower of cost or market on a lot basis each quarter. A lot is determined by the cut, clarity, size, and weight of the sapphires. The Company appraises its inventory on an annual basis to determine if the estimated fair value is greater or less than cost. In addition, the inventory is reviewed each quarter by the Company against industry prices from gem-guide and if there is a potential impairment, the Company would appraise the inventory. The estimated fair value is subject to significant change due to changes in popularity of cut, perceived grade of the clarity of the sapphires, the number, type and size of inclusions, the availability of other similar quality and size sapphires, and other factors. As a result, the appraised value of the sapphires could be significantly lower from the current estimated fair value. Loose sapphire jewels do not degrade in quality over time and are not subject to fashion trends. As of June 30, 2016, based on management's review, and December 31, 2015, based on the annual appraisal of the inventory, the estimated fair market value approximated cost.

Inventory includes approximately \$133,000 of samples. Samples are used to show potential customers what the jewelry would look like and are available for sale. Promotional items given to customers that are not expected to be returned will be removed from inventory and expensed. No sample inventory used for promotional items were removed and expensed through June 30, 2016.

**NOTE 5 – INTANGIBLE ASSETS**

*Trademarks*

The trademarks “Reign” and “Reign Opulence” (collectively “Trademarks”) were purchased on June 30, 2015 from a third party in exchange for 1,000,000 shares of the Company’s restricted stock, valued at \$250,000 (based on the estimated fair value of the stock on the date of grant) plus \$10,000 cash for the purchase of two trademarks. The Company has recorded a total of \$260,000 as intangible assets in the accompanying Balance Sheet at June 30, 2016. Trademarks are amortized over their estimated useful life. There was no amortization expense for the three and six months ended June 30, 2016 and 2015 as amortization of the Trademarks will begin when the Company launches its website and begins to market the trademarked names, which is planned for in late third calendar quarter of 2016.

*Website Development Costs*

The Company evaluated the cost incurred and pursuant to ASC 350-50 capitalized \$8,000 as website development under intangible assets in the accompanying Balance Sheet at June 30, 2016. Website development costs are expected to have an estimated life of three years. There was no amortization expense for the three and six months ended June 30, 2016 and 2015 as amortization of the Website will begin when the Company launches the website and begins to market the trademarked names, which is expected to occur in late third calendar quarter of 2016.

Intangible assets consisted of the following:

	Estimated life	June 30, 2016	December 31, 2015
Trademarks	various	\$ 260,000	\$ 260,000
Website Development	3 years	8,000	-
		268,000	260,000
Accumulated amortization		-	-
		<u>\$ 268,000</u>	<u>\$ 260,000</u>

**NOTE 6 – ADVANCE FROM SHAREHOLDER**

The Company borrows funds from the Company’s Director for working capital purposes from time to time. The Company has recorded the principal balance due of \$55,504 under Advance From Shareholder in the accompanying Balance Sheets at each of June 30, 2016 and December 31, 2015, respectively. The Company received no advances and had no repayments for the three and six months ended June 30, 2016 and 2015. Advances are non-interest bearing and due on demand. Past loans and advances from our Director were not made pursuant to any loan agreements or promissory notes, nor will any future loans and advances from our Director be made pursuant to loan agreements or promissory notes.

## NOTE 7 – CONVERTIBLE NOTE PAYABLE

On December 23, 2015, we entered into a Securities Purchase Agreement (the “Purchase Agreement”) with respect to the sale and issuance to Alpha Capital Anstalt and Brio Capital Master Fund Ltd. (collectively “Purchasers”) of up to (i) 2,500,000 shares of our Common Stock (the “Incentive Shares”); (ii) \$862,500 aggregate principal amount of Secured Convertible Notes (the “Notes”) and (iii) Common Stock Purchase Warrants to purchase up to an aggregate of 7,187,542 shares of our Common Stock (the “Warrants”). The Incentive Shares, Notes and Warrants were issued on December 23, 2015 (the “Original Issue Date”). Purchasers received (i) Incentive Shares at the rate of 2.8986 Incentive Shares for each \$1.00 of Note principal issued to such Purchaser; (ii) a Note with a principal amount of \$1.00 for each \$0.86956 for each \$1.00 paid by each purchaser for such purchaser’s Note; and (iii) Warrants to purchase up to a number of shares of Common Stock equal to 100% of such purchaser’s Note principal amount divided by \$0.12 (“Purchaser Conversion Price”), the conversion price in effect on the Initial Closing Date, with a per share exercise price equal to \$0.30, subject to adjustment. The aggregate cash subscription amount received by the Company from the purchasers for the issuance of the Incentive Shares, Notes and Warrants was approximately \$724,500 (the “Subscription Amount”) which was issued at a \$138,000 discount from the face value of the Note.

The Notes mature on June 23, 2017, eighteen (18) months after the Original Issue Date, and provide for interest to accrue at an interest rate equal to the lesser of 15% per annum or the maximum rate permitted under applicable law after the occurrence of any event of default as provided in the Notes. At any time after the Original Issue Date, the holders, at their option, may convert the outstanding principal balance and accrued interest into shares of our Common Stock. The initial conversion price for the principal and interest in connection with voluntary conversions by a holder of a Note is \$0.12 per share, subject to adjustment as provided therein. Each Note, for example, is subject to adjustment upon certain events such as stock splits and has full ratchet anti-dilution protections for issuance of securities by us at a price that is lower than the conversion price. Each Note also contains certain negative covenants, including prohibitions on incurrence of indebtedness, liens, charter amendments, dividends, redemption. None of the holders of the Note have the right to convert any portion of their Note if it (together with its affiliates) would beneficially own in excess of 9.99% of the number of shares of Common Stock outstanding immediately after giving effect to the exercise. The Notes include customary events of default, including, among other things, payment defaults, covenant breaches, certain representations and warranties, certain events of bankruptcy, liquidation and suspension of our Common Stock from trading. If such an event of default occurs, the holders of the Notes may be entitled to take various actions, which may include the acceleration of amounts due under the Notes and accrual of interest as described above. The Notes are collectively collateralized by substantially all of our assets and guarantees of payment of the Notes have also been delivered by Joseph Segelman, the Chief Executive Officer and President of the Company, and Australian Sapphire Corporation (“ASC”), a stockholder of the Company which is wholly-owned by Joseph Segelman, guaranteed payment of all amounts owed under the Notes, subject to the terms of such guaranty agreements.

In addition, until one year after the initial trading date of a Registration Statement which registers all then outstanding or issuable underlying shares, the Purchasers shall have the right to participate in an amount of subsequent financing equal to 100% of the Purchase Agreement.

### Optional Redemption

The Notes provide that commencing six (6) months after the Original Issue Date, the Company will have the option of prepaying the outstanding principal amount of the Notes (an “Optional Redemption”), in whole or in part, by paying to the holders a sum of money in cash equal to one hundred percent (100%) of the principal amount to be redeemed, together with accrued but unpaid interest thereon, if any, and any and all other sums due, accrued or payable to the holder arising under the Note through the Redemption Payment Date and 2.8986 shares of Common Stock of the Company for each \$1.00 of Note principal amount being redeemed. A Notice of Redemption, if given, may be given on the first Trading Day following twenty (20) consecutive Trading Days during which all of the “Equity Conditions”, as defined, have been in effect.

The Company evaluated the Optional Redemption in ASC 815, and concluded that the Optional Redemption meets the criteria in ASC 815, and therefore, is accounted for as a liability.

The Optional Redemption was recorded as a derivative liability on the Balance Sheet at its fair value of \$199,150 at June 30, 2016 as any change in the fair value six (6) months after the Original Issue Date to June 30, 2016 was deemed immaterial. During the three and six months ended June 30, 2016, the Company recorded a loss on Optional Redemption valuation of \$199,150 and \$199,150, respectively.

The fair value of the Optional Redemption derivative liability is measured in accordance with ASC 820 "Fair Value Measurement", using "monte carlo simulation" modeling incorporating the following inputs:

	<u>June 30, 2016</u>
Expected dividend yield	0.00%
Expected stock-price volatility	50% - 60%
Risk-free interest rate	0.36%
Expected term of options (years)	.5 - 1.0
Stock price	\$ 0.25
Conversion price	\$ 0.12

At each subsequent reporting date, the fair value of the Optional Redemption liability will be remeasured and changes in the fair value will be recorded in the Statements of Operations.

#### Purchaser Conversion

The Purchaser has the right at any time after the Original Issue Date until the outstanding balance of the Note has been paid in full, to convert all or any part of the outstanding balance into shares ("Purchaser Conversion Shares") of the Company's common stock, of the portion of the outstanding balance being converted (the "Conversion Amount") divided by the Purchaser Conversion Price of \$0.12, subject to potential future adjustments described below. If the total outstanding balance of the Note were convertible as of June 30, 2016, the Note would have been convertible into 7,187,500 shares of the Company's common stock.

The Company evaluated the note under the requirements of ASC 480 "Distinguishing Liabilities From Equity" and concluded that the note does not fall within the scope of ASC 480. The Company next evaluated the note under the requirements of ASC 815 "Derivatives and Hedging". Due to the existence of the anti-dilution provision which reduces the Purchaser Conversion Price in the event of subsequent dilutive issuances by the Company below the Purchaser Conversion Price as described above, the Purchaser Conversion feature does not meet the definition of "indexed to" the Company's stock, and the scope exception to ASC 815's derivative accounting provisions does not apply. The Company also evaluated the embedded derivative criteria in ASC 815, and concluded that the Purchaser Conversion feature meets all of the embedded derivative criteria in ASC 815, and therefore, the Purchaser Conversion feature meets the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

The embedded derivative was recorded as a derivative liability on the Balance Sheet at its fair value of \$88,983 at the date of issuance of the Note and at December 31, 2015 as any change in the fair value was deemed immaterial.

The fair value of the embedded derivative liability is measured in accordance with ASC 820 "Fair Value Measurement", using "monte carlo simulation" modeling incorporating the following inputs:

	<b>Six Months Ended June 30, 2016</b>	<b>Year Ended December 31, 2015</b>
Expected dividend yield	0.00%	0.00%
Expected stock-price volatility	50% - 60%	50.0%
Risk-free interest rate	0.36%	0.47% - 0.86%
Expected term of options (years)	.5 - 1.0	.5 - 1.5
Stock price	\$ 0.25	\$ 0.25
Conversion price	\$ 0.12	\$ 0.12

At each subsequent reporting date, the fair value of the embedded derivative liability will be remeasured and changes in the fair value will be recorded in the Statements of Operations. At June 30, 2016, the embedded derivative was re-measured at fair value that was determined to be \$116,147. During the three and six months ended June 30, 2016, the Company recorded a loss on embedded derivative re-valuation of \$28,152 and \$27,164, respectively.

#### Purchaser Warrants

The Purchaser Warrants allow the Purchaser to purchase up to a number of shares of Common Stock equal to 100% of such purchaser's Note principal amount divided by \$0.12, the conversion price in effect on the Initial Closing Date, with a per share exercise price equal to \$0.30, subject to adjustment.

