

ELEGANT ILLUSIONS, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Elegant Illusions, Inc.
Pacific Grove, California

We have audited the accompanying consolidated balance sheet of Elegant Illusions, Inc. (the "Company") as of December 31, 2008 and the related consolidated statement of operations, stockholders' equity and cash flows for the twelve month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Elegant Illusions, Inc. as of December 31, 2008 and the results of its operations and cash flows for the period described above in conformity with accounting principles generally accepted in the United States of America.

/s/ M&K CPAS, PLLC

www.mkacpas.com
Houston, Texas
September 30, 2009

ELEGANT ILLUSIONS, INC
Consolidated Balance Sheet
AS OF DECEMBER 31, 2008

Assets	
Cash	\$ 231,769
Accounts receivable (net of allowance for doubtful accounts of \$10,958)	89,067
Inventory	4,642,522
Prepaid assets	100,191
Marketable securities	29,622
Total current assets	<u>5,093,171</u>
Fixed assets (net of accumulated depreciation of \$3,265,443)	1,014,732
Deposits	40,076
Total non-current assets	<u>1,054,808</u>
Total assets	<u><u>6,147,979</u></u>
Current liabilities	
Accounts payable	49,935
Note - inventory line of credit	925,000
Sales taxes payable	19,141
Accrued liabilities	88,119
Note payable - current	45,192
Total current liabilities	<u>1,127,387</u>
Note payable – long term	148,571
Total liabilities	<u>1,275,958</u>
Stockholders' equity	
Capital stock	6,147
10,000,000 shares authorized, \$.001 par value, 6,146,533 shares outstanding at December 31, 2008	
Additional paid in capital	3,914,509
Treasury stock, at cost, 91,545 shares as of December 31, 2008	(148,090)
Retained earnings	1,099,455
Total stockholders' equity	<u>4,872,021</u>
Total liabilities and stockholders' equity	<u><u>\$ 6,147,979</u></u>

The accompanying notes are an integral part of these financial statements.

ELEGANT ILLUSIONS, INC.
Consolidated Statement of Operations
FOR THE YEAR ENDED DECEMBER 31, 2008

Revenue	\$	3,817,426
Cost of sales		943,981
Gross margin		<u>2,873,445</u>
Operating expenses		
Legal & professional		91,995
Marketing		126,273
General & administrative		1,029,564
Payroll and benefits		1,759,258
Depreciation		187,379
Insurance		12,541
Interest		45,529
Rent		839,662
Tax expense		<u>35,206</u>
Total operating expense		<u>4,127,407</u>
Net operating loss		<u>(1,253,962)</u>
Other income (expense)		
Interest income		26,274
Other income		139,854
Other expense		<u>(9,441)</u>
Total other income		<u>156,687</u>
Net loss	\$	<u>(1,097,275)</u>
Weighted average shares outstanding		6,146,533
Basic and diluted loss per share		(0.18)

The accompanying notes are an integral part of these financial statements.

ELEGANT ILLUSIONS, INC.
Consolidated Statement of Changes in Stockholders' Equity
FOR THE YEAR ENDED DECEMBER 31, 2008

	Shares	Amount	APIC	Retained Earnings	Treasury Stock	Total
Balance December 31, 2007	6,146,533	\$6,147	\$3,914,509	\$ 2,196,730	\$(148,090)	\$5,969,296
Net Loss	-	-	-	(1,097,275)	-	(1,097,275)
Balance December 31, 2008	6,146,533	\$6,147	\$3,914,509	\$ 1,099,455	\$(148,090)	\$4,872,021

The accompanying notes are an integral part of these financial statements.

ELEGANT ILLUSIONS, INC.
Consolidated Statement of Cash Flows
FOR THE YEAR ENDED DECEMBER 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (1,097,275)
Adjustments to Reconcile net loss to net cash used in operating activities:	
Depreciation	187,379
Bad debt expense	7,619
Change in operating assets and liabilities	
Accounts receivable	34,516
Inventory	(18,407)
Other assets	192,586
Accounts payable and accrued liabilities	(12,647)
Net cash used in operating activities	<u>(706,229)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of equipment	<u>(67,505)</u>
Net cash used in investing activities	<u>(67,505)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings on debt	500,000
Principal payments on note payable	<u>(120,192)</u>
Net cash provided by financing activities	<u>379,808</u>
Net change in cash and cash equivalents	(393,926)
Cash and cash equivalents, beginning of period	<u>625,695</u>
Cash and cash equivalents, end of period	<u>\$ 231,769</u>

The accompanying notes are an integral part of these financial statements.

