

Giggles N' Hugs, Inc.  
Form 10-Q  
November 17, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

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

For the quarterly period ended September 27, 2015

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

Commission files number 000-53948

**GIGGLES N HUGS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**                                      **20-1681362**  
(State or other jurisdiction of      (I.R.S. Employer  
incorporation or organization)      Identification No.)

**10250 Santa Monica, #155, Los Angeles, CA 90067**  
(Address of principal executive offices)      (Zip Code)

**(310) 553-4847**

(Registrant's telephone number, including area code)

*Copies of Communications to:*

Libertas Law Group

225 Santa Monica Boulevard, 11<sup>th</sup> Floor

Santa Monica, CA 90401

(310) 359-8742

Fax (310) 356-1922

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

The number of shares of Common Stock, \$0.001 par value, outstanding on November 16, 2015 was 41,319,367 shares.

**GIGGLES N' HUGS, INC.**

**THIRTEEN WEEKS ENDED SEPTEMBER 27, 2015**

**Index to Report on Form 10-Q**

|  | <b>Page No</b> |
|--|----------------|
| <b><u>PART I - FINANCIAL INFORMATION</u></b>   |                |
| Item 1. <u>Condensed Consolidated Financial Statements</u>   | F-1            |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 3              |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 10             |
| Item 4. <u>Controls and Procedures</u>   | 10             |
| <b><u>PART II - OTHER INFORMATION</u></b>  |                |
| Item 1. <u>Legal Proceedings</u>   | 11             |
| Item 1A. <u>Risk Factors</u>   | 11             |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 12             |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 13             |
| Item 4. <u>Mine Safety Disclosure</u>  | 13             |
| Item 5. <u>Other Information</u>   | 13             |
| Item 6. <u>Exhibits</u>  | 14             |
| <u>Signature</u>   | 15             |

**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements.****GIGGLES N' HUGS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

|  | <b>September<br/>27, 2015<br/>(unaudited)</b> | <b>December<br/>28, 2014</b> |
|--|---|------------------------------|
| <b>Assets</b>  |   |                              |
| Current assets:  |   |                              |
| Cash and equivalents   | \$ 184,063                                    | \$ 108,236                   |
| Inventory  | 35,208  | 37,397                       |
| Prepaid stock-based compensation   | 77,958  | 13,222                       |
| Prepaid expenses, other  | 23,772  | 9,810                        |
| Total current assets   | 321,001                                       | 168,665                      |
| Fixed assets:  |   |                              |
| Total fixed assets, net  | 2,174,929                                     | 2,437,730                    |
| Other assets:  |   |                              |
| Security deposits, other   | 35,370  | 41,980                       |
| Intangible asset, net  | 20,173  | 23,881                       |
| Total other assets   | 55,543  | 65,861                       |
| Total assets   | \$2,551,473                                   | \$2,672,256                  |
| <b>Liabilities and Stockholders' Deficit</b>                               |   |                              |
| Current liabilities:   |   |                              |
| Accounts payable   | \$ 561,530                                    | \$ 432,508                   |
| Incentive from lessor – current portion                                    | 129,103                                       | 111,644                      |
| Note Payable from lessor - current portion                                 | -   | 91,500                       |
| Accrued expenses   | 395,480                                       | 330,498                      |
| Deferred revenue   | 50,630  | 43,437                       |
| Convertible note payable and accrued interest, net of discount of \$45,442 | 4,794   | -                            |
| Total current liabilities  | 1,141,537                                     | 1,009,587                    |
| Long-term liabilities:   |   |                              |

Edgar Filing: Giggles N' Hugs, Inc. - Form 10-Q

|  |             |             |
|--|-------------|-------------|
| Incentive from lessor – long-term  | 1,104,774   | 1,204,199   |
| Note payable - lessor, net of discount of \$57,444   | 625,872     | 609,150     |
| Total long-term liabilities  | 1,730,646   | 1,813,349   |
| <br>   |             |             |
| Total liabilities  | 2,872,183   | 2,822,936   |
| <br>   |             |             |
| Stockholders' deficit:   |             |             |
| Common stock, \$0.001 par value, 1,125,000,000 shares authorized, 41,469,367 and 33,563,830 shares issued and outstanding as of September 27, 2015 and December 28, 2014, respectively | 41,469      | 33,563      |
| Common stock payable (111,000 and 1,887,148 shares as of September 27, 2015 and December 28, 2014, respectively)   | 149,580     | 668,114     |
| Additional paid-in capital   | 7,861,833   | 6,301,241   |
| Accumulated deficit  | (8,373,592) | (7,153,598) |
| Total stockholders' deficit  | (320,710)   | (150,680)   |
| <br>   |             |             |
| Total liabilities and stockholders' deficit  | \$2,551,473 | \$2,672,256 |

**See Accompanying Notes to Condensed Consolidated Financial Statements.**

**GIGGLES N' HUGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

|  | <b>Thirteen Weeks<br/>Ended<br/>September 27, 2015</b> | <b>Thirteen Weeks<br/>Ended<br/>September 28, 2015</b> | <b>Thirty -Nine<br/>Weeks Ended<br/>September 27, 2015</b> | <b>Thirty -Nine<br/>Weeks Ended<br/>September 28, 2014</b> |
|--|--|--|--|--|
| Revenue  |  |  |  |  |
| Net sales  | \$ 901,251   | \$ 913,270   | \$ 2,650,290   | \$ 2,559,932   |
| Costs and operating expenses                                 |  |  |  |  |
| Cost of sales including food and beverage                    | 205,247  | 229,459  | 631,603  | 673,113  |
| Labor  | 371,062  | 334,261  | 1,040,010  | 969,526  |
| Occupancy cost   | 229,047  | 219,865  | 666,192  | 677,017  |
| Other operating expenses                                     | 50,616   | 58,638   | 166,720  | 156,939  |
| Depreciation and amortization                                | 91,106   | 89,019   | 275,477  | 260,171  |
| Total operating expenses                                     | 947,078  | 931,242  | 2,780,002  | 2,579,827  |
| Other expenses   |  |  |  |  |
| Executive compensation                                       | 98,750   | 89,701   | 311,577  | 291,816  |
| Non-employee stock-based compensation                        | 157,838  | 134,155  | 427,437  | 177,189  |
| Professional and consulting expenses                         | 71,210   | 110,943  | 263,751  | 510,939  |
| General and administrative expenses                          | 37,578   | 95,642   | 100,854  | 144,333  |
| Finance and interest expense                                 | 13,904   | 410,523  | 36,737   | 541,129  |
| Gain on debt modification                                    | -  | -  | (69,228)   | -  |
| (Gain) Loss on stock issuance for payable settlement         | -  | -  | 17,772   | (2,133)  |
| Total expenses   | 1,326,358  | 1,772,206  | 3,868,902  | 4,400,039  |
| Loss before provision for income taxes                       | \$ (425,107)   | ) \$ (858,936)   | ) \$ (1,218,612)   | ) \$ (1,840,107)   |
| Provision for income taxes                                   | \$ 1,382   | \$ -   | \$ 1,382   | \$ 2,400   |
| Net loss   | \$ (426,489)   | ) \$ (858,936)   | ) \$ (1,219,994)   | ) \$ (1,842,507)   |
| Net loss per share – basic                                   | \$ (0.01)  | ) \$ (0.03)  | ) \$ (0.03)  | ) \$ (0.07)  |
| Weighted average number of common shares outstanding – basic | 39,640,296   | 31,263,801   | 37,378,691   | 27,223,678   |

