QUARTERLY REPORT

For the quarterly period ended September 30, 2008

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-Q**.

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, 2008.

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, 2007. 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, 2008 are not necessarily indicative of the results for the entire fiscal year.

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

	December 31, 2007	Sept 30, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$625,695	$336,940
Accounts receivable	131,201	78,438
Inventory	4,691,338	4,530,385
Prepaid expenses	233,010	214,845
TOTAL CURRENT ASSETS	5,681,245	5,160,607
PROPERTY AND EQUIPMENT, NET	1,141,226	1,041,139
DEFERRED TAX ASSETS, NET	318,000	538,000
OTHER ASSETS	62,241	50,341
	$7,202,711	$6,790,087
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Current portion of long term debt	$45,192	$45,192
Due to Bank	500,000	825,000
Accounts payable and accrued expenses	146,605	124,980
TOTAL CURRENT LIABILITIES	691,797	995,172
LONG TERM DEBT		
Mortgage payable	193,763	159,869
	193,763	159,869
TOTAL LIABILITES	885,560	1,155,041
STOCKHOLDERS' EQUITY		
Common stock-authorized 10,000,000 shares, $.001 per value, issued and outstanding 6,146,446 shares in 2007 and 2008	6,147	6,147
Additional paid in capital	3,914,509	3,914,509
Retained earnings	2,544,585	1,862,480
Less treasury stock at cost (153,611 shares in 2007 and 2008)	(148,090)	(148,090)
	6,317,151	5,635,046
	$7,202,711	$6,790,087

See Accompanying Notes to Consolidated Financial Statements.

ELEGANT ILLUSIONS, INC AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2008
(Unaudited)

	2007	2008
REVENUES	$4,079,746	$3,036,836
COST OF GOODS SOLD	973,085	806,371
GROSS PROFITS	3,106,661	2,230,465
EXPENSES		
SELLING, GENERAL AND ADMINISTRATION	3,373,294	2,976,904
DEPRECIATION, AND AMORTIZATION	145,297	121,765
INTEREST EXPENSE	44,434	31,692
	3,563,025	3,130,361
INCOME (LOSS) BEFORE INCOME TAXES	(456,364)	(899,896)
PROVISION FOR INCOME TAXES	(112,000)	(217,792)
NET INCOME (LOSS)	($344,364)	($682,104)
WEIGHTED AVERAGE SHARES OUTSTANDING	6,084,379	5,992,922
BASIC AND DILUTED INCOME PER SHARE	($0.06)	($0.11)

See Accompanying Notes to Consolidated Financial Statements.

ELEGANT ILLUSIONS, INC AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2008
(Unaudited)

	2007	2008
REVENUES	$1,375,529	$951,404
COST OF GOODS SOLD	354,394	320,583
GROSS PROFITS	1,021,135	630,821
EXPENSES		
SELLING, GENERAL AND ADMINISTRATION	1,032,670	947,869
DEPRECIATION, AND AMORTIZATION	53,562	37,060
INTEREST EXPENSE	14,893	12,474
	1,101,125	997,403
INCOME (LOSS) BEFORE INCOME TAXES	(79,990)	(366,582)
PROVISION FOR INCOME TAXES	(20,000)	(89,115)
NET INCOME (LOSS)	($59,990)	($277,467)
WEIGHTED AVERAGE SHARES OUTSTANDING	6,084,379	5,992,922
BASIC AND DILUTED INCOME PER SHARE	($0.01)	($0.05)

See Accompanying Notes to Consolidated Financial Statements.

