

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

(Address of principal executive offices)

(818) 956-4847

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer (do not check if Smaller Reporting Company)

Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

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

The number of shares of Common Stock, \$0.001 par value, outstanding on August 21, 2017 was 135,667,251 shares.

GIGGLES N' HUGS, INC.

TWENTY-SIX WEEKS ENDED JULY 2, 2017

Index to Report on Form 10-Q

	Page No.
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements (unaudited)</u>	F-1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	3
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	13
Item 4. <u>Controls and Procedures</u>	13
<u>PART II - OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	14
Item 1A. <u>Risk Factors</u>	14
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	14
Item 3. <u>Defaults Upon Senior Securities</u>	14
Item 4. <u>Mine Safety Disclosure</u>	14
Item 5. <u>Other Information</u>	14
Item 6. <u>Exhibits</u>	15
<u>Signature</u>	16

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

	July 2, 2017 (Unaudited)	January 1, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 154,288	\$ 144,520
Inventory	25,617	20,331
Prepaid expenses, other	16,517	13,806
Total current assets	196,422	178,657
Fixed assets:		
Total fixed assets, net	865,991	994,128
Other assets	2,620	2,620
Total assets	\$ 1,065,033	\$ 1,175,405
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 543,610	\$ 610,925
Incentive from lessor – current portion	94,756	87,420
Note payable from lessor, current portion net of discount of \$283,377 and \$35,094, respectively	21,734	21,544
Accrued expenses	501,836	328,952
Deferred revenue	11,630	24,159
Promissory note payable and accrued interest	-	193,340
Convertible note payable and accrued interest,	50,000	151,383
Derivative liability	-	357,411
Total current liabilities	1,223,566	1,775,134
Long-term liabilities:		
Incentive from lessor – long-term	603,129	653,008

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

Note payable - lessor	406,758	411,173
Deferred gain	435,654	429,115
Total long-term liabilities	1,445,541	1,493,296
Total liabilities	2,669,107	3,268,430
Stockholders' deficit:		
Common stock, \$0.001 par value, 1,125,000,000 shares authorized, 134,922,251 and 67,934,205 shares issued and outstanding as of July 2, 2017 and January 1, 2017, respectively	134,922	67,933
Common stock issuable (9,297,619 and 405,556 shares as of July 2, 2017 and January 1, 2017, respectively)	846,535	218,535
Additional paid-in capital	9,151,365	8,229,747
Accumulated deficit	(11,736,896)	(10,609,240)
Total stockholders' deficit	(1,604,074)	(2,093,025)
Total liabilities and stockholders' deficit	\$1,065,033	\$1,175,405

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Thirteen Weeks Ended July 2, 2017	Thirteen Weeks Ended June 26, 2016	Twenty -Six Weeks Ended July 2, 2017	Twenty -Six Weeks Ended June 26, 2016
Revenue				
Net sales	\$575,824	\$831,464	\$1,237,527	\$1,710,398
Costs and operating expenses				
Cost of operations	429,164	734,151	932,955	1,504,669
General and administrative expenses	249,822	319,926	1,185,556	644,118
Depreciation and amortization	64,068	88,741	128,137	177,882
Total operating expenses	743,054	1,142,818	2,246,648	2,326,669
Loss from Operations	(167,230)	(311,354)	(1,009,121)	(616,271)
Other income (expenses):				
Finance and interest expense	(14,772)	(84,378)	(64,042)	(173,331)
Change in fair value of derivatives liability	-	-	(50,629)	-
Gain on extinguishment of derivative liability	-	-	185,604	-
Loss on extinguishment of debt	(186,818)	-	(186,818)	-
Gain on sale of asset	-	5,971	-	5,971
Gain on lease termination	-	214,111	-	214,111
Loss before provision for income taxes	(368,820)	(175,650)	(1,125,006)	(569,520)
Provision for/benefit from income taxes	(2,650)	616	(2,650)	(184)
Net loss	\$(371,470)	\$(175,034)	\$(1,127,656)	\$(569,704)
Net loss per share – basic and diluted	\$-	\$-	\$(0.01)	\$(0.01)
Weighted average number of common shares outstanding – basic and diluted	134,355,584	42,806,033	120,473,746	42,367,492

See Accompanying Notes to Condensed Consolidated Financial Statements.

