

Giggles N' Hugs, Inc.  
Form 10-K  
April 14, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

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

**For the fiscal year ended December 29, 2013**

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

**Commission file number 000-53948**

**GIGGLES N HUGS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada** **20-1681362**  
(State or other jurisdiction of (I.R.S. Employer)

incorporation or organization) Identification No.)

**10250 Santa Monica, #155**

**90067**

**Los Angeles, CA**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(310) 553-4847**

Copies of Communications to:

Richardson & Patel, LLP

1100 Glendon Avenue

Suite 850

Los Angeles, CA 90024

(310) 208-1182

Fax (310) 208-1154

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, \$0.001 par value**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has 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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

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

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

Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2013 (the last business day of the registrant's most recently completed second fiscal quarter) was \$1,347,567 based on a share value of \$0.21.

The number of shares of Common Stock, \$0.001 par value, outstanding on April 1, 2014 was 24,807,478 shares.

DOCUMENTS INCORPORATED BY REFERENCE: None.

**GIGGLES N HUGS, INC.**

**FOR THE YEAR ENDED**

**DECEMBER 29, 2013**

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

	Page
<b><u>PART I</u></b>	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	7
Item 1B. <u>Unresolved Staff Comments</u>	12
Item 2. <u>Properties</u>	13
Item 3. <u>Legal Proceedings</u>	13
<b><u>PART II</u></b>	
Item 4. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	14
Item 5. <u>Selected Financial Data</u>	17
Item 6. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 6A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 7. <u>Financial Statements and Supplementary Data</u>	21
Item 8. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	21
Item 8A (T). <u>Controls and Procedures</u>	22
Item 8B. <u>Other Information</u>	23
<b><u>PART III</u></b>	
Item 9. <u>Directors, Executive Officers and Corporate Governance</u>	23
Item 10. <u>Executive Compensation</u>	26
Item 11. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	28
Item 12. <u>Certain Relationships and Related Transactions, and Director Independence</u>	29
Item 13. <u>Principal Accounting Fees and Services</u>	29
<b><u>PART IV</u></b>	
Item 14. <u>Exhibits, Financial Statement Schedules</u>	31
<b><u>SIGNATURES</u></b>	32

INDEX TO FINANCIAL STATEMENTS

## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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;

our ability to incorporate the GNH, Inc. assets into our operations;

our ability to generate sufficient funds to operate the GNH, Inc. operations;

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. Forward-looking statements may appear throughout this report, including without limitation, the following sections: Item 1 “Business,” Item 1A “Risk Factors,” and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “will be,” “will continue,” “will likely result,” and similar expressions. These forward-looking statements are based on current expectations and assumptions that are subject to risks and

uncertainties, which 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 Annual Report on Form 10-K, and in particular, the risks discussed under the caption “Risk Factors” in Item 1A and those discussed in other documents we file with the Securities and Exchange Commission (SEC). We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

*Throughout this Annual Report references to “we”, “our”, “us”, “Giggles”, “GIGL”, and “the Company”, and similar terms refer to Giggles N Hugs, Inc. and its subsidiaries, unless the context indicates otherwise.*



## **PART I**

### **ITEM 1. BUSINESS**

#### **Business Development**

Giggles N Hugs, Inc. was formed as a Nevada corporation on September 17, 2004. On August 2010, Giggles changed its name from Teacher's Pet, Inc. to Giggles N Hugs, Inc. Effective December 30, 2011; Giggles completed the acquisition of GNH, Inc. ("GNH") through the acquisition of 100% of the issued and outstanding common stock of GNH.

Giggles now owns and operates a kid-friendly restaurant named Giggles N Hugs in the Westfield Mall in Century City, Westfield Topanga Shopping Center located in Woodland Hills, as well as the new Glendale Galleria located in Glendale, California and owns the intellectual property rights for Giggles N Hugs facilities in the future.

#### **Recent Development**

In addition to the Century City location and Topanga location, Giggles opened a restaurant at the Glendale Galleria Shopping Center in Woodland Hills, California, owned by General Growth Properties, on November 21, 2013. Giggles' wholly-owned subsidiary, Glendale Giggles N Hugs, Inc., has signed a 10-year commercial lease for a 6,000 square foot space at Glendale Galleria.

#### **Business Overview**

Giggles N Hugs is the pioneer and only restaurant 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, face painting and arts and crafts, Giggles N Hugs has become a premier destination for families seeking healthy food in a casual and fun atmosphere.

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.