**See Accompanying Notes to Condensed Consolidated Financial Statements.**





**GIGGLES N' HUGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

|   | <b>Thirty<br/>-Nine<br/>Weeks<br/>Ended<br/>September<br/>27, 2015</b> | <b>Thirty<br/>-Nine<br/>Weeks<br/>Ended<br/>September<br/>28, 2014</b> |
|---|--|--|
| <b>Cash flows from operating activities</b>                                 |  |  |
| Net loss  | \$(1,219,994)  | \$(1,842,507)  |
| Adjustments to reconcile net loss to net cash used in operating activities: |  |  |
| Depreciation and amortization   | 275,477  | 260,171  |
| Amortization of debt discount   | 13,953   | 55,070   |
| Non-employee stock-based compensation                                       | 388,660  | 305,290  |
| Employee stock-based compensation   | 13,500   | (2,133 )   |
| Loss on stock issuance for payable settlement                               | 17,772   | -  |
| Gain on note payable modification   | (69,228 )  | -  |
| Warrants granted for commission   | 38,778   | -  |
| Warrants conversion feature for convertible note                            | -  | 161,489  |
| Shares issued for lawsuit settlement  |  | 105,000  |
| Changes in operating assets and liabilities:                                |  |  |
| Increase in prepaid expenses  | (13,962 )  | (16,225 )  |
| Decrease (Increase) in security deposits, other                             | 6,610  | (6,768 )   |
| Decrease in inventory   | 2,189  | 3,850  |
| Increase in accounts payable  | 153,240  | 108,952  |
| Increase in amortized fees  | -  | 68,390   |
| (Decrease) increase in lease incentive liability                            | (81,966 )  | 11,611   |
| Increase (decrease) in accrued expenses                                     | 64,982   | (77,864 )  |
| Decrease in accrued interest  | (11,288 )  | (9,416 )   |
| Increase (decrease) in deferred revenue                                     | 7,193  | (2,121 )   |
| Net cash used in operating activities                                       | (414,084 )   | (877,211 )   |
| <b>Cash flows from investing activities</b>                                 |  |  |
| Acquisition of fixed assets   | (8,968 )   | (119,773 )   |
| Net cash used in investing activities                                       | (8,968 )   | (119,773 )   |
| <b>Cash flows from financing activities</b>                                 |  |  |
| Proceeds from convertible note payable                                      | 100,000  | 50,000   |
| Proceeds from lessor note payable   | -  | 105,000  |
| Payments on note payable  | -  | (57,508 )  |
| Proceeds from shares issued   | 398,879  | 976,000  |

Edgar Filing: Giggles N' Hugs, Inc. - Form 10-Q

|  |                   |                   |
|--|-------------------|-------------------|
| Payment to related party                                 | -                 | (40,000 )         |
| Net cash provided by financing activities                | 498,879           | 1,033,492         |
| <b>NET INCREASE (DECREASE) IN CASH</b>                   | <b>75,827</b>     | <b>36,508</b>     |
| <b>CASH AT BEGINNING OF PERIOD</b>                       | <b>108,236</b>    | <b>71,223</b>     |
| <b>CASH AT END OF PERIOD</b>                             | <b>\$ 184,063</b> | <b>\$ 107,731</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b> |                   |                   |
| Interest paid  | \$-               | \$46,912          |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>      |                   |                   |
| Shares issued for prepaid stock compensation             | \$77,958          | \$63,577          |
| Shares issued to settle payable                          | \$24,218          | \$11,800          |
| Shares issued for stock payable                          | \$690,145         | \$299,500         |
| Shares issued to settle convertible note payable         | \$3,421           | \$473,804         |

**See Accompanying Notes to Condensed Consolidated Financial Statements.**

F-3

**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 1 – HISTORY AND ORGANIZATION**

Giggles N' Hugs, Inc. (“GIGL Inc.” or the “Company”) was originally organized on September 17, 2004 under the laws of the State of Nevada, as Teacher’s Pet, Inc. GIGL Inc. was organized to sell teaching supplies and learning tools. On August 20, 2010, GIGL Inc. filed an amendment to its articles of incorporation to change its name to Giggles N’ Hugs, Inc. The Company is authorized to issue 1,125,000,000 shares of its \$0.001 par value common stock.

On December 30, 2011, GIGL Inc. completed the acquisition of all the issued and outstanding shares of GNH, Inc. (“GNH”), a Nevada corporation, pursuant to a Stock Exchange Agreement (the “SEA”). Under the SEA, GIGL Inc. issued 18,289,716 shares of its common stock in exchange for a 100% interest in GNH. Additionally under the SEA, the former officer, director and shareholders of GIGL Inc. agreed to cancel a total of 47,607,500 shares of its common stock.

For accounting purposes, the acquisition of GNH by GIGL Inc. has been recorded as a reverse merger of a public company (the “Merger”), with the exception that no goodwill is generated, and followed up with a recapitalization of GNH based on the factors demonstrating that GNH represents the accounting acquirer. As part of closing of the Merger between GNH and GIGL Inc., GNH obtained 100% of the restaurant operations of Giggles N’ Hugs in Westfield Mall in Century City, California. The restaurant operations of Giggles N’ Hugs in Westfield Mall in Century City, California was originally formed April 30, 2010 and opened for operation December 3, 2010. Consequently, the historical financial information in the accompanying consolidated financial statements is that of GNH and the restaurant operations of Giggles N’ Hugs located in Century City, California. As a result of the Merger, GIGL Inc. now owns all of the assets, liabilities and operations of a kid friendly restaurant named Giggles N’ Hugs in Westfield Mall in Century City, California. Additionally, GIGL Inc. obtained ownership to all intellectual property rights for Giggles N’ Hugs facilities in the future.

On December 30, 2011, the transactions were completed and resulted in a change in control of the Company. Pursuant to the terms of the Agreement, the Company accepted the resignation of its prior officer and director, Tracie Hadama, and appointed Mr. Joey Parsi as President, Chief Executive Officer, Treasurer, and Secretary of the Company.

Edgar Filing: Giggles N' Hugs, Inc. - Form 10-Q

The Company adopted a 52/53 week fiscal year ending on the Sunday closest to December 31<sup>st</sup> for financial reporting purposes. The election for fiscal year was made with the 8-K filing in October 2013. Fiscal year 2014 consists of a year ending December 28, 2014. Fiscal year 2015 will consist of year ending December 27, 2015.

F-4

**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 2 – BASIS OF PRESENTATION**

The interim condensed consolidated financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US Dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with US generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these interim financial statements be read in conjunction with the financial statements of the Company for the year ended December 28, 2014 and notes thereto included in the Company's annual report on Form 10-K. The Company follows the same accounting policies in the preparation of interim reports.

Results of operations for the interim periods are not indicative of annual results.

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

Principles of consolidation

At September 27, 2015, the condensed consolidated financial statements include the accounts of Giggles N' Hugs, Inc., GNH CC, Inc. for restaurant operations of Giggles N' Hugs in Westfield Mall in Century City, California, GNH Topanga, Inc. for restaurant operations in Westfield Topanga Shopping Center in Woodland Hills, California, and Glendale Giggles N' Hugs, Inc. for restaurant operations in Glendale Galleria in Glendale, California. At September 28, 2014, condensed consolidated financial statements include the accounts of Giggles N' Hugs, Inc. GNH CC, Inc. for restaurant operations of Giggles N' Hugs in Westfield Mall in Century City, California, GNH Topanga, Inc. for restaurant operations in Westfield Topanga Shopping Center in Woodland Hills, California. All significant

intercompany balances and transactions have been eliminated. Giggles N' Hugs, Inc., GNH, Inc., GNH Topanga, Inc., and Glendale Giggles N' Hugs, Inc. will be collectively referred herein to as the "Company".

#### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

#### Cash and cash equivalents

For the purpose of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. The carrying value of these investments approximates fair value.

**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Inventories

Inventories are stated at the lower of cost or market on a first-in, first-out basis and consist of restaurant food and other supplies.

