

ELEGANT ILLUSIONS, INC.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2009 and 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 balance sheets of Elegant Illusions, Inc. (the "Company"), (a California corporation) as of December 31, 2009 and 2008, and the related statements of operations, stockholders' equity, and cash flows for the years 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 generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of Elegant Illusions, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

M&K CPAS, PLLC

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Houston, Texas
October 19, 2010

ELEGANT ILLUSIONS, INC.
Consolidated Balance Sheets
AS OF DECEMBER 31, 2009 AND 2008

	December 31, 2009	December 31, 2008
Assets		
Cash	\$ 692,630	\$ 231,769
Accounts receivable, net	33,310	89,067
Inventory	3,577,470	4,642,522
Prepaid assets	64,650	100,191
Marketable securities	<u>39,569</u>	<u>29,622</u>
Total current assets	<u>4,407,629</u>	<u>5,093,171</u>
Fixed assets		
(net of accum. depreciation of \$3,102,610 and \$3,265,443)	767,002	1,014,732
Deposits	<u>40,276</u>	<u>40,076</u>
Total assets	<u>\$ 5,214,907</u>	<u>\$ 6,147,979</u>
Current liabilities		
Accounts payable	\$ 5,597	\$ 49,935
Note - inventory LOC	-	925,000
Taxes payable	-	19,141
Accrued liabilities	109,185	88,119
Note payable - related party	100,000	-
Note payable - current	<u>45,192</u>	<u>45,192</u>
Total current liabilities	<u>259,974</u>	<u>1,127,387</u>
Long term debt		
Note payable	<u>103,379</u>	<u>148,571</u>
Total liabilities	<u>\$ 363,353</u>	<u>\$ 1,275,958</u>
Stockholders' equity		
Additional paid in capital	\$ 3,914,509	\$ 3,914,509
Capital stock		
10,000,000 shares authorized, \$.001 par value, 6,146,553 shares outstanding at December 31, 2009 and 2008	6,147	6,147
Retained earnings	1,078,988	1,099,455
Treasury stock	<u>(148,090)</u>	<u>(148,090)</u>
Total stockholders' equity	<u>\$ 4,851,554</u>	<u>\$ 4,872,021</u>
Total liabilities and stockholders' equity	<u>\$ 5,214,907</u>	<u>\$ 6,147,979</u>

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

ELEGANT ILLUSIONS, INC.
Consolidated Statements of Operations
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	December 31, 2009		December 31, 2008
Revenue	\$ 3,873,258	\$	3,817,426
Cost of sales	1,266,546		943,981
Gross margin	<u>\$ 2,606,712</u>	\$	<u>2,873,445</u>
Operating Expenses			
Legal & professional	76,773		91,995
Marketing	67,070		126,273
General & administrative	719,143		1,029,564
Payroll and benefits	1,134,404		1,759,258
Depreciation	156,368		187,379
Insurance	66,998		12,541
Rent	600,200		839,662
Taxes	55,161		35,206
Total operating expense	<u>2,876,117</u>		<u>4,081,878</u>
Net Operating Income	<u>\$ (269,405)</u>	\$	<u>(1,208,433)</u>
Other Income (Expense)			
Interest income	224		26,274
Interest expense	(21,858)		(45,529)
Other income	125,510		139,854
Gain (loss) on asset sale	145,074		-
Other expense	(12)		(9,441)
Total Other Income (Expense)	<u>248,938</u>		<u>111,158</u>
Net Loss	<u>\$ (20,467)</u>	\$	<u>(1,097,275)</u>
Weighted average shares outstanding - basic and fully diluted			
	6,146,553		6,146,553
Basic and diluted loss per share	\$ (0 .00)	\$	(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 YEARS ENDED DECEMBER 31, 2009 AND 2008

	Shares	Amount	APIC	Retained Earnings	Treasury Stock	Total
Balance December 31, 2007	6,146,553	\$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	6,146,553	\$6,147	\$3,914,509	\$ 1,099,455	\$(148,090)	\$ 4,872,021
Net Loss				(20,467)		(20,467)
Balance December 31, 2009	6,146,553	\$6,147	\$3,914,509	\$ 1,078,988	\$(148,090)	\$ 4,851,554

