QUARTERLY REPORT

For the quarterly period ended September 30, 2007

of

ELEGANT ILLUSIONS, INC.

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In October 2002, Elegant Illusions, Inc. filed a Form 15 with the Securities and Exchange Commission terminating registration of its Common Stock under the Securities Exchange Act of 1934. As a result, it is no longer obligated to file periodic reports with the Securities and Exchange Commission. **This report is not a quarterly report on Form 10-QSB**.

FINANCIAL INFORMATION

Financial Statements

The accompanying financial statements are unaudited for the interim periods, but include all adjustments (consisting only of normal recurring accruals), which our management considers necessary for the fair presentation of results for the three and nine months ended September 30, 2007.

Moreover, these financial statements do not purport to contain complete disclosure in conformity with generally accepted accounting principles and should be read in conjunction with our audited financial statements at, and for the fiscal year ended December 31, 2006. If you would like a copy of such audited financial statements, please contact us and we will send them to you free of charge.

The results reflected for the three and nine months ended September 30, 2007 are not necessarily indicative of the results for the entire fiscal year.

ELEGANT ILLUSIONS, INC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	December 31, 2006	September 30, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$947,258	$736,374
Accounts receivable	88,077	105,037
Income taxes receivable	59,602	0
Inventory	4,916,979	4,751,724
Prepaid expenses	208,814	220,352
TOTAL CURRENT ASSETS	6,220,730	5,813,487
PROPERTY AND EQUIPMENT, NET	1,235,991	1,154,070
DEFERRED TAX ASSETS, NET	194,398	314,447
OTHER ASSETS	64,279	62,241
	$7,715,398	$7,344,244
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Current portion of long term debt	$26,832	$29,187
Due to Bank	500,000	500,000
Accounts payable and accrued expenses	151,211	158,315
TOTAL CURRENT LIABILITIES	678,043	687,502
LONG TERM DEBT		
Mortgage payable	257,315	221,066
Deferred income taxes	0	0
	257,315	221,066
TOTAL LIABILITES	935,358	908,568
STOCKHOLDERS' EQUITY		
Common stock-authorized 10,000,000 shares, $.001 per value, issued and outstanding 6,146,446 shares in 2006 and 2007	6,147	6,147
Additional paid in capital	3,914,509	3,914,509
Retained earnings	2,943,392	2,599,029
Less treasury stock at cost (62,067 shares in 2006 and 2007)	(84,008)	(84,008)
Total stockholders' equity	6,780,039	6,435,676
Total liabilities and stockholders' equity	$7,715,398	$7,344,244

See Accompanying Notes to Consolidated Financial Statements

ELEGANT ILLUSIONS, INC AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2007
(Unaudited)

	2006	2007
REVENUES	$4,391,592	$4,079,746
COST OF GOODS SOLD	1,083,263	973,085
GROSS PROFITS	3,308,305	3,106,661
EXPENSES		
SELLING, GENERAL AND ADMINISTRATION	3,728,503	3,373,294
DEPRECIATION, AND AMORTIZATION	164,592	145,297
INTEREST EXPENSE	16,839	44,434
	3,909,934	3,563,025
INCOME (LOSS) BEFORE INCOME TAXES	(601,605)	(456,364)
PROVISION FOR INCOME TAXES	(231,000)	(112,000)
NET INCOME (LOSS)	($370,605)	($344,364)
WEIGHTED AVERAGE SHARES OUTSTANDING	6,084,379	6,084,379
BASIC AND DILUTED INCOME PER SHARE	($0.06)	($0.06)

See Accompanying Notes to Consolidated Financial Statements

ELEGANT ILLUSIONS, INC AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2007
(Unaudited)

	2006	2007
REVENUES	$1,508,798	$1,375,529
COST OF GOODS SOLD	340,775	354,394
GROSS PROFITS	1,168,023	1,021,134
EXPENSES		
SELLING, GENERAL AND ADMINISTRATION	1,271,873	1,032,670
DEPRECIATION, AND AMORTIZATION	48,744	53,562
INTEREST EXPENSE	5,785	14,893
	1,326,402	1,101,125
INCOME (LOSS) BEFORE INCOME TAXES	(158,379)	(79,991)
PROVISION FOR INCOME TAXES	(60,000)	(20,000)
NET INCOME (LOSS)	($98,379)	($59,991)
WEIGHTED AVERAGE SHARES OUTSTANDING	6,084,379	6,084,379
BASIC AND DILUTED INCOME PER SHARE	($0.02)	($0.01)

See Accompanying Notes to Consolidated Financial Statements

ELEGANT ILLUSIONS, INC AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2007
(Unaudited)