ELEGANT ILLUSIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2008

NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF BUSINESS

Elegant Illusions, Inc. (the "Company"), through its wholly-owned subsidiary, Elegant Illusions, Inc., a California corporation (the "Subsidiary"), is primarily in the retail copy jewelry business and currently owns and operates ten retail copy jewelry stores, one fine jewelry store, and three jewelry / fine art galleries.

As of December 31, 2008, the retail copy jewelry stores are located in:

California: Balboa, Monterrey (3 stores), Palm Springs, Sacramento, San Diego
Colorado: Vail
Florida: Sarasota
Hawaii: Maui
Louisiana: New Orleans (2 stores)
Missouri: Branson
Nevada: Laughlin

During 2008, the Company closed underperforming stores in Miramar Florida, Philadelphia Pennsylvania, San Francisco California, two stores in Hawaii and two stores in New Orleans, Louisiana. Management's focus is maximizing revenue and profit within a focused, core operation. Store performance is continually monitored as are potential locations for Company expansion.

In 2008, the Company participated in tradeshow in London, England and currently has approximately 15 active retail accounts that purchase the Platinique jewelry line. The Company has one sales agent in England.

INVENTORY PURCHASE

The Company purchases its copy jewelry merchandise directly from a number of manufacturers located in and outside the United States; it does not purchase from distributors. Products purchased include stock items and jewelry designed by the Company. The jewelry sold in the fine jewelry stores and the handcraft, jewelry and gifts sold in the Steinbeck Lady section of the Steinbeck Jewelers store are primarily purchased directly from manufacturers and, to a lesser extent, from distributors. The Company purchases its art for Bourbon Street Gallery and Gore Creek Gallery directly from the artists.

MARKETING

The Company's primary source of business results from "walk by" traffic and word of mouth. The Company also advertises in magazines and newspapers and on radio. Management believes that its choice of strategic location is its primary marketing tool. The Company's stores are located in high trafficked locations including malls and tourist areas. The strategic locations of the stores also help mitigate seasonal factors; the tourist locations do higher volume during the summer and vacation seasons. The mall and heavy shopping locations do higher volume around the traditional holiday times (ex: Christmas, Valentine's Day and Mother's Day.)

COMPETITION

At this time, management believes that the Company has little direct competition. The Company's copy jewelry stores compete indirectly with fine jewelry and costume jewelry retail stores; however, due to the type of merchandise sold and the difference in product price ranges, such competition has minimal, if any, affect on the Company's business.

EMPLOYEES

At December 31, 2008 the Company had 38 employees. Current employees include the Company's three officers, 1 national sales manager, 1 regional manager, 1 sales supervisor, 4 store managers, 2 training managers, 21 sales personnel, 1 office manager and 4 clerical personnel.

DESCRIPTION OF PROPERTIES

The Company's executive offices are located at 542 Lighthouse Ave., Suite 5, Pacific Grove, California, 93950. The facility consists of approximately 10,100 square feet utilized approximately as follows:

Usage	Square Footage
Executive office space	700
Administrative space	1,100
New facility assembly	1,700
Manager training	800
Warehouse space	5,000
Computer and file space	800

Management believes that the current facility is adequate to house the Company corporate operations for the foreseeable future.

The Company owns a retail condominium in Vail, Colorado, where the Gore Creek Gallery is located. All other retail stores are located in leased space, with various lease terms, as more fully described in Note 8.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's results of operations are based upon its consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions provide a basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and these differences may be material.

Consolidation

The accompanying financial statements include the accounts of Elegant Illusions, Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Revenue Recognition

Revenues related to the sale of jewelry and art are recognized at the time the items are delivered to the customer, which is when all four criteria of Staff Accounting Bulletin 104 are met: i) persuasive evidence of an arrangement exists, ii) goods and services have been provided, iii) sales price is fixed and determinable, and iv) collectability is reasonably assured. There were no individual customers that provided more than 10% of the revenue generated in 2008.