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

ELEGANT ILLUSIONS, INC.
Consolidated Statements of Cash Flows
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash Flows from Operating Activities:		
Net Loss	\$ (20,467)	\$ (1,097,275)
Adjustments to Reconcile net loss to net cash provided by, (used in) operating activities:		
Depreciation	156,368	187,379
Gain on sale of assets	(145,074)	-
Unrealized gain on marketable securities	(9,947)	(9,442)
Bad debt expense	(11,135)	-
Change in operating assets and liabilities		
Accounts receivable	66,893	42,135
Inventory	1,065,052	(18,407)
Other assets	35,340	202,028
Prepaid assets	(2,917)	(12,521)
Accounts payable and accrued liabilities	(39,497)	(126)
Net cash provided from or (used in) operating activities	1,094,616	(706,229)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment	(29,157)	(67,505)
Disposal of equipment	265,594	-
Net cash provided from or (used in) investing activities	236,437	(67,505)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on debt	100,000	500,000
Principal payments on note payable	(970,192)	(120,192)
Net cash provided from or (used in) financing activities	(870,192)	379,808
Effects of foreign exchange rate	-	-
Net change in cash and cash equivalents	460,861	(393,926)
Cash and cash equivalents, beginning of period	231,769	625,695
Cash and cash equivalents, end of period	\$ 692,630	\$ 231,769
Non-cash transactions:	-	-

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

ELEGANT ILLUSIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009

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 natural and created gemstone fine jewelry business and currently owns and operates eight retail stores and three jewelry / fine art galleries.

As of December 31, 2009, the stores and galleries are located in:

California: Balboa, Monterrey (3 stores), Palm Springs, Sacramento, San Diego

Colorado: Vail

Florida: Sarasota

Missouri: Branson

Louisiana: New Orleans

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.

During 2009, the Company closed an underperforming store in Laughlin, Nevada.

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 created gemstone 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 galleries 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 created gemstone 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, 2009 the Company had 30 employees. Current employees include the Company's three officers, 1 national sales manager, 1 regional manager, 1 sales supervisor, 3 store managers, 16 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 current accounting guidance 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 or 2009.

During 2009, The Company decided to retire the \$925,000 note payable with Comerica Bank, early. Due to the unusually high price of gold, the Company made the decision to sell a portion of its gold inventory. The Company's revenue from these sales, \$977,792, represented 25% of the Company's 2009 revenue.

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, 2009 and 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, 2009 and 2008, \$2,951 and \$10,958 of accounts receivable were included in the allowance for doubtful accounts, respectively. 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, 2009 and 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

Marketable Securities

The Company accounts for securities available for sale in accordance with current guidance which requires that available-for-sale and trading securities be carried at fair value. Unrealized gains and losses deemed to be temporary on available-for-sale securities are reported as other comprehensive income within shareholders' investment. Realized gains and losses and decline in value deemed to be other than temporary on available-for-sale securities are included in "Other Income" on our statements of operations. Fair value of the securities is based upon quoted market prices in active markets or estimated fair value when quoted market prices are not available. The cost basis for realized gains and losses on available-for-sale securities is determined on a specific identification basis. We classify our securities available-for-sale as short- or long-term based upon management's intent and ability to hold these investments. In addition, throughout 2009, the FASB issued various authoritative guidance and enhanced disclosures regarding fair value measurements and impairments of securities which help in determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly.

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, 2009 or 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 2009 or 2008.

Stock-Based Compensation

The Company follows current guidance which establishes accounting for stock-based payment transactions for employee services and goods and services received from non-employees. Current guidance calls for stock based compensation cost to be measured at the date of grant, based on the calculated fair value of the award, and 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, 2009, the Company has no stock option plan nor has it issued stock for compensation.

Income Taxes

The Company uses the asset and liability approach to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Since the company has a history of operating losses, the company has fully reserved any deferred tax asset.

On January 1, 2007, the Company adopted an accounting standard which clarifies the accounting for uncertainty in income taxes recognized in financial statements. This standard provides guidance on recognizing, measuring, presenting and disclosing in the financial statements uncertain tax positions that a company has taken or expects to take on a tax return. See Note 11 for further information related to the Company's accounting for uncertainty in income taxes.

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 2009 and there are no outstanding convertible securities, options and warrants as of December 31, 2009 or 2008, and as such, diluted earnings per share equal basic earnings per share.

RECENT ACCOUNTING PRONOUNCEMENTS

On January 1, 2009, the Company adopted a new accounting standard issued by the FASB related to the disclosure of derivative instruments and hedging activities. This standard expanded the disclosure requirements about an entity's derivative financial instruments and hedging activities, including qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

Effective June 30, 2009, the Company adopted a newly issued accounting standard related to accounting for and disclosure of subsequent events in its consolidated financial statements. This standard provides the authoritative guidance for subsequent events that was previously addressed only in United States auditing standards. This standard establishes general accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued and requires the Company to disclose the date through which it has evaluated subsequent events and whether that was the date the financial statements were issued or available to be issued. This standard does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued an amendment to the accounting standards related to the consolidation of variable interest entities ("VIE"). This standard provides a new approach for determining which entity should consolidate a VIE, how and when to reconsider the consolidation or deconsolidation of a VIE and requires disclosures about an entity's significant judgments and assumptions used in its decision to consolidate or not consolidate a VIE. Under this standard, the new consolidation model is a more qualitative assessment of power and economics that considers which entity has the power to direct the activities that "most significantly impact" the VIE's economic performance and has the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. This standard is effective for the Company as of January 1, 2010 and the Company does not expect the impact of its adoption to be material to its consolidated financial statements.