	2006	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	($370,605)	($344,364)
Adjustments to reconcile net income To net cash provided by (used in) operating activities		
Depreciation and amortization	164,592	145,297
Abandonment of property and equipment	12,579	19,858
Changes in operating assets and liabilities		
(Increase) Decrease in:		
Accounts receivable	41,960	(16,960)
Inventory	(320,886)	165,255
Prepaid expenses	(36,874)	(11,539)
Income tax receivable	(158,964)	59,602
Deferred tax asset		(120,049)
Increase (Decrease in)		
Accounts payable and accrued expenses	19,885	7,104
NET CASH PROVIDED BY OPERATIONS	(648,312)	(95,796)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(99,790)	(83,235)
Other assets	(549)	2,040
NET CASH USED IN INVESTING ACTIVITIES	(100,339)	(81,195)
CASH FLOW FROM FINANCING ACTIVITIES		
Bank Debt	500,000	0
Mortgages payable	(33,894)	(33,894)
NET CASH USED IN FINANCING ACTIVITIES	466,106	(33,894)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(282,545)	(210,884)
CASH AND CASH EQUIVALENT BALANCE		
Beginning of period	1,191,366	947,258
CASH AND CASH EQUIVALENT BALANCE		
End of Period	$908,821	$736,374
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest Paid	$16,839	$44,434
Income taxes paid	0	$0

See Accompanying Notes to Consolidated Financial Statements

ELEGANT ILLUSIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. COMMENTS

The accompanying unaudited consolidated condensed financial statements, which are for interim periods, do not include all disclosure provided in the annual consolidate financial statements. These unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto contained in the Annual Report for the year ended December 31, 2006 of Elegant Illusions, Inc (the "Company"). The December 31, 2006 consolidated condensed balance sheet was derived from audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles.

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the financial statements. The results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full fiscal year.

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Cautionary Statement on Forward-Looking Statements

Except for the historical information contained herein, certain of the matters discussed in this report are "forward-looking statements," which involve certain risks and uncertainties, which could cause actual results to differ materially from those discussed herein. Forward-looking information generally is information stated to be anticipated, expected or projected by us. The following list, which is not intended to be an all encompassing list of risks and uncertainties affecting us and our business, summarizes several factors that could cause our actual results to differ from those anticipated or expected in these forward-looking statements: that low or negative growth in the economy or in the financial markets will reduce discretionary spending on goods such as those sold in our stores; that warehousing and distribution productivity and capacity can be further improved to support our distribution requirements; that changes in expenses (such as changes in our labor, rent and/or inventory purchase costs) could adversely affect our results of operations; that competition may impact our sales efforts by diminishing sales and/or requiring us to cut prices; that seasonality of the retail created gem jewelry business or downturns in consumer spending during the fourth quarter may adversely affect our operating results; that we may not be able to continue to manage our inventory and product supply effectively to respond to consumer demand; that fluctuations in created gem and precious metals prices may negatively affect the business; that sustained adverse weather conditions may adversely affect our sales; that legal or governmental proceedings may have an adverse effect on our financial results or reputation; that alternate sources of merchandise supply may not be available on favorable terms to us; that key personnel who have been hired or retained by us may depart; or that changes in government or regulatory requirements may increase the cost of or adversely affect our operations.

We caution readers that any such forward-looking statements are based on our current expectations and beliefs but are not guarantees of future performance. Actual results could differ materially from those expressed or implied in the forward-looking statements.

Results of Operations

General

Management on a continual basis for the last four years has invested strongly in inventory while gold was at lower prices. We have kept our leases in option form thereby being able to move with the changes in the economy. We have moved our jewelry design and price point to appeal to the upper middle class and above. The Company has recognized the trend of shrinking discretionary funds for the last several years. Management believes that this trend will continue and increase due to rising energy costs, the shrinking access to credit and lower wages because of the shrinking manufacturing base in America. In response to this trend, we have closed our non performing locations in an orderly manner and expect to close additional stores in an orderly manner while maintaining a level of sales that will allow the Company to continue its moving into different markets that have a maximum return with a minimal initial risk of capital

investment. The Company continues to evolve and move its concept into the upper classes where we believe we provide tremendous value and uniqueness. We believe a viable avenue to broaden sales of our products is through large retail companies. While we have yet to realize any positive results in this area, we are continuing our efforts in this area. We anticipate lower sales, and store closures, however there will be corresponding lower expenses and we anticipate this Company will be debt free and ready to deliver on any opportunity that it is presented with.