ELEGANT ILLUSIONS, INC AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30 2007 AND 2008
(unaudited)

	2007	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	($344,364)	($682,104)
Adjustments to reconcile net income To net cash provided by (used in) operating activities		
Depreciation and amortization	145,297	121,765
Abandonment of property and equipment	19,858	15,916
Changes in operating assets and liabilities		
(Increase) Decrease in:		
Accounts receivable	(16,960)	52,763
Inventory	165,255	160,953
Prepaid expenses	(11,539)	18,166
Income tax receivable	59,602	0
Increase (Decrease in)		
Accounts payable and accrued expenses	7,104	(21,625)
Deferred income taxes payable and assets	(120,049)	(220,000)
NET CASH PROVIDED BY OPERATIONS	(95,796)	(554,166)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(83,235)	(37,595)
Marketable Securities		0
Other assets	2,040	11,900
NET CASH USED IN INVESTING ACTIVITIES	(81,195)	(25,695)
CASH FLOW FROM FINANCING ACTIVITIES		
Bank Debt	0	325,000
Mortgages payable	(33,894)	(33,894)
NET CASH USED IN FINANCING ACTIVITIES	(33,894)	291,106
NET INCREASE IN CASH AND CASH EQUIVALENTS	(210,884)	(288,755)
CASH AND CASH EQUIVALENT BALANCE		
Beginning of period	947,258	625,695
CASH AND CASH EQUIVALENT BALANCE		
End of Period	$736,374	$336,940
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest Paid	$44,434	$31,692
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, 2007 of Elegant Illusions, Inc (the "Company"). The December 31, 2007 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, 2008 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 or are causing 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 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 prices and precious metals 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

We have kept our leases in option form thereby being able to move with the changes in the economy. We have recognized the trend of shrinking discretionary funds for the last several years. Management believes that this trend will continue and increase due to the current financial crisis.. 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 us to continue our moving into different markets that have a maximum return with a minimal initial risk of capital investment. We continue to evolve and have moved our jewelry design and price point to appeal to the upper middle class and above where we believe we provide significant value, affordability and uniqueness. We also believe a viable avenue to broaden sales of our products is through wholesale markets. We presented at a national jewelry tradeshow in the US in June 2008, with minimal results. In August 2008, we

showed our Platinique line in the United Kingdom with favorable results including re-orders. We also are in the process of adding the 'brand' "Tamara G" to our retail category. We have implemented this brand in our Monterey, San Diego and Balboa locations. In addition we have remodeled these stores to fit the Tamara G brand. The Tamara G brand is a custom jewelry design concept that includes natural and lab-created gems. Changes to these locations, include new showcases, carpet, signage, and additional products not currently offered in the Elegant Illusions concept.

Three and Nine Months Ended September 30, 2008 Compared to Three and Nine Months Ended September 30, 2008

Sales for the three months ended September 30, 2008 decreased $424,125 or approximately 30.8% when compared to the three months ended September 30, 2007.

Sales for the nine months ended September 30, 2008 decreased $1,042,910 or approximately 25.6% when compared to the nine months ended September 30, 2007.

Management believes that this significant decrease in company-wide sales primarily was a result of the economic factors resulting in a significant reduction in revenues at most locations and the closing during the current and prior quarter of the San Francisco, Wailea, Lahaina and two Bourbon Street locations.

As of September 30, 2007, we operated 17 retail locations and, as of September 30, 2008, we operated 12 retail locations.

Costs of goods as a percentage of revenues increased from approximately 25.8% during third quarter of 2007 to approximately 33.7% during the third quarter of 2008. Cost of goods as a percentage of revenues for the nine months ending September 30, 2007 increased from approximately 23.9% to approximately 26.6% during the nine months ended September 30, 2008. Management believes that the increase in cost of goods in the third quarter is the result of higher discounts, notwithstanding higher gross margins due, in part, to increased prices of our goods and higher prices for gold and silver.

During the three months ended September 30, 2008, selling, general and administrative expenses decreased when compared to the three months ended September 30, 2007 by $84,801 (approximately 8.2%). Management believes this decrease is a function of the closing of locations, a sharp decline in revenues and costs associated with closing locations.

As a percentage of sales, selling, general and administrative expenses increased from approximately 75.1% during the three months ended September 30, 2007 to approximately 99.6% during the three months ended September 30, 2008.

