Giggles N' Hugs, Inc.
Form 10-Q
December 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 25, 2016

[ ] 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 incorporation or organization)	(I.R.S. Employer Identification No.)

3222 Galleria Way, Glendale, CA	**91210**
(Address of principal executive offices)	(Zip Code)

(818) 956-4847

(Registrant’s telephone number, including area code)

Copies of Communications to:

Libertas Law Group, Inc.

225 Santa Monica Blvd., 11th Floor

Santa Monica, CA 90401

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 [X] 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 [X] 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 [X]

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 December 7, 2016 was 55,007,741 shares.

GIGGLES N' HUGS, INC.

THIRTY-NINE WEEKS ENDED SEPTEMBER 25, 2016

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

GIGGLES N' HUGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 25, 2016 (Unaudited)	December 27, 2015
Assets		
Current assets:		
Cash and equivalents	$100,816	$334,191
Inventory	27,888	37,660
Prepaid expenses, other	19,704	26,919
Total current assets	148,408	398,770
Property and equipment, net	1,058,196	1,729,836
Other assets	2,620	32,620
Total assets	$1,209,224	$2,161,226
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$735,282	$554,230
Incentive from lessor – current portion	83,834	134,645
Note Payable from lessor	437,023	648,222
Accrued expenses	161,798	396,568
Deferred revenue	69,388	52,334
Promissory note payable	222,625	204,694
Convertible note payable and accrued interest, net of discount of $26,446 and $139,471	151,487	71,779
Derivative liability	367,904	-
Total current liabilities	2,229,341	2,062,472
Long-term liabilities:		
Incentive from lessor – long-term	675,827	1,063,453
Deferred gain	279,828	-
Total long-term liabilities	955,655	1,063,453

Total liabilities	3,184,996	3,125,925
Stockholders' deficit:		
Common stock, $0.001 par value, 1,125,000,000 shares authorized, 47,772,769 and 41,821,033 shares issued and outstanding as of September 25, 2016 and December 27, 2015, respectively	47,772	41,820
Common stock payable (405,556 and 555,556 shares as of September 25, 2016 and December 27, 2015, respectively)	218,535	245,498
Additional paid-in capital	8,199,048	7,970,268
Accumulated deficit	(10,441,126)	(9,222,285)
Total stockholders' deficit	(1,975,771)	(964,699)
Total liabilities and stockholders' deficit	$1,209,224	$2,161,226

See Accompanying Notes to Condensed Consolidated Financial Statements.

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GIGGLES N' HUGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Thirteen Weeks Ended September 25, 2016	Thirteen Weeks Ended September 27, 2015	Thirty -Nine Weeks Ended September 25, 2016	Thirty -Nine Weeks Ended September 27, 2015
Revenue				
Net sales	$628,357	$901,251	$2,338,755	$2,650,290
Costs and operating expenses				
Cost of operations	510,097	855,972	2,014,766	2,504,525
General and administrative expenses	247,981	365,376	892,098	1,103,619
Depreciation and amortization	64,069	91,106	241,950	275,477
Total operating expenses	822,147	1,312,454	3,148,814	3,883,621
Loss from Operations	(193,790)	(411,203)	(810,059)	(1,233,331)
Other Income (Expenses):				
Finance and interest expense	(251,021)	(13,904)	(424,352)	(36,737)
Loss on stock issuance for payable settlement	-	-	-	(17,772)
Gain on debt modification	-	-	-	69,228
Gain on sale of asset	-	-	5,971	-
Gain on lease termination	-	-	214,111	-
Change in fair value of derivative	(205,128)	-	(205,128)	-
Loss before provision for income taxes liability	(649,939)	(425,107)	(1,219,457)	(1,218,612)
Provision for income taxes	(800)	1,382	(616)	1,382
Net loss	$(650,739)	$(426,489)	$(1,218,841)	$(1,219,994)
Net loss per share – basic and diluted	$(0.01)	$(0.01)	$(0.03)	$(0.03)
Weighted average number of common shares outstanding – basic and diluted	46,145,034	39,640,296	43,661,733	37,378,691

See Accompanying Notes to Condensed Consolidated Financial Statements.

GIGGLES N' HUGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

(Unaudited)

	Common Stock		Additional Paid in	Common Stock	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Payable	Deficit	Deficit
Balance, December 27, 2015	41,821,033	$41,820	$7,970,268	$245,498	$ (9,222,285)	$(964,699)
Shares issued for professional services	497,500	498	37,272			37,770
Shares issued to settle the accounts payable	525,000	525	30,975			31,500
Shares issued for stock payable	150,000	150	26,813	(26,963)		-
Warrants issued for professional services			31,000			31,000
Shares issued for convertible notes	4,779,236	4,779	102,720			107,499
Net loss					(1,218,841)	(1,218,841)
Balance, September 25, 2016	47,772,769	$47,772	$8,199,048	$218,535	$ (10,441,126)	$(1,975,771)

See Accompanying Notes to Condensed Consolidated Financial Statements.

GIGGLES N' HUGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Thirty -Nine Weeks Ended September 25, 2016	**Thirty -Nine Weeks Ended September 27, 2015**
Cash flows from operating activities		
Net loss	$(1,218,841)	$(1,219,994)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	241,950	275,477
Amortization of debt discount	189,316	13,953
Gain on sales of fixed assets	(5,971)	-
Gain on lease termination	(214,111)	-
Non-employee stock-based compensation	-	388,660
Employee stock-based compensation	-	13,500
Loss on stock issuance for payable settlement	-	17,772
Gain on note payable modification	-	(69,228)
Warrants vested for service	31,000	38,778
Shares issued for service	37,770	-
Deferred gain	(10,472)	-
Promissory note payable	26,500	-
Derivative liability	367,904	-
Changes in operating assets and liabilities:		
Decrease (Increase) in prepaid expenses	7,215	(13,962)
Decrease in security deposits, other	30,000	6,610
Decrease in inventory	9,772	2,189
Increase in accounts payable	212,554	153,240
(Decrease) in lease incentive liability	(79,552)	(81,966)
(Decrease) increase in accrued expenses	(234,770)	64,982
Increase (decrease) in accrued interest	14,180	(11,288)
Increase (decrease) in deferred revenue	17,054	7,193
Net cash used in operating activities	(578,502)	(414,084)
Cash flows from investing activities		
Provided (acquisition) from sales of fixed assets	10,500	(8,968)
Provided from lease termination	350,000	-
Net cash provided (used) in investing activities	360,500	(8,968)
Cash flows from financing activities		

Proceeds from convertible note payable	-	100,000
Payments on note payable-lessor	(6,498)	-
Payment to promissory note payable	(8,875)	-
Proceeds from shares issued	-	398,879
Net cash provided (used) by financing activities	(15,373)	498,879
NET INCREASE (DECREASE) IN CASH	(233,375)	75,827
CASH AT BEGINNING OF PERIOD	334,191	108,236
CASH AT END OF PERIOD	$100,816	$184,063
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$17,279	$-
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Shares issued for prepaid stock compensation	$-	$77,958
Shares issued to settle payable	$31,500	$24,218
Shares issued for stock payable	$-	$690,145
Shares issued to settle convertible note payable	$107,499	$3,421

See Accompanying Notes to Condensed Consolidated Financial Statements.