In October 2009, the FASB issued an amendment to the accounting standards related to the accounting for revenue in arrangements with multiple deliverables including how the arrangement consideration is allocated among delivered and undelivered items of the arrangement. Among the amendments, this standard eliminates the use of the residual method for allocating arrangement consideration and requires an entity to allocate the overall consideration to each deliverable based on an estimated selling price of each individual deliverable in the arrangement in the absence of having vendor-specific objective evidence or other third party evidence of fair value of the undelivered

items. This standard also provides further guidance on how to determine a separate unit of accounting in a multiple-deliverable revenue arrangement and expands the disclosure requirements about the judgments made in applying the estimated selling price method and how those judgments affect the timing or amount of revenue recognition. This standard will become effective for the Company on January 1, 2011.

In October 2009, the FASB issued an amendment to the accounting standards related to certain revenue arrangements that include software elements. This standard clarifies the existing accounting guidance such that tangible products that contain both software and non-software components that function together to deliver the product's essential functionality, shall be excluded from the scope of the software revenue recognition accounting standards. Accordingly, sales of these products may fall within the scope of other revenue recognition accounting standards or may now be within the scope of this standard and may require an allocation of the arrangement consideration for each element of the arrangement. This standard will become effective for the Company on January 1, 2011.

In January 2010, the FASB issued an amendment to the accounting standards related to the disclosures about an entity's use of fair value measurements. Among these amendments, entities will be required to provide enhanced disclosures about transfers into and out of the Level 1 (fair value determined based on quoted prices in active markets for identical assets and liabilities) and Level 2 (fair value determined based on significant other observable inputs) classifications, provide separate disclosures about purchases, sales, issuances and settlements relating to the tabular reconciliation of beginning and ending balances of the Level 3 (fair value determined based on significant unobservable inputs) classification and provide greater disaggregation for each class of assets and liabilities that use fair value measurements. Except for the detailed Level 3 roll-forward disclosures, the new standard is effective for the Company for interim and annual reporting periods beginning after December 31, 2009. The requirement to provide detailed disclosures about the purchases, sales, issuances and settlements in the roll-forward activity for Level 3 fair value measurements is effective for the Company for interim and annual reporting periods beginning after December 31, 2010. The Company does not expect that the adoption of this new standard will have a material impact to its consolidated financial statements.

The following table presents assets that are measured and recognized at fair value as of December 31, 2009 on a non-recurring basis:

Description	Level 1	Level 2	Level 3	Total Gains (Losses)
2009				
Money market account	\$ 21,500	\$ —	\$ —	\$ —
Marketable securities	\$ 39,569	\$ —	\$ —	\$ (9,947)
2008				
Money market account	\$ 37,390	\$ —	\$ —	\$ —
Marketable securities	\$ 29,622	\$ —	\$ —	\$ (9,442)

NOTE 2 - INVENTORY

The Company sells natural and created gemstone jewelry and art from its retail locations and wholesalers. Inventory on hand at December 31, 2009 and 2008 was as follows:

	December 31, 2009	December 31, 2008
Jewelry	\$ 2,892,500	\$ 3,907,911
Art	684,970	734,611
Total	\$ 3,577,470	\$ 4,642,522

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, 2009 and 2008 are as follows:

	December 31, 2009	December 31, 2008
Advertising	\$ 5,604	\$ 12,043
Insurance	15,361	35,681
Licenses / permits	3,667	9,652
Property taxes	2,688	2,890
Equipment lease	-	2,683
Rent	18,282	22,432
Fees	-	5,000
Retirement plan	7,795	-
Supplies Inventory	1,970	-
Merchandise	9,283	9,810
Total	\$ 64,650	\$ 100,191

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, 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 \$9,442, recorded in other expenses at December 31, 2008.

During 2009, the Company did not purchase or sell any iridium or palladium. Due to the change in value of the metals at December 31, 2009, the Company recognized an unrealized gain of \$9,967, recorded in other income.