GIGGLES N' HUGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT****(Unaudited)**

	Common Stock		Additional	Common	Accumulated	Total
	Shares	Amount	Paid in	Stock	Deficit	Stockholders'
			Capital	Issuable		Deficit
Balance January 1, 2017	67,934,205	\$67,933	\$8,229,747	\$218,535	\$(10,609,240)	\$(2,093,025)
Shares issued for employees compensation	10,170,000	10,170	18,300			28,470
Shares issued to settle accounts payable	2,100,000	2,100	243,900			246,000
Shares issued for convertible notes	54,118,046	54,119	218,728			272,847
Cash received for stock issuable				75,000		75,000
Shares issued for professional services	600,000	600	9,690			10,290
Fair value of warrants granted for services			531,000			531,000
Stock issuable to settle the convertible notes			(100,000)	553,000		453,000
Net loss					(1,127,656)	(1,127,656)
Balance July 2, 2017	134,922,251	\$134,922	\$9,151,365	\$846,535	\$(11,736,896)	\$(1,604,074)

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Twenty-Six Weeks ended July 2, 2017	Twenty-Six Weeks ended June 26, 2016
Cash flows from operating activities		
Net loss	\$(1,127,656)	\$(569,704)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	128,137	177,882
Amortization of debt discount	-	154,658
Gain on sales of fixed assets	-	(5,971)
Gain on lease termination	-	(214,111)
Stock-based compensation	28,470	-
Loss on stock issuance for payable settlement	109,096	-
Warrants vested for services	531,000	31,000
Interest and fees included in note payable	21,449	-
Shares issued for services	10,290	30,170
Gain on extinguishment of derivative liability	(185,604)	-
Change in fair value of derivative liability	50,629	-
Promissory note settlement	186,818	-
Changes in operating assets and liabilities:		
Increase in prepaid expenses and deposits	(2,711)	(3,890)
(Increase) decrease in inventory	(5,286)	10,553
Increase in accounts payable	69,589	179,976
Decrease in lease incentive liability	(42,543)	(61,653)
Increase (decrease) increase in accrued expenses	180,623	(320,676)
(Decrease) increase in deferred revenue	(12,529)	10,380
Amortization of deferred gain	6,539	-
Net cash used in operating activities	(53,689)	(581,386)
Cash flows from investing activities		
Provided from lease termination	-	350,000
Provided from sales or purchase of fixed assets	-	10,500
Net cash provided by investing activities	-	360,500
Cash flows from financing activities		
Payments on promissory note payable	(11,543)	-
Proceeds from common stock issuable	75,000	-
Net cash provided by financing activities	63,457	-

NET INCREASE (DECREASE) IN CASH	9,768	(220,886)
CASH AT BEGINNING OF PERIOD	144,520	334,191
CASH AT END OF PERIOD	\$ 154,288	\$ 113,305
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$-	\$ 26,834
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Shares issued to settle convertible notes payable	\$272,847	\$ -
Reclass of notes payable to accrued interest	3,125	-
Shares issued to settle payable	\$ 136,904	\$ 31,500

See Accompanying Notes to Condensed Consolidated Financial Statements.

F-4

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Twenty-Six Weeks ended July 2, 2017 and June 26, 2016

(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. Giggles N Hugs restaurant concept brings together high-end, organic food with the play elements and entertainment for children. Giggles N Hugs offers an upscale, family-friendly atmosphere with a play area dedicated to children ages 10 and younger with nightly entertainment, such as magic shows, concerts, puppet shows, as well as activities and games which include face painting, dance parties, karaoke, and arts and crafts.

The Company adopted a 52/53 week fiscal year ending on the Sunday closest to December 31st for financial reporting purposes. Fiscal year 2017 and 2016 consists of a year ending December 31, 2017 and January 1, 2017.

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.

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

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 January 1, 2017 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 January 1, 2017 included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures, including notes, required by GAAP.

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

F-5

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 twenty-six weeks ended July 2, 2017, the Company incurred a net loss of \$1,127,656, used cash in operations of \$53,689, and had a stockholders' deficit of \$1,604,074 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 January 1, 2017 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 \$154,288 as of July 2, 2017. Management estimates that the current funds on hand will be sufficient to continue operations through September 2017. 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

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 (which was closed June 30, 2016 due to a complete remodel of the Mall), 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 including assumptions made in impairment analysis of fixed assets, accruals of potential liabilities, valuation of derivative liability and equity securities issued for services and realization of deferred tax assets. Actual results could differ from those estimates.