The term of the Purchaser Warrants is at any time on or after the six (6) month anniversary of the Original Issue Date and on or prior to the five (5) year anniversary of the Initial Trading Date of the Company's common stock on a Trading Market.

The exercise price of the Purchaser Warrants is \$0.30 per share of the Company's common stock, as may be adjusted from time to time pursuant to the anti-dilution provisions of the Purchaser Warrants.

The Purchaser Warrants are exercisable by the Purchaser in whole or in part, as either a cash exercise or as a "cashless" exercise.

The Company evaluated the Warrants under ASC 480 "Distinguishing Liabilities From Equity" and ASC 815 "Derivatives and Hedging". Due to the existence of the anti-dilution provision, which reduces the Exercise Price and Conversion Price in the event of subsequent Dilutive Issuances, the Purchaser Warrants are not indexed to the Company's common stock, and the Company determined that the Purchaser Warrants meet the definition of a derivative under ASC 815. Accordingly, the Purchaser Warrants were recorded as derivative liabilities in the Balance Sheet at their fair value of \$439,107 at the date of issuance and at December 31, 2015 as any change in the fair value was deemed immaterial.

The fair value of the Purchaser Warrants is measured in accordance with ASC 820 "Fair Value Measurement", using "monte carlo simulation" modeling, incorporating the following inputs:



	<b>Six Months Ended June 30, 2016</b>	<b>Year Ended December 31, 2015</b>
Expected dividend yield	0.00%	0.00%
Expected stock-price volatility	50% - 60%	50.0%
Risk-free interest rate	0.93%	1.74%
Expected term of options (years)	.5 - 1.0	.5 - 1.5
Stock price	\$ 0.25	\$ 0.25
Exercise price	\$ 0.30	\$ 0.30

At each subsequent reporting date, the fair value of the Purchaser Warrants will be remeasured and changes in the fair value will be reported in the Statements of Operations. At June 30, 2016, the warrant liability was re-measured at fair value that was determined to be \$418,039. During the three and six months ended June 30, 2016, the Company recorded a gain on warrant re-valuation of \$13,344 and \$21,068, respectively.

#### Purchaser Common Stock

The Purchasers were issued a total of 2,500,000 shares of the Company's common stock, valued at \$625,000 (based on the estimated fair value of the stock on the date of grant).

At inception, the total proceeds \$724,500 received by the Company for the Note, Purchaser Common Stock, and Purchaser Warrants, was allocated first to the Purchaser Common Stock, Purchaser Warrants, and embedded derivative liabilities at their initial fair values determined at the issuance date. The difference between the full fair value of Purchaser Common Stock, Purchaser Warrants, and embedded derivative liabilities of \$1,153,090 and the proceeds of \$724,500 was recorded as \$433,590 (including \$5,000 paid by the CEO on behalf of the Company) of interest expense in the Statements of Operations for the year ended December 31, 2015.

The Company recorded debt discount accretion of \$143,225 and \$286,451 to interest expense in the Statements of Operations during the three and six months ended June 30, 2016 and has an unamortized debt discount of \$563,458 and \$849,909 as of June 30, 2016 and December 31, 2015, respectively.

#### **NOTE 8 – STOCK BASED COMPENSATION**

##### **2015 Equity Incentive Plan**

On April 1, 2016, as amended, the Company issued a total of 300,000 restricted common shares to members of its advisory committee ("Advisors"), valued at \$75,000 (based on the estimated fair value of the stock on the date of grant) for outside advisory and consulting services pursuant to the Company's 2015 Equity Incentive Plan. One-twelfth (1/12) of the shares will be earned each month. The Company recognized compensation expense of \$18,750 under general and administrative expenses in the accompanying Statement of Operations for the three and six months ended June 30, 2016.

On May 1, 2015 the board of directors and stockholders of the Company authorized the adoption and implementation of the Company's 2015 Equity Incentive Plan (the "2015 Plan"). The principal purpose of the 2015 Plan is to attract, retain and motivate employees, officers, directors, consultants, agents, advisors and independent contractors of the Company and its related companies by providing them the opportunity to acquire a proprietary interest in the Company and to link their interests and efforts to the long-term interests of the Company's stockholders. Under the 2015 Plan, as amended on December 22, 2015, an aggregate of 14,000,000 shares of our common stock have initially been reserved for issuance pursuant to a variety of stock-based compensation awards, including stock options, stock appreciation rights, stock awards, restricted stock, restricted stock units and other stock and cash-based awards. The exercise price for each option may not be less than fair market value of the common stock on the date of grant, and shall vest as determined by the Company's Board of Directors but shall not exceed a ten-year period.

On May 1, 2015 (“Grant Date”), the Company granted to its CEO, options to purchase 10,000,000 shares of our common stock under the 2015 Plan, valued at \$2,500,000 (based on the Black Scholes valuation model on the date of grant). The options will vest 50% on the first anniversary of the Grant Date (“First Year Vest”) and the remaining 50% of the shares shall vest in twelve (12) equal installments on the first day of each calendar month following the first anniversary of the Grant Date beginning on June 1, 2016 and ending on June 1, 2017 (“Second Year Vest”), provided that CEO is continuously employed by the Company from the Grant Date through such applicable vesting date. Notwithstanding the foregoing, 100% of the shares of the Company’s common stock subject to the Option shall fully vest if the Company shall successfully sell all of the shares of its common stock included in the primary offering of such common stock by the Company pursuant to the registration statement on Form S-1 to be filed with the Securities and Exchange Commission within ninety (90) days of the Grant Date. The First Year Vest options will amortize to expense over a 12 month period beginning May 2015 through April 2016 and the Second Year Vest options will amortize to expense over a 24 month period beginning May 2015 through April 2017. The Company recognized expense of \$306,516 and \$347,543 for the three months ended June 30, 2016 and 2015, respectively, and \$824,981 and \$347,543 for the and six months ended June 30, 2016 and 2015, respectively, within stock based compensation – related party in the accompanying Statement of Operations with the remaining \$279,149 to be recognized over the remaining vesting period.

Management used the Black-Scholes valuation model to value the options with known inputs for option term exercise price and stock price and assumptions for expected volatility rate; dividend rate; and risk free interest rate. The table summarizes the Black-Scholes assumptions used in the valuation of the options issued:

	<u>May 1, 2015</u>
Expected dividend yield	0.00%
Expected stock-price volatility	35.6%
Risk-free interest rate	1.87%
Expected term of options (years)	6
Stock price	\$ 0.25
Exercise price	\$ 0.005

*Expected dividend yield.* The Company bases the expected dividend yield assumption on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends on the Company’s common stock.

*Expected stock-price volatility.* The Company’s our common stock has never been publicly traded, the expected volatility is derived from the average historical volatilities of publicly traded companies within the Company’s industry that the Company considers to be comparable to the Company’s business over a period approximately equal to the expected term.

*Risk-free interest rate.* The Company bases the risk-free interest rate assumption on observed interest rates appropriate for the expected term of the stock option grants.

*Expected term of options.* The expected term of options represents the period of time that options are expected to be outstanding. Because the Company does not have historic exercise behavior, the Company determines the expected life assumption using the simplified method, which is an average of the contractual term of the option and its ordinary vesting period.

*Stock price.* Determined from third party transactions through the purchase of inventory or services provided to us by outside consultants.

The following represents a summary of the Options outstanding at June 30, 2016 and changes during the period then ended:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1, 2015	-	\$ -	\$ -
Granted	10,000,000	0.005	2,450,000
Exercised	-	-	-
Expired/Forfeited	-	-	-
Outstanding at January 1, 2016	10,000,000	\$ 0.005	\$ 2,450,000
Granted	-	-	-
Exercised	-	-	-
Expired/Forfeited	-	-	-
Outstanding at June 30, 2016	10,000,000	\$ 0.005	\$ 2,450,000
Exercisable at June 30, 2016	-	\$ -	\$ -
Expected to be vested	10,000,000	\$ 0.005	\$ -

#### NOTE 9 – RELATED PARTY TRANSACTIONS

Other than as set forth below, and as disclosed in Notes 6, and 8, the Company has not entered into or been a participant in any transaction in which a related person had or will have a direct or indirect material interest.

##### Employment Agreements

The Company previously had a consulting agreement with its CEO under which he was compensated \$120,000 per annum. Beginning June 20, 2013, this contract was to continue unless and until terminated at any time by either the Company or CEO giving two month notice in writing. Such consulting agreement was terminated by mutual agreement as of May 1, 2015 and superseded by an employment agreement effective May 1, 2015. The initial term of employment agreement expires on December 31, 2018, unless earlier terminated by either party. The agreement provides for automatic one-year renewals, unless either party gives notice of their intention not to extend at least 90 days prior to the expiration of any term. Under this employment agreement, the CEO receives a minimum annual base salary of \$180,000, is eligible to receive an annual performance bonus each year, if performance goals established by the Company's board of directors are met, and is entitled to participate in customary benefit plans. There have been no performance goals established. If the Company terminates the CEO's employment without cause, he will be entitled to the following: (i) payment of (x) accrued compensation and unpaid base salary through the date of such termination, (y) any amounts previously deferred by CEO and (z) the payment or reimbursement for expenses incurred prior to the date of such termination; (ii) an amount equal to 200% of the base salary and (iii) continued participation, at the Company's expense, in the Company's health and welfare programs for a period of two years after the date of termination. The Company incurred compensation expense of \$45,000 and \$45,000 and consulting fees of \$0 and \$0 for the three months ended June 30, 2016 and 2015, respectively. The Company incurred compensation expense of \$90,000 and \$45,000 and consulting fees of \$0 and \$30,000 for the six months ended June 30, 2016 and 2015, respectively. Deferred compensation totaling \$439,000 and \$349,000 as of June 30, 2016 and December 31, 2015, respectively, is included in Accrued Compensation – Related Party in the accompanying Balance Sheets.

The Company previously had a consulting agreement with its secretary and director (“Secretary”) under which she was compensated \$60,000 per annum. Beginning June 20, 2013, this contract was to continue unless and until terminated at any time by either the Company or Secretary giving two month notice in writing. The Secretary is the spouse of the CEO. Such consulting agreement was terminated by mutual agreement as of May 1, 2015 and superseded by an employment agreement effective May 1, 2015. The initial term of employment agreement expires on December 31, 2018, unless earlier terminated by either party. The agreement provides for automatic one-year renewals, unless either party gives notice of their intention not to extend at least 90 days prior to the expiration of any term. Under this employment agreement, the Secretary receives a minimum annual base salary of \$80,000. If the Company terminates the Secretary’s employment without cause, she will be entitled to the following: (i) payment of (x) accrued compensation and unpaid base salary through the date of such termination, (y) any amounts previously deferred by Secretary and (z) the payment or reimbursement for expenses incurred prior to the date of such termination; (ii) an amount equal to 50% of the base salary and (iii) continued participation, at the Company’s expense, in the Company’s health and welfare programs for a period of two years after the date of termination. The Company incurred compensation expense of \$20,000 and \$13,333 and consulting fees of \$0 and \$6,667 for the three months ended June 30, 2016 and 2015, respectively. The Company incurred compensation expense of \$40,000 and \$13,333 and consulting fees of \$0 and \$21,667 for the six months ended June 30, 2016 and 2015, respectively. Deferred compensation totaling \$207,000 and \$167,000 as of June 30, 2016 and December 31, 2015, respectively, is included in Accrued Compensation – Related Party in the accompanying Balance Sheets.