The founders, Joey Parsi and his wife, Dorsa, conceived the idea when they tried dining out with their own children, but spent the entire evening attending to quieting their kids and avoiding disapproving stares. From this frustrating experience, they discovered that there was a significant need for high-quality restaurants where play time, healthy food, and happy parents could converge. This idea led to the creation of Giggles N Hugs. Since its grand opening in February of 2008, it has become a destination for parents and kids to play and have fun while enjoying a gourmet meal.

Our restaurant offers a combination of high quality food and beverage with attentive service to ensure a memorable experience. Our play areas are supervised by staff members who promote positive interaction, fun, and activities in such a way that their presence often overshadows the presence of the vast number of toys and daily entertainment we offer. Our restaurant features kid-size castles, giant climbers, a pirate ship, and a walk-on dragon, as well as tricycles, swings, bouncies, and an abundant selection of toys in each location. The Giggles N Hugs team is a group of individuals that have been hired and trained to reflect our core beliefs of creating an environment for families to bond and interact with one another. We encourage our staff members to be more than just employees, but instead to become friends with our guests. The family-friendly feel of the restaurant and play space reflects its image and individuality in the marketplace.

Giggles N Hugs was rated among the best family and kid-friendly restaurants by City Search, a division of Interactive Corp., which is a website where restaurant goers can blog about their experiences and rate restaurants on a scale of one to five, and by Nickelodeon, a division of Viacom. We have been featured in numerous television news programs and publications, including TV Guide Channel, Fox Channel 11, Extra TV, Access Hollywood, Entertainment Tonight, Businessweek, People Magazine, The Los Angeles Times, Los Angeles Family, West-Side Today, US Magazine, OK Magazine, Life and Style Magazine, and the LA Business Journal. Our concept has appealed to numerous celebrities. Many high-profile actors and entertainers have enjoyed the Giggles N Hugs experience.

### **Restaurant Concept:**

Our operating restaurants are located in the Westfield Century City Mall, in Century City, California near Beverly Hills, in the Westfield Topanga Mall, in Woodland Hills, California and in Glendale, Galleria in Glendale, California. Our restaurants have about 6,000 square feet of space, of which 2,000 square feet are allocated for the play area, 2,500 square feet for the dining area, and 1,500 square feet for the kitchen.

### **Dining Area:**

Giggles N Hugs has arranged its spacious dining area so that every table has a view of the play area. Parents have the convenience of watching their children from a distance without having to leave their seats. Parents can sit down and enjoy their meals comfortably while their kids play. Sleek and modern white chairs and colorful utensils are used to appeal to the kids. All utensils are unbreakable and kid-friendly.

### **Menu:**

We pride ourselves in our upscale entrée selections that are both nutritious and appetizing. For children, we offer macaroni and cheese, turkey dogs, and turkey burgers. We incorporate nutritious vegetables into typical children favorites, such as pureed butternut squash in the macaroni and cheese, pureed spinach in our pizza and spaghetti sauce, and whole wheat bread buns for our sandwiches. We also offer delicious salads, such as “Goat Cheese and Beet Salad,” “Chinese Chicken Salad,” and “Honey Peanut and Apple Salad.” Some of our gourmet entrees include grilled salmon, “Chicken Milanese,” and fresh panini. For guests who have specific dietary restrictions, we offer a variety of alternative menu items including non-dairy milk, gluten free pasta, and whole grain breads.

### **Play area:**

The uniqueness of a child's imagination can run wild in our exceptionally designed play space. In the center of our restaurant is our exclusive padded 2,000 square foot children's play area. The magical play space includes a life-size pirate ship for boys and girls to climb into and slide off of, a fairytale play castle for the princes and princesses to let their imaginations run wild, and a green dragon for the smaller kids to climb. Along with the signature pieces, the play area also highlights kids' favorite toys, play kitchens, and cars. Safety is the number one priority when it comes to our guests. Our highly skilled and inspirational staff understands the importance of each child's safety and genuine joy while at Giggles N Hugs. They make balloon animals, paint faces, and give temporary tattoos to the kids. They also sing songs, read books, and play games to keep the fun times rolling. The overall design of the restaurant exudes a magical, whimsical feeling, while maintaining an aura of sophistication and detail, particularly in the dining area, to appeal to parents. With a small admission fee of \$9, children can play all day and enjoy activities and entertainment in the Giggles N Hugs play area.