F-6

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.

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.

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 July 2, 2017 and June 26, 2016, the assumed conversion of convertible notes 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.

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 July 2017, the FASB issued Accounting Standards Update No. 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features; (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception ("ASU 2017-11"). ASU 2017-11 allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity's own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted for as derivative liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, an entity will treat the value of the effect of the down round as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings. ASU 2017-11 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is

permitted. The guidance in ASU 2017-11 can be applied using a full or modified retrospective approach. The adoption of ASU 2017-11 is not expected to have any impact on the Company's financial statement presentation or 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.

F-8

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at:

	July 2, 2017	January 1, 2017
Leasehold improvements	\$ 1,889,027	\$ 1,889,027
Fixtures and equipment	60,310	60,310
Computer software and equipment	264,890	264,890
Property and equipment, total	2,214,227	2,214,227
Less: accumulated depreciation	(1,348,236)	(1,220,099)
Property and equipment, net	\$ 865,991	\$ 994,128

Depreciation and amortization expenses for the thirteen weeks and twenty-six weeks ended July 2, 2017 were \$64,069 and \$128,137, respectively, and for the thirteen weeks and twenty-six weeks ended June 26, 2016 were \$88,741 and \$177,882, respectively. Repair and maintenance expense for the thirteen weeks and twenty-six weeks ended July 2, 2017 were \$18,238 and \$33,780, respectively, and for thirteen weeks and twenty-six weeks ended June 26, 2016 were \$22,833 and \$51,826, respectively.

NOTE 5 – 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.

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 from \$683,316, with no 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 \$443,521, resulting in a valuation discount of \$319,740. As of July 2, 2017, the balance of note payable was \$711,869, and unamortized note discount was \$283,377, with a net balance due of \$428,492.

The exchange of the notes in fiscal 2016 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 was deferred, and is being amortized 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 July 2, 2016, the Company was delinquent in its payments to GGP under the note, but has subsequently brought the note current.

F-10

NOTE 6 – CONVERTIBLE NOTE PAYABLE

A summary of convertible debentures payable as of July 2, 2017 and January 1, 2017 is as follows:

	July 2, 2017	January 1, 2017
Iconic Holdings, LLC	\$-	\$84,191
J&N Invest LLC	50,000	50,000
Accrued interest	-	17,192
Total Convertible Notes	50,000	151,383
Net Convertible Notes	\$50,000	\$151,383

Iconic Holdings, LLC - On December 21, 2015, the Company 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 carried a guaranteed 10% interest rate per annum, matured on December 21, 2016 and was 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 per share.

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 liability (see Note 9).

During the twenty-six weeks ended July 2, 2017, the Company converted the remaining balance of the principal into 38,457,435 shares of common stock at average conversion price \$0.00259 per share. Upon extinguishment of note, the derivative was eliminated.

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 matured 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 was fully amortized as of January 1, 2017.

F-11

NOTE 7 – PROMISSORY NOTE

On December 18, 2015, the Company issued a six month 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 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”). 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. 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 at the date of the modification.

During the period the Holder converted \$48,914 of debt into 15,660,611 shares of Common Stock. In addition, the Company paid \$7,517 of the principal balance. On March 23, 2017, St. George Investments, LLC (“St. George”) served an arbitration demand and summons claiming that the Company had breached its obligations under a convertible note by preventing St. George from converting the remaining balance of the note to common stock. The parties disagreed as to the conversion price set in the note agreement due to execution by the parties of different versions of the document. St. George claimed for additional damages. The Company believed these claims lacked merit and the Company retained counsel to vigorously defend this action. Effective May 3, 2017, the Company counter-sued for full damages for breaching the contract, claiming mistakes, rescission, breach of the covenant of good faith and fair dealing and unjust enrichment.

On August 14, 2017, the Company and St. George entered into a settlement agreement whereby the Company agreed to deliver 7,900,000 unrestricted free-trading shares to SGI Immediately upon signing a final settlement agreement and St. George agreed to purchase an additional 1,100,000 shares for a purchase price of \$110,000 at \$0.10 per share.

These shares shall be delivered pursuant to a conversion under the existing outstanding note. The shares had a fair value of \$.07 per share as of the settlement date, or \$553,000 in the aggregate. At the time of the settlement, the outstanding balance under the note was \$132,928 and accrued interest of \$10,818.