Through June 30, 2016, the Company has not made any cash payments pursuant to these agreements.

The Company has accrued unpaid amounts related to business expenses paid by the CEO on behalf of the Company. Unpaid business expenses totaling \$399,337 and \$396,819 as of June 30, 2016 and December 31, 2015, respectively, is included in Accounts Payable – Related Party in the accompanying Balance Sheet. During the six months ended June 30, 2016, business expenses totaled \$345,863 (comprised of inventory purchases totaling \$222,965 and operating expenses totaling \$122,898) and payments for business expenses totaled \$343,345.

#### **NOTE 10 – EARNINGS PER SHARE**

FASB ASC Topic 260, *Earnings Per Share*, requires a reconciliation of the numerator and denominator of the basic and diluted earnings (loss) per share (EPS) computations.

Basic earnings (loss) per share are computed by dividing net earnings available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. In periods where losses are reported, the weighted-average number of common stock outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

Basic and diluted earnings (loss) per share are the same since the Company had net losses for all periods presented and including the additional potential common shares would have an anti-dilutive effect.

The following table sets forth the computation of basic and diluted net income per share:

	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2016	2015	2016	2015
Net loss attributable to the common stockholders	\$ (1,736,942)	\$ (624,611)	\$ (885,700)	\$ (483,266)
Basic weighted average outstanding shares of common stock	34,360,088	30,090,000	34,397,176	30,195,000
Dilutive effect of options and warrants	-	-	-	-
Diluted weighted average common stock and common stock equivalents	34,360,088	30,090,000	34,397,176	30,195,000
Loss per share:				
Basic and diluted	\$ (0.05)	\$ (0.02)	\$ (0.03)	\$ (0.02)

#### NOTE 11 – COMMITMENTS AND CONTINGENCIES

##### Operating Lease

The Company has month-to month leases for its headquarters and its sales and marketing office. The total rent is approximately \$3,500 per month.

Rent expense was approximately \$11,300 and \$10,000, and \$21,100 and \$18,400 for the three and six months ended June 30, 2016 and 2015, respectively.

##### Legal

The Company is not involved in any legal matters arising in the normal course of business. While incapable of estimation, in the opinion of the management, the individual regulatory and legal matters in which it might involve in the future are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

#### NOTE 12 – SUBSEQUENT EVENTS

There were no events subsequent to July 1, 2016, and up to the date of this filing that would require disclosure.

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

*You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes included elsewhere in this filing. This discussion and other parts of this filing contain forward-looking statements that involve risk and uncertainties, such as statements of our plans, objectives, expectations, intentions, and beliefs. Our actual results may differ materially from those discussed in these forward-looking statements as a result of various factors, including those referred to under “Risk Factors” (in the Annual Report on Form 10-K for the year ended December 31, 2015 as filed on March 30, 2016) and in other parts of this filing, and you should not place undue certain on these forward-looking statements, which apply only as of the date of this filing.*

*We are an emerging growth company as defined in Section 2(a) (19) of the Securities Act. Pursuant to Section 107 of the Jumpstart Our Business Startups Act, we may take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards, meaning that we can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have chosen to take advantage of the extended transition period for complying with new or revised accounting standards applicable to public companies to delay adoption of such standards until such standards are made applicable to private companies. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.*

### Historical Development

Reign Sapphire Corporation (“RSC”) was established on December 15, 2014 in the State of Delaware as a “mines-gate to retail” model for sapphires – rough sapphires to finished jewelry; a color gemstone brand; and a jewelry brand featuring Australian Sapphires.

We have developed relationships with a number of commercial miners in Australia and purchase rough sapphires in bulk, directly from these commercial miners. We outsource the processing of the rough material to facilities in Asia that meet our quality and ethical criteria and standards, We engage the services of a quality control specialist based in Asia to assist in this process. The outsourced processing includes sorting rough parcels of sapphires and cutting and polishing rough stones. We believe that consumers will appreciate that our sapphires come from a verified source and are processed under our oversight and supervision.

We started as UWI Holdings Corporation (previously known as Australian Sapphire Corporation) (“UWI”) and was established on May 31, 2013 in the Province of New Brunswick, Canada and listed on the GXG Markets in the UK.

On December 31, 2014, UWI entered into an Agreement of Conveyance, Transfer and Assignment of Assets and Assumption of Obligations with us, pursuant to which UWI transferred all of its net assets to us. The sole shareholder of UWI along with his spouse retained 100% ownership of Reign and were issued 27,845,000 of Reign common shares in exchange for the 16,000,250 outstanding shares of UWI. There was no significant tax consequence to this exchange. As a result, we are considered to be the continuation of the predecessor UWI. All historical financial information prior to the reorganization is that of UWI. While UWI was previously known as “Australian Sapphire Corporation”, the “Australian Sapphire Corporation” referred to elsewhere in this filing as a current shareholder of the Company is a different entity, a California corporation, formed by Mr. Segelman to hold shares of the Company engage in gemstone marketing consultancy.

Prior to the reorganization, we were authorized to issue 50,000,000 shares of common stock and 5,000,000 shares of preferred stock. On May 8, 2015, our articles of incorporation were amended to increase the authorized common shares to 100,000,000 and preferred shares to 10,000,000.

For share and earnings per share information, we have retroactively restated per share and the outstanding shares for weighted average shares used in the basic and diluted earnings per share calculations for all periods presented, as a result of the reorganizations.

We began our planned principal operations, and accordingly, we have prepared our financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

## **Recent Developments**

### ***Financing Transactions***

#### *Securities Purchase Agreement*

On December 23, 2015, we entered into a Securities Purchase Agreement (the “Purchase Agreement”) with respect to the sale and issuance to certain institutional investors Alpha Capital Anstalt and Brio Capital Master Fund Ltd. (collectively “Purchasers”) of up to (i) 2,500,000 shares of our Common Stock (the “Incentive Shares”); (ii) \$862,500 aggregate principal amount of Secured Convertible Notes (the “Notes”) and (iii) Common Stock Purchase Warrants to purchase up to an aggregate of 7,187,542 shares of our Common Stock (the “Warrants”). The Incentive Shares, Notes and Warrants were issued on December 23, 2015 (the “Original Issue Date”). Purchasers received (i) Incentive Shares at the rate of 2.8986 Incentive Shares for each \$1.00 of Note principal issued to such Purchaser; (ii) a Note with a principal amount of \$1.00 for each \$0.86956 for each \$1.00 paid by each purchaser for such purchaser’s Note; and (iii) Warrants to purchase up to a number of shares of Common Stock equal to 100% of such purchaser’s Note principal amount divided by \$0.12 (“Purchaser Conversion Price”), the conversion price in effect on the Initial Closing Date, with a per share exercise price equal to \$0.30, subject to adjustment. The aggregate cash subscription amount received by us from the purchasers for the issuance of the Incentive Shares, Notes and Warrants was approximately \$724,500 (the “Subscription Amount”) which was issued at a \$138,000 discount from the face value of the Note.

The Notes mature on June 23, 2017, eighteen (18) months after the Original Issue Date, and provide for interest to accrue at an interest rate equal to the lesser of 15% per annum or the maximum rate permitted under applicable law after the occurrence of any event of default as provided in the Notes. At any time after the Original Issue Date, the holders, at their option, may convert the outstanding principal balance and accrued interest into shares of our Common Stock. The initial conversion price for the principal and interest in connection with voluntary conversions by a holder of a Note is \$0.12 per share, subject to adjustment as provided therein. Each Note, for example, is subject to adjustment upon certain events such as stock splits and has full ratchet anti-dilution protections for issuance of securities by us at a price that is lower than the conversion price. Each Note also contains certain negative covenants, including prohibitions on incurrence of indebtedness, liens, charter amendments, dividends, redemption. None of the holders of the Note have the right to convert any portion of their Note if it (together with its affiliates) would beneficially own in excess of 9.99% of the number of shares of Common Stock outstanding immediately after giving effect to the exercise. The Notes include customary events of default, including, among other things, payment defaults, covenant breaches, certain representations and warranties, certain events of bankruptcy, liquidation and suspension of our Common Stock from trading. If such an event of default occurs, the holders of the Notes may be entitled to take various actions, which may include the acceleration of amounts due under the Notes and accrual of interest as described above. The Notes are collectively collateralized by substantially all of our assets and guarantees of payment of the Notes have also been delivered by Joseph Segelman, the Chief Executive Officer and President of the Company, and Australian Sapphire Corporation (“ASC”), a stockholder of the Company which is wholly-owned by Joseph Segelman, guaranteed payment of all amounts owed under the Notes, subject to the terms of such guaranty agreements.

In addition, until one year after the initial trading date of a Registration Statement which registers all then outstanding or issuable underlying shares, the Purchasers shall have the right to participate in an amount of subsequent financing equal to 100% of the Purchase Agreement.

### Optional Redemption

The Notes provide that commencing six (6) months after the Original Issue Date, we will have the option of prepaying the outstanding principal amount of the Notes (an "Optional Redemption"), in whole or in part, by paying to the holders a sum of money in cash equal to one hundred percent (100%) of the principal amount to be redeemed, together with accrued but unpaid interest thereon, if any, and any and all other sums due, accrued or payable to the holder arising under the Note through the Redemption Payment Date and 2.8986 shares of our Common Stock for each \$1.00 of Note principal amount being redeemed. A Notice of Redemption, if given, may be given on the first Trading Day following twenty (20) consecutive Trading Days during which all of the "Equity Conditions", as defined, have been in effect.

We evaluated the Optional Redemption in ASC 815, and concluded that the Optional Redemption meets the criteria in ASC 815, and therefore, is accounted for as a liability.

The Optional Redemption was recorded as a derivative liability on the Balance Sheet at its fair value of \$199,150 at June 30, 2016 as any change in the fair value six (6) months after the Original Issue Date to June 30, 2016 was deemed immaterial. During the three and six months ended June 30, 2016, we recorded a loss on Optional Redemption valuation of \$199,150 and \$199,150, respectively.

The fair value of the Optional Redemption liability is measured in accordance with ASC 820 "Fair Value Measurement", using "monte carlo simulation" modeling incorporating the following inputs:

	<u>June 30, 2016</u>
Expected dividend yield	0.00%
Expected stock-price volatility	50% - 60%
Risk-free interest rate	0.36%
Expected term of options (years)	.5 - 1.0
Stock price	\$ 0.25
Conversion price	\$ 0.12

At each subsequent reporting date, the fair value of the Optional Redemption liability will be remeasured and changes in the fair value will be recorded in the Statements of Operations.