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Twenty-six Weeks ended June 26, 2016 and June 28, 2015

(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.

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. For accounting purposes, the acquisition of GNH by GIGL Inc. has been recorded as a reverse merger.

The Company adopted a 52/53 week fiscal year ending on the Sunday closest to December 31st for financial reporting purposes. Fiscal year 2016 and 2015 consists of a year ending December 29, 2016 and December 27, 2015.

NOTE 2 – BASIS OF PRESENTATION

The interim 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 (GAAP) 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

27, 2015 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. The condensed consolidated balance sheet as of December 27, 2015 included herein was derived from the audited consolidated financial statements as of that date, but does not included all disclosures, including notes, required by GAAP.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, during the thirty-nine weeks ended September 25, 2016, the Company incurred a net loss of $1,218,841, used cash in operations of $578,502, and had a stockholders' deficit of $1,975,772 as of that date. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise additional funds and implement its business plan. In addition, the Company's independent registered public accounting firm in its report on the December 27, 2015 financial statements has raised substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company had cash on hand in the amount of $100,816 as of September 25, 2016. Management estimates that the current funds on hand will be sufficient to continue operations through December 2016. Management is currently seeking additional funds, primarily through the issuance of debt and equity securities for cash to operate our business. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stock holders, in case or equity financing.

Principles of consolidation

At September 25, 2016, the consolidated financial statements include the accounts of Giggles N Hugs, Inc., GNH, Inc., GNH CC, Inc. for restaurant operations 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. Intercompany balances and transactions have been eliminated. Giggles N Hugs, Inc., GNH, Inc., GNH CC, 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 revenues and expenses during the reporting period. Estimates and assumptions used by management affected impairment analysis for inventory, and fixed assets, amounts of potential liabilities and valuation of issuance of equity securities issued for services. Actual results could differ from those estimates.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value of financial instruments

The Company follows paragraph 825-10-50-10 of the FASB Accounting Standards Codification for disclosures about fair value of its financial instruments and paragraph 820-10-35-37 of the FASB Accounting Standards Codification ("Paragraph 820-10-35-37") to measure the fair value of its financial instruments. Paragraph 820-10-35-37 establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (U.S. GAAP), and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, Paragraph 820-10-35-37 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The three (3) levels of fair value hierarchy defined by Paragraph 820-10-35-37 are described below:

Level 1: Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amount of the Company's financial assets and liabilities, such as cash and cash equivalents, inventory, prepaid expenses, and accounts payable and accrued expenses approximate their fair value due to their short term nature. The carrying values of financing obligations approximate their fair values due to the fact that the interest rates on these obligations are based on prevailing market interest rates.

The carrying amount of the company's derivative liability of $367,904 as of September 25, 2016 was based on level 2 measurements.

The Company uses Level 2 inputs for its valuation methodology for the warrant derivative liabilities as their fair values were determined by using a probability weighted average Black-Scholes-Merton pricing model based on various assumptions. The Company's derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives.

Income taxes

The Company accounts for income taxes under the provisions of ASC 740 "Accounting for Income Taxes," which requires a company to first determine whether it is more likely than not (which is defined as a likelihood of more than fifty percent) that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more likely than not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority.

Deferred income taxes are recognized for the tax consequences related to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes at each year end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is recognized when, based on the weight of all available evidence, it is considered more likely than not that all, or some portion, of the deferred tax assets will not be realized. The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and cause a change in management's judgment about the recoverability of deferred tax assets, the impact of the change on the valuation is reflected in current income. Income tax expense is the sum of current income tax plus the change in deferred tax assets and liabilities.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Management assesses the carrying value of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If there is indication of impairment, management prepares an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. For the year ended December 27, 2015, the Company recorded a loss on impairment of $353,414 relating to its Glendale store location. For the period ended September 25, 2016, there are no further indications of impairment based on management's assessment of these assets.

Leases

The Company currently leases its restaurant locations. The Company evaluates the lease to determine its appropriate classification as an operating or capital lease for financial reporting purposes. Effective June 26, 2016, the Company terminated its lease for its Century City location (See Note 13) and has two remaining leases up as of September 25, 2016, which were classified as operating leases.

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 \$700,000, \$506,271, and \$475,000 were initially reimbursed to Century City, Topanga, and Glendale by its landlords, respectively, 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instruments

The Company evaluates its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the condensed consolidated statements of operations. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Stock-based compensation

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board (FASB) whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company’s stock option and warrant grants is estimated using the Black-Scholes Option Pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the stock options or warrants, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes Option Pricing model, and based on actual experience. The assumptions used in the Black-Scholes Option Pricing model could materially affect compensation expense recorded in future periods.

The Company also issues restricted shares of its common stock for share-based compensation programs to employees and non-employees. The Company measures the compensation cost with respect to restricted shares to employees based upon the estimated fair value at the date of the grant, and is recognized as expense over the period, which an employee is required to provide services in exchange for the award. For non-employees, the Company measures the compensation cost with respect to restricted shares based upon the estimated fair value at measurement date which is either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete.

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 options and warrants. Loss per common share has been computed using the weighted average number of common shares outstanding during the year. For the period ended September 25, 2016 and September 27, 2015, the assumed conversion of convertible note payable and the exercise of stock warrants are anti-dilutive due to the Company’s net losses and are excluded in determining diluted loss per share.

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. The company receives payment from its customers at the start of the subscription period and the company 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 sales tax 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. As of September 25, 2016 and December 27, 2015, the amount of gift cards sales was $0 and $4,448, respectively, and were recorded as deferred revenue.

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted only in annual reporting periods beginning after December 15, 2016, including interim periods therein. Entities will be able to transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company is in the process of evaluating the impact of ASU 2014-09 on the Company’s financial statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, Leases. ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is in the process of evaluating the impact of ASU 2016-02 on the Company’s financial statements and disclosures. The Company anticipates that this will add significant liabilities to the balance sheet.