Property and equipment

The Company records all property and equipment at cost less accumulated depreciation. Improvements are capitalized while repairs and maintenance costs are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful life of the assets or the lease term, whichever is shorter. Leasehold improvements include the cost of the Company's internal development and construction department. Depreciation periods are as follows:

|                                   |              |
|-----------------------------------|--------------|
| Leasehold improvements            | 10 years     |
| Restaurant fixtures and equipment | 10 years     |
| Computer software and equipment   | 3 to 5 years |

Leases

The Company currently leases its restaurant locations. The Company evaluates each lease to determine its appropriate classification as an operating or capital lease for financial reporting purposes.

Minimum base rent for the Company's operating leases, which generally have escalating rentals over the term of the lease, is recorded on a straight-line basis over the lease term. The initial rent term includes the build-out, or rent holiday period, for the Company's leases, where no rent payments are typically due under the terms of the lease. Deferred rent expense, which is based on a percentage of revenue, is also recorded to the extent it exceeds minimum base rent per the lease agreement.

The Company disburses cash for leasehold improvements and furniture, fixtures and equipment to build out and equip its leased premises. The Company also expends cash for structural additions that it makes to leased premises of which \$590,000 was reimbursed to Century City, \$489,770 was reimbursed to Topanga, and \$475,000 was reimbursed to Glendale by their landlords as construction contributions pursuant to agreed-upon terms in the lease agreements. Landlord construction contributions usually take the form of up-front cash. Depending on the specifics of the leased space and the lease agreement, amounts paid for structural components are recorded during the construction period as leasehold improvements or the landlord construction contributions are recorded as an incentive from lessor.



**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Impairment of long-lived assets

The Company assesses potential impairment of our long-lived assets whenever events or changes in circumstances indicate that the carrying value of the assets or asset group may not be recoverable. Factors considered include, but are not limited to, significant underperformance relative to historical or projected future operating results; significant changes in the manner of use of the acquired assets or the strategy for the overall business; and significant negative industry or economic trends. The Company regularly reviews the restaurant if it is cash flow negative for the previous four quarters to determine if impairment testing is warranted. At any given time, the Company may monitor its operations, and impairment charges could be triggered in the future if the restaurant performance does not improve.

The Company has identified leasehold improvements as the primary asset because it is the most significant component of our restaurant assets, it is the principal asset from which the Company derives cash flow generating capacity and has the longest remaining useful life. The recoverability is assessed in most cases by comparing the carrying value of the assets to the undiscounted cash flows expected to be generated by these assets. Impairment losses are measured as the amount by which the carrying values of the assets exceed their fair values.

At September 27, 2015 and September 28, 2014, we did not record an impairment charge against the carrying value of the restaurants located in Century City, Topanga, and Glendale, California.

Stock-based compensation

The Company records stock based compensation in accordance with the guidance in ASC Topic 505 and 718 which requires the Company to recognize expenses related to the fair value of its employee stock option awards. This eliminates accounting for share-based compensation transactions using the intrinsic value and requires instead that such transactions be accounted for using a fair-value-based method. The Company recognizes the cost of all share-based awards on a graded vesting basis over the vesting period of the award.

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with FASB ASC 718-10 and the conclusions reached by the FASB ASC 505-50. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration other than employee services is determined on the earliest of a performance commitment or completion of performance by the provider of goods or services as defined by FASB ASC 505-50.

F-7

**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Loss per common share

Net loss per share is provided in accordance with ASC Subtopic 260-10. We present basic loss per share (“EPS”) and diluted EPS on the face of statements of operations. Basic EPS is computed by dividing reported losses by the weighted average shares outstanding. Except where the result would be anti-dilutive to income from continuing operations, diluted earnings per share has been computed assuming the conversion of the convertible long-term debt and the elimination of the related interest expense, and the exercise of stock warrants. Loss per common share has been computed using the weighted average number of common shares outstanding during the year.

Fair value of financial instruments

The carrying amounts reflected in the balance sheets for cash, accounts payable and accrued expenses approximate the respective fair values due to the short maturities of these items. The Company does not hold any investments that are available-for-sale.

As required by the Fair Value Measurements and Disclosures Topic of the FASB ASC, fair value is measured based on a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted 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 three levels of the fair value hierarchy are described below:

Edgar Filing: Giggles N' Hugs, Inc. - Form 10-Q

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

F-8

**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue recognition

Our revenues consist of sales from our restaurant operations and sales of memberships entitling members unlimited access to our play areas for the duration of their membership. As a general principle, revenue is recognized when the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred and services have been rendered; (iii) the price to the buyer is fixed or determinable; and (iv) collectability is reasonably assured.

With respect to memberships, access to our play area extends throughout the term of membership. The vast majority of memberships sold are for one-month terms. Revenue is recognized on a straight-line basis over the membership period. Century City, Topanga, and Glendale receive payments from its customers at the start of the subscription period and each restaurant records deferred revenue for the unearned portion of the subscription period.

Revenues from restaurant sales are recognized when payment is tendered at the point of sale. Revenues are presented net of sales taxes. The obligation is included in other accrued expenses until the taxes are remitted to the appropriate taxing authorities.

We recognize a liability upon the sale of our gift cards and recognize revenue when these gift cards are redeemed in our restaurants.

For party rental agreements, we rely upon a signed contract between us and the customer as the persuasive evidence of a sales arrangement. Party rental deposits are recorded as deferred revenue upon receipt and recognized as revenue when the service has been rendered.

Additionally, revenues are recognized net of any discounts, returns, allowances and sales incentives, including coupon redemptions and complimentary meals.

#### Convertible debentures

Beneficial Conversion Feature - If the conversion features of conventional convertible debt provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature ("BCF"). A BCF is recorded by the Company as a debt discount pursuant to ASC Topic 470-20 "Debt with Conversion and Other Options." In those circumstances, the convertible debt is recorded net of the discount related to the BCF and the Company amortizes the discount to interest expense over the life of the debt using the effective interest method.

#### Debt modification

ASC 470-50 provides the accounting for a modification or exchange of a debt instrument between the same debtor and creditor. An exchange of debt instruments with different terms but with the same creditor has the same economic effect of modifying the terms of an existing debt instrument and thus is in the scope of ASC 470-50.

When the debtor and creditor agree to modify existing debt or exchange old debt for new debt, they have, in effect, renegotiated the old debt by changing its cash flows. While the modification or exchange of debt does not meet the conditions specified in ASC 405-20 for extinguishment accounting, substantial changes in the cash flows are viewed to represent extinguishments of the old debt and the creation of new debt, resulting in recognition of gain or loss by the debtor.

#### Recent pronouncements

The Company has evaluated the recent accounting pronouncements through September 2015 and believes that none of them will have a material effect on the Company's financial position, results of operations or cash flows.

**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 4 – GOING CONCERN**

The accompanying condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplate continuation of the Company as a going concern. The Company has recently sustained operating losses and has an accumulated deficit of \$8,373,592 at September 27, 2015. In addition, the Company has negative working capital of \$820,536 at September 27, 2015.

These factors raise substantial doubt about the ability of the Company to continue as a going concern. In this regard, management is proposing to raise any necessary additional funds not provided by operations through loans or through sales of their common stock. There is no assurance that the Company will be successful in raising this additional capital or in achieving profitable operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might result from this uncertainty.