**Activities and Entertainment:**

Entertainment is a fundamental part of our restaurant. Story-telling, singing, and game sessions conducted by the staff members are just a few of our options. For a more calm and relaxing experience, we offer movie nights. For those guests looking for a more upbeat experience, we have "Disco Night" and "Kids Karaoke." Giggles N Hugs also offers magic shows, puppet shows, arts and crafts, Play-Doh, and contests such as talent shows and "Simon Says," as well as other impromptu games that allow our staff and parents to bond with their children.

### **Birthday parties and other special events:**

Each Giggles N Hugs location has the capacity to host up to 500 guests for birthday parties and special events for 2 hours or more. Packages include food, cake, facility use, party favors, and activities. Giggles N Hugs goes to great lengths to make birthday parties worry-free for parents. This includes sending out invitations, arranging entertainment, providing catering, and staffing. Giggles N Hugs is great for all special events including holiday parties, fundraisers, family get-togethers, and other celebrations.

### **History**

The original Giggles N Hugs opened its doors in February of 2008 and was located in the posh Brentwood district of Los Angeles. The unique design and 1,500 square-foot play area was a huge success and solidified our proof of concept. However, due to the limited size of the location, our ability to offer “drop-off” services, one of our most popular features, was hindered. Drop-off services allow parents to drop their children off in our play area and go shopping while their children play in a supervised environment. In addition, other factors such as lack of available parking, the location’s strip mall characteristics, and isolated location became problematic. As a result, we decided it was in our best interest to close the restaurant and secure a larger venue elsewhere.

With the successful launch and proof of concept that was realized at our Brentwood location, the Company decided to expand to the Westfield Shopping Mall in Century City in December of 2010. This ideal location highlights a play space two times the size of the original location and includes additional sources of revenue including beer and wine sales, drop off service, private party rentals, and in-store merchandise. Furthermore, Giggles N Hugs intends to introduce a new line of frozen foods, specifically designed for children, and organic baby foods, both of which we hope will be available at grocery stores. We are in discussions to license our brand for merchandising, publishing, children’s apparel, entertainment, and more. With sufficient financing, Giggles N Hugs plans to expand to other parts of the country in the future.

### **Expansion**

We intend to expand and open new stores either through the company-owned approach, using the franchise model, or both.

***Company-owned stores.*** We estimate that we would have to expend \$700,000 - \$900,000 (net of any –landlord-tenant improvement allowances) to construct, staff, and open each new restaurant, excluding rent. Our build-out cost of new

restaurants will vary depending on a number of factors, including the size of the location, whether we are converting an existing restaurant space as we did with our Brentwood location, or moving into a “build to suit” location constructed from a building shell, typically with a monetary contribution (also typically referred to as a tenant improvement allowance) from the landlord. While the latter development model generally involves greater costs (depending on the level of landlord contribution) and time to open (because the permitting process is typically significantly longer), we believe that positioning our restaurants in popular, “marquee” locations (which typically operate on the “build to suit” model) will greatly increase public awareness and recognition of the Giggles brand, which we believe is critical to our continued growth.

**Franchises.** We have received substantial inquiries from persons interested in franchising our stores. Therefore, in addition to, or in lieu of our company-owned restaurants, we believe we can efficiently grow our operations by franchising our stores to qualified area developers. In order to offer to sell franchises to operate a Giggles N Hugs restaurant, Federal Trade Commission rules require us to first prepare and provide prospective franchisees with a disclosure document called a Uniform Franchise Offering Circular, or UFOC, which includes, among other things, our various franchise agreements. In addition, before we can offer our franchises in certain states that have enacted state franchise or business opportunity laws, we must add certain state-specific disclosures to our UFOC, and register our offer with a state agency. We have not filed our UFOC in any state. Many of these states evaluate franchisor financial condition as part of the registration process.

## Marketing and Advertising

To date, our marketing and advertising has been extremely limited as we have conserved working capital for operational purposes. Our primary marketing has been through word-of-mouth from existing customers and some limited print-based advertising.

Once we have sufficient financing, we plan to market our products and services through a multi-pronged campaign. To this end, Giggles N Hugs will directly engage local preschools, kindergartens, and elementary schools. We believe our cause and community marketing would better root our presence in the minds of area locals. With additional marketing capital, Giggles N Hugs plans to advertise on television channels such as Disney and Nickelodeon, as well as in additional print publications, radio, and satellite radio. Our first store has been frequented by numerous celebrities, which provides free and invaluable publicity. We believe a large scale marketing campaign that increases exposure to Giggles N Hugs could result in a significant increase in our revenue.