In March 2016, the FASB issued the ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU require, among other things, that all income tax effects of awards be recognized in the income statement when the awards vest or are settled. The ASU also allows for an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and allows for a policy election to account for forfeitures as they occur. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted for any entity in any interim or annual period. The Company is currently evaluating the expected impact that the standard could have on its financial statements and related disclosures.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at:

	September 25, 2016	December 27, 2015
Leasehold improvements	$1,889,027	$2,847,565
Fixtures and equipment	60,310	85,267
Computer software and equipment	264,890	283,001
Property and equipment, total	2,214,227	3,215,833
Less: accumulated depreciation	(1,156,031)	(1,485,997)
Property and equipment, net	$1,058,196	$1,729,836

Effective June 30, 2016, the Company entered into a termination agreement with Westfield Mall Associates to close the Century City Store resulting from a major reconstruction of the entire Mall. As such, the leasehold improvements with a cost basis of $958,538 and accumulated amortization of $533,377 were written off and included in the gain on the lease termination (see Note 13). In conjunction with the closing of the Century City store, the Company also sold for $10,500, all of its furniture, fixtures and office equipment with a cost basis, net of accumulated depreciation, of $4,529 resulting in a gain of $5,971

Depreciation and amortization expenses for the thirteen weeks and thirty-nine weeks ended September 25, 2016 were $64,069 and $241,950, respectively, and for the thirteen weeks and thirty-nine weeks ended September 27, 2015 were $91,106 and $275,477, respectively. Repair and maintenance expenses for the thirteen weeks and thirty-nine weeks ended September 25, 2016 were $18,447 and $70,273, respectively, and for thirteen weeks and thirty-nine weeks ended September 27, 2015 were $34,073 and $81,737, respectively.

NOTE 5 – INCENTIVE FROM LESSOR

The Company had previously received $700,000 for Century City, $506,271 for Topanga and $475,000 for Glendale from the Company’s 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. The incentive from lessor is amortized over the life of the lease which is 10 years and netted against occupancy cost.

Effective June 26, 2016, the Company entered into a lease termination agreement with the Westfield Mall Associates that released the Company from any further obligations. As such, our remaining unamortized tenant improvement allowance of $225,739, and deferred rent of $63,529 were written off an included in the gain on lease termination.

The balance of the incentive from lessor as of September 25, 2016 and December 27, 2015, were $759,661 and $1,198,098, and included deferred rent of $110,493 and $218,874, respectively. As of September 25, 2016, $83,834 of the incentive from lessor was current and $675,827 was long term. Amortization of the incentive from lessor was $18,494 and $80,147 for the thirteen weeks and thirty-nine weeks ended September 25, 2016 and $27,740 and $81,966 for the thirteen weeks and thirty-nine weeks ended September 27, 2015, respectively.

NOTE 6 – 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 accrued 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.

On March 1, 2015, the Company and the lender renegotiated the terms of the Promissory Note and agreed to a new note with a principal balance due of $683,316. As part of the new agreement, 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, within increasing interest rates. As of June 26, 2016 and December 27, 2015, the principal balance due under the note was $683,316.

Due to the two-year interest free period, the Company recalculated the fair value of the note taking into account the payment stream and the incremental changes in the interest rate and determined the fair value of the new note on the date of modification to be $619,377, net of a discount of $63,939. The Company determined that the discount should be amortized over the two year period where no interest was due or payable. As such, the Company amortized $15,985 of the discount during the twenty-six weeks ended June 26, 2016. The unamortized discount at June 26, 2016 was $19,109, and the net balance due was $664,207.

On August 12, 2016, the Company entered into a third amendment on its lease at The Glendale Galleria. The amendment covered several areas, including adjustment to percentage rent payable, reduced the minimum rent payable, along with the payment and principal of Promissory Note. The Promissory Note was adjusted to a balance due of $763,262 from $683,316, with zero percent interest, payable in equal monthly instalments of $5,300 through maturity of Note on May 31, 2028. The Company imputed interest using a discount rate of 10% to determine a fair value of the note of $433,521.

The exchange of the notes was treated as a debt extinguishment as the change in terms constituted more than a 10% change in the fair value of the original note, and the difference between the fair value of the new note and the old note (including eliminating all remaining unamortized discount) of $220,668 was treated as a gain on debt extinguishment. The Company determined that since the GGP Promissory Note and the related revision of the lease were agreed to at the same time, that the change in the lease payment terms and the reduced rent, and the issuance of the new note are directly related. As such the gain on the termination of the note of $220,668 will be deferred, and amortized on the straight line basis over the remaining life of the lease as an adjustment to rent expense.

The lender under the Note is GGP Limited Partnership (GGP). GGP is an affiliate of Glendale II Mall Associates, the lessor of the Company's Glendale Mall restaurant location. In accordance with the note agreement, an event of default would occur if the Borrower defaults under the lease between the Company and Glendale II Mall Associates. Upon the occurrence of an event of default, the entire balance of the Note payable and accrued interest would become due and payable, and the balance due becomes subject to a default interest rate (which is 5% higher than the defined interest rate). As of September 25, 2016, the Company was past due in its rental obligation and the Note is in default. As such, the entire principal and accrued interest became due and payable and was classified as current liability as of September 25, 2016. Landlord shall have the unconditional right to terminate the Lease by giving Tenant at least 120 days' advance written notice of Landlord's election to terminate the Lease, under lease amendment.

NOTE 7 – CONVERTIBLE NOTE PAYABLE

A summary of convertible debentures payable as of September 25, 2016 and December 27, 2015 is as follows:

	September 25, 2016	December 27, 2015
Iconic Holdings, LLC	$ 113,750	$ 161,250
J&N Invest LLC	50,000	50,000
Accrued interest	14,182	-
Total Convertible Notes	177,932	211,250
Less: Discount	(26,446)	(139,471)
Net Covertible Notes	$ 151,487	$ 71,779

Iconic Holdings, LLC - On December 21, 2015, Giggle N Hugs, Inc., a Nevada corporation (the "Registrant"), issued an 8% unsecured convertible promissory note in favor of Iconic Holdings, LLC, in the principal sum of $161,250. The note was subject to an original issue discount of $11,250, plus another $11,250 retained by the lender for fees and costs, resulting in net proceeds to the company of $138,500. The note carries a guaranteed 10% interest rate, matures on December 21, 2016 and is subject to pre-payment penalties. The note may be converted, in whole or in part, at any time at the option of the holder into the Registrant's common stock at a price per share equal to 65% of the lowest volume weighted average price of the Company's common stock during the 10 consecutive trading days prior to the date on which Holder elects to convert all or part of the note. The conversion floor price was set at $0.08. The note also contains a make-good provision requiring the Registrant to make a payment to the holder in the event the Registrant's trading price at the time the conversion notice is submitted is below $0.11. Any shares issued upon conversion of the note shall have piggyback registration rights and failure to do so could result in damages up to 30% of the principal sum of the note, but not less than $20,000. The note contains various default provisions including a requirement for the Company to maintain a prescribed closing bid price for a certain number of days, and a continued listing in a principal market.