### Purchaser Conversion

The Purchaser has the right at any time after the Original Issue Date until the outstanding balance of the Note has been paid in full, to convert all or any part of the outstanding balance into shares ("Purchaser Conversion Shares") of our common stock, of the portion of the outstanding balance being converted (the "Conversion Amount") divided by the Purchaser Conversion Price of \$0.12, subject to potential future adjustments described below. If the total outstanding balance of the Note were convertible as of June 30, 2016, the Note would have been convertible into 7,187,500 shares of our common stock.

We evaluated the note under the requirements of ASC 480 "Distinguishing Liabilities From Equity" and concluded that the Note does not fall within the scope of ASC 480. We next evaluated the Note under the requirements of ASC 815 "Derivatives and Hedging". Due to the existence of the anti-dilution provision which reduces the Purchaser Conversion Price in the event of subsequent dilutive issuances by us below the Purchaser Conversion Price as described above, the Purchaser Conversion feature does not meet the definition of "indexed to" our stock, and the scope exception to ASC 815's derivative accounting provisions does not apply. We also evaluated the embedded derivative criteria in ASC 815, and concluded that the Purchaser Conversion feature meets all of the embedded derivative criteria in ASC 815, and therefore, the Purchaser Conversion feature meets the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.



The embedded derivative was recorded as a derivative liability on the Balance Sheet at its fair value of \$88,983 at the date of issuance of the Note and at December 31, 2015 as any change in the fair value was deemed immaterial.

The fair value of the embedded derivative liability is measured in accordance with ASC 820 “Fair Value Measurement”, using “monte carlo simulation” modeling incorporating the following inputs:

	<u>Six Months Ended</u> <u>June 30, 2016</u>	<u>Year Ended</u> <u>December 31, 2015</u>
Expected dividend yield	0.00%	0.00%
Expected stock-price volatility	50% - 60%	50.0%
Risk-free interest rate	0.36%	0.47% - 0.86%
Expected term of options (years)	.5 - 1.0	.5 - 1.5
Stock price	\$ 0.25	\$ 0.25
Conversion price	\$ 0.12	\$ 0.12

At each subsequent reporting date, the fair value of the embedded derivative liability will be remeasured and changes in the fair value will be recorded in the Statements of Operations. At June 30, 2016, the embedded derivative was re-measured at fair value that was determined to be \$116,147. During the three and six months ended June 30, 2016, we recorded a loss on embedded derivative re-valuation of \$28,152 and \$27,164, respectively.

#### Purchaser Warrants

The Purchaser Warrants allow the Purchaser to purchase up to a number of shares of common stock equal to 100% of such purchaser’s Note principal amount divided by \$0.12, the conversion price in effect on the Initial Closing Date, with a per share exercise price equal to \$0.30, subject to adjustment.

The term of the Purchaser Warrants is at any time on or after the six (6) month anniversary of the Original Issue Date and on or prior to the five (5) year anniversary of the Initial Trading Date of our common stock on a Trading Market.

The exercise price of the Purchaser Warrants is \$0.30 per share of our common stock, as may be adjusted from time to time pursuant to the anti-dilution provisions of the Purchaser Warrants.

The Purchaser Warrants are exercisable by the Purchaser in whole or in part, as either a cash exercise or as a “cashless” exercise.

We evaluated the Warrants under ASC 480 “Distinguishing Liabilities From Equity” and ASC 815 “Derivatives and Hedging”. Due to the existence of the anti-dilution provision, which reduces the Exercise Price and Conversion Price in the event of subsequent Dilutive Issuances, the Purchaser Warrants are not indexed to our common stock, and we determined that the Purchaser Warrants meet the definition of a derivative under ASC 815. Accordingly, the Purchaser Warrants were recorded as derivative liabilities in the Balance Sheet at their fair value of \$439,107 at the date of issuance and at December 31, 2015 as any change in the fair value was deemed immaterial.

The fair value of the Purchaser Warrants is measured in accordance with ASC 820 “Fair Value Measurement”, using “monte carlo simulation” modeling, incorporating the following inputs:

	<u>Six Months Ended</u> <u>June 30, 2016</u>	<u>Year Ended</u> <u>December 31, 2015</u>
Expected dividend yield	0.00%	0.00%
Expected stock-price volatility	50% - 60%	50.0%
Risk-free interest rate	0.93%	1.74%
Expected term of options (years)	.5 - 1.0	.5 - 1.5
Stock price	\$ 0.25	\$ 0.25
Exercise price	\$ 0.30	\$ 0.30

At each subsequent reporting date, the fair value of the Purchaser Warrants will be remeasured and changes in the fair value will be reported in the Statements of Operations. At June 30, 2016, the warrant liability was re-measured at fair value that was determined to be \$418,039. During the three and six months ended June 30, 2016, we recorded a gain on warrant re-valuation of \$13,344 and \$21,068, respectively.

#### Purchaser Common Stock

The Purchasers were issued a total of 2,500,000 shares of our common stock, valued at \$625,000 (based on the estimated fair value of the stock on the date of grant).

At inception, the total proceeds \$724,500 received by us for the Note, Purchaser Common Stock, and Purchaser Warrants, was allocated first to the Purchaser Common Stock, Purchaser Warrants, and embedded derivative liabilities at their initial fair values determined at the issuance date. The difference between the full fair value of Purchaser Common Stock, Purchaser Warrants, and embedded derivative liabilities of \$1,153,090 and the proceeds of \$724,500 was recorded as \$433,590 (including \$5,000 paid by the CEO on our behalf) of interest expense in the Statements of Operations for the year ended December 31, 2015.

We recorded debt discount accretion of \$143,225 and \$286,451 to interest expense in the Statements of Operations during the three and six months ended June 30, 2016 and has an unamortized debt discount of \$563,458 and \$849,909 as of June 30, 2016 and December 31, 2015, respectively.

#### *Stock Transaction*

On April 1, 2016, we issued a total of 300,000 restricted common shares, valued at \$75,000 (based on the estimated fair value of the stock on the date of grant) for outside advisory and consulting services pursuant to the Company's 2015 Equity Incentive Plan. One-twelfth (1/12) of the shares will be earned each month. The Company recognized compensation expense of \$18,750 for the three and six months ended June 30, 2016.

We previously filed a registration statement on Form S-1 under the Securities Act that was declared effective on October 30, 2015 (the "Form S-1"). Pursuant to the Form S-1, we proposed to offer 10,000,000 shares of our authorized but unissued common stock at an offering price of \$0.50 per share ("Primary Offering"). Effective as of January 21, 2016, our board of directors determined that it was in our best interests to terminate the Primary Offering and declared the Primary Offering to be terminated immediately as of that date as permitted under the terms of the Primary Offering described in the Form S-1. As of the date of the termination, no shares of our common stock had been offered or sold under the terms of the Primary Offering.

#### *Stock Based Compensation*

On May 1, 2015 ("Grant Date"), we issued to our Chief Executive Officer and director ("CEO"), options to purchase 10,000,000 shares of our common stock under our 2015 Equity Incentive Plan (the "2015 Plan"), valued at \$2,500,000 (based on the Black Scholes valuation model on the date of grant). We recognized expense of \$306,516 and \$347,543 for the three months ended June 30, 2016 and 2015, respectively, and \$824,981 and \$347,543 for the and six months ended June 30, 2016 and 2015, respectively, within stock based compensation – related party in the Statement of Operations with the remaining \$279,149 to be recognized over the remaining vesting period.

## ***Investing Transactions***

### ***Website Development Costs***

ASC 350-50 requires expensing of all costs of the preliminary project stage and the training and application maintenance stage and the capitalization of all internal or external direct costs incurred during the application and infrastructure development stage. Upgrades or enhancements that add functionality are capitalized while other costs during the operating stage are expensed as incurred. We evaluated the cost incurred and pursuant to ASC 350-50 capitalized \$8,000 as website development under intangible assets in the accompanying Balance Sheet at June 30, 2016. Website development costs are considered to have an estimated life of three years. There was no amortization expense for the three and six months ended June 30, 2016 and 2015 as amortization of the Website will begin when we launch our website and begin to market the trademarked names, which is expected to occur in late third calendar quarter of 2016.

### **Limited Operating History; Need for Additional Capital**

There is limited historical financial information about us on which to base an evaluation of our performance. To date, we have not generated significant revenues from operations. We cannot guarantee we will be successful in our business operations. Our business is subject to risks inherent in the establishment of a new business enterprise, including limited capital resources, and possible cost overruns due to increases in the cost of services. To become profitable and competitive, we must receive additional capital. We have no assurance that future financing will materialize. If that financing is not available we may be unable to continue operations.

### **Overview of Presentation**

The following Management's Discussion and Analysis ("MD&A") or Plan of Operations includes the following sections:

- Plan of Operations
- Results of Operations
- Liquidity and Capital Resources
- Capital Expenditures
- Going Concern
- Critical Accounting Policies
- Off-Balance Sheet Arrangements

## Plan of Operations

Reign Sapphire Corporation was established as a vertically integrated “miners-gate to retail” model for sapphires—rough sapphires to finished jewelry; a color gemstone brand; and a jewelry brand featuring Australian sapphires. We are not an exploration or mining company and are not engaged in exploration or mining activities. We purchase rough sapphires in bulk, directly from commercial miners in Australia, and we intend to oversee each step of the process as the stones go from the miners-gate to the consumer as Reign Sapphire jewelry.

The processing of our rough Australian sapphires is done at our contract cutting factories in Asia and includes sorting rough parcels of sapphires and cutting and polishing rough stones. The processing and manufacturing costs are part of inventory costs in the use of proceeds section of this document.

Reign Sapphires is our color gemstone brand and we launched our inaugural jewelry collection via our website [www.reignsapphires.com](http://www.reignsapphires.com) in late second calendar quarter of 2016. The sample jewelry collection has been designed and manufactured and is ready for production.

Our core values are to offer consumers conflict free sapphires; sapphires that are mined from a verified source; sapphires that have been procured directly from miners, sapphires that are ethically processed and sapphires that are natural (not synthetic). In addition, we intend to feature exclusively Australian sapphires in our initial jewelry collections. We have sufficient inventory to launch the sample collection.

The design direction for the collection we intend to offer is reflective of old Hollywood glamour meeting turn of the century. The inaugural collections we intend to offer are Reign Day-to-Night; featuring classic & timeless pieces designed to complement versus take over and Reign Red-Carpet; featuring bold designs, made for the stars to hold a time and place in Hollywood’s history.