The company considered the settlement as a debt extinguishment as the consideration to be issued was greater than 10% of the debt at the date of the modification. As such the Company recorded the fair value of the shares to be issued, and recognized a loss on the extinguishment of the aggregate face value of the note and accrued interest of \$143,740, and the remaining value of the derivative liability of \$222,436, resulting in a loss on extinguishment of \$186,818. The Company determined that it was appropriate to record this loss as of July 2, 2017) as it related to outstanding claims that were due at that time, with the ultimate settlement becoming known prior to filing of the 10Q.

F-12

NOTE 8 – 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 originally matured in August 2016 but 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 July 2, 2017 and January 1, 2017, \$149,917 and \$136,629 was outstanding and is included in accrued expenses in the accompanying balance sheets.

NOTE 9 - 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.

The fair value of the derivative liability related to the St. George note was determined to be \$238,538 at January 1, 2017. During 2017, and through April 2, 2017, the Company settled principal balance amounting to \$48,914. As a result, the Company extinguished the fair value of the corresponding Derivative Liability prior to conversion/payment and recorded a gain on settlement of \$66,731. At April 2, 2017, the Company determined the FV of the remaining DL to be \$222,346. As a result, the Company recorded a cost of \$50,629 to account for the change in FV between the reporting periods. After the conversions through April 2, 2017, the Company and St. George had a dispute as to ultimate settlement of this obligation. On August 14, 2017, the Company and St. George agreed to settle the outstanding amount of convertible notes due for the issuance of 7,900,000 shares of common stock. The settlement was accounted for as a debt extinguishment. As such, given that the debt was extinguished, the remaining associated derivative liability of \$222,346 was also extinguished was included in the calculation of loss on debt extinguishment.

The fair value of the derivative liability related to the Iconic note was determined to be \$118,873 at January 1, 2017. In January 2017, the lender converted all outstanding principal and interest due him in exchange for 38,457,435 shares of common stock. As a result, the Company extinguished the recorded derivative liability of \$118,873 and recorded as a gain on extinguishment.

F-13

NOTE 10 – COMMON STOCK

Issuance of Common Stock

During the twenty-six weeks ended July 2, 2017, the Company granted and issued to officers and employees 10,170,000 shares of restricted common stock with a fair value of \$28,470, and a non-employee 600,000 shares with a fair value of \$10,290 based on the fair value of the shares on the date of grant for services rendered.

During the twenty-six weeks ended July 2, 2017, the Company issued 2,100,000 shares of common stock in settlement of an accounts payable amounting to \$138,000. The fair value of the shares issued was \$246,000 based on the fair value of the shares on the date of settlement resulting in an additional cost to the Company of \$109,096.

During the twenty-six weeks ended July 2, 2017, the Company received \$75,000 from the sales of 992,602 shares of stock. Such shares have not yet been issued and warrants to acquire 357,142 shares of common stock at an exercise price of \$0.12 per share that expire in June 2020.

During the twenty-six weeks ended July 2, 2017, the Company issued total of 54,118,046 shares of its common stock for conversion of convertible notes in the amount of \$172,847 (see Note 6 and 7).

Employee Stock Options

The following table summarizes the changes in the options outstanding at April 2, 2017, 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.

	Stock Options	Weighted Average Exercise Price
Outstanding, January 1, 2017	115,000	\$ 4.50
Granted	-	-
Exercised	-	-

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

Outstanding, July 2, 2017	115,000	\$ 4.50
Exercisable, July 2, 2017	115,000	\$ 4.50

As of July 2, 2017, the stock options had no intrinsic value.

There were no options granted during the fiscal quarter ended July 2, 2017, and there was no stock-based compensation expense in connection with options granted to employees recognized in the consolidated statement of operations for the twenty-six weeks ended July 2, 2017.

F-14

NOTE 10 – COMMON STOCK (CONTINUED)**Warrants**

The following table summarizes the changes in the warrants outstanding at July 2, 2017, and the related prices.