**NOTE 5 – INVENTORY**

Inventory consisted of the following at:

|                              | <b>September<br/>27, 2015</b> | <b>December<br/>28, 2014</b> |
|------------------------------|-------------------------------|------------------------------|
| Restaurant food and supplies | \$ 35,208                     | \$ 37,397                    |
| Total                        | \$ 35,208                     | \$ 37,397                    |

**NOTE 6 – FIXED ASSETS**

Fixed assets consisted of the following at:

|                                 | <b>September<br/>27, 2015</b> | <b>December<br/>28, 2014</b> |
|---------------------------------|-------------------------------|------------------------------|
| Leasehold improvements          | \$2,847,564                   | \$2,847,565                  |
| Fixtures and equipment          | 85,267                        | 85,267                       |
| Computer software and equipment | 283,002                       | 269,932                      |
| Property and equipment, total   | 3,215,834                     | 3,202,764                    |
| Less: accumulated depreciation  | (1,040,904)                   | (765,034 )                   |
| Property and equipment, net     | \$2,174,929                   | \$2,437,730                  |

Depreciation expenses for the thirteen weeks and thirty-nine weeks ended September 27, 2015 were \$91,106 and \$275,477 respectively, for the thirteen weeks and thirty-nine weeks ended September 28, 2014 were \$89,019 and \$260,171, respectively. Repair and maintenance expenses for the thirteen weeks and thirty-nine weeks ended September 27, 2015 were \$34,073 and \$81,737, respectively, and for thirteen weeks and thirty-nine weeks ended September 28, 2014 were \$19,996 and \$65,428, respectively.

F-10



**GIGGLES N' HUGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 7 – INTANGIBLE ASSETS**

|                                | <b>September<br/>27, 2015</b> | <b>December<br/>28, 2014</b> |
|--------------------------------|-------------------------------|------------------------------|
| Intangible Assets              | \$ 24,703                     | \$ 24,703                    |
| Less: accumulated amortization | (4,530 )                      | (822 )                       |
| Intangible Asset, net          | \$ 20,173                     | \$ 23,881                    |

Amortization expense was \$1,236 and \$3,708 for the thirteen weeks and thirty-nine weeks ended September 27, 2015, respectively. There was no amortization expense for the thirteen weeks and thirty-nine weeks ended September 28, 2014.

**NOTE 8 – DEFERRED REVENUE**

Deferred revenue consisted of the following at:

|                       | <b>September<br/>27, 2015</b> | <b>December<br/>28, 2014</b> |
|-----------------------|-------------------------------|------------------------------|
| Membership cards      | \$ 1,728                      | \$ 1,263                     |
| Gift cards            | 3,265                         | 4,212                        |
| Dining credit program | 1,166                         | 1,166                        |
| Party deposits        | 44,471                        | 36,796                       |
| Total                 | \$ 50,630                     | \$ 43,437                    |

**NOTE 9 – INCENTIVE FROM LESSOR**

Pursuant to agreed-upon terms within each store's lease agreements, the Company's landlords provided construction contributions in the amount of \$590,000 for Century City; \$489,770 for Topanga' and \$475,000 for Glendale. All

funds had been received prior to 2015.

Landlord construction contributions usually take the form of up-front cash. Depending on the specifics of the leased space and the lease agreement, amounts paid for structural components are recorded during the construction period as leasehold improvements or the landlord construction contributions are recorded as an incentive from lessor. The incentive from lessor is amortized over the life of the lease which is 10 years and netted against occupancy cost.

Amortization of the incentive from lessor was \$27,740 and \$81,966 for the thirteen weeks and thirty-nine weeks ended September 27, 2015, and \$22,078 and \$59,638 for thirteen weeks and thirty-nine weeks ended September 28, 2014, respectively.

F-11

**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 10 – NOTE PAYABLE LESSOR**

On February 12, 2013, the Company entered into a \$700,000 Promissory Note Payable Agreement with GGP Limited Partnership (“Lender”) to be used by the Company for a portion of the construction work to be performed by the Company under the lease by and between the Company and Glendale II Mall Associates, LLC. The Note Payable accrues interest at a rate of 10% through October 15, 2015, 12% through October 31, 2017, and 15% through October 31, 2023 and matures on October 31, 2023.

In 2015, the Company renegotiated the terms of the Promissory Note with a new principal balance of \$625,872, net of a discount of \$57,444. The Lender waived principal and interest payments for two years beginning March 1, 2015. Thereafter, principal and interest will be paid in equal monthly installments of \$12,707, with interest rates applied under the following terms:

March 1, 2017 through February 28, 2019 @ ten percent (10%)

March 1, 2019 through February 28, 2021 @ twelve percent (12%)

March 1, 2021 through October 31, 2023 @ fifteen percent (15%)

As a result of the loan modification, the Company recognized a gain of \$69,228 and a discount of \$63,939, of which \$2784 and \$6,495 of interest was amortized for the thirteen weeks and the thirty-nine weeks ended of September 27, 201, respectively.

**NOTE 11 – CONVERTIBLE NOTE PAYABLE**

On July 1, 2015, the Company entered into an unsecured Note Payable Agreement with an investor for which the Company issued a \$50,000 Convertible Note Payable, which accrues interest at a rate of 15% per annum and matures July 31, 2016. The Note Payable had warrants attached, with an exercise term of 3 years and convertible into 66,667

shares of common stock at a conversion price of \$0.15 per share. The discount on Convertible Note Payable was initially recorded at \$50,000, and the interest expense for the thirty-nine weeks ended September 27, 2015 was \$3,421.

On August 24, 2015, the Company entered into an unsecured Note Payable Agreement with an investor for which the Company issued a \$50,000 Convertible Note Payable, which accrues interest at a rate of 5% per annum and matures on August 31, 2016. The Lender may also convert all or a portion of the Note Payable at any time into shares of common stock at a price of \$0.10 per share. The discount on Convertible Note Payable was initially recorded at \$50,000. As of September 27, 2015, the accrued interest was \$236. The interest expense for the thirty-nine weeks ended September 27, 2015, was \$4,794.

#### **NOTE 12 – PRIVATE PLACEMENT OFFERINGS**

On May 22, 2013, the Company entered into a Private Placement Agreement with WestPark Capital, Inc. (“WestPark”), which was amended on April 30, 2014. Under the amendment to the Private Placement Engagement Agreement (the “Agreement”), WestPark will be compensated 10% of transaction value for all equity related transactions, 5% of debt placement for subordinated debt, 2.5% of debt on senior debt placement, 0.5% on credit enhancement, 5% of transaction value for all transactions that are placed through general solicitation of the Company’s customer database, and 7 years warrants for the purchase of an equity interest of the Company equal to 3% of the outstanding shares after the final closing of funding pursuant to the terms of this Agreement. If funds raised are less than \$2,000,000, such 3% will be prorated accordingly. The warrants will have a nominal exercise price of \$0.01 per share and a cashless exercise provision.

As of September 27, 2015, the Company conducted the following private placements:

On January 15, 2015, the Company entered into a private placement to raise capital by issuing 13,333 shares of common stock for a total of \$4,000 in cash.

On February 27, 2015, the Company entered into a private placement to raise capital by issuing 200,000 shares of common stock for a total of \$30,000 in cash.

On March 6, 2015, the Company entered into a private placement to raise capital by issuing 533,333 shares of common stock for a total of \$86,000 in cash.

On March 31, 2015, the Company entered into a private placement to raise capital by issuing a total of 1,100,000 shares of common stock for a total of \$165,000 in cash, less \$22,936 offering cost.

During the thirteen weeks ended September 27, 2015, the Company did not grant any warrants. During the thirty-nine weeks ended September 27, 2015, the Company granted approximately 161,472 warrants to WestPark based on the aforementioned terms. The warrants expense was \$38,778 for the thirty-nine weeks ended September 27, 2015.

F-12

**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 13 – STOCKHOLDERS' DEFICIT**

The Company is authorized to issue 1,125,000,000 shares of \$0.001 par value common stock. As of September 27, 2015, and December 28, 2014, 41,469,367 shares and 33,563,830 shares were issued and outstanding, respectively.

For the thirty-nine weeks ended September 27, 2015, the Company issued under the following terms:

- (a) A total of 5,202,666 shares of common stock were issued for cash, with proceeds totaling \$594,000 at prices ranging from \$0.09 - \$0.15 per share.
- (b) A total of 1,258,333 shares of common stock were issued for services provided in the amount \$292,833, at prices ranging from \$0.16 - \$0.39 per share.
- (c) A total of 1,037,917 shares of common stock were issued in settlement of accounts payable balances of \$313,414, at prices ranging from \$0.16 - \$0.39 per share.
- (d) A total of 406,621 shares of common stock were issued for the exercise of warrants at a price of \$0.20 per share.