Three and Nine Months Ended September 30, 2007 Compared to Three and Nine Months Ended September 30, 2006

Sales for the three months ended September 30, 2007 decreased $133,269 or approximately 8.8% when compared to the three months ended September 30, 2006. Sales for the nine months ended September 30, 2007 decreased $311,846 or approximately 7.1% when compared to the nine months ended September 30, 2006.

Management believes that these decreases in Company wide sales were a result of the closing of two locations that were in operation during the third quarter of 2006, the continuing effects of Hurricane Katrina (see "Effects of Hurricane Katrina" below), offset, during the nine month period, by an increase in same store sales at locations open more than a year (see "Revenues Same Store Locations" below). Historically, our New Orleans locations generate a significant amount of our revenues. As of September 30, 2006, we operated 19 retail locations and, as of September 30, 2007, we operated 16 retail locations, excluding the Riverwalk location.

Costs of goods as a percentage of revenues increased from approximately 22.6% during third quarter of 2006 to approximately 25.8% during the third quarter of 2007. Cost of goods as a percentage of revenues for the nine months ending September 30, 2006 decreased slightly from approximately 24.7% to approximately 23.9% during the nine months ended September 30, 2007. Management believes that the increase in cost of goods during the third quarter is the result of slightly higher discounts, in spite of higher gross margins due, in part, to increased prices of our goods.

During the three months ended September 30, 2007, selling, general and administrative expenses decreased when compared to the three months ended September 30, 2006 by $239,203 (approximately 18.8%). As a percentage of sales, selling, general and administrative expenses decreased from approximately 84.3% during the three months ended September 30, 2006 to approximately 75.1% during the three months ended September 30, 2007. Management believes this decrease is a function of fewer locations in operation.

During the nine months ended September 30, 2007, selling, general and administrative expenses decreased when compared to the nine months ended September 30, 2006 by $355,209 (approximately 9.5%). As a percentage of sales, selling, general and administrative expenses decreased from approximately 84.9% during the nine months ended September 30, 2006 to approximately 82.7% during the nine months ended September 30, 2007. Management believes the decrease in these expenses during the nine months ended September 30, 2007 is a function of the closing of locations. Excluding insurance payments received for damages in New Orleans, as a percentage of sales, selling, general and administrative expenses would have decreased from

approximately 89.2% during the nine months ended September 30, 2006 to approximately 82.7% during the nine months ended September 30, 2007.

Revenues Same Store Locations.

As of September 30, 2007, we operated 13 locations that were also in operation at September 30, 2006: two in New Orleans, three in Monterey, one in Sacramento, one in San Diego, one in San Francisco, one in Palm Springs, one in Branson, one in Laughlin, one in Sarasota and one in Wailea, Hawaii. Same store location revenues excludes our Vail, Colorado location as that location was not open during the off season.

Revenues from these locations for the quarter ended September 30, 2007 decreased approximately 0.5% from the same period in 2006. Revenues from these locations for the nine months ending September 30, 2007 increased approximately 4% from the same period in 2006. Management believes this increase in same store revenues is the result of improving foot-traffic at most locations including the two New Orleans locations, mild weather, an increase in higher than "average ticket" sales and increased revenues from our private label Credit Card program instituted in September 2006.

Net Loss

During the three months ended September 30, 2007, we realized a net loss of $59,991 compared to a net loss of $98,379 for the three months ended September 30, 2006. During the nine months ended September 30, 2007, we realized a net loss of $344,364 compared to a net loss of $370,605 for the nine months ended September 30, 2006. The loss of 370,605 for the nine months ended September 30, 2006 was mitigated by insurance payments in the amount of $190,188, the result of Hurricane Katrina. Excluding these non-recurring payments, our net losses for the nine months ended September 30, 2006 would have been significantly greater.

Inventory Turnover Ratios

During the three months ended September 30, 2007, we maintained an inventory that provided a turnover ratio of 0.3 to 1. We believe that this inventory turnover ratio is appropriate for our plan of operation, including maintaining our strategy of replacing inventory sold at our retail locations within a 2-3 day time frame. We review items on hand, on a regular basis, to determine slow moving items, then discount the price of those items so they are sold at prices that still generate a positive gross margin. The inventory turnover ratio for the three months ended September 30, 2006 was 0.3 to 1.

Liquidity and Capital Resources

As of September 30, 2006, we had $736,374 in cash and cash equivalents, a decline of $210,884 from December 31, 2006, and our current assets exceeded our current liabilities by $5,125,985, a decline of $416,702 from December 31, 2006, primarily resulting from our net loss during the nine months ending September 30, 2007.

On August 17, 2006, we obtained a line of credit with Comerica Bank in the amount of

$1,000,000. Amounts borrowed under the line are all due and payable March 1, 2008, interest is due monthly. As of September 30, 2007, our balance on this credit line was $500,000.