We intend to position Reign Sapphires as a premium brand in the price point and company of competitors such as Cartier; Harry Winston; Roberto Coin; Van Cleef & Arpels and Bvlgari. We believe that our competitors have certain existing advantages such as history and heritage; strong E-commerce and mobile presence; wholesale and flagship retail presence; strong social presence; a wide range of ancillary product offerings; strong public relations and marketing efforts; a balanced range of price points across the board; and consumer trust & recognition.

However, we intend to set ourselves apart with strong brand identity and visuals, unique design and quality and brand awareness through traditional and social media.

We intend to focus our marketing initiatives on: (1) Business-to-Consumer (“B2C”) marketing to attract customers to the reignsapphires.com website, (2) Business-to-Business (“B2B”) marketing and sales efforts, to establish exclusive distribution partners, and eventually (3) building a strong retail presence to market the products directly to consumers on a retail level.

We intend to launch a collection that includes rings, bracelets, and necklaces; featuring predominantly 1.5mm to 2.5mm diamond and princess cut sapphire meleees. We intend to market the Red Carpet collection to households with annual income of \$100,000 and greater and the Day-to-Night collection to households with income of \$60,000 to \$100,000.

We intend to initially focus marketing efforts in the U.S. and upon encountering three years of year on year growth in the U.S. with online, wholesale, and retail sales, we intend to expand our retail marketing efforts internationally.

We believe that the cutting factories have sufficient capabilities to process the rough material required to supply the jewelry manufacturer with orders for our inaugural collection. We have prepared the CAD renderings, castings and molds required to mass-produce our jewelry. We have completed our market research and have retained the services of a publicist and marketing specialist to launch and promote Reign Sapphires, we have also identified the approximate location of our initial flagship location.

We will require a minimum of \$2,500,000 to implement the business plan and intend to raise the additional funds needed to implement this plan but have no agreement in place or plans in place to raise such funds.

### **Strategy**

Reign Sapphire Corporation intends to set itself apart from its competition by marketing three core offerings: a direct from the “miners-gate to retail” model for sapphires - rough sapphires to finished jewelry; a color gemstone brand; and a jewelry brand featuring Australian sapphires.

We intend to promote Reign Sapphires as conflict free, ethically processed and natural. We also intend to make video footage and pictures of the process available to consumers via our website [www.reignsapphires.com](http://www.reignsapphires.com).

We intend to focus primarily on the conflict free, procured from a verified source element well as quality and design.

### **Products**

We intend to launch two inaugural collections: Reign Day-to-Night; featuring classic & timeless pieces designed to complement versus take over and Reign Red-Carpet; featuring bold designs, made for the stars to hold a time and place in Hollywood’s history. We intend to include in these collections rings, bracelets, and necklaces; using predominantly 1.5mm to 2.5mm diamond and princess cut sapphire meleees.

### **Market Opportunities & Marketing Strategy**

We intend to market the Red Carpet collection to households with annual income of \$100,000 and greater and the Day-to-Night collection to households with income of \$60,000 to \$100,000.

Demand for the industry’s products is largely driven by the needs and preferences of consumers, along with variations in the level of disposable income allocated toward their purchases. We intend to eventually also capitalize on fashion market opportunities by having a lower price point silver jewelry collection.

We intend to focus our marketing initiatives on: (1) Business-to-Consumer (“B2C”) marketing to attract customers to the [reignsapphires.com](http://reignsapphires.com) website, (2) Business-to-Business (“B2B”) marketing and sales efforts, to establish distribution partners such as high-end fashion retailers, and eventually (3) building a strong retail presence to market the products directly to consumers on a retail level. We intend to initially focus marketing efforts in the U.S. and upon encountering three years of year on year growth in the U.S. with online, wholesale, and retail sales, we intend to expand our marketing efforts internationally.

We intend to attract retail customers to the [reignsapphires.com](http://reignsapphires.com) website by spreading awareness of the company and its offerings by engaging the services of a digital marketing specialist and social media specialist. We also intend to hire a publicist as well as a marketing and branding specialist to manage print advertising campaigns and seasonal promotional activities. We intend to identify ideal locations for retail flagship stores that contain a large volume of walk-by traffic in communities with upper income residents.

We intend to form limited wholesale partnerships with retailers to sell the products at their retail boutiques, the benefit to Reign Sapphires is the promotion of our brand at the consumer level until we are in a position to open our own flagship stores. Prior to launching our sales campaign, we intend to develop and use association strategy to identify appropriate and strategic partners for co-marketing opportunities.

## Plan of Operations

As of the date of this filing, we have generated minimal revenue by selling loose finished gemstones to a number of wholesale customers. We currently have no operational retail website and no retail customers, our activities and operations have been limited to developing our business and financial plans as well as designing and sample manufacturing our inaugural collection which we intend to launch together with our retail website in late third calendar quarter of 2016. We will not have the necessary capital to fully execute the first phase of our business plan until we are able to secure financing. There can be no assurance that such financing will be available on suitable terms. Even if we raise such financing, we may not have sufficient capital to begin generating further revenues from operations.

We had no significant operating revenues through June 30, 2016. We expect to have operating revenues in late third calendar quarter of 2016 as we launch our B2C marketing initiative. Revenues will be predominately the result of fine jewelry sales. At June 30, 2016 our cash balance was \$144,391.

Our plan of operations consists of:

- Purchase rough sapphires from commercial miners in Australian and process the rough material into cut gemstones and finished jewelry.
- Launch of our B2B marketing and sales efforts through the use of distribution partners and high-end fashion retailers agreements.
- Launch of our B2C marketing and sales efforts through the use of internet marketing, print advertising, promotions, and signage agreements.
- Raise capital to launch Reign Sapphires, fund administrative infrastructure and ongoing operations until our operations generate positive cash flow.

To enable us to launch Reign and take us to the point of being able to generate revenue within 12 months, our activities and milestones for the next 12 months include:

- the development, creation and launch of a lifestyle visual marketing campaign (achieved through the engagement of a branding specialist, marketing consultant and creative director);
- the development and roll-out of an E commerce platform and online experience (achieved through the engagement of a digital marketing specialist and E commerce specialist company);
- the development and execution of a digital media marketing strategy (achieved through the engagement of a digital media specialist) and
- the roll-out of red carpet placements and editorial activities (achieved through the engagement of a luxury markets publicist).

These marketing and promotional activities will take place concurrently and will be ongoing over the 12 months at a cost of \$250,000. This is in addition to day-to-day operations and hiring of additional team members, financial activities and strategies at a cost of \$275,000 over the next 12 months.

## How We Generate Revenue

We recognize revenue at the time of sale. Revenues are presented net of refunds and known credits.

We currently have no retail sales or operational retail website. Revenue generated to date has been as a result of wholesale sales of loose gemstones; we intend to continue with wholesale sales of loose gemstones to a number of customers with one major customer contributing the bulk of our revenue until we are ready to launch our jewelry collection direct to consumers in late third calendar quarter of 2016.

General and administrative expenses consist of the cost of customer service, billing, cost of information systems and personnel required to support our operations and growth.

Depending on the extent of our future growth, we may experience significant strain on our management, personnel, and information systems. We will need to implement and improve operational, financial, and management information systems. In addition, we are implementing new information systems that will provide better record-keeping, customer service and billing. However, there can be no assurance that our management resources or information systems will be sufficient to manage any future growth in our business, and the failure to do so could have a material adverse effect on our business, results of operations and financial condition.

## **Results of Operations**

### ***Three Months Ended June 30, 2016 Compared to the Three Months Ended June 30, 2015***

#### *Revenue*

Revenue decreased by \$18,439, or 100.0%, to \$0 for the three months ended June 30, 2016 from \$18,439 for the three months ended June 30, 2015. To date, revenues have been generated through the sale of loose sapphires. Although we will continue to sell loose sapphires, we will focus on our primary business of placing the loose sapphires in jewelry settings. Therefore, we had no revenue in the current quarter.

#### *Cost of Sales*

Cost of sales decreased by \$6,930, or 100.0%, to \$0 for the three months ended June 30, 2016 from \$6,930 for the three months ended June 30, 2015. To date, cost of sales has been generated through the sale of loose sapphires. Although we will continue to sell loose sapphires, we will focus on our primary business of placing the loose sapphires in jewelry settings. Therefore, we had no cost of sales in the current quarter.

#### *Operating expenses*

Operating expenses increased by \$32,108, or 6.5%, to \$526,883 for the three months ended June 30, 2016 from \$494,775 for the three months ended June 30, 2015 primarily due to increases in stock-based compensation of \$18,750, consulting services costs of \$19,358, rent of \$1,286, professional fees of \$4,780, marketing costs of \$17,161, travel expenses of \$11,581, and general and administration costs of \$219, offset partially by stock based compensation – related party of \$41,027, as a result of adding administrative infrastructure, primarily consulting, marketing, and investor relations, for our current and anticipated sales growth.

For the three months ended June 30, 2016, we had stock based compensation – related party of \$306,516, marketing expenses of \$17,161, and general and administrative expenses of \$203,206 primarily due to consulting costs of \$99,208, stock-based compensation of \$18,750, travel expenses of \$23,044, rent of \$11,306, professional fees of \$39,670, and general and administration costs of \$11,228 as a result of adding administrative infrastructure, primarily consulting, marketing, and investor relations, for our current and anticipated sales growth.

For the three months ended June 30, 2015, we had stock based compensation – related party of \$347,543 and general and administrative expenses of \$147,232 primarily due to consulting costs of \$79,850, travel expenses of \$11,463, rent of \$10,020, professional fees of \$34,890, and general and administration costs of \$11,009 as a result of startup marketing initiatives and adding administrative infrastructure.

#### *Other Expense*

Other expense for the three months ended June 30, 2016 was \$358,017 compared to \$0 for the three months ended June 30, 2015 due to interest expense of \$144,059 in conjunction with the accretion of the debt discount of \$143,225 recorded during the three months ended June 30, 2016, the gain on the change in fair value of warrant liabilities of \$13,334, and the loss on the change in fair value of derivative liabilities of \$227,302.

#### *Net loss before income taxes*

Net loss before income taxes for the three months ended June 30, 2016 totaled \$884,900 and \$483,266 for the three months ended June 30, 2015 primarily due to stock based compensation – related party, compensation expenses, consulting services costs, rent, travel costs, professional fees, marketing costs, general and administration costs, interest expense in conjunction with debt discount, the gain on the change in fair value of warrant liabilities, and the loss on the change in fair value of derivative liabilities.

#### *Assets and Liabilities*

Assets were \$1,158,000 as of June 30, 2016. Assets consisted primarily of cash of \$144,391, inventory of \$732,753 which includes samples inventory of \$133,222, prepaid expenses of \$6,000, equipment of \$6,856, and intangible assets of \$268,000. Liabilities were \$2,133,219 as of June 30, 2016. Liabilities consisted primarily of accrued compensation-related party of \$646,000, accounts payable – related party of \$399,337, advance from shareholder of \$55,504, derivative liabilities of \$315,297, warrant liabilities of \$418,039, and long-term convertible notes of \$299,042 (less unamortized discount of \$563,458).