**GIGGLES N' HUGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 14 – STOCK OPTIONS AND WARRANTS**Employee Stock Options

The following table summarizes the changes in the options outstanding at September 27, 2015, and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan.

| <b>Range of Exercise Prices</b> | <b>Number Outstanding</b> | <b>Weighted Average Exercise Price</b> | <b>Weighted Average Contractual Life</b> | <b>Number Exercisable</b> | <b>Weighted Average Exercise Price</b> |
|---------------------------------|---------------------------|--|--|---------------------------|--|
| \$ 4.50                         | 135,000                   | \$ 4.50                                | 2.33                                     | 135,000                   | \$ 4.50                                |
|                                 | 135,000                   |  | 2.33                                     | 135,000                   |  |

A summary of the Company's stock awards for options as of December 28, 2014 and changes for the thirty-nine weeks ended September 27, 2015 is presented below:

|                                 | <b>Stock Options</b> | <b>Weighted Average Exercise Price</b> |
|---------------------------------|----------------------|--|
| Outstanding, December 28, 2014  | 135,000              | \$ 4.50                                |
| Granted                         | —                    | —                                      |
| Exercised                       | —                    | —                                      |
| Expired/Cancelled               | —                    | —                                      |
| Outstanding, September 27, 2015 | 135,000              | \$ 4.50                                |
| Exercisable, September 27, 2015 | 135,000              | \$ 4.50                                |

F-14



**GIGGLES N' HUGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 14 – STOCK OPTIONS AND WARRANTS (CONTINUED)**

The weighted-average fair value of stock options granted to employees during the period ended September 27, 2015 and September 28, 2014 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes-Merton (“Black-Scholes”) option pricing model are as follows:

|   | <b>September<br/>27, 2015</b> | <b>September<br/>28, 2014</b> |   |   |
|---|-------------------------------|-------------------------------|---|---|
| Significant assumptions (weighted-average): |                               |                               |   |   |
| Risk-free interest rate at grant date       | 1.53%~2.04 %                  | 0.78                          | % |   |
| Expected stock price volatility             | 331%~335 %                    | 139                           | % |   |
| Expected dividend payout                    | -                             | -                             |   |   |
| Expected option life (in years)             | 7.00                          | 4.59                          |   |   |
| Expected forfeiture rate                    | -                             | -                             | % | % |
| Fair value per share of options granted     | \$ 0.27~0.32                  | \$ 3.96                       |   |   |

The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company has no historical experience with which to establish a basis for determining an expected life of these awards. Therefore, the Company only gave consideration to the contractual terms and did not consider the vesting schedules, exercise patterns and pre-vesting and post-vesting forfeitures significant to the expected life of the option award.

We estimate the volatility of our common stock based on the calculated historical volatility of similar entities in industry, in size and in financial leverage whose share prices are publicly available. We base the risk-free interest rate used in the Black-Scholes option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term equal to the expected life of the award. We have not paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. Consequently, we use an expected dividend yield of zero in the Black-Scholes option valuation model.

There were no options granted during the quarter ended September 27, 2015.

There were no stock-based compensation expenses in connection with options granted to employees recognized in the condensed consolidated statement of operations for the thirty-nine weeks ended September 27, 2015 and September 28, 2014.

F-15

**GIGGLES N' HUGS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 14 – STOCK OPTIONS AND WARRANTS (CONTINUED)****Warrants**

The following table summarizes the changes in the warrants outstanding at September 27, 2015, and the related prices.

| <b>Range of Exercise Prices</b> | <b>Number Outstanding</b> | <b>Weighted Average Exercise Price</b> | <b>Weighted Average Remaining Contractual Life</b> | <b>Number Exercisable</b> | <b>Weighted Average Exercise Price</b> |
|---------------------------------|---------------------------|--|--|---------------------------|--|
| \$0.01 to 0.37                  | 200,028                   | \$ 0.12                                | 4.95   | 200,028                   | \$ 0.12                                |
|                                 | 200,028                   |  | 4.95   | 200,028                   |  |

A summary of the Company's warrant as of December 28, 2014 and the changes for the thirty-nine weeks ended September 27, 2015 is presented below:

|                                 | <b>Warrants</b> | <b>Weighted Average Exercise Price</b> |
|---------------------------------|-----------------|--|
| Outstanding, December 28, 2014  | 378,510         | \$ 0.16                                |
| Granted                         | 228,139         | 0.01                                   |
| Exercised                       | (406,621 )      | 0.20                                   |
| Expired/Cancelled               | —               | —                                      |
| Outstanding, September 27, 2015 | 200,028         | \$ 0.12                                |
| Exercisable, September 27, 2015 | 200,028         | \$ 0.12                                |

Edgar Filing: Giggles N' Hugs, Inc. - Form 10-Q

The weighted-average fair value of warrants granted to third parties during the period ended September 27, 2015 and September 28, 2014 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes-Merton (“Black-Scholes”) option pricing model are as follows:

|   | <b>September<br/>27, 2015</b> | <b>September<br/>28, 2014</b> |   |
|---|-------------------------------|-------------------------------|---|
| Significant assumptions (weighted-average): |                               |                               |   |
| Risk-free interest rate at grant date       | 1.53%~2.04%                   | 0.78                          | % |
| Expected stock price volatility             | 331%~335%                     | 139                           | % |
| Expected dividend payout                    | -                             | -                             |   |
| Expected option life (in years)             | 7.00                          | 4.59                          |   |
| Expected forfeiture rate                    | -                             | -                             | % |
| Fair value per share of warrants granted    | \$ 0.27~0.32                  | \$ 3.96                       |   |

F-16

**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 15 – RELATED PARTY TRANSACTIONS**

From time to time, the Company has received advances from certain of its officers and related parties to meet short term working capital needs. These advances may not have formal repayment terms or arrangements.

During the thirty-nine weeks ended September 27, 2015, the Company did not receive any advances from related parties.

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

The Company leases its Century City restaurant location under an operating lease with a remaining term of 10 years. Restaurant leases typically include land and building shells, require contingent rent above the minimum base rent payments based on a percentage of sales ranging from 7% to 10%, have escalating minimum rent requirements over the term of the lease and require various expenses incidental to the use of the property. The lease also has a renewal option, which the Company may exercise in the future. The Company's current lease provides early termination rights, permitting the Company and its landlord to mutually terminate the lease prior to expiration if the Company does not achieve specified sales levels in certain years.

As of September 27, 2015, the aggregate minimum annual lease payments under operating leases, including amounts characterized as deemed landlord financing payments are as follows:

|            |           |
|------------|-----------|
| 2015       | \$50,243  |
| 2016       | 206,498   |
| 2017       | 212,692   |
| 2018       | 219,073   |
| 2019       | 225,645   |
| Thereafter | 38,265    |
| Total      | \$952,416 |

Rent expense for the Company's Century City operating lease was \$34,767 and \$34,766 for the thirteen weeks ended September 27, 2015 and September 28, 2014, respectively, and was \$104,299 and \$104,299 for the thirty-nine weeks ended September 27, 2015 and September 28, 2014, respectively.

F-17

**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 16 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

During the year ended December 31, 2012, GNH Topanga entered into a Lease Agreement with Westfield Topanga Owner, LP, a Delaware limited partnership, to lease approximately 5,900 square feet in the Westfield Topanga Shopping Center. The lease includes land and building shells, provides a construction reimbursement allowance of up to \$475,000, requires contingent rent above the minimum base rent payments based on a percentage of sales ranging from 7% to 10% and require other expenses incidental to the use of the property. The lease also has a renewal option, which GNH Topanga may exercise in the future. The Company's current lease provides early termination rights, permitting the Company and its landlord to mutually terminate the lease prior to expiration if the Company does not achieve specified sales levels in certain years. The lease commenced on March 23, 2013, Topanga's grand opening, and expires on April 30, 2022.