During the nine months ended September 30, 2008, selling, general and administrative expenses decreased when compared to the nine months ended September 30, 2007 by $396,390 (approximately 11.8%). Management believes the decrease in these expenses during the nine months ended September 30, 2008 is a function of the closing of locations and of management's efforts to reduce costs in the face of a rapid decline in revenues. However, as a percentage of

sales, selling, general and administrative expenses increased from approximately 82.7% during the nine months ended September 30, 2007 to approximately 98.0% during the nine months ended September 30, 2008. Management believes this increase is due to the decline in sales.

Revenues Same Store Locations.

As of September 30, 2008, we operated 10 locations that were also in operation at September 30, 2007: three in Monterey, one in Sacramento, one in San Diego, one in Palm Springs, one in Branson, one in Laughlin, one in Sarasota, and one in Vail.

Revenues from these locations for the quarter ended September, 2008, decreased approximately 24.8% from the same period in 2007. Revenues from these locations for the nine months ended September 30, 2008, decreased approximately 25.3% from the same period in 2007. Management believes this decrease in same store revenues is the result of the economic factors discussed above such as the sub-prime mortgage crisis, high fuel costs and the corresponding reduction in discretionary spending by the consumer.

Net Loss

During the three months ended September 30, 2008, we realized a net loss of $277,467 compared to net loss of $59,990 for the three months ended September 30, 2007, after provision for income taxes of ($89,115) and ($20,000), respectively. During the nine months ended September 30, 2008, we realized a net loss of $682,104 compared to a net loss of $344,364 for the nine months ended September 30, 2007, after provision for income taxes of ($217,792) and ($112,000), respectively.

Inventory Turnover Ratios

During the three months ended September 30, 2008, we maintained an inventory that provided a turnover ratio of 0.23 to 1. This is the result of a reduction in our revenues. . 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. If wholesale revenues grow, management expects the inventory turnover ratio will improve, however this could be offset by additional store closings. 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, 2007 was 0.27 to 1.

Liquidity and Capital Resources

As of September 30, 2008, we had $336,940 in cash and cash equivalents, down $288,755 from December 31, 2007. Current assets exceeded our current liabilities by $4,165,435, a reduction of $824,013 from December 31, 2007.

We have lines of credit with Comerica Bank in the aggregate amount of $1,000,000. Interest is at a variable rate at either 3% above the annual LIBOR rate or the bank's cost of funds as defined in the business loan agreement. The interest rate at September 30, 2008 was 7.0025%;

however, see below. Borrowings under this line are secured by all of our assets. We are required to maintain certain financial ratios and covenants. Currently, we are not in compliance with the operating loss requirement. Our operating loss is required to be no greater than $450,000 on a building four quarter basis beginning in the first quarter of 2008. For the first three quarters of 2008, our operating loss was $682,104. As a result, the bank could accelerate the debt and proceed against the collateral. While we do not anticipate that the bank will accelerate the debt, should this occur, we most likely would sell certain assets. As a result of our default under the credit line, the default interest rate is 3% above the normal interest rate. As of December 31, 2007, our draw on this credit line was $500,000 and as of September 30, 2008 the draw was $825,000. The due date is December 1, 2009. Pursuant to the Business Loan Agreement, as amended, the bank, in its sole discretion, upon a request from us, may loan us up to an additional $500,000 at an interest rate to be agreed upon by us and the bank with a due date of December 1, 2009.

Our primary anticipated capital expenditure during the remainder of the year ending December 31, 2008 will be the closing of non-performing locations. We continue the expansion of our wholesale business by developing additional products in anticipation of attending national jewelry tradeshows, hiring sales agents and expanding the Tamara G brand into other of our locations in 2009.

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 a good 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. 104 Revenue Recognition in Financial Statements (SAB 104). Revenue related to merchandise sales is recognized at the time of the sale and delivery of the merchandise, reduced by a provision for returns. The provision for sales returns is based on historical evidence of our return rate.

Income Taxes Income taxes 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, 2008.