A summary of the Company's warrants as of July 2, 2017 is presented below:

	Warrants	Weighted Average Exercise Price
Outstanding, January 1, 2017	606,500	\$ 0.13
Granted	5,507,143	0.10
Exercised	-	-
Outstanding, July 2, 2017	6,113,643	\$ 0.11
Exercisable, July 2, 2017	6,113,643	\$ 0.11

Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
\$0.01 ~ \$0.15	6,113,643	\$ 0.11	4.55	6,113,643	\$ 0.11
	6,113,643		4.55	6,113,643	

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 January 1, 2017, 440,000 of these warrants with a fair value of \$31,000 were deemed to have been achieved and are included in the table of outstanding warrants above. At July 2, 2017, the achievement of the corresponding milestones for the

remaining warrants to acquire 3,960,000 has been determined to be remote or undeterminable, as such, the warrants have not been included as outstanding in the table above.

During the twenty-six weeks ended July 2, 2017, the Company entered into agreements to issue warrants to acquire 5,150,000 shares of common stock for celebrity services to promote the Company's business. The warrants were fully vested upon issuance, expire 5 years from the date of issuance, and 5,000,000 of the warrants are exercisable at \$0.10 per share and 150,000 of the warrants are exercisable at \$0.20 per share. The total fair value of these warrants at grant date was \$531,000 using the Black-Scholes Option Pricing model with the following assumptions: life of 5 years; risk free interest rate of 1.73%; volatility of 350% and dividend yield of 0%.

F-15

NOTE 11 – LEASES

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

Minimum base rent for the Company's operating leases, which generally have escalating rentals over the term of the lease, is recorded on a straight-line basis over the lease term. The initial rent term includes the build-out, or rent holiday period, for the Company's leases, where no rent payments are typically due under the terms of the lease. Deferred rent liabilities are recorded to the extent it exceeds minimum base rent per the lease agreement. Rent expense for the Company's restaurant operating leases was \$100,773 and \$163,319 for the thirteen weeks ended July 2, 2017 and June 26, 2016, respectively, and \$202,363 and \$261,406 for the twenty-six weeks ended July 2, 2017 and July 26, 2016, respectively.

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 \$506,271 and \$475,000 were initially reimbursed 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.

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 which resulted in an aggregate gain of \$455,287 which has been deferred, and will be amortized on the straight-line basis over the remaining life of the lease as an adjustment to rent expense. During the year ended January 1, 2017, \$26,172 of the deferred gain was amortized and offset to rent expense, resulting in a remaining deferred gain balance of \$429,115 as of January 1, 2017. During the twenty-six weeks ended July 2, 2017, an additional adjustment of outstanding rent of \$37,937 was added to the deferred gain and will be amortized on the straight-line basis. During the twenty-six weeks ended July 2, 2017, \$31,398 of the deferred gain was amortized and offset to rent expense, resulting in a remaining deferred gain balance of \$435,654 as of July 2, 2017.

The balance of the incentive from lessor as of July 2, 2017 and January 1, 2017, were \$697,885 and \$740,428, and included deferred rent of \$126,104 and \$117,056, respectively. As of July 2, 2017, \$94,756 of the incentive from lessor was current and \$603,129 was long term. Amortization of the incentive from lessor was \$21,679 and \$33,479 for the thirteen weeks ended July 2, 2017 and June 26, 2016, respectively, and \$42,543 and \$61,653 for twenty-six weeks ended July 2, 2017 and June 26, 2016, respectively.

F-16

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Litigation

The Company entered into an agreement settling all claims with St. George on August 14, 2017 pursuant to a confidential settlement agreement. Subject to the execution of documents memorializing the settlement terms, the Company agreed to convert the outstanding balance of St. George's note into 7,900,000 shares of common stock (see Note 7) and St. George agreed to purchase an additional 1,100,000 shares for a purchase price of \$110,000 at \$0.10 per share.

NOTE 13 – SUBSEQUENT EVENTS

On August 1, 2017, the Company issued to a consultant 745,000 unrestricted shares of common stock at fair value of \$52,150 for services rendered.

The Company entered into an agreement settling all claims with St. George on August 14, 2017 pursuant to a confidential settlement agreement. Subject to the execution of documents memorializing the settlement terms, the Company agreed to convert the outstanding balance of St. George's note into 7,900,000 shares of common stock (see Note 7) and St. George agreed to purchase an additional 1,100,000 shares for a purchase price of \$110,000 at \$0.10 per share.

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 2016 and 2017 consists of a year ending January 1, 2017 and December 31, 2017.