Cash and Cash Equivalents

Cash equivalents are purchased, short-term, highly liquid investments, readily convertible to cash with original maturities of no more than three months. There are no cash balances in federally insured banks that exceed the maximum insured amounts. There were balances in money market accounts at December 31, 2008 that were fully insured by the FDIC.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash equivalents, receivables, accounts payable, accrued expenses and notes payable. The fair value of the Company's financial instruments approximates the carrying value of the instruments.

Accounts Receivable

The majority of the Company's sales are cash based, retail sales. The Company does, however, have accounts receivable from a small number of domestic customers and third party wholesale vendors. At each balance sheet date, outstanding accounts receivable balances are assessed for any allowance requirement. The Company records an allowance for bad debt on balances over 120 days old. Once management determines that an account will not be collected, the balances are written off. As of December 31, 2008, \$10,958 of accounts receivable were included in the allowance for doubtful accounts. The remainder of the unreserved receivables is considered by management to be fully collectible.

Inventories

Inventories are stated at the lower of cost or market, determined on a first-in, first-out (FIFO) basis. Inventories are periodically reviewed for impairment by management, based on the potential market value of the gold, stones and the artwork. Management performed a review of jewelry and art inventories as of December 31, 2008, and determined that no impairment existed as of that date.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed on the straight-line method based upon the estimated useful life of the asset. Useful lives are generally as follows:

Office furniture, fixtures & equipment	5-7 years
Store furniture, fixtures & equipment	5-7 years
Leasehold improvements	5-7 years and limited to the remaining lease term
Buildings	40 years

Long-lived Assets

The Company reviews the carrying value of its long-lived assets annually or whenever events or changes in the circumstances indicate that the historical cost-carrying value of its assets may no longer be appropriate. It assesses the recoverability of the carrying value of its assets by estimating the future net cash flows expected to result from these assets, including eventual disposition. If the future net cash flows are less than the carrying value of the assets, an impairment loss will be recorded equal to the difference between the assets' carrying value and fair value. Management has determined that no impairment was necessary at December 31, 2008.

Treasury Stock

The Company has treasury stock, purchased prior to 2008. The treasury stock is recorded at cost and is held in an account under the Company's control. There were no treasury stock purchases during 2008.

Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123 — Revised 2004, Share-Based Payment, which establishes accounting for stock-based payment transactions for employee services and goods and services received from non-employees. SFAS 123(R) is a revision of SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), and supersedes APB No. 25, Accounting for Stock Issued to Employees. Under the provisions of SFAS 123(R), stock-based compensation cost is measured at the date of grant, based on the calculated fair value of the award, and is recognized as expense over the employee's or non-employee's service period, which is generally the vesting period of the equity grant. As of December 31, 2008, the Company has no stock option plan nor has it issued stock for compensation.

Income Taxes

The Company has adopted the provisions of SFAS No. 109, "Accounting for Income Taxes" which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Since the company has a history of operating losses, the company has fully reserved any deferred tax asset.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes," by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. If a tax position is more likely than not to be sustained upon examination, then an enterprise would be required to recognize in its financial statements the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

Basic and Diluted Loss per Share

Basic earnings per common share are based upon the net earnings divided by the weighted average number of common shares outstanding during the period. Diluted loss per common share adjusts for the effect of convertible securities, stock options and warrants, if applicable, only in the periods presented in which effect would have been diluted. The Company did not grant options and warrants during 2008 and there are no outstanding convertible securities, options and warrants as of December 31, 2008, and as such, diluted earnings per share equals basic earnings per share.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has adopted the provisions of SFAS 157 for the year ended December 31, 2008.

SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows.

- Level 1. Observable inputs such as quoted market prices in active markets.
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly, and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table presents assets that are measured and recognized at fair value as of December 31, 2008 on a non-recurring basis:

Description	Level 1	Level 2	Level 3	Total Gains (Losses)
Money market account	\$ 37,390	\$ —	\$ —	\$ —
Marketable securities	\$ 29,622	\$ —	\$ —	\$ (9,441)

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which amends SFAS No. 87, "Employers' Accounting for Pensions"; SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"; SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"; and SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits (revised 2003)". As of December 31, 2008, the Company does not have a pension plan, nor does it have any plans for a pension program in the near future. As such, SFAS 158 is not expected to have a material impact on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an Amendment of SFAS 115," ("SFAS 159"). SFAS 159 establishes a fair value option that permits entities to choose to measure eligible financial instruments and certain other items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value options have been elected in earnings at each subsequent reporting date. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, provided the entity elects to apply the provisions of SFAS 159. SFAS 159 did not have a material impact on the Company's financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008 and is not expected to have a material impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 requires: (i) the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; (ii) the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; (iii) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; (iv) when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and any gain or loss on the deconsolidation be initially measured at fair value; and (v), entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS 160 is not expected to have a material impact on the Company's financial statements.