The Company determined that the ability of the holder to convert the note to common shares at 65% of the market created a beneficial conversion feature upon issuance. The Company also considered if the conversion feature required liability accounting under current accounting guidelines but determined that the conversion of the shares were indexed to the Company's stock, and that the floor of $0.08 would not allow the conversion to exceed the Company's authorized share limit. Based on the current market price on the date of issuance of the note of $0.13 and the discount of 65%, the Company calculated an initial beneficial conversion feature of $86,827. The total note discount was $109,327 including the $22,500 discussed above. Such amount is being recognized as a note discount and amortized over the life of the note. The balance of the unamortized note discount was $107,691 at December 27, 2015.The Company amortized $53,914 of the discount during the thirty-nine weeks ended September 25, 2016. The unamortized discount at September 25, 2016 was $53,777.

On July 11, 2016, the company modified the conversion feature of the Iconic note eliminating the conversion floor. The company determined that since the conversion floor had been eliminated, that the company could no longer determine if it had enough authorized shares to fulfil the conversion obligation. As such, the Company determined that the conversion feature created a derivative with a fair value of $79,376 at the date of the modification, and the value of such conversion feature should be considered a cost of debt extinguishment since it resulted in more than a 10% change in the fair value of the note.

During the period, the Company converted $47,500 of principal into 2,555,906 shares of common stock.

NOTE 7 – CONVERTIBLE NOTE PAYABLE (CONTINUED)

J&N Invest LLC - 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. As the market price of the stock on the date of issuance was $0.23, the Company recognized a debt discount at the date of issuance in the amount of $50,000 related to the fair value of the beneficial conversion feature. The discount will be amortized over the life of the note. The balance of the unamortized note discount was $32,181 at December 27, 2015 The Company amortized $24,787 of the discount during the thirty-nine weeks ended September 25, 2016. The unamortized discount at June 26, 2016 was $7,327.

NOTE 8 – PROMISSORY NOTE

On December 18, 2015, the Company issued an unsecured promissory note in the principal sum of $265,000 in favor of St. George Investments, LLC, pursuant to the terms of a securities purchase agreement of the same date. The note was subject to an original issue discount of $60,000 and a $5,000 fee to cover certain expenses of lender. The note matures in six months and carries no interest unless there is an event of default. The Company accounted for the discount as a contra account to the note to be amortized to interest expense over the life of the note. The balance of the note outstanding as of December 27, 2015 was $265,000, net of an unamortized discount of $60,306.

The Note went into default when the Company failed to make payment on the due date. Consequently, on July 8, 2016, the Company entered into an Exchange Agreement with St. George Investments, LLC, to replace the original Promissory Note with a new Convertible Promissory Note (“Note”) carrying the following terms and conditions:

1. The new Note will add 10% ($26,500) to the original principal as an Exchange Fee, making the new principal amount $291,500, and the Note shall carry an interest rate of 8% per annum. The amount of the exchange fee was recognized as a finance cost.

2. The Note carries a Conversion clause that allows the Holder to have a cashless conversion into shares of Common Stock for all or part of the principal, at a price equal to the average market price for 20 days prior to the conversion.

3. In conjunction with the conversion provision, the Company agreed to an Irrevocable Letter of Instructions to Transfer Agent, along with a Secretary’s Certificate and Board Resolution, which allows a Share Reserve equal to three times the number of shares of Common Stock divided by outstanding debt by the defined conversion price, but not less than 18,000,000 shares.

4. In addition, the Company executed a Share Issuance Resolution Authorizing the Issuance of New Shares of Common Stock. This document, in effect, allows the Holder to provide, at their discretion, a Conversion Notice directly to the Transfer Agent to receive unrestricted shares under the terms of this Exchange Agreement.

5. Further to this Exchange Agreement, the Company executed an Authorization to Initiate ACH Debit Entries that allowed the Holder to receive a daily payment of $312.50 ($7,500 per month). The Company can cancel such authorization with five days’ written notice.

The company determined that since the conversion floor had no limit to the conversion price, that the company could no longer determine if it had enough authorized shares to fulfil the conversion obligation. As such, the Company determined that the conversion feature created a derivative with a fair value of $98,544 at the date of the modification, and the value of such conversion feature should be considered a finance cost.

During the period ended September 25, 2016, the Holder converted $60,000 of debt into 2,223,330 shares of Common Stock, at a conversion price $0.04043 per share. In addition, the Company paid $8,875 of the principal balance. The balance outstanding as of September 25, 2016 was $222,625. As of September 25, 2016, the note was past due and in default.

NOTE 9 – BUSINESS LOAN AND SECURITY AGREEMENT

In August 2015, the Company entered into a Business Loan and Security Agreement with American Express Bank, which allows the Company to borrow up to $174,000. The loan matures in August 2016 and will remain in effect for successive one year periods unless terminated by either party. The loan is secured by credit card collections from the Company’s store operations. The agreement provides that the Company will receive an advance of up to $180,000 at the beginning of each fiscal month, and requires the Company to repay the loan from the credit card deposits it receives from its customers. Assuming the balance has been paid off by the end of the month, the Company will receive another advance up to the face amount of the note at the beginning of the next fiscal month.

The loan requires a loan fee of 0.5% of the outstanding balance as of each disbursement date. At September 30, $27,789 of the advance for the month of September 2016 was still outstanding and is included in accrued expenses. There was no amount due As of December 27, 2015.

NOTE 10 - DERIVATIVE LIABILITY

Under authoritative guidance used by the FASB on determining whether an instrument (or embedded feature) is indexed to an entity’s own stock, instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The Company has issued certain convertible notes whose conversion price is based on a future market price. However, since the number of shares to be issued is not explicitly limited, the Company is unable to conclude that enough authorized and unissued shares are available to share settle the conversion option. The result is that the conversion option is classified as a liability and bifurcated from the debt host and accounted for as a derivative liability in accordance with ASC 815 and will be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

As of September 25, 2016 and upon issuance, the derivative liabilities were valued using a probability weighted average Black-Scholes-Merton pricing model with the following assumptions:

Warrants:

	Upon Issuance	September 25, 2016
Exercise Price	$0.07	$ 0.07 .05-0.01
Stock Price	$ 0.05-0.02	$

Risk-free interest rate	0.57	%	0.57	%
Expected volatility	216	%	216	%
Expected life (in years)	1		1	
Expected dividend yield	0		0	
Fair Value:	$177,920		$367,904	

The risk-free interest rate was based on rates established by the Federal Reserve Bank. The Company uses the historical volatility of its common stock to estimate the future volatility for its common stock. The expected life of the conversion feature of the notes was based on the remaining term of the notes, or an estimate of until such notes would be converted. The expected dividend yield was based on the fact that the Company has not customarily paid dividends in the past and does not expect to pay dividends in the future.