Overview

Giggles N Hugs is a unique restaurant concept that brings together high-end, organic food with the play elements and entertainment for children. Giggles N Hugs offers an upscale, family-friendly atmosphere with a play area dedicated to children ages 10 and younger. The restaurant has a high-quality menu made from fresh, organic foods that are enjoyed by both children and adults. With nightly entertainment, such as magic shows, concerts, puppet shows, as well as activities and games which include face painting, dance parties, karaoke, and arts and crafts, Giggles N Hugs has become a premier destination for families seeking healthy food in a casual and fun atmosphere. Parents get to eat and relax while the kids play.

In addition to its family-friendly vibe, Giggles N Hugs is also known for its own creation called “Mom’s Tricky Treat Sauce,” which hides pureed vegetables in kids’ favorite meals such as pizza, pastas and macaroni and cheese.

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.

The Company continues to operate its restaurants in Topanga and in the Glendale Galleria Mall.

RESULTS OF OPERATIONS***Results of Operations for the Thirteen Weeks Ended July 2, 2017 and June 26, 2016:*****COSTS AND OPERATING EXPENSES**

	For Thirteen Weeks Ended July 2, 2017	For Thirteen Weeks Ended June 26, 2016	Increase (Decrease)	
			\$	%
Revenue:				
Net sales	\$575,824	\$831,464	\$(255,640)	-30.7 %
Costs and operating expenses:				
Cost of operations	429,164	734,151	(304,987)	-41.5 %
General and administrative expenses	249,822	319,926	(70,104)	-21.9 %
Depreciation and amortization	64,068	88,741	(24,673)	-27.8 %
Total operating expenses	743,054	1,142,818	(399,764)	-35.0 %
Loss from Operations	(167,230)	(311,354)	144,124	-46.3 %
Other income (expenses):				
Finance and interest expenses	(14,772)	(84,378)	69,606	-82.5 %
Loss on extinguishment of debt	(186,818)	-	(186,818)	*
Gain on sale of asset	-	5,971	(5,971)	-100.0%
Gain on lease termination	-	214,111	(214,111)	-100.0%
Loss before provision for income taxes	(368,820)	(175,650)	(193,170)	110.0 %
Provision for/benefit from income taxes	(2,650)	616	(3,266)	-530.2%
Net loss	\$(371,470)	\$(175,034)	\$(189,904)	108.5 %

Notes to Costs and Operating Expenses Table:

Net sales. Net sales for the thirteen weeks ended July 2, 2017 and June 26, 2016 were \$575,824 and \$831,464 respectively. The decrease of \$255,640 (-30.7%) was mostly attributable to the closing of the Century City store at the end of the 2nd quarter, 2016. However, the two remaining store operations in Topanga and Glendale reported an increase of \$25,516 (or 4.6%), for the thirteen weeks ended July 2, 2017 versus the comparable period in 2016.

Cost of operations. Costs of operations of \$429,164 and \$734,151 for the thirteen weeks ended July 2, 2017 and June 26, 2016, respectively, reflecting a decline of \$304,987 (-41.5%). Of that decline \$65,955 was realized in Topanga and Glendale stores with the remaining decrease of \$239,032 was result of the closing of the Century City store.

General and administrative expenses. General and administrative expenses for the thirteen weeks ended July 2, 2017 and June 26, 2016 were \$249,823 and \$319,926, respectively. This decline of \$70,103 (-21.9%) was mainly attributable to lower professional fees.

Depreciation and amortization. The depreciation and amortization was \$64,069 compared to the \$88,741 for the thirteen weeks ended July 2, 2017 and June 26, 2016, respectively. This reduction of \$24,672 or -27.8% is primarily due to the closing and sell off the fixed assets related to the closing of the Century City store at the end of the second quarter of 2016.

Finance and interest expense. The total finance and interest expenses of \$14,772 for the thirteen weeks ended July 2, 2017 decreased by \$69,606, from the \$84,378 for the thirteen weeks ended June 26, 2016, and was due to lower debt.

Net Loss. The overall net losses of \$371,470 and \$175,034 for the thirteen weeks ended July 2, 2017 and June 26, 2016, respectively, reflects an increased loss of \$189,904, which almost entirely a result of the extinguishment of a promissory note.