#### *Stockholders' Deficit*

Stockholders' deficit was \$975,219 as of June 30, 2016. Changes in Stockholder's equity during the six months ended June 30, 2016 consisted primarily of stock based compensation – related party of \$824,981, the estimated fair market value of stock issued for services of \$18,750, offset primarily by the net loss of \$1,736,942.

#### ***Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2015***

##### *Revenue*

Revenue decreased by \$29,207, or 100.0%, to \$0 for the six months ended June 30, 2016 from \$29,207 for the six months ended June 30, 2015. To date, revenues have been generated through the sale of loose sapphires. Although we will continue to sell loose sapphires, we will focus on our primary business of placing the loose sapphires in jewelry settings. Therefore, we had no revenue in the current quarter.

##### *Cost of Sales*

Cost of sales decreased by \$9,930, or 100.0%, to \$0 for the six months ended June 30, 2016 from \$9,930 for the six months ended June 30, 2015. To date, cost of sales has been generated through the sale of loose sapphires. Although we will continue to sell loose sapphires, we will focus on our primary business of placing the loose sapphires in jewelry settings. Therefore, we had no cost of sales in the current quarter.

##### *Operating expenses*

Operating expenses increased by \$596,891, or 92.7%, to \$1,240,779 for the six months ended June 30, 2016 from \$643,888 for the six months ended June 30, 2015 primarily due to increases in stock based compensation – related party of \$477,438, consulting services costs of \$32,654, investor relations costs of \$11,000, rent of \$2,707, professional fees of \$9,753, marketing costs of \$31,350, compensation of \$18,750, travel expenses of \$12,948, and general and administration costs of \$291 as a result of adding administrative infrastructure, primarily consulting, marketing, and investor relations, for our current and anticipated sales growth.



For the six months ended June 30, 2016, we had stock based compensation – related party of \$824,981, marketing expenses of \$43,850, and general and administrative expenses of \$371,948 primarily due to consulting costs of \$176,204, investor relations costs of \$11,000, travel expenses of \$51,394, rent of \$21,114, professional fees of \$70,434, compensation expense of \$18,750, and general and administration costs of \$23,052 as a result of adding administrative infrastructure, primarily consulting, marketing, and investor relations, for our current and anticipated sales growth.

For the six months ended June 30, 2015, we had stock based compensation – related party of \$347,543, marketing expenses of \$12,500 and general and administrative expenses of \$283,845 primarily due to consulting costs of \$143,550, travel expenses of \$38,446, rent of \$18,407, professional fees of \$60,681, and general and administration costs of \$22,761 as a result of startup marketing initiatives and adding administrative infrastructure.

#### *Other Expense*

Other expense for the six months ended June 30, 2016 was \$493,363 compared to \$0 for the six months ended June 30, 2015 due to interest expense of \$288,117 in conjunction with the accretion of the debt discount of \$286,451 recorded during the six months ended June 30, 2016, the gain on the change in fair value of warrant liabilities of \$21,068, and the loss on the change in fair value of derivative liabilities of \$226,314.

#### *Net loss before income taxes*

Net loss before income taxes for the six months ended June 30, 2016 totaled \$1,734,142 and \$624,611 for the three months ended June 30, 2015 primarily due to stock based compensation – related party, consulting services costs, rent, travel costs, professional fees, marketing costs, investor relations costs, compensation expenses, general and administration costs, interest expense in conjunction with debt discount, the gain on the change in fair value of warrant liabilities, and the loss on the change in fair value of derivative liabilities.

#### **Liquidity and Capital Resources**

**General** – Overall, we had a decrease in cash flows of \$494,433 in the six months ended June 30, 2016 resulting from cash used in operating activities of \$483,150, and cash used in investing activities of \$11,283.

The following is a summary of our cash flows provided by (used in) operating, investing, and financing activities during the periods indicated:

	<b>For the Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Net cash used in:</b>		
Operating activities	\$ (483,150)	\$ (50)
Investing activities	(11,283)	-
Financing activities	-	-
<b>Net decrease in cash</b>	<b>\$ (494,433)</b>	<b>\$ (50)</b>

#### *Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2015*

**Cash Flows from Operating Activities** – For the six months ended June 30, 2016, net cash used in operating activities was \$483,150. Net cash used in operations was primarily due to a net loss of \$(1,736,942), and the changes in operating assets and liabilities of \$82,824, primarily due to a net increase in accounts payable –related party of \$2,518, offset primarily by decreases in prepaid expenses of \$7,623, and accrued compensation - related party of \$130,000. In addition, net cash used in operating activities was offset primarily by adjustments to reconcile net loss from stock based compensation – related party of \$824,981, the accretion of the debt discount of \$286,451, depreciation expense of \$1,188, the estimated fair market value of stock issued for services of \$18,750, and the change in derivative liabilities of \$226,314, offset primarily by the change in warrant liabilities of \$21,068.

For the six months ended June 30, 2015, net cash used in operations was \$50. Net cash used in operating activities was primarily due to a net loss of \$(624,611), offset primarily by stock based compensation – related party of \$347,543, the estimated fair market value of stock issued for services of \$10,000, the amortization of stock issued for future services of \$32,200, depreciation expense of \$577, and the changes in operating assets and liabilities of \$234,241, primarily due to the increase in accrued compensation - related party of \$110,000, accounts payable – related party of \$136,783, inventory of \$9,930, prepaid expenses of \$1,734, and accounts payable of \$5,000, offset primarily by accounts receivable of \$29,206.

**Cash Flows from Investing Activities** – For the six months ending June 30, 2016, net cash used in investing activities was \$3,283 for purchases of computer equipment and \$8,000 for website development costs.

**Financing** – We expect that our current working capital position, together with our expected future cash flows from operations will be insufficient to fund our operations in the ordinary course of business, anticipated capital expenditures, debt payment requirements and other contractual obligations for at least the next twelve months. However, this belief is based upon many assumptions and is subject to numerous risks (see “Risk Factors” in the Annual Report on Form 10-K for the year ended December 31, 2015 as filed on March 30, 2016), and there can be no assurance that we will not require additional funding in the future.

We will continue to evaluate acquisitions of and/or investments in products, technologies, capital equipment or improvements or companies that complement our business and may make such acquisitions and/or investments in the future. Accordingly, we may need to obtain additional sources of capital in the future to finance any such acquisitions and/or investments. We may not be able to obtain such financing on commercially reasonable terms, if at all. Due to the ongoing global economic crisis, we believe it may be difficult to obtain additional financing if needed. Even if we are able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing, or cause substantial dilution for our stockholders, in the case of equity financing.

#### *Short-Term Financing*

#### *Advance from Shareholder*

We borrow funds from our CEO/Director for working capital purposes from time to time. As of June 30, 2016, we have recorded the principal balance due of \$55,504 in Advance From Shareholder. We received no advances and had no repayments for the three and six months ended June 30, 2016 and 2015, respectively. Advances are non-interest bearing and due on demand. Past loans and advances from our CEO/Director were not made pursuant to any loan agreements or promissory notes, nor will any future loans and advances from our CEO/Director be made pursuant to loan agreements or promissory notes.

#### *Business Expenses Paid by Shareholder*

We have accrued unpaid amounts related to business expenses paid by our CEO on behalf of us. Unpaid business expenses totaling \$399,337 and \$396,819 as of June 30, 2016 and December 31, 2015, respectively, is included in Accounts Payable – Related Party in the accompanying Balance Sheet. During the three and six months ended June 30, 2016, business expenses totaled \$345,863 (comprised of inventory purchases totaling \$222,965 and operating expenses totaling \$122,898) and payments for business expenses totaled \$343,345.

### Stock Transactions

On April 1, 2016, we issued a total of 300,000 restricted common shares, valued at \$75,000 (based on the estimated fair value of the stock on the date of grant) for outside advisory and consulting services pursuant to the Company's 2015 Equity Incentive Plan. One-twelfth (1/12) of the shares will be earned each month. The Company recognized compensation expense of \$18,750 for the three and six months ended June 30, 2016.

### Stock Based Compensation – Related Party

On May 1, 2015 our board of directors and stockholders authorized the adoption and implementation of the 2015 Plan. The principal purpose of the 2015 Plan is to attract, retain and motivate employees, officers, directors, consultants, agents, advisors and independent contractors to us and our related companies by providing them the opportunity to acquire a proprietary interest in us and to link their interests and efforts to the long-term interests of our stockholders. The material terms of the 2015 Plan are summarized in "Executive Compensation Plans and Other Benefit Plans" in this filing. Under the 2015 Plan, as amended on December 22, 2015, an aggregate of 14,000,000 shares of our common stock have initially been reserved for issuance pursuant to a variety of stock-based compensation awards, including stock options, stock appreciation rights, stock awards, restricted stock, restricted stock units and other stock and cash-based awards.

On Grant Date, we issued our CEO, options for 10,000,000 shares of our common stock under the 2015 Plan, valued at \$2,500,000 (based on the Black Scholes valuation model on the date of grant). The options will vest 50% on the first anniversary of the Grant Date ("First Year Vest") and the remaining 50% of the shares shall vest in twelve (12) equal installments on the first day of each calendar month following the first anniversary of the Grant Date beginning on June 1, 2016 and ending on June 1, 2017 ("Second Year Vest"), provided that CEO is continuously employed by us from the Grant Date through such applicable vesting date. Notwithstanding the foregoing, 100% of the shares of our common stock subject to the Option shall fully vest if we shall successfully sell all of the shares of its common stock included in the primary offering of such common stock by us pursuant to the registration statement on Form S-1 to be filed with the Securities and Exchange Commission within ninety (90) days of the Grant Date. The First Year Vest options will amortize to expense over a 12 month period beginning May 2015 through April 2016 and the Second Year Vest options will amortize to expense over a 24 month period beginning May 2015 through April 2017. We recognized expense of \$306,516 and \$347,543 for the three months ended June 30, 2016 and 2015, respectively, and \$824,981 and \$347,543 for the and six months ended June 30, 2016 and 2015, respectively, within stock based compensation – related party in the Statement of Operations with the remaining \$279,149 to be recognized over the remaining vesting period.

We used the Black-Scholes valuation model to value the options with known inputs for option term exercise price and stock price and assumptions for expected volatility rate; dividend rate; and risk free interest rate. The table summarizes the Black-Scholes assumptions used in the valuation of the options issued:

	<u>May 1, 2015</u>
Expected dividend yield	0.00%
Expected stock-price volatility	35.6%
Risk-free interest rate	1.87%
Expected term of options (years)	6
Stock price	\$ 0.25
Exercise price	\$ 0.005

*Expected dividend yield.* We base the expected dividend yield assumption on the fact that we have never paid cash dividends and has no present intention to pay cash dividends on our common stock.

*Expected stock-price volatility.* As our common stock has never been publicly traded, the expected volatility is derived from the average historical volatilities of publicly traded companies within our industry that we consider to be comparable to our business over a period approximately equal to the expected term.