NOTE 11 – COMMON STOCK

Issuance of Common Stock

During the thirty-nine weeks ended September 25, 2016, the Company issued 497,500 shares of common stock issued for professional services rendered, with a fair value of $37,170 based on the trading price of the common shares on date of grant.

During the thirty-nine weeks ended September 25, 2016, the Company issued 525,000 shares of common stock issued in settlement of an accounts payable with a fair value of $31,500.

During the thirty-nine weeks ended September 25, 2016, the Company issued 150,000 shares of stock previously reflected as common stock payable.

During the thirty-nine weeks ended September 25, 2016, the Company issued 4,779,236 shares of its common stock for conversion of convertible notes in the amount of $107,497

NOTE 12 – STOCK OPTIONS AND WARRANTS

Employee Stock Options

The following table summarizes the changes in the options outstanding at September 25, 2016, 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.

A summary of the Company's stock options as of September 25, 2016 is presented below:

	Stock Options	Weighted **Average Exercise Price**
Outstanding, December 27, 2015	115,000	$4.50
Granted	-	-
Exercised	-	-
Outstanding, September 25, 2016	115,000	$4.50
Exercisable, September 26, 2016	115,000	$4.50

As of September 25, 2016, the stock options had no intrinsic value.

There were no options granted during the fiscal year ended September 25, 2016, and there was no stock-based compensation expense in connection with options granted to employees recognized in the consolidated statement of operations for the thirty-nine weeks ended September 25, 2016.

NOTE 12 – STOCK OPTIONS AND WARRANTS (CONTINUED)

Warrants

The following table summarizes the changes in the warrants outstanding at September 25, 2016, and the related prices.

A summary of the Company's warrants as of September 25, 2016 is presented below:

	Stock Options	**Weighted Average Exercise Price**
Outstanding, December 27, 2015	166,500	$ 0.13
Granted	440,000	0.08
Exercised	-	-
Outstanding, September 25, 2016	606,500	$ 0.09
Exercisalbe, September 25, 2016	606,500	$ 0.09

Range of Exercise **Prices**	Number **Outstanding**	Weighted Average Exercise **Price**	Weighted Average Remaining Contractual **Life**	Number **Exercisable**	Weighted Average Exercise **Price**
$0.01 to 0.09	606,500	$ 0.09	3.05	606,500	$ 0.09
	606,500		3.05	606,500	

On May 17, 2016, GIGL entered into a Strategic Alliance Agreement with Kiddo, Inc., a Florida corporation ("consultant") whereby consultant will provide marketing and branding services as well as introductions to potential strategic partners and investors.

As consideration for consultant's services pursuant to the Strategic Alliance Agreement, GIGL agreed to issue to consultant a warrant to purchase up to 4,400,000 shares of GIGL's common stock at an exercise price of $0.075 per share, which warrant vests in increments based upon the achievement of certain milestones. As of September 25, 2016, 440,000 of these warrants with a fair value of $31,000 were deemed have been achieved and are included in the table of outstanding warrants above. At September 25, 2016, the achievement of the corresponding milestones for the remaining warrants to acquire 3,960,000 has been determined to be remote or undeterminable due to the early stages of the agreement, as such, the warrants have not been included as outstanding in the table above.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Westfield Century City. On January 13, 2010, the Company entered into a 10-year lease agreement with Westfield Century City for a lease for a restaurant operation. In October 2015, Westfield Group, the landlord of the Century City location, embarked on a massive $700 million renovation of the mall. In March 2016 they approached the Company about recapturing its Century City space due to this remodeling. Currently, approximately 90% of the mall is closed or being remodeled with the completion expected sometime during 2017. On May 13, 2016, Giggles N' Hugs, Inc. entered into a Termination of Lease Agreement with Century City Mall, LLC ("landlord"), accelerating the termination date of the Lease dated January 13, 2010 for its store located in Westfield Century City, Los Angeles, California. Pursuant to the agreement, the lease was terminated in June, 2016 and the landlord agreed to a monetary reimbursement of $350,000 which was received by June 26, 2016. For accounting purposes, the Company has removed all the leasehold improvements (net of accumulated amortization) and removed the deferred incentive due the lessor relating to tenant improvements and the remaining deferred rent existing at the date of termination resulting in a gain of $214,111.

Westfield Topanga. 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 and expires on April 30, 2022.

Glendale Mall Associates. 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. As of September 25, 2016 and December 27, 2015, the Company was in default of certain of the payments due under this lease.

On August 12, 2016 the Company entered into a third amendment on its lease at The Glendale Galleria. The amendment covered several areas, including adjustment to percentage rent payable, reduced the minimum rent payable and payment and principal of the Promissory Note payable to GGP. The Promissory Note was adjusted to a balance due of $763,262 from $683,316, with zero percent interest, payable in equal monthly instalments of $5,300 through maturity of Note on May 31, 2028, creating a gain on extinguishment of the old note of $220,686. (see Note 6). The change in the payment terms of the lease caused a change in the previously calculated deferred rent of

$69,614. For reporting purposes, the Company determined that since the GGP Promissory Note and the related revision of the lease were agreed to at the same time, that the change in the lease payment terms and the reduced rent, and the issuance of the new note are directly related. As such the gain on the termination of the note of and the adjustment to the deferred rent in the aggregate amount of $290,300 had been deferred, and will amortized on the straight line basis over the remaining life of the lease as an adjustment to rent expense. During the period ended September 25, 2016, $10,472 of the deferred rent was amortized and offset to rent expense, resulting in a remaining deferred gain balance of $279,828 which will be amortized over the remainder of the lease.

Rent expense for the Company's restaurant operating leases was $98,405 and $95,937 for the thirteen weeks ended September 25, 2016 and September 27, 2015, respectively, and $293,694 and $287,809 for the thirty-nine weeks ended September 25, 2016 and September 27, 2015, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigation

On April 20, 2016, the Company entered into a stipulated judgment in favor of TKM in the amount of $40,000. Under the stipulated judgment, the Company would only be compelled to pay $20,000 in four equal installments of $5,000, provided they meet the ascribed timely payments as set forth in the stipulated judgment. The Company has recorded the entire $40,000 judgment since the Company did not meet the agreed payment schedule.