*Results of Operations for the Twenty-Six Weeks Ended July 2, 2017 and June 26, 2016:***COSTS AND OPERATING EXPENSES**

	For Twenty-Six Weeks Ended July 2, 2017	For Twenty-Six Weeks Ended June 26, 2016	Increase (Decrease)	
			\$	%
Revenue:				
Net sales	\$ 1,237,527	\$ 1,710,398	(472,871.00)	-27.6 %
Costs and operating expenses:				
Cost of operations	932,955	1,504,669	(571,714)	-38.0 %
General and administrative expenses	1,185,556	644,118	541,438	84.1 %
Depreciation and amortization	128,137	177,882	(49,745)	-28.0 %
Total operating expenses	2,246,648	2,326,669	(80,021)	-3.4 %
Loss from Operations	(1,009,121)	(616,271)	(392,850)	63.7 %
Other income (expenses):				
Finance and interest expenses	(64,042)	(173,331)	109,289	-63.1 %
Change in fair value of derivatives	(50,629)	-	(50,629)	*
Gain on extinguishment of derivatives	185,604	-	185,604	*
Loss on extinguishment of debt	(186,818)	-	(186,818)	*
Gain on Sale of Asset	-	5,971	(5,971)	-100.0 %
Gain on Lease Termination	-	214,111	(214,111)	-100.0 %
Loss before provision for income taxes	(1,125,006)	(569,520)	(555,486)	97.5 %
Provision for income taxes	(2,650)	(184)	(2,466)	1340.2 %
Net loss	\$(1,127,656)	\$(569,704)	\$(557,952)	97.9 %

Notes to Costs and Operating Expenses Table:

The net sales for the twenty-six weeks ended July 2, 2017 and June 26, 2016 were \$1,237,527 and \$1,710,398, respectively. The 27.6% decrease was mostly attributable to the closing of the Century City store at the end of the 2nd quarter, 2016. Despite the total decrease, the remaining operational stores in Topanga and Glendale reported an increase of \$111,810 (or 9.9%).

Cost of operations. Cost of operations of \$932,955 and \$1,504,787 for the twenty-six weeks ended July 2, 2017 and June 26, 2016, respectively. The decrease of \$571,714 (-38.0%) was mostly attributable to the closing of the Century City store at the end of the 2nd quarter, 2016. Of the total decrease the remaining operational stores in Topanga and Glendale had decreased their cost of operations by \$79,682 (or 7.9%).

General and administrative expenses. General and administrative expenses for the twenty-six weeks ended July 2, 2017 and July 26, 2016 were \$1,185,556 and \$644,118, respectively. The substantial increase of 84.1% was mostly due to the fair value of \$531,000 for warrants granted for services rendered and a \$109,096 charge relating to settlement of an outstanding payable.

Depreciation and amortization. The depreciation and amortization was \$49,745 less than the same period in the previous year. The decline was mostly due to the closing of the Century City store at the end of the second quarter of 2016.

Finance and interest expense. The total finance and operating expenses of \$64,043 and \$173,33 for the twenty-six weeks ended July 2, 2017 and June 26, 2016, respectively. The decrease of \$109,288 (-63.1%) mostly attributable to a lower debt.

Net Loss. The overall net loss of \$1,127,656 and \$569,704 for the twenty weeks ended July 2, 2017 and June 26, 2016, respectively, reflects an increase in the net loss of 97.9%. The increase in the operating loss is mostly attributable to the fair value of \$531,000 for warrants granted for services rendered and a \$109,096 charge to settlement of an outstanding payable.

LIQUIDITY AND CAPITAL RESOURCES

As of July 2, 2017, the Company has \$154,288 in cash and cash equivalents, \$25,616 in inventory, and \$16,516 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 thirteen weeks ended July 2, 2017 and June 26, 2016:

	For Twenty-Six Weeks Ended July 2, 2017	For Twenty-Six Weeks Ended June 26, 2016
Net cash used in operating activities	\$ (53,689)	\$ (581,386)
Net cash provided by investing activities	-	360,500
Net cash provided by financing activities	63,457	-
Net increase (decrease) in Cash	9,768	(220,886)
Cash, beginning of period	144,520	334,191
Cash, end of period	\$ 154,288	\$ 113,305

Operating activities

Net cash used in operating activities was \$53,689 for the twenty-six weeks ended July 2, 2017 compared to \$581,386 used in operating activities for the twenty-six weeks ended June 26, 2016. The significant change was mostly attributable to the promissory note settlement.

Investing activities

The cash provided by investing activities for the twenty-six weeks ended June 26, 2016 was \$360,500 which consisted of cash received for the closure of the Century City store under the lease termination agreement with Westfield and the sales of remaining fixed assets. There were no investing activities or the twenty-six weeks ended July 2, 2017.