*Risk-free interest rate.* We base the risk-free interest rate assumption on observed interest rates appropriate for the expected term of the stock option grants.

*Expected term of options.* The expected term of options represents the period of time that options are expected to be outstanding. Because we do not have historic exercise behavior, we determine the expected life assumption using the simplified method, which is an average of the contractual term of the option and its ordinary vesting period.

*Stock price.* Determined from third party transactions through the purchase of inventory or services provided to us by outside consultants.

## **Capital Expenditures**

### *Other Capital Expenditures*

We expect to purchase approximately \$10,000 of equipment in connection with the expansion of our business.

## **Fiscal year end**

Our fiscal year end is December 31.

## **Going Concern**

Our independent registered accounting firm has added an explanatory paragraph to their audit opinion issued in connection with our financial statements. We had an accumulated deficit of approximately \$5,063,500 at June 30, 2016, had a net loss of approximately \$1,736,900 and \$624,600 for the six months ended June 30, 2016 and 2015, respectively, and approximately \$885,700 and \$483,300 for the three months ended June 30, 2016 and 2015, respectively, and net cash used in operating activities of approximately \$483,200 and \$100 for the six months ended June 30, 2016 and 2015, respectively, with limited revenue earned since inception.

While we are attempting to expand operations and increase revenues, our cash position may not be significant enough to support our daily operations. We intend to raise additional funds by way of a public or private offering. We believe that the actions presently being taken to further implement its business plan and generate revenues provide the opportunity for us to continue as a going concern. While we believe in the viability of our strategy to generate revenues and in its ability to raise additional funds, there can be no assurances to that effect. Our ability to continue as a going concern is dependent upon our ability to further implement our business plan and generate revenues. Our current burn rate to maintain the minimal level of operations for us to be in a position to execute our business plan upon funding is anticipated to be no greater than \$25,000 per month in cash. Joseph Segelman, our President and CEO, has agreed to underwrite these costs, if necessary, until we are able to begin execution of our business plan. In addition, until we begin execution of our business plan, we will continue to defer and accrue salaries and thus will not require cash to make payments under employment agreements.

The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

## **Critical Accounting Policies**

The Commission has defined a company's critical accounting policies as the ones that are most important to the portrayal of our financial condition and results of operations and which require us to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We also have other key accounting policies that are significant to understanding our results.

The following are deemed to be the most significant accounting policies affecting us.

*Use of Estimates*

The preparation of these financial statements in accordance with accounting principles generally accepted in the United States of America 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 dates of the financial statements and the reported amounts of net sales and expenses during the reported periods. Actual results may differ from those estimates and such differences may be material to the financial statements. The more significant estimates and assumptions by management include among others: inventory valuation, warrant liability valuation, derivative liability valuation, common stock and option valuation, and the recoverability of intangibles. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

*Revenue Recognition*

We recognize revenues in accordance with FASB ASC Topic 605, "Revenue Recognition", and with the guidelines of the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104 "Revenue Recognition".

Under SAB 104, four conditions must be met before revenue can be recognized: (i) there is persuasive evidence that an arrangement exists, (ii) delivery has occurred or service has been rendered, (iii) the price is fixed or determinable, and (iv) collection is reasonably assured.

We recognize revenue from product sales when the product is received and accepted by the customer, provided that collection of the resulting receivable is reasonably assured. While the products are being transported and delivered to the customer and until the products are accepted by the customer, the suppliers bear the risk of loss. Credit is granted generally for terms of 7 to 90 days, based on credit evaluations.

We currently have no return policy. We are currently evaluating our return policy to be more in line with industry standards.

*Accounts Receivable*

We record trade receivables when revenue is recognized. When appropriate, we will record an allowance for doubtful accounts, which is primarily determined by review of specific trade receivables. Those accounts that are doubtful of collection are included in the allowance. These provisions are reviewed to determine the adequacy of the allowance for doubtful accounts. Trade receivables are charged off when there is certainty as to their being uncollectible. Trade receivables are considered delinquent when payment has not been made within contract terms. At June 30, 2016 and December 31, 2015, we had no allowance for doubtful accounts. For the three and six months ended June 30, 2016 and 2015, there were no accounts written-off.

### *Inventories*

Inventories are stated at the lower of cost or market on a lot basis each quarter. A lot is determined by the cut, clarity, size, and weight of the sapphires. Our inventory consists of loose sapphire jewels that meet rigorous grading criteria and are of cuts and sizes most commonly used in the jewelry industry. As of June 30, 2016 and December 31, 2015, inventory consists of loose sapphire jewels and sapphire jewels in jewelry settings. Samples are used to show potential customers what the jewelry would look like. Promotional items given to customers that are not expected to be returned will be removed from inventory and expensed. We appraise our inventory on an annual basis or if circumstances dictate sooner to determine if the estimated fair value is greater or less than cost. In addition, we review the inventory each quarter against industry prices from gem-guide and if there is a potential impairment, we would appraise the inventory. The estimated fair value is subject to significant change due to changes in popularity of cut, perceived grade of the clarity of the sapphires, the number type and size of inclusions, the availability of other similar quality and size sapphires, and other factors. As a result, the appraised value of the sapphires could be significantly lower from the current estimated fair value. Our loose sapphire jewels do not degrade in quality over time and are not subject to fashion trends. In view of the foregoing factors, we have concluded that no excess or obsolete loose jewel inventory reserve requirements existed as of June 30, 2016 and December 31, 2015, respectively.

### *Income Taxes*

We account for income taxes under an asset and liability approach. This process involves calculating the temporary and permanent differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The temporary differences result in deferred tax assets and liabilities, which would be recorded on our balance sheets in accordance with ASC 740, which established financial accounting and reporting standards for the effect of income taxes. We must assess the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. Changes in our valuation allowance in a period are recorded through the income tax provision on the statements of operations.

From the date of our inception we adopted ASC 740-10-30. ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under ASC 740-10, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, ASC 740-10 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of ASC 740-10, we recognized no material adjustment in the liability for unrecognized income tax benefits.

### *Stock Based Compensation*

Issuances of our common stock or warrants for acquiring goods or services are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for the fair value of the equity instruments issued to consultants or vendors is determined at the earlier of (i) the date at which a commitment for performance to earn the equity instruments is reached (a "performance commitment" which would include a penalty considered to be of a magnitude that is a sufficiently large disincentive for nonperformance) or (ii) the date at which performance is complete. However, situations may arise in which counter performance may be required over a period of time but the equity award granted to the party performing the service is fully vested and non-forfeitable on the date of the agreement. As a result, in this situation in which vesting periods do not exist as the instruments fully vested on the date of agreement, we determine such date to be the measurement date and will record the estimated fair market value of the instruments granted as a prepaid expense and amortize such amount to general and administrative expense in the accompanying statement of operations over the contract period. When it is appropriate for us to recognize the cost of a transaction during financial reporting periods prior to the measurement date, for purposes of recognition of costs during those periods, the equity instrument is measured at the then-current fair values at each of those interim financial reporting dates.

For purposes of determining the variables used in the calculation of stock compensation expense under the provisions of FASB ASC Topic 505, "Equity" and FASB ASC Topic 718, "Compensation - Stock Compensation," we perform an analysis of current market data and historical Company data to calculate an estimate of implied volatility, the expected term of the option and the expected forfeiture rate. With the exception of the expected forfeiture rate, which is not an input, we use these estimates as variables in the Black-Scholes option pricing model. Depending upon the number of stock options granted, any fluctuations in these calculations could have a material effect on the results presented in our statements of operations and comprehensive income. In addition, any differences between estimated forfeitures and actual forfeitures could also have a material impact on our financial statements.

### *Non-Cash Equity Transactions*

Shares of equity instruments issued for non-cash consideration are recorded at the fair value of the consideration received based on the market value of services to be rendered, or at the value of the stock given, considered in reference to contemporaneous cash sale of stock.

### *Fair Value of Financial Instruments*

We apply the provisions of accounting guidance, FASB Topic ASC 825 that requires all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the balance sheet, for which it is practicable to estimate fair value, and defines fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. As of June 30, 2016 and December 31, 2015, the fair value of inventory, accrued compensation - related party, and advance from shareholder approximated carrying value due to the short maturity of the instruments, quoted market prices or interest rates which fluctuate with market rates.

### *Debt*

We issue debt that may have separate warrants, conversion features, or no equity-linked attributes.

Debt with warrants – When we issue debt with warrants, we treat the warrants as a debt discount, record as a contra-liability against the debt, and amortize the balance over the life of the underlying debt as amortization of debt discount expense in the statements of operations. The offset to the contra-liability is recorded as additional paid in capital in our balance sheet. We determine the value of the warrants using the Black-Scholes Option Pricing Model (“Black-Scholes”) using the stock price on the date of issuance, the risk free interest rate associated with the life of the debt, and the volatility of our stock. If the debt is retired early, the associated debt discount is then recognized immediately as amortization of debt discount expense in the statement of operations. The debt is treated as conventional debt.

Convertible debt – derivative treatment – When we issue debt with a conversion feature, we must first assess whether the conversion feature meets the requirements to be treated as a derivative, as follows: a) one or more underlyings, typically the price of our common stock; b) one or more notional amounts or payment provisions or both, generally the number of shares upon conversion; c) no initial net investment, which typically excludes the amount borrowed; and d) net settlement provisions, which in the case of convertible debt generally means the stock received upon conversion can be readily sold for cash. An embedded equity-linked component that meets the definition of a derivative does not have to be separated from the host instrument if the component qualifies for the scope exception for certain contracts involving an issuer’s own equity. The scope exception applies if the contract is both a) indexed to its own stock; and b) classified in stockholders’ equity in its statement of financial position.

If the conversion feature within convertible debt meets the requirements to be treated as a derivative, we estimate the fair value of the convertible debt derivative using Black-Scholes upon the date of issuance. If the fair value of the convertible debt derivative is higher than the face value of the convertible debt, the excess is immediately recognized as interest expense. Otherwise, the fair value of the convertible debt derivative is recorded as a liability with an offsetting amount recorded as a debt discount, which offsets the carrying amount of the debt. The convertible debt derivative is revalued at the end of each reporting period and any change in fair value is recorded as a gain or loss in the statement of operations. The debt discount is amortized through interest expense over the life of the debt.

Convertible debt – beneficial conversion feature– If the conversion feature is not treated as a derivative, we assess whether it is a beneficial conversion feature (“BCF”). A BCF exists if the conversion price of the convertible debt instrument is less than the stock price on the commitment date. This typically occurs when the conversion price is less than the fair value of the stock on the date the instrument was issued. The value of a BCF is equal to the intrinsic value of the feature, the difference between the conversion price and the common stock into which it is convertible, and is recorded as additional paid in capital and as a debt discount in the balance sheet. We amortize the balance over the life of the underlying debt as amortization of debt discount expense in the statement of operations. If the debt is retired early, the associated debt discount is then recognized immediately as amortization of debt discount expense in the statement of operations.