NOTE 14 – SUBSEQUENT EVENTS

In October 2016, the Company issued 1,275,000 shares of its common stock to Iconic Holdings LLC upon conversion of $3,825 of notes payable based on the conversion terms of the notes.

In October 2016, the Company issued 3,345,639 shares of its common stock to St. George Investments LLC upon conversion of $14,500 of notes payable based on the conversion terms of the notes.

In November 2016, the Company issued 2,614,000 shares of its common stock to Iconic Holdings LLC upon conversion of $7,843 of notes payable based on the conversion terms of the notes.

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

This 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”, and 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 31st for financial reporting purposes. For the years 2015 and 2016 consists of a year ending December 28, 2015 and December 27, 2016.

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.

Originally, Giggles N’ Hugs owned and operated one restaurant in the Westfield Mall in Century City, California; a second restaurant in the Westfield Mall in Topanga, California; and a third restaurant in the Glendale Galleria in Glendale, California through June 26, 2016.

On May 13, 2016, Giggles N’ Hugs, Inc. entered into a Termination of Lease Agreement with Century City Mall, LLC (“landlord”), accelerating the termination date of the Lease dated January 13, 2010 for its store located in Westfield Century City, Los Angeles, California. Pursuant to the agreement, the lease terminated June 30, 2016 and the landlord agreed to a monetary reimbursement of $350,000 which was received by June 26, 2016. As such, sales from June 30, 2016 only include operations from two stores, as compared to three stores in the prior periods.

The company continues to operate its restaurants in Topanga and in the Glendale Galleria Mall. However, as of September 25, 2016 the Company was in default of certain of the payments in its Glendale lease agreement and was in default of a note payable to an affiliate of the landlord.

RESULTS OF OPERATIONS

Results of Operations for the Thirteen Weeks Ended September 25, 2016 and September 27, 2015:

COSTS AND OPERATING EXPENSES

	For Thirteen Weeks Ended September 25, 2016	**For Thirteen Weeks Ended September 27, 2015**
Revenue:		
Net sales	$628,357	$901,251
Costs and operating expenses:		
Cost of operations	510,097	855,972
General and administrative expenses	247,981	365,376
Depreciation and amortization	64,069	91,106
Total operating expenses	822,147	1,312,454
Loss from Operations	(193,790)	(411,203)
Other Income (Expenses):		
Finance and interest expenses	(251,021)	(13,904)
Change in fair value of derivative	(205,128)	-
Loss before provision for income taxes	(649,939)	(425,107)
Provision for income taxes	(800)	1,382
Net Loss	$(650,739)	$(426,489)

Notes to Costs and Operating Expenses Table:

Net sales. Net sales for the thirteen weeks ended September 25, 2016 and September 27, 2015 were $628,357 and $901,251 respectively. The decrease of $272,894 (-39.3%) was mostly attributable to the closing of the Century City store. For the continuing store operations, net sales increased by $15,900 (2.6%) over the comparable period in the prior year.

Cost of operations. Costs of operations of $510,097, and $855,972 for the thirteen weeks ended September 25, 2016 and September 27, 2015, respectively, reflecting a decline of $345,875 (-40.4%). The reduced amount was essentially the result of the closing of the Century City store.

General and administrative expenses. General and administrative expenses for the thirteen weeks ended September 25, 2016 and September 27, 2015 were $247,981 and $365,376, respectively. This decline of $117,395 (-32.1%) was also affected by the closing of the Century City store, but partially offset by some higher corporate expenses.

Depreciation and amortization. The depreciation and amortization was $64,069 compared to the $91,106 for the thirteen weeks ended September 25, 2016 and September 27, 2015, respectively. This reduction of $27,037 is primarily due to the closing and sell off of the fixed assets related to the closing of the Century City store at the end of the second quarter.

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Finance and interest expense. The total finance and interest expenses of $251,021 for the thirteen weeks ended September 25, 2016 increased by $237,117, from the $13,904 for the thirteen weeks ended September 27, 2015, and was a result of the partial conversion of the Notes with St. George Investment and the Iconic.

Change in Fair Value of Loan Derivatives. The adjustment of the change in fair value of the Loan Derivatives occurred after the Notes were amended to remove the floor of the stock price at which they could convert their shares. This resulted a charge of $205,128.

Net Loss. The overall net losses of $650,739 and $426,489 for the thirteen weeks ended September 25, 2016 and September 27, 2015, respectively, reflects an increase in the net loss of $222,650 (-53%). This increase in the operating loss is mostly attributable to both higher financing costs ($251,021) and charges for the fair value of the derivatives related to certain notes payable ($205,128), but partially offset by the reduced operating loss ($217,413) from the closing of the Century City store at the end of the 2nd quarter.

Results of Operations for the Thirty-Nine Weeks Ended September 25, 2016 and September 27, 2015:

COSTS AND OPERATING EXPENSES

	For Thirty-Nine Weeks Ended September 25, 2016	For Thirty-Nine Weeks Ended September 27, 2015
Revenue:		
Net sales	$2,338,755	$2,650,290
Costs and operating expenses:		
Cost of operations	2,014,766	2,504,525
General and administrative expenses	892,098	1,103,619
Depreciation and amortization	241,950	275,477
Total operating expenses	3,148,814	3,883,621
Loss from Operations	(810,059)	(1,233,331)
Other Income (Expenses):		
Finance and interest expenses	(424,352)	(36,737)
(Gain)/ Loss on stock issuance for payable settlement	-	(17,772)
Gain on debt modification	-	69,228
Gain on sale of asset	5,971	-
Gain on lease termination	214,111	-
Change in fair value of derivative	(205,128)	-
Loss before provision for income taxes	(1,219,457)	(1,218,612)
Provision for income taxes	616	1,382
Net Loss	$(1,218,841)	$(1,219,994)

Notes to Costs and Operating Expenses Table:

The net sales for the thirty-nine weeks ended September 25, 2016 and September 27, 2015 were $2,338,775 and $2,650,290, respectively. The decrease of $311,535 (-11.8%) was due mostly to the closing of the Century City store at the end of the 2nd quarter.

Cost of operations. Costs of operations of $2,014,766 and $2,504,525 for the twenty-six weeks ended September 25, 2016 and September 27, 2015, respectively. The decline of $489,759 (-19.6%) was partly due to the close of the Century City store, as well as lower food and supply costs.

General and administrative expenses. General and administrative expenses for the thirty-nine weeks ended September 25, 2016 and September 27, 2015 were $892,098 and $1,103,619, respectively. The drop of $211,521 (-19.2%) for these expenses was primarily resulting from a reduction in non-employee stock-based compensation.

Depreciation and amortization. The depreciation and amortization decrease of $33,527 (-12.2%) from the same period in the previous year can be attributable to fewer fixed asset acquisitions.