In December 2007, the Financial Accounting Standards Board issued FASB Statement No. 141 (Revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R provides additional guidance on improving the relevance,

representational faithfulness, and comparability of the financial information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The company had no acquisitions applicable to SFAS 141R as of March 31, 2009.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (“GAAP”) in the United States (the GAAP hierarchy). SFAS 162 becomes effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board (“PCAOB”) amendment to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles” and is not expected to have a significant impact on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 163 Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60 . SFAS 163 resolves existing inconsistencies in accounting for financial guarantee insurance contracts by insurance enterprises under FASB Statement No. 60, “Accounting and Reporting by Insurance Enterprises”. SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation and clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. SFAS 163 also requires expanded disclosures about financial guarantee insurance contracts. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for some disclosures about the insurance enterprise’s risk-management activities. SFAS 163 is not expected to have a significant impact on our consolidated financial statements.

On May 1, 2009, the Emerging Issues and Task Force issued EITF No. 07-05, Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock ("EITF 07-05"). EITF 07-05 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. The adoption of EITF 07-05 has affected the accounting for certain freestanding warrants and preferred stocks that contain exercise price adjustment features (“down round provisions”). This is not expected to have a material impact on the financial statements.

In May 2009, the FASB issued SFAS 165 (“SFAS 165”), “Subsequent Events.” This pronouncement establishes standards for accounting for and disclosing subsequent events (events which occur after the balance sheet date but before financial statements are issued or are available to be issued). SFAS 165 requires an entity to disclose the date subsequent events were evaluated and whether that evaluation took place on the date financial statements were issued or were available to be issued. It is effective for interim and annual periods ending after June 15, 2009. The Company plans on adopting this pronouncement in subsequent filings.

In June 2009, the FASB issued SFAS 168 (“SFAS 168”), “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.” SFAS 168 will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non grandfathered non-SEC accounting literature not included in the Codification will become non authoritative. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company does not expect the adoption of FAS 168 to have an impact on the Company’s results of operations, financial condition or cash flows.

NOTE 2 - INVENTORY

The Company sells copy jewelry merchandise and art from its retail locations and wholesalers. Inventory on hand at December 31, 2008 was as follows:

Jewelry	\$	3,907,911
Art		<u>734,611</u>
Total	\$	<u><u>4,642,522</u></u>

NOTE 3 - PREPAID ASSETS

The Company has a variety of prepaid assets, primarily due to the large number of retail locations in existence. Prepaid assets at December 31, 2008 are as follows:

Advertising	\$	12,043
Insurance		35,681
Licenses / Permits		9,652
Property Taxes		2,890
Equipment Lease		2,683
Rent		22,432
Fees		5,000
Merchandise		<u>9,810</u>
Total	\$	<u><u>100,191</u></u>

NOTE 4 - MARKETABLE SECURITIES

The Company purchases two precious metals for investment purposes: iridium and palladium. Purchases are held in a brokerage account and at the Company headquarters. During 2008, the Company sold palladium, realizing a gain of \$1,157. This gain is recorded in other income. The remaining metals at December 31, 2008 were valued according to year-pricing based on the Johnson Matthey base prices, posted daily. Due to the decrease in value of both metals, the Company posted an unrealized loss of \$9,441, recorded in other expenses at December 31, 2008.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2008:

Vehicles	\$	147,571
Buildings - condo		759,940
Equipment		1,214,477
Office equipment		56,701
Furniture & fixtures		928,687
Software		407,808
Leasehold improvements		764,991
Subtotal		<u>4,280,175</u>
Less: accumulated depreciation		<u>(3,265,443)</u>
Total	\$	<u><u>1,014,732</u></u>

NOTE 6 - DEPOSITS / OTHER ASSETS

The Company carries deposits on lease space for the various retail locations in addition to tax and utility deposits, as detailed below.