As of September 27, 2015, the aggregate minimum annual lease payments under operating leases, including amounts characterized as deemed landlord financing payments are as follows:

|            |             |
|------------|-------------|
| 2015       | \$59,730    |
| 2016       | 247,682     |
| 2017       | 257,589     |
| 2018       | 267,891     |
| 2019       | 278,606     |
| Thereafter | 694,884     |
| Total      | \$1,806,382 |

Rent expense for the Company's Topanga operating lease was \$51,873 and \$51,873 for the thirteen weeks ended September 27, 2015 and September 28, 2014, respectively, and was \$155,617 and \$155,617 for the thirty-nine weeks ended September 27, 2015 and September 28, 2014, respectively.

**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 16 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

On April 1, 2013, the Company entered into a Lease Agreement with Glendale II Mall Associates, LLC, a Delaware limited liability company, to lease approximately 6,000 square feet in the Glendale Galleria in the City of Glendale, County of Los Angeles, and State of California. The lease includes land and building shells, provides a construction reimbursement allowance of up to \$475,000, requires contingent rent above the minimum base rent payments based on a percentage of sales ranging from 4% to 7% and require other expenses incidental to the use of the property. The lease commenced on November 21, 2013 and expires on October 31, 2023.

Upon commencement, the aggregate minimum annual lease payments under operating leases, including amounts characterized as deemed landlord financing payments are as follows:

|            |             |
|------------|-------------|
| 2015       | \$50,407    |
| 2016       | 203,648     |
| 2017       | 211,794     |
| 2018       | 220,266     |
| 2019       | 229,077     |
| Thereafter | 964,800     |
| Total      | \$1,879,992 |

Rent expense for the Company's Glendale operating lease was \$44,064 and \$45,867 for the thirteen weeks ended September 27, 2015 and September 28, 2014, respectively. And \$132,192 and \$138,075 for the thirty-nine weeks ended September 27, 2015 and September 28, 2014, respectively.

**Litigation**

The Company's CEO, Joey Parsi and a third party, were named in a complaint filed on July 19, 2012 in the Los Angeles Superior Court by Alex Nerush and Preferred Scan, Inc., alleging fraud, negligent misrepresentation, sale of securities by unlicensed broker, sale of securities by means of false and misleading statements, and money had and



received.

On August 21, 2014, Giggles N' Hugs, Inc., the Company and Mr. Parsi entered into a settlement in the case of Nerush v. Steele et al filed in Los Angeles Superior Court, Case Number SC 117 806 (the "Settlement"). The Settlement was with Alex Nerush, Preferred Scan, Inc. ("Preferred Scan"), Richard Steele, Jr., Donald Stoecklein, and the Stoecklein Law Group, LLP ("Law Group") where all allegations against the Company were dismissed with prejudice. The Settlement provided, among other things, the following:

- a) The Law Group agreed to release the sum of approximately 140,000 shares of unrestricted common stock of the Company, held by the United States District Court;

- b) Preferred Scan and Mr. Nerush shall dismiss, with prejudice, any and all causes of action against the Company and Mr. Parsi, in exchange for a cash payment of \$20,000 and 150,000 of restricted shares of the Company's common stock. The \$20,000 was paid in two equal payments with the first payment made August 22, 2014, and second made September 29, 2014;

- c) In exchange for 50,000 shares of the Company's unrestricted common stock, released pursuant to item (a) above; the Company and Mr. Parsi shall release any and all causes of action against Mr. Steele, Mr. Stoecklein and the Law Group in exchange for release from the Law Group of any obligation to pay attorneys' fees totaling approximately \$116,000, and of any and all causes of action against the Company and Mr. Parsi.

F-19

**GIGGLES N' HUGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

On October 20, 2014, pursuant to the Settlement, 52,500 shares of restricted common stock were issued. On January 19, 2015, the Company issued 50,000 shares of unrestricted common stock related to the settlement. The distribution and issuance of the remaining 97,500 shares of restricted common stocks yet to be determined.

The total number of shares of common stock issued pursuant to the Settlement is equal to less than one percent (1%) of the total number of shares of the Company's common stock issued and outstanding as of the Company's Annual Report on Form 10-K filed with the SEC on April 15, 2015.

**NOTE 17 – SUBSEQUENT EVENTS**

The Company's Management has reviewed all material events through the date of this report in accordance with ASC 855-10, and believes the only subsequent events that have occurred since September 27, 2015 were as follows:

In October 2015, the Company authorized 166,667 shares of common stock to be issued to a continuing investor at a price of \$0.09 per share, for the investment of \$15,000.

In November 2015, the Company agreed to accept a rescission from a vendor of 150,000 shares of common stock previously issued.

F-20

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Thirty-Nine Week Report on Form 10-Q contains forward-looking statements and involves risks and uncertainties that could materially affect expected results of operations, liquidity, cash flows, and business prospects. These statements include, among other things, statements regarding:

our ability to diversify our operations;

inability to raise additional financing for working capital;

the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require our management to make estimates about matters that are inherently uncertain;

our ability to attract key personnel;

our ability to operate profitably;

deterioration in general or regional economic conditions;

adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;

changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate;

the inability of management to effectively implement our strategies and business plan;

inability to achieve future sales levels or other operating results;

the unavailability of funds for capital expenditures;

other risks and uncertainties detailed in this report;

As well as other statements regarding our future operations, financial condition and prospects, and business strategies. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, the risks discussed under the heading "Risk Factors" in Part II, Item 1A and those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

*References in the following discussion and throughout this quarterly report to “we”, “our”, “us”, “Giggles”, “the Company” similar terms refer to Giggles N’ Hugs, Inc. unless otherwise expressly stated or the context otherwise requires.*

The Company adopted a 52/53 week fiscal year ending on the Sunday closest to December 31<sup>st</sup> for financial reporting purposes. Fiscal year 2014 consists of a year ending December 28, 2014. Fiscal year 2015 consists of year ending December 27, 2015. The election for fiscal year was made with the 8-K filing in October 2013.

## **Overview**

Giggles N’ Hugs is a family-friendly restaurant with play areas for children 10 years and younger. The restaurant also features daily live entertainment and shows. The restaurant design is intended to create a fun, casual, family atmosphere where children can interact with parents and each other and where everyone enjoys freshly prepared, organic, nutritious and reasonably priced meals.

Currently, Giggles N’ Hugs owns and operates one restaurant in the Westfield Mall in Century City, California and a second restaurant in the Westfield Mall in Topanga, California, and a third restaurant in the Glendale Galleria in Glendale, California. In the future, we look forward to the possibility of opening a number of our Giggles N’ Hugs themed restaurants in high end malls throughout the country.

**RESULTS OF OPERATIONS***Results of Operations for the Thirteen Weeks Ended September 27, 2015 and September 28, 2014:***REVENUE**

|           | <b>For<br/>Thirteen<br/>Weeks<br/>Ended<br/>September<br/>27, 2015</b> | <b>For<br/>Thirteen<br/>Weeks<br/>Ended<br/>September<br/>28, 2014</b> | <b>Increase<br/>(Decrease)</b> |          |
|-----------|--|--|--------------------------------|----------|
|           |  |  | <b>\$</b>                      | <b>%</b> |
| Revenue:  |  |  |                                |          |
| Net sales | \$ 901,251   | \$ 913,270   | \$(12,019)                     | -1.3 %   |

The net sales for the thirteen weeks ended September 27, 2015 and September 28, 2014 were \$901,251 and \$913,270 respectively, reflecting a slight decrease of 1.3% from the prior year.