Other (income) expenses. The total other (income) expenses had reflected higher costs of $424,117 for the thirty-nine weeks ended September 25, 2016 versus the same period ended September 27, 2015. This increase was primarily the result of higher finance and interest expenses ($424,352) and charges for the fair value of derivatives ($205,128), which were partially offset for the gain realized on the Century City lease termination ($214,111).

LIQUIDITY AND CAPITAL RESOURCES

As of September 25, 2016, the Company has $110,816 in cash and cash equivalents, $27,888 in inventory, and $19,704 in prepaid expenses and other. The following table provides detailed information about our net cash flows for all financial statement periods presented in this report.

The following table sets forth a summary of our cash flows for the thirty-nine weeks ended September 25, 2016 and September 27, 2015:

	For Thirty-Nine Weeks Ended September 25, 2016	**For Thirty-Nine Weeks Ended September 27, 2015**
Net cash used in operating activities	$ (578,502)	$ (414,084)
Net cash provided by (used in) investing activities	360,500	(8,968)
Net cash provided by (used in) financing activities	(15,373)	498,879
Net decrease in Cash	(233,375)	75,827
Cash, beginning of period	334,191	108,236
Cash, end of period	$ 100,816	$ 184,063

Operating activities

Net cash used in operating activities was $578,502 for the thirty-nine weeks ended September 25, 2016, resulted from a net operating loss of $1,218,841, adjusted mostly by a gain on lease termination ($214,111), and offset by depreciation and amortization ($241,950), amortization of debt discount ($189,316), and the occurrence of a derivative liability ($367,904).

The cash used in operating activities was $414,084 for the thirty-nine weeks ended September 27, 2015, resulted from a net operating loss of $1,219,994, and adjusted mostly by the offset by depreciation and amortization ($275,477), non-employee stock-based compensation ($388,660), and an increase in accounts payable ($153,240).

Investing activities

The cash provided by investing activities for the thirty-nine weeks ended September 26, 2016 was $360,500 and consisted of cash received for the closure of the Century City store under the lease termination agreement with Westfield ($350,000) and the sale of remaining fixed assets ($10,500). For the thirty-nine weeks ended September 27, 2015, the only cash used in investing activities was $8,968 for the purchase of certain fixed assets.

Financing activities

Cash used for financing activities for the thirty-nine weeks ended September 25, 2016 was only $15,373 for payments on the note from the Lessor and a Promissory note from the Lender.

For the thirty-nine weeks ended September 27, 2015, virtually all the funds were provided from proceeds ($498,879) from shares issued.

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.

Going Concern and Liquidity

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying condensed consolidated financial statements, during the thirty-nine weeks ended September 25, 2016, the Company incurred a net loss of $1,218,841, used cash in operations of $578,502 and had a stockholders' deficit of $1,975,772 as of that date. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise additional funds and implement its business plan. The Company's independent registered public accounting firm in its report on the December 27, 2015 financial statements has raised substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

At September 25, 2016, the Company had cash on hand in the amount of $100,816. Management estimates that the current funds on hand would be sufficient to continue operations through September 2016. Management is currently seeking additional funds through sponsorships and promotions to operate our business. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stock holders, in case or equity financing.

Notes Payable

GGP Limited Partnership - 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 accrued 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.

On March 1, 2015, the Company and the lender renegotiated the terms of the Promissory Note and agreed to a new note with a principal balance due of $683,316. As part of the new agreement, 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, within increasing interest rates. As of June 26, 2016 and December 27, 2015, the principal balance due under the note was $683,316.

On August 12, 2016 the Company entered into a third amendment on its lease at The Glendale Galleria. The amendment covered several areas, including adjustment to percentage rent payable, reduced the minimum rent payable, along with the payment and principal of Promissory Note. The Promissory Note was adjusted to a balance due of $763,261.57 from $683,316, with zero percent interest, payable in equal monthly instalments of $5,300 through maturity of Note on May 31, 2028. The Company imputed interest using a discount rate of 10% to determine a fair value of the note of $433,521.

The exchange of the notes was treated as a debt extinguishment as the change in terms constituted more than a 10% change in the fair value of the original note, and the difference between the fair value of the new note and the old note (including eliminating all remaining unamortized discount) of $220,668 was treated as a gain on debt extinguishment. The Company determined that since the GGP Promissory Note and the related revision of the lease were agreed to at the same time, that the change in the lease payment terms and the reduced rent, and the issuance of the new note are directly related. As such the gain on the termination of the note of $220,668 will be deferred, and amortized on the straight line basis over the remaining life of the lease as an adjustment to rent expense.

The lender under the Note is GGP Limited Partnership (GGP). GGP is an affiliate of Glendale II Mall Associates, the lessor of the Company's Glendale Mall restaurant location. In accordance with the note agreement, an event of default would occur if the Borrower defaults under the lease between the Company and Glendale II Mall Associates. Upon the occurrence of an event of default, the entire balance of the Note payable and accrued interest would become due and payable, and the balance due becomes subject to a default interest rate (which is 5% higher than the defined interest rate). As of September 25, 2016, the Company was past due in its rental obligation and the Note is in default. As such, the entire principal and accrued interest became due and payable and was classified as current liability as of September 25, 2016. Landlord shall have the unconditional right to terminate the Lease by giving Tenant at least 120 days' advance written notice of Landlord's election to terminate the Lease, under lease amendment.

Convertible Notes Payable

Iconic Holdings, LLC - On December 21, 2015, Giggle N Hugs, Inc., a Nevada corporation (the "Registrant"), issued an 8% unsecured convertible promissory note in favor of Iconic Holdings, LLC, in the principal sum of $161,250. The note was subject to an original issue discount of $11,250, plus another $11,250 retained by the lender for fees and costs, resulting in net proceeds to the company of $138,500. The note carries a guaranteed 10% interest rate, matures on December 21, 2016 and is subject to pre-payment penalties. The note may be converted, in whole or in part, at any time at the option of the holder into the Registrant's common stock at a price per share equal to 65% of the lowest volume weighted average price of the Company's common stock during the 10 consecutive trading days prior to the date on which Holder elects to convert all or part of the note. The conversion floor price was set at $0.08. The note also contains a make-good provision requiring the Registrant to make a payment to the holder in the event the Registrant's trading price at the time the conversion notice is submitted is below $0.11. Any shares issued upon conversion of the note shall have piggyback registration rights and failure to do so could result in damages up to 30% of the principal sum of the note, but not less than $20,000. The note contains various default provisions including a requirement for the Company to maintain a prescribed closing bid price for a certain number of days, and a continued listing in a principal market.