Financing activities

Net cash provided for the twenty-six weeks ended July 2, 2017 was \$63,457 from cash receipts from investors for future common stock issuable. There were no financing activities or the twenty-six weeks ended June 26, 2016.

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 twenty-six weeks ended July 2, 2017, the Company incurred a net loss of \$1,127,656, used cash in operations of \$53,689 and had a stockholders' deficit of \$1,604,074 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 January 1, 2017 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 July 2, 2017, the Company had cash on hand in the amount of \$154,288. Management estimates that the current funds on hand would be sufficient to continue operations through September 2017. 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

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.

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 \$443,521, resulting in a valuation discount of \$319,740. As of July 2, 2017, the balance of note payable was \$711,869, and unamortized note discount was \$283,377, with a net balance due of \$428,492.

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).

Convertible Notes Payable

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.

Promissory Note

On December 18, 2015, the Company issued a six month 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 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"). 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. 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 at the date of the modification.

During the period, the Holder converted \$48,914 of debt into 15,660,611 shares of Common Stock. In addition, the Company paid \$7,517 of the principal balance. On March 23, 2017, St. George Investments, LLC ("St. George") served an arbitration demand and summons claiming that the Company had breached its obligations under a convertible note by preventing St. George from converting the remaining balance of the note to common stock. The parties disagreed as to the conversion price set in the note agreement due to execution by the parties of different versions of the document. St. George claimed for additional damages. The Company believed these claims lacked merit and the Company retained counsel to vigorously defend this action. Effective May 3, 2017, the Company counter-sued for full damages for breaching the contract, claiming mistakes, rescission, breach of the covenant of good faith and fair dealing and unjust enrichment.

On August 14, 2017, the Company and St. George entered into a settlement agreement whereby the Company agreed to deliver 7,900,000 unrestricted free-trading shares to SGI Immediately upon signing a final settlement agreement and St. George agreed to purchase an additional 1,100,000 shares of the companies restricted common stock for a purchase price of \$110,000 at \$0.10 per share. These shares shall be delivered pursuant to a conversion under the existing outstanding note. The shares had a fair value of \$.07 per share as of the settlement date, or \$553,000 in the aggregate. At the time of the settlement, the outstanding balance under the note was \$132,928 and accrued interest of \$10,818.

The company considered the settlement as a debt extinguishment as the consideration to be issued was greater than 10% of the debt at the date of the modification. As such the Company recorded the fair value of the shares to be issued, and recognized a loss on the extinguishment of the aggregate face value of the note and accrued interest of \$143,740, and the remaining value of the derivative liability of \$222,436, resulting in a loss on extinguishment of \$186,818. The Company determined that it was appropriate to record this loss as of July 2, 2017) as it related to outstanding claims that were due at that time, with the ultimate settlement becoming known prior to filing of the 10Q.

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.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Smaller reporting companies are not required to provide the information under this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarterly period ended July 2, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

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

PART II—OTHER INFORMATION

ITEM 1. Legal Proceedings.

The Company entered into an agreement settling all claims with St. George on August 14, 2017 pursuant to a confidential settlement agreement. Subject to the execution of documents memorializing the settlement terms, the Company agreed to convert the outstanding balance of St. George's note into 7,900,000 shares of common stock (see Note 7) and St. George agreed to purchase an additional 1,100,000 shares for a purchase price of \$110,000 at \$0.10 per share.

ITEM 1A. Risk Factors

Our significant business risks are described in Item 1A to Form 10-K for the year ended January 1, 2017, which is incorporated herein by this reference.

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

During the period covered by the report, the Company issued the following unregistered securities:

10,170,000 shares of restricted common stock to employees; and

500,000 shares of restricted common stock to a consultant.

The Company issued these securities in reliance on the exemption from registration afforded by Section 4(a)(2) of Securities on the basis the transactions did not involve public offerings.

Issuer Purchases of Equity Securities

None

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information.

None.

ITEM 6. Exhibits.

Exhibit No.	Description
31.1*	Certification of Principal Executive Officer & Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certifications of Principal Executive Officer & Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

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

SIGNATURE

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

GIGGLES N' HUGS, INC.

Date August 21, 2017 By: */s/ Joey Parsi*

Joey Parsi

Chief Executive Officer

(Principal Executive Officer and duly authorized signatory)