The net sales consist of revenue from food and beverages, private party rentals, fees for access to the children's play area, sales from membership cards (of varying terms), sales from Giggles N' Hugs-branded merchandise, and net of allowances, returns and discounts. Sales were up for private party rentals and other sales, offsetting the decrease in allowances, returns and discounts.

The Company offers a healthy alternative to typical child friendly restaurants, offering appetizing menu options that incorporate nutritious ingredients some children would normally shy away from. We are continuously evaluating and modifying our menu to accommodate guest requests.

**COSTS AND OPERATING EXPENSES**

|   | <b>For<br/>Thirteen<br/>Weeks<br/>Ended<br/>September<br/>27, 2015</b> | <b>For<br/>Thirteen<br/>Weeks<br/>Ended<br/>September<br/>28, 2014</b> | <b>Increase<br/>(Decrease)</b> |          |
|---|--|--|--------------------------------|----------|
|   |  |  | <b>\$</b>                      | <b>%</b> |
| Costs and operating expenses:             |  |  |                                |          |
| Cost of sales including food and beverage | \$205,247  | \$229,459  | \$(24,212 )                    | -10.6 %  |
| Labor                                     | 371,062  | 334,261  | 36,801                         | 11.0 %   |
| Occupancy cost                            | 229,047  | 219,865  | 9,182                          | 4.2 %    |
| Other operating expenses                  | 50,616   | 58,638   | (8,022 )                       | -13.7 %  |
| Depreciation                              | 91,106   | 89,019   | 2,087                          | 2.3 %    |
| Total operating expenses                  | 947,078  | 931,242  | 15,836                         | 1.7 %    |
| Other expenses:                           |  |  |                                |          |
| Executive compensation                    | 98,750   | 89,701   | 9,049                          | 10.1 %   |
| Non-employee stock-based compensation     | 157,838  | 134,155  | 23,483                         | 17.7 %   |
| Professional and consulting expenses      | 71,210   | 110,943  | (39,733 )                      | -35.8 %  |
| General and administrative expenses       | 37,578   | 95,642   | (58,064 )                      | -60.7 %  |
| Finance and interest expenses             | 13,904   | 410,523  | (396,619)                      | -96.6 %  |
| Total other expenses                      | 379,280  | 840,964  | (461,484)                      | -54.9 %  |
| Total costs and operating expenses        | \$1,326,358  | \$1,772,206  | \$(445,848)                    | -25.2 %  |

## Notes to Costs and Operating Expenses table:

*Cost of sales.* Costs related to food purchases, supplies and general restaurant operations totaled \$205,247 during the thirteen weeks ended September 27, 2015, compared to \$229,459 for the thirteen weeks ended September 28, 2014, representing a 10.6% decline. Any increase in costs for labor and certain commodities could adversely impact operations unless we pass any such price increases on to our guests.

*Labor.* Labor expenses for the thirteen weeks ended September 27, 2015 and September 28, 2014, were \$371,062, and \$334,261, respectively, reflecting an increase of 11.0%. There was a constant pressure for increased wages, and the percentage increase was also impacted the small reduction in sales.

*Occupancy Cost.* Occupancy costs for the thirteen weeks ended September 27, 2015 over the same period September 28, 2014 were \$229,047 and \$219,865 respectively, rising slight by \$9,182 (\$4.2%) due to scheduled increases in

lease contracts. Facility costs generally do not fluctuate much from period to period.

*Depreciation.* Depreciation for the thirteen weeks ended September 27, 2015 and September 28, 2014, were \$91,106 and \$89,019 respectively, representing a small increase of \$2,087 (2.3%). We depreciate and amortize purchases of our ongoing capital investments and the construction and leasehold improvements related to the development of our stores.

*Other Expenses.* Total other expenses, consisting of executive compensation, non-employee stock compensation, professional and consulting expenses, general and administrative expenses and finance and interest expenses showed a significant drop of \$461,384 (54.9%) for the thirteen weeks ended September 27, 2014 at \$379,280 versus the comparable period ended September 28, 2014 at \$840,964.

The principal reason for this sharp decline from 2014, was due to the reduced financing and interest charges of \$396,619 (96.6%) due to the conversion of convertible notes outstanding; lower professional and consulting fees of \$39,733 (35.8%), and a drop in general and administrative costs by \$58,064 (60.7%)

#### **Net Loss**

The net losses for the thirteen weeks ending September 27, 2015 and September 28, 2014 was \$426,489 and \$858,936 respectively, a decline of \$432,447 (50.3%) resulting primarily from the drop in financing and interests costs of \$396,619 (96.6%).

*Results of Operations for the Thirty Nine Weeks Ended September 27, 2015 and September 28, 2014:***REVENUE**

|           | <b>For the<br/>Thirty-Nine<br/>Weeks<br/>Ended<br/>September<br/>27, 2015</b> | <b>For the<br/>Thirty-Nine<br/>Weeks<br/>Ended<br/>September<br/>28, 2014</b> | <b>Increase<br/>(Decrease)</b> |          |
|-----------|---|---|--------------------------------|----------|
|           |   |   | <b>\$</b>                      | <b>%</b> |
| Revenue:  |   |   |                                |          |
| Net sales | \$ 2,650,290  | \$ 2,559,932  | \$90,358                       | 3.5 %    |

For the thirty-nine weeks ended September 27, 2015 and September 28, 2014, the Company had sales of \$2,650,290 and \$2,559,932, respectively reflecting an increase of \$90,358, or 3.5% rise. A rise in party sales (18%) and play area sales (6%) more than offset the small decline in food sales (4%). The Company expects that area to continue to grow.



**COSTS AND OPERATING EXPENSES**

|   | <b>For<br/>Thirty-Nine<br/>Weeks<br/>Ended<br/>September<br/>27,2015</b> | <b>For<br/>Thirty-Nine<br/>Weeks<br/>Ended<br/>September<br/>28,2014</b> | <b>Increase<br/>(Decrease)</b> |       |          |
|---|--|--|--------------------------------|-------|----------|
|   |  |  | <b>\$</b>                      |       | <b>%</b> |
| Costs and operating expenses:                         |  |  |                                |       |          |
| Cost of sales including food and beverage             | \$ 631,603   | \$ 673,113   | \$(41,510 )                    | -6.2  | %        |
| Labor   | 1,040,010  | 969,526  | 70,484                         | 7.3   | %        |
| Occupancy cost  | 666,192  | 677,017  | (10,825 )                      | -1.6  | %        |
| Other operating expenses                              | 166,720  | 156,939  | 9,781                          | 6.2   | %        |
| Depreciation  | 275,477  | 260,171  | 15,506                         | 5.9   | %        |
| Total operating expenses                              | 2,780,002  | 2,736,766  | 33,455                         | 1.2   | %        |
| Other expenses:                                       |  |  |                                |       |          |
| Executive compensation                                | 311,577  | 291,816  | 19,761                         | 6.8   | %        |
| Non-employee stock-based compensation                 | 427,437  | 177,189  | 250,248                        | 141.2 | %        |
| Professional and consulting expenses                  | 263,751  | 510,939  | (247,188 )                     | -48.4 | %        |
| General and administrative expenses                   | 100,354  | 144,333  | (43,479 )                      | -30.1 | %        |
| Finance and interest expenses                         | 36,737   | 541,129  | (504,392 )                     | -93.2 | %        |
| (Gain) on Debt modification                           | (69,228 )  | -  | (69,228 )                      | *     |          |
| (Gain)/ Loss on stock issuance for payable settlement | 17,772   | (2,133 )   | 19,905                         | *     |          |
| Total other expenses                                  | 1,088,900  | 1,663,273  | (574,373 )                     | -34.5 | %        |
| Total costs and operating expenses                    | \$ 3,868,902   | \$ 4,400,039   | \$(540,918)                    | -12.5 | %        |

Notes to Costs and Operating Expenses table:

\* Not divisible by zero.