On July 11, 2016, the company modified the conversion feature of the Iconic note eliminating the conversion floor. The company determined that since the conversion floor had been eliminated, that the company could no longer determine if it had enough authorized shares to fulfil the conversion obligation. As such, the Company determined that the conversion feature created a derivative with a fair value of $79,376 at the date of the modification, and the value of such conversion feature should be considered a cost of debt extinguishment since it resulted in more than a 10% change in the fair value of the note.

J&N Invest LLC - 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.

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Promissory Note

St. George Investments, LLC - The Company executed into a Promissory Note Agreement with St. George Investments, LLC, ("Holder") dated December 18, 2015, with a principal amount of $265,000 due in full on June 18, 2016. The Note went into default when the Company failed to make payment on the due date. Consequently, on July 8, 2016, the Company entered into an Exchange Agreement with St. George Investments, LLC, to replace the original Promissory Note with a new Convertible Promissory Note ("Note") carrying the following terms and conditions.

1. The new Note will add 10% ($26,500) to the original principal as an Exchange Fee, making the new principal amount $291,500.
2. The Note shall carry an interest rate of 8% per annum
3. The Note carries a Conversion clause that allows the Holder to have a cashless conversion into shares of Common Stock for all or part of the principal, at a price equal to the average market price for 20 days prior to the conversion,
4. In conjunction with the conversion provision, the Company agreed to an Irrevocable Letter of Instructions to Transfer Agent, along with a Secretary's Certificate and Board Resolution, which allows a Share Reserve equal to three times the number of shares of Common Stock divided by outstanding debt by the defined conversion price, but not less than 18,000,000 shares.
5. In addition, the Company executed a Share Issuance Resolution Authorizing the Issuance of New Shares of Common Stock. This document, in effect, allows the Holder to provide, at their discretion, a Conversion Notice directly to the Transfer Agent to receive unrestricted shares under the terms of this Exchange Agreement.
6. Further to this Exchange Agreement, the Company executed an Authorization to Initiate ACH Debit Entries that allowed the Holder to receive a daily payment of $31250 ($7,500 per month). The Company can cancel such authorization with five days' written notice.

The company determined that since the conversion floor had no limit to the conversion price, that the company could no longer determine if it had enough authorized shares to fulfil the conversion obligation. As such, the Company determined that the conversion feature created a derivative with a fair value of $98,544 at the date of the modification, and the value of such conversion feature should be considered a finance cost.

Recent Accounting Pronouncements

See Note 3 of the consolidated financial statements for discussion of recent accounting pronouncements.

Critical Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Note 1 to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Estimates are used for, but not limited to, impairment analyses, accounting for contingencies and equity instruments issued for services. Actual results could differ materially from those estimates. The following critical accounting policies are impacted significantly by judgments, assumptions, and estimates used in the preparation of the Consolidated Financial Statements.

Long-Lived Assets

Our management regularly reviews property, equipment and other long-lived assets, including identifiable amortizing intangibles, for possible impairment. This review occurs quarterly or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. If there is indication of impairment of property and equipment or amortizable intangible assets, then management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. The fair value is estimated at the present value of the future cash flows discounted at a rate commensurate with management’s estimates of the business risks. Quarterly, or earlier, if there is indication of impairment of identified intangible assets not subject to amortization, management compares the estimated fair value with the carrying amount of the asset. An impairment loss is recognized to write down the intangible asset to its fair value if it is less than the carrying amount. Preparation of estimated expected future cash flows is inherently subjective and is based on management’s best estimate of assumptions concerning expected future conditions.

Management believes that the accounting estimate related to impairment of our long lived assets, including our trademark license and trademarks, is a “critical accounting estimate” because: (1) it is highly susceptible to change from period to period because it requires management to estimate fair value, which is based on assumptions about cash flows and discount rates; and (2) the impact that recognizing an impairment would have on the assets reported on our balance sheet, as well as net income, could be material. Management’s assumptions about cash flows and discount rates require significant judgment because actual revenues and expenses have fluctuated in the past and we expect they will continue to do so.

Stock-Based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's common stock option grants is estimated using the Black-Scholes Option Pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the common stock options, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes Option Pricing model, and based on actual experience. The assumptions used in the Black-Scholes Option Pricing model could materially affect compensation expense recorded in future periods.

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 of 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.

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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

None.

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.

As of the date of this Report, the Company was not subject to any material legal proceedings. The only significant litigation that the Company was previously involved with was settled in August 2016 (see Note 12 - Subsequent Events) From time to time, however, the Company may be named as a defendant in legal actions arising from normal business activities. Although the Company cannot accurately predict the amount of its liability, if any, that could arise with respect to currently pending legal actions, it is not expected that any such liability will have a material adverse effect on the Company’s financial position, operating results or cash flows.

ITEM 1A. Risk Factors

Our significant business risks are described in Item 1A to Form 10-K for the year ended December 29, 2015, which is incorporated herein by this reference.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

As consideration for consultant’s services pursuant to the Strategic Alliance Agreement, GIGL agreed to issue to consultant a warrant to purchase up to 4,400,000 shares of GIGL’s common stock at an exercise price of $0.075 per share, which warrant vests in increments based upon the achievement of certain milestones described in the agreement. GIGL issued the warrant in reliance on the exemption from registration afforded by Section 4(a)(2) of the Securities Act and Regulation D promulgated thereunder since, among other things, the above transaction did not involve a public offering.

Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities from the time of our inception through the period ended June 26, 2016.

ITEM 3. Defaults Upon Senior Securities.

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 accrued 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.

On March 1, 2015, the Company and the lender renegotiated the terms of the Promissory Note and agreed to a new note with a principal balance due of $683,316. As part of the new agreement, the Lender waived principal and interest payments for two years beginning March 1, 2015. Thereafter, principal and interest are required to be paid in equal monthly installments of $12,707, within increasing interest rates. As of March 27, 2016 and December 27, 2015, the principal balance due under the note was $683,316.

The lender under the Note is GGP Limited Partnership (GGP). GGP is an affiliate of Glendale II Mall Associates, the lessor of the Company's Glendale Mall restaurant location. In accordance with the note agreement, an event of default occurs if the Borrower defaults under the lease between the Company and Glendale II Mall Associates. Upon the occurrence of an event of default, the entire balance of the Note payable and accrued interest is due and payable immediately, and the balance due is subject to a default interest rate (which is 5% higher than the defined interest rate). As of June 26, 2016, the Company was past due in its rental obligation and the Note is in default as of June 26, 2016.

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: December 7, 2016 By:*/s/ Joey Parsi*
Joey Parsi
Chief Executive Officer
(Principal Executive Officer and duly authorized signatory)