If the conversion feature does not qualify for either the derivative treatment or as a BCF, the convertible debt is treated as traditional debt.

#### *Recent Accounting Pronouncements*

In November 2015, the FASB issued ASU 2015-17, *Income Taxes*, which simplifies the presentation of deferred tax assets and liabilities on the balance sheet. Previous GAAP required an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts on the balance sheet. The amendment requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. This ASU is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The Company is in the process of evaluating the impact of this ASU on its financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which amends existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as non-current on the balance sheet. The Company is required to adopt this ASU no later than January 1, 2018, with early adoption permitted, and the guidance may be applied either prospectively or retrospectively. The Company does not expect this ASU to have a material impact on its financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The amendment to the standard is effective for the Company beginning on June 1, 2018. The Company does not expect this ASU to have a material impact on its financial statements.

In February 2016, the FASB issued ASU 2016-02 - *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this ASU on its financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The ASU does not change the core principle of the guidance in the aforementioned ASU 2014-09, instead, the amendments in this Update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations and whether an entity reports revenue on a gross or net basis. ASU 2016-08 will have the same effective date and transition requirements as ASU 2014-09. The Company is in the process of evaluating the impact of this ASU on its financial statements.



In March 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. For public companies, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is in the process of evaluating the impact of this ASU on its financial statements.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*. The amendments in this Update affect the guidance in the aforementioned ASU 2014-09 by clarifying two aspects: identifying performance obligations and the licensing implementation guidance. ASU 2016-10 will have the same effective date and transition requirements as the ASU 2014-09. The Company is in the process of evaluating the impact of this ASU on its financial statements.

#### **Future Contractual Obligations and Commitment**

As of June 30, 2016, we had no future contractual obligations and commitments. Future contractual obligations and commitments are based on the terms of the relevant agreements and appropriate classification of items under U.S. GAAP as currently in effect. Future events could cause actual payments to differ from these amounts.

We incur contractual obligations and financial commitments in the normal course of our operations and financing activities. Contractual obligations include future cash payments required under existing contracts, such as debt and lease agreements. These obligations may result from both general financing activities and from commercial arrangements that are directly supported by related operating activities. Details on these obligations are set forth below.

#### **Convertible Note Payable**

On December 23, 2015, we entered into a Securities Purchase Agreement (the "Purchase Agreement") with respect to the sale and issuance to certain institutional investors Alpha Capital Anstalt and Brio Capital Master Fund Ltd. (collectively "Purchasers") of up to (i) 2,500,000 shares of our Common Stock (the "Incentive Shares"); (ii) \$862,500 aggregate principal amount of Secured Convertible Notes (the "Notes") and (iii) Common Stock Purchase Warrants to purchase up to an aggregate of 7,187,542 shares of our Common Stock (the "Warrants"). The Incentive Shares, Notes and Warrants were issued on December 23, 2015 (the "Original Issue Date"). Purchasers received (i) Incentive Shares at the rate of 2.8986 Incentive Shares for each \$1.00 of Note principal issued to such Purchaser; (ii) a Note with a principal amount of \$1.00 for each \$0.86956 for each \$1.00 paid by each purchaser for such purchaser's Note; and (iii) Warrants to purchase up to a number of shares of Common Stock equal to 100% of such purchaser's Note principal amount divided by \$0.12 ("Purchaser Conversion Price"), the conversion price in effect on the Initial Closing Date, with a per share exercise price equal to \$0.30, subject to adjustment. The aggregate cash subscription amount received by us from the purchasers for the issuance of the Incentive Shares, Notes and Warrants was approximately \$724,500 (the "Subscription Amount") which was issued at a \$138,000 discount from the face value of the Note.

In addition, the Notes provide that commencing six (6) months after the Original Issue Date, we will have the option of prepaying the outstanding principal amount of the Notes (an "Optional Redemption"), in whole or in part, by paying to the holders a sum of money in cash equal to one hundred percent (100%) of the principal amount to be redeemed, together with accrued but unpaid interest thereon, if any, and any and all other sums due, accrued or payable to the holder arising under the Note through the Redemption Payment Date and 2.8986 shares of our Common Stock for each \$1.00 of Note principal amount being redeemed. A Notice of Redemption, if given, may be given on the first Trading Day following twenty (20) consecutive Trading Days during which all of the "Equity Conditions", as defined, have been in effect.

### **Employment Agreements**

We previously had a consulting agreement with our CEO under which he was compensated \$120,000 per annum. Beginning June 20, 2013, this contract was to continue unless and until terminated at any time by either us or CEO giving two month notice in writing. Such consulting agreement was terminated by mutual agreement as of May 1, 2015 and superseded by the employment agreement effective May 1, 2015. The initial term of the employment agreement expires on December 31, 2018, unless earlier terminated by us or Director. The agreement provides for automatic one-year renewals, unless either we or Director give notice of our or his intention not to extend at least 90 days prior to the expiration of any term. In addition, Director will receive a minimum annual base salary of \$180,000, is eligible to receive an annual performance bonus each year, if performance goals established by our board of directors are met, and is entitled to participate in customary benefit plans. There have been no performance goals established. If we terminate Director's employment without cause, he will be entitled to the following: (i) payment of (x) accrued compensation and unpaid base salary through the date of such termination, (y) any amounts previously deferred by Director and (z) the payment or reimbursement for expenses incurred prior to the date of such termination; (ii) an amount equal to 200% of the base salary and (iii) continued participation, at our expense, in our health and welfare programs for a period of two years after the date of termination. We incurred compensation expense of \$45,000 and \$45,000 and consulting fees of \$0 and \$0 for the three months ended June 30, 2016 and 2015, respectively. We incurred compensation expense of \$90,000 and \$45,000 and consulting fees of \$0 and \$30,000 for the six months ended June 30, 2016 and 2015, respectively. Deferred compensation totaling \$439,000 and \$349,000 as of June 30, 2016 and December 31, 2015, respectively, is included in Accrued Compensation-Related Party.

We previously had a consulting agreement with our secretary and director ("Secretary") under which she was compensated \$60,000 per annum. Beginning June 20, 2013, this contract was to continue unless and until terminated at any time by either us or Secretary giving two month notice in writing. Such consulting agreement was terminated by mutual agreement as of May 1, 2015 and superseded by the employment agreement effective May 1, 2015. The initial term of the employment agreement expires on December 31, 2018, unless earlier terminated by us or Secretary. The agreement provides for automatic one-year renewals, unless either we or Secretary give notice of our or his intention not to extend at least 90 days prior to the expiration of any term. In addition, Secretary will receive a minimum annual base salary of \$80,000. If we terminate Secretary's employment without cause, she will be entitled to the following: (i) payment of (x) accrued compensation and unpaid base salary through the date of such termination, (y) any amounts previously deferred by Director and (z) the payment or reimbursement for expenses incurred prior to the date of such termination; (ii) an amount equal to 50% of the base salary and (iii) continued participation, at our expense, in our health and welfare programs for a period of two years after the date of termination. We incurred compensation expense of \$20,000 and \$13,333 and consulting fees of \$0 and \$6,667 for the three months ended June 30, 2016 and 2015, respectively. We incurred compensation expense of \$40,000 and \$13,333 and consulting fees of \$0 and \$21,667 for the six months ended June 30, 2016 and 2015, respectively. Deferred compensation totaling \$207,000 and \$167,000 as of June 30, 2016 and December 31, 2015, respectively, is included in Accrued Compensation-Related Party.

### **Off-Balance Sheet Arrangements**

As of June 30, 2016, we have not entered into any transaction, agreement or other contractual arrangement with an entity unconsolidated under which it has:

- a retained or contingent interest in assets transferred to the unconsolidated entity or similar arrangement that serves as credit;
- liquidity or market risk support to such entity for such assets;
- an obligation, including a contingent obligation, under a contract that would be accounted for as a derivative instrument; or

- an obligation, including a contingent obligation, arising out of a variable interest in an unconsolidated entity that is held by, and material to us, where such entity provides financing, liquidity, market risk or credit risk support to or engages in leasing, hedging, or research and development services with us.

#### **Inflation**

We do not believe that inflation has had a material effect on our results of operations.

#### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

As a "smaller reporting company," as defined by Item 10 of Regulation S-K, we are not required to provide the information in Item 3.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

Our management, under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures as defined in SEC Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report. Based on such evaluation, management identified deficiencies that were determined to be a material weakness.

A material weakness is a deficiency, or a combination of deficiencies, in disclosure controls and procedures, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Because of the material weaknesses described below, management concluded that our disclosure controls and procedures were ineffective as of end of the period covered by this report to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules.

The specific material weaknesses identified by the company's management as of end of the period covered by this report include the following:

- We are lacking qualified resources to perform the internal accounting functions properly. In addition, the scope and effectiveness of our internal accounting and controls are yet to be developed.
- We currently do not have an audit committee.
- We are relatively inexperienced with certain complexities within USGAAP and SEC reporting.

Despite the material weaknesses reported above, our management believes that our financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented and that this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

##### **Changes in Internal Controls**

There were no changes in the company's internal control over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. We will continue to evaluate the effectiveness of internal controls and procedures on an ongoing basis.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future. To the best of our knowledge, none of our directors, officers or affiliates is involved in a legal proceeding adverse to our business or has a material interest adverse to our business.

### **ITEM 1A. RISK FACTORS.**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item. We have filed a registration statement on Form S-1 under the Securities Act of 1933, as amended, that was declared effective on May 4, 2016 and readers of this report should refer to and read the section on “Risk Factors” in such Form S-1 for important information relating to our company, our industry, our securities and the offering of our securities that is the subject of such Form S-1.

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

On April 1, 2016, the Company issued a total of 300,000 restricted common shares to members of its Advisors, valued at \$75,000 (based on the fair value of the services on the date of grant) for outside advisory and consulting services pursuant to the Company’s 2015 Equity Incentive Plan.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

There have been no events which are required to be reported under this Item.

### **ITEM 4. MINE SAFETY DISCLOSURE.**

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities from the Federal Mine Safety and Health Administration, or MSHA, under the Federal Mine Safety and Health Act of 1977, or the Mine Act. During the quarter ended June 30, 2016, we did not have any projects that were in production and as such, were not subject to regulation by MSHA under the Mine Act.

### **ITEM 5. OTHER INFORMATION.**

None.

### **ITEM 6. EXHIBITS.**

The following documents are filed as a part of this report or are incorporated by reference to previous filings, if so indicated:

<b>Exhibit No.</b>	<b>Description</b>
31.1*	Certification by Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a).
32.1*	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	Filed herewith.

**SIGNATURES**

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

**REIGN SAPPHIRE CORPORATION**

Date: August 4, 2016

By: /s/ Joseph Segelman  
Joseph Segelman  
Chief Executive Officer, Chief Financial Officer and  
Director  
(Principal Executive Officer and Principal Accounting  
Officer)