*Cost of sales.* Costs related to food purchases, supplies and general restaurant operations for the thirty-nine weeks ended September 27, 2015 and September 28, 2014, totaled \$631,603 and \$673,113, respectively. This decline of \$41,510, or 6.2% occurred even though sales rose for the like period. Food costs fluctuate regularly and any increase in costs of certain commodities could adversely impact our operations unless we pass any such price increases to our guests.

*Operating expenses.* Operating costs consist of labor, occupancy costs, other operating expenses and depreciation, which were \$2,780,002 and \$2,736,766 for the thirty-nine weeks ended September 27, 2015 and September 28, 2014 respectively. The slight increase of \$33,455 (1.2%) is mostly attributable to labor costs, with a partial offset by lower food costs.

*Labor.* Labor expenses for the thirty-nine weeks ended September 27, 2015 and September 28, 2014, were \$1,040,010 and \$969,526, respectively. Labor represents our primary variable cost such costs increased by \$70,484 (7.3%) in a year to year comparison.

*Depreciation.* The Depreciation expense for the thirty-nine weeks ended September 27, 2015, and September 28, 2014, were \$275,477 and \$260,171, respectively. The increase of \$15,306 (5.9%), reflects mostly the full amortization of leasehold improvements that were placed into service. It's expected that increased acquisitions should slow in the coming periods. We depreciate and amortize purchases of our ongoing capital investments and the construction and leasehold improvements related to the development of our stores.

*Other Expenses.* Other expenses consist of executive compensation, non-employee stock compensation, professional and consulting expenses, general and administrative expenses, financing and interest costs, and other gains and losses. These total costs amounted to \$1,088,900 and \$1,663,273 for the thirty-nine weeks ended September 27, 2015 and September 28, 2014, respectively. This steep decline of \$574,373 (34.5%) was mostly attributable to lower finance and interest costs of \$504,392 (93.2%) due to conversion of convertible debentures, an improvement in lower overall professional and consulting fees by \$263,751 (51.3%), and a decrease in general and administrative expenses of \$43,479 (30.1%). These improvements were partially offset by an increase in non-employee stock-based compensation of \$265,248 (149.7%). In addition, the Company realized a one-time gain from a debt modification of \$69,228.

The combined total of all cost and operating expense combined with other expenses for September 27, 2015 and September 28, 2014 were \$3,868,902 and \$4,400,039, respectively. This overall drop in costs of \$540,918 (12.3%) was essentially a result of the lower finance and interest costs from the elimination of the convertible debentures.

**LIQUIDITY AND CAPITAL RESOURCES**

For the thirty-nine weeks ended September 27, 2015, the Company had a positive cash flow of \$75,827 consisting of cash used for operating activities of \$414,084 and investing activities of \$8,968, which was offset by net cash provided from financing activities in the amount of \$498,879. To date, our operations, for the most part, have been funded through the issuance of stock and borrowings.

In the prior year, there was a net cash increase of \$36,508, which was a result of the cash provided by operating activities of \$877,211 and financing activities of \$1,033,492, but offset by cash used by investing activities consisting entirely of acquisition of fixed assets of \$119,773.

The following table sets forth a summary of our cash flows for the thirty-nine weeks ended September 27, 2015 and September 28, 2014:

|   | <b>For<br/>Thirty-Nine<br/>Weeks<br/>Ended<br/>September<br/>27, 2015</b> | <b>For<br/>Thirty-Nine<br/>Weeks<br/>Ended<br/>September<br/>28, 2014</b> |
|---|---|---|
| Net cash provided by (used in) operating activities | \$ (414,084 )   | \$ (877,211 )   |
| Net cash provided by (used in) investing activities | (89,968 )   | (119,773 )  |
| Net cash provided by (used in) financing activities | 498,879   | 1,033,492   |
| Net decrease in Cash                                | 75,827  | 36,508  |
| Cash, beginning of period                           | 108,236   | 71,223  |
| Cash, end of period                                 | \$ 184,063  | \$ 107,731  |

We expect to use our cash to invest in our core businesses, including new product innovations, advertising and marketing, as well as the construction and build-out of additional restaurant locations. Other than normal operating expenses, cash requirements for 2015 are expected to consist primarily of capital expenditures and additional investments in advertising and marketing efforts.

The Company is not required to provide a tabular disclosure of contractual obligations, as it is a smaller reporting company as defined under Rule 12b-2 of the Exchange Act.



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

We did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Without sufficient cash flow from operations we will require additional cash resources, including the sale of equity or debt securities, to meet our planned capital expenditures and working capital requirements for the next 12 months. We will require additional cash resources due to changed business conditions to implement our strategy to successfully expand our operations. If our own financial resources and then-current cash-flows from operations are insufficient to satisfy our capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities will result in dilution to our existing stockholders. The incurrence of indebtedness will result in increased debt service obligations and could require us to agree to operating and financial covenants that could restrict our operations or modify our plans to grow the business. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, will limit our ability to expand our business operations and could harm our overall business prospects.

### **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

This item is not applicable as we are currently considered a smaller reporting company.

### **Item 4. Controls and Procedures**

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

Our Principal Executive Officer and Principal Financial Officer, Joey Parsi, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Based on his evaluation, he concluded that our disclosure controls and procedures are not designed at a reasonable assurance level and are not effective to provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.



***Changes in Internal Control Over Financial Reporting***

There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this Report, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

***Limitations on Effectiveness of Controls and Procedures***

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings.**

We are subject to various legal proceedings from time to time in the ordinary course of business, which may not be required to be disclosed under this Item 1. For the period covered by this Report, there have been no reportable legal proceedings or material developments to previously reported legal proceedings.

**Item 1A. Risk Factors.**

Our significant business risks are described in Item 1A to Form 10-K for the year ended December 28, 2014, which is incorporated herein by this reference.



## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

### Stock Issuances

The Company is authorized to issue 1,125,000,000 shares of \$0.001 par value common stock. As of September 27, 2015, and December 28, 2014, 41,469,367 shares and 33,563,830 shares were issued and outstanding, respectively.

For the thirty-nine weeks ended September 27, 2015, the Company issued under the following terms:

- (a) A total of 5,202,666 shares of common stock were issued for cash, with proceeds totaling \$594,000 at prices ranging from \$0.09 - \$.020 per share.
- (b) A total of 1,258,333 shares of common stock were issued for services provided in the amount \$292,833, at prices ranging from \$0.16 - \$0.15 per share.
- (c) A total of 1,037,917 shares of common stock were issued in settlement of accounts payable balances of \$313,414, at prices ranging from \$0.16 - \$0.39 per share.
- (d) A total of 406,621 shares of common stock were issued for the exercise of warrants at a price of \$0.20 per share.

The issuance and sale of the above securities was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) and Regulation D. The recipients of the securities were afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make their investment decision, including the financial statements and Company filings made in compliance with the Securities Exchange Act of 1934, as amended. We reasonably believed that the recipients, immediately prior to the sale of the securities, were accredited investors and had such knowledge and experience in our financial and business matters that they were capable of evaluating the merits and risks of their investment. The management of the recipients had the opportunity to speak with our management on several occasions prior to their investment decision.

### Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities from the time of our inception through the period ended September 27, 2015.



**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

**Exhibit No. Description**

- 31.1\* Certification of Principal Executive Officer & Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1\* Certifications of Principal Executive Officer & Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS\*\* XBRL Instance Document
- 101.SCH\*\* XBRL Taxonomy Extension Schema
- 101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase
- 101.LAB\*\* XBRL Taxonomy Extension Label Linkbase
- 101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase

\* Filed herewith.

*XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.*

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**GIGGLES N' HUGS, INC.**

Date: November 16, 2015 By: */s/ Joey Parsi*

Joey Parsi

Chief Executive Officer

(Principal Executive Officer and duly authorized signatory)