Effects of Hurricane Katrina

All three New Orleans locations were closed effective August 29, 2005. The two Bourbon Street locations re-opened December 2, 2005 and the Riverwalk location re-opened in new premises within the Riverwalk Marketplace Mall on October 13, 2007. Management has estimated certain costs for restoring the Riverwalk location of approximately $24,000.

Our business in New Orleans is highly dependent on tourist foot traffic. Tourist foot traffic, the Convention Center and the Cruise Ship businesses are still below pre-Katrina levels. The Bourbon Street and Riverwalk Marketplace Mall locations are open with reduced operating hours until such time as foot traffic returns to pre-Katrina levels, if at all.

Although we closed three locations in 2006, two in the first quarter of 2007 (Birch Run and the two St. Croix locations) and two in the third quarter of 2007 (Miromar and Philadelphia), we continue to look for potential new store locations. However, store expansion is not our primary focus. Our Primary focus is on operating controls and costs. In this regard, please see the discussion in "General" above.

During the third quarter of 2007, we attended, as a wholesaler, two National trade shows and one International trade show with the intent of introducing our trademarked sterling silver products to the retail industry and building a wholesale business.

Our primary anticipated capital expenditure during the year ending December 31, 2008 will be developing our wholesale business and, possibly, the opening of one to two additional created gem jewelry stores.

We believe that we have sufficient capital reserves for the foregoing activities.

Off-Balance Sheet Transactions

We do not have any transactions, agreements or other contractual arrangements that constitute off-balance sheet arrangements.

Application Of Critical Accounting Policies

Financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Critical accounting policies for us relate to impairment of long-lived assets, and the costing of inventory as it relates to obsolescence and marketability.

Actual results could differ from those estimates. For example, unexpected events or

changes in market conditions or a downturn in the economy could adversely affect actual results. Hurricane Katrina was an example of a material unexpected event. Estimates are used in accounting for, among other things, inventory obsolescence, depreciation, taxes, and contingencies. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the Consolidated Financial Statements in the period they are determined to be necessary.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its Consolidated Financial Statements.

Merchandise Inventories. Merchandise Inventories are stated at the lower of cost or market. Management is constantly reviewing the turnover of individual items to determine if adjustments in pricing are required to affect the sales of said products. Substantially all inventories represent finished goods which are valued using the first-in, first-out (FIFO) inventory method.

We also write down our inventory for discontinued, slow-moving and damaged inventory if required. This write-down is equal to the difference between the cost of inventory and its estimated market value based upon assumptions of targeted inventory turn rates, future demand, management strategy, and market conditions. If actual market conditions are less favorable than those projected by management, or management strategy changes, additional inventory write-downs may be required and, in the case of a major change in strategy or downturn in market conditions, such write-downs could be significant.

Shrinkage is estimated for the period from the last inventory date to the end of the fiscal year on a store by store basis. Such estimates are based on experience and the shrinkage results from the last physical inventory. Physical inventories are taken annually for all store locations and for the distribution warehouse. The shrinkage rate from the most recent physical inventory, in combination with historical experience, is the basis for providing a shrinkage reserve if required.

Long-lived Assets. Long-lived assets are periodically reviewed for impairment by comparing the carrying value of the assets with their estimated fair values. If the evaluation indicates that the carrying amount of the asset may not be recoverable, the potential impairment is measured based on a projected discounted cash flow method, using a discount rate that is considered to be commensurate with the risk inherent in our current business model. Assumptions are made with respect to cash flows expected to be generated by the related assets based upon updated projections. Any changes in key assumptions or market conditions could result in an unanticipated impairment charge. For instance, in the event of a major market downturn, individual stores may become unprofitable, which could result in a write-down of the carrying value of the assets located in those stores. Any impairment would be recognized in operating results if a permanent reduction were to occur.

Revenue Recognition. We recognize revenue in accordance with the Securities and Exchange Commissions Staff Accounting Bulletin No. 101 Revenue Recognition in Financial Statements (SAB 101). Revenue related to merchandise sales is recognized at the time of the

sale, reduced by a provision for returns. The provision for sales returns is based on historical evidence of our return rate.

Income Taxes Income tax benefits are estimated for each jurisdiction in which we operate. This involves assessing the current tax exposure together with temporary differences resulting from differing treatment of items for tax and accounting purposes. Any resulting deferred tax assets are evaluated for recoverability based on estimated future taxable income.

Issues And Uncertainties

The risks and uncertainties discussed in "*Cautionary Statement on Forward-Looking Statements*" above, among others, should be considered in evaluating our financial outlook.

Other Information

None during the quarter ended September 30, 2007.