The Company plans to hold the investment metals until such time as the market price becomes high enough to merit their sale.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2009 and 2008:

	December 31, 2009	December 31, 2008
Vehicles	\$ 147,571	\$ 147,571
Buildings - condo	603,933	759,940
Equipment	1,163,197	1,214,477
Office equipment	52,401	56,701
Furniture & fixtures	817,567	928,687
Software	420,548	407,808
Leasehold improvements	664,395	764,991
Subtotal	3,869,612	4,280,175
Less: accumulated depreciation	(3,102,610)	(3,265,443)
Total	\$ 767,002	\$ 1,014,732

NOTE 6 - DEPOSITS / OTHER ASSETS

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

	December 31, 2009	December 31, 2008
Building security deposits	\$ 34,579	\$ 26,379
Tax deposits	4,250	12,250
Insurance deposit	1,000	1,000
Utility deposit	447	447
Total	<u>\$ 40,276</u>	<u>\$ 40,076</u>

NOTE 7 - ACCRUED LIABILITIES

Other liabilities and accrued expenses consisted of the following as of December 31, 2009 and 2008:

	December 31, 2009	December 31, 2008
Accrued Vacation/Payroll Expense	\$ 40,364	\$ 38,942
Deferred Rent	2,917	12,522
Gift Certificates	465	314
Layaway / Special Orders	39,199	28,410
Sales Tax Payable	19,454	-
Store Credits	6,786	7,931
Total	<u>\$ 109,185</u>	<u>\$ 88,119</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. Several locations lease space via month-to-month leases. The chart below details future lease payments currently under contract for the next five years:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Balboa	\$ 7,000	-	-	-	-
Branson	\$ 19,688	-	-	-	-
Copy Jewels	-	-	-	-	-
Doubletree	\$ 9,118	-	-	-	-
Laughlin	-	-	-	-	-
Monterey	\$ 30,942	-	-	-	-
Palm Springs	\$ 33,949	-	-	-	-
Riverwalk	\$ 35,190	-	-	-	-
Sacramento	-	-	-	-	-
San Diego	-	-	-	-	-
Sarasota	-	-	-	-	-
Steinbeck	-	-	-	-	-
Total	<u>\$135,877</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 9 - NOTES PAYABLE

The following details the note payable balances at December 31, 2009 and 2008:

	<u>December 31 2009</u>	<u>December 31 2008</u>
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	148,571	193,763
Notes Payable - Officers - Tamara Gear, 4% interest paid monthly	100,000	-
Total notes payable	<u>\$ 248,571</u>	<u>\$ 1,118,763</u>
Less current portion	<u>(145,192)</u>	<u>(970,192)</u>
Long term note payable	<u>\$ 103,379</u>	<u>\$ 148,571</u>

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 the note is due on demand.

The table below shows maturity dates for future years:

	<u>Principal</u>
2010	145,192
2011	45,192
2012	45,192
2013	12,995
Total	<u>\$248,571</u>

NOTE 10 - FOREIGN CURRENCY TRANSACTIONS

The Company has wholesale vendors in England that sell the Company's created gemstone jewelry. Due to the change in dollar / pound valuation, the Company had realized a gain in foreign currency transactions at December 31, 2009 and 2008 of \$4,724 and \$7,841, respectively. The amounts are report in other income.

NOTE 11 – DEFERRED INCOME TAX

The Company uses the asset and liability approach to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted.

The Company has also adopted an accounting standard which clarifies the accounting for uncertainty in income taxes recognized in financial statements. This standard provides guidance on recognizing, measuring, presenting and disclosing in the financial statements uncertain tax positions that a company has taken or expects to take on a tax return.

During 2009 and 2008, the Company incurred a net loss and therefore, had no tax liability. The Company also does not have any material uncertain income tax positions. The net deferred tax asset generated by the loss carry forward

has been fully reserved. The cumulative net operating loss carry forward is approximately \$2,062,231 and \$1,885,802 at December 31, 2009 and 2008, respectively, and will expire in the years 2019 through 2029.

At December 31, 2009 and 2008 the deferred tax assets consisted of the following:

	December 31 2009	December 31 2008
Net deferred tax asset	\$ 515,558	\$ 471,450
Less: Valuation allowance	\$ (515,558)	\$ (471,450)
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

NOTE 12 - RELATED PARTY TRANSACTIONS

At December 31, 2009, Company officers Gavin and Tamara Gear, president and secretary, respectively and James Cardinal, chief executive officer, owned 3 properties that were 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.

During 2009, Tamara Gear, corporate secretary, loaned the Company \$100,000. The 6% note is due on demand and interest payments are made monthly.

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

The Company opened 2 new stores in Carmel and Palm Canyon, California during 2010.