Building security deposits	\$	26,379
Tax deposits		13,250
Utility deposit		<u>447</u>
Total	\$	<u><u>40,076</u></u>

NOTE 7 - ACCRUED LIABILITIES

Other liabilities and accrued expenses consisted of the following as of December 31, 2008:

Accrued payroll	\$	38,942
Layaway / special orders		28,410
Gift certificates		314
Store credits		7,931
Deferred rent		12,522
Total Accrued Liabilities	\$	<u><u>88,119</u></u>

NOTE 8 - LEASES PAYABLE

The Company leases space for its retail jewelry operations. Leases typically run 3 - 5 years in length and are assessed for renewal near the lease maturity date. The chart below details future lease payments currently under contract for the next five years:

	2009	2010	2011	2012	2013
Balboa	\$ 42,000	\$ 7,000	-	-	-
Branson	\$ 47,250	\$ 19,688	-	-	-
Copy Jewels	\$ 52,320	-	-	-	-
Doubletree	\$ 27,354	\$ 9,118	-	-	-
Laughlin	\$ 19,700	-	-	-	-
Monterey	\$ 74,261	\$ 30,942	-	-	-
Palm Springs	\$ 31,568	-	-	-	-
Riverwalk	\$ 46,920	\$ 35,190	-	-	-
Sacramento	\$ 25,992	-	-	-	-
San Diego	\$ 33,396	-	-	-	-
Sarasota	\$ 28,000	-	-	-	-
Steinbeck	\$ 5,395	-	-	-	-
Total	<u>\$434,156</u>	<u>\$101,938</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 9 - NOTES PAYABLE

The Company had the following notes payable at December 31, 2008:

Note payable - Comerica Bank - bearing interest at 3% per annum, maturity date of December 1, 2009	\$ 925,000
Mortgage payable - Comerica Bank - bearing interest at the federal funds rate + 2.52%, maturity date of March 1, 2013	193,763
Total notes payable	<u>\$ 1,118,763</u>
Less current portion	<u>(970,192)</u>
Long term note payable	<u>\$ 148,571</u>

The table below shows maturity dates for future years:

	<u>Principal</u>
2009	\$ 45,192
2010	45,192
2011	45,192
2012	45,192
2013	12,995
Total	<u>\$193,763</u>

NOTE 10 - FOREIGN CURRENCY TRANSACTIONS

The Company has wholesale vendors in England that sell the Company's copy jewelry merchandise. Due to the change in dollar / pound valuation, the Company had realized a gain in foreign currency transactions of \$7,841, which is included in other income.

NOTE 11 – DEFERRED INCOME TAX

We have adopted the provisions of SFAS No. 109, "Accounting for Income Taxes" which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes," by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. If a tax position is more likely than not to be sustained upon examination, then an enterprise would be required to recognize in its financial statements the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

During 2008, the Company incurred net losses and therefore, had no federal tax liability. The net deferred tax asset generated by the loss carry forward has been fully reserved. The cumulative net operating loss carry forward is approximately \$1,885,802 at December 31, 2008 and will expire in the years 2018 through 2028.

At December 31, 2008 the deferred tax assets consisted of the following:

Net deferred tax asset	\$	471,450
Less: Valuation allowance	\$	(471,450)
Net deferred tax asset	\$	<u><u>-</u></u>

NOTE 12 - RELATED PARTY TRANSACTIONS

Company officers Gavin and Tamara Gear, president and secretary, respectively and James Cardinal, chief executive officer, own 3 properties that are leased by the Company: the building that houses the Sarasota, Florida store, and condominiums in New Orleans, Louisiana and Vail, Colorado. The Company pays monthly rent on each property, which is included in rent expense on the Statement of Operations. The condominiums are used primarily for Company travel to the adjacent retail locations.

NOTE 13 – GOING CONCERN

The Company has had recurring operating losses and negative cash flows from operations. Management's plans to deal with the adverse effects of the above include management of cash, and if needed, liquidation of inventory, which they consider to have considerable market value in excess of its cost basis.

NOTE 14 - SUBSEQUENT EVENTS

During 2009, the Company paid the Comerica notes payable of \$925,000 at December 31, 2008. In order to complete the note payments, the Company signed a \$100,000, 4% interest only note payable with Tamara Gear, Company secretary. Interest payments are to be made monthly and there is no maturity date on the note.