We intend to design an aggressive and creative promotional strategy aimed to maximize our exposure to the target audience. We believe the following direct and indirect advertising methods could increase exposure and visibility of the “Giggles N Hugs” brand in our community:

**Viral Marketing:** Word-of-mouth advertising in conjunction with other secondary advertising methods functions to spread our already-popular name. Celebrity patronage is especially useful in this regard.

**Internet Advertising:** We would allot portions of our marketing budget for strategic Internet marketing, including search engine optimization. This tactic involves organically improving the quality and volume of traffic to a website through search engine searches. Search engine optimization can also target different kinds of searches, including image, local, and industry-specific vertical search engines.

**Television advertising:** We recognize that television advertising is an effective means of reaching a large target population. For this reason we plan to advertise on local cable channels, such as The Disney Channel and Nickelodeon.

**Special events/sponsorships:** We may sponsor local events and organizations in an effort to contribute to surrounding neighborhoods and the overall community, which concurrently builds community awareness of our stores.

**Print media-magazines:** Print advertisements will continue to be placed in select magazines and newspapers for weekly and/or monthly distribution. These advertisements include a brief description of the Company, comprehensive explanatory images and/or text detailing products, and also offer limited time discounts.

We have also received free publicity through celebrity-interest magazines, such as People Magazine, mentioning our restaurant in their articles. We have also attracted coverage from the local print media such as the Los Angeles Times and LA Business Journal about our concept of a kid-oriented restaurant.



## Competition

Giggles N Hugs faces competition from other family-oriented establishments, especially businesses that operate under the national franchise model. This is primarily populated by the industry giant Chuck E. Cheese, which caters to older children and only serves pizza and related foods. Most play areas have minimal food preparation areas, if any, consisting only of a microwave oven or toaster.

Giggles N Hugs has already begun cementing its reputation in the local marketplace having seen establishments that reflect direct competition to us suffer a lack of business and/or shut down. We are aware that the quality of the Giggles N Hugs brand and model has influenced and increased the expectations of parents and that our presence has significantly affected the business of other local establishments.

The major competitors in the Company's immediate area are Child's Play and Under the Sea Indoor Playground. These businesses operate under the play area model and are mostly used as birthday party venues or weekend playgrounds, as opposed to a food and entertainment destination like Giggles N Hugs. To our knowledge, these businesses are so popular among children that they are booked for months in advance in most cases for birthday parties and other celebrations. These businesses provide an excellent insight into the demand for our business model, which improves upon the competition by providing healthy food choices in a true restaurant environment.

We enjoy numerous advantages in our target market that other companies fail to deliver. The following list describes each advantage:

Delicious, but also nutritious, food.

Sundry, novel, child-oriented toys and overall environment.

Quality offerings for adults while waiting.

Theme nights such as "Disco Night".

Entertainment such as puppet shows, magic shows and music shows.

"Aides" to assist in the kids' enjoyment while parents relax.

We are aware that many of our competitors and potential competitors have greater financial and other resources, have been in business longer, have greater name recognition and are better established in the markets where our first restaurant is located and where our future restaurants will be located. Although we believe that our restaurant concept

offers features and advantages not currently available elsewhere, and we have taken reasonable steps to adequately protect our proprietary concepts and other intellectual property, we cannot assure you that these companies will not seek to copy aspects of our restaurant concept, or develop similar or competing features, in the future.

### **Government Regulation**

Our restaurant operations will be subject to licensing and regulation by state and local departments and health, sanitation, zoning and fire, and to periodic review by the state and municipal authorities for areas in which the restaurants are located. In addition, we will be subject to local land use, zoning, building, planning and traffic ordinances and regulations in the selection and acquisition of suitable sites for developing new restaurants. Delays in obtaining, or denials of, or revocation or temporary suspension of, necessary licenses or approvals could have a material adverse impact on our development of restaurants.

Our restaurant operations will also be subject to regulation under the Fair Labor Standards Act, which governs such matters as working conditions and minimum wages. An increase in the minimum wage rate or the cost of workers' compensation insurance, or changes in tip-credit provisions, employee benefit costs (including costs associated with mandated health insurance coverage), or other costs associated with employees could adversely affect our company.

In addition, our restaurant operations will be subject to the Americans with Disabilities Act of 1990. The ADA may require us to make certain installations in our planned restaurants to meet federally and state mandated requirements.

### **Intellectual Property**

We have filed and received a United States federal trademark registration for "GIGGLES N HUGS, INC.," "GIGGLES N HUGS," and other marks. We have registered the [www.gigglesnhugs.com](http://www.gigglesnhugs.com) domain name. We consider our trademarks and other intellectual property rights to be important to our branding strategy and business success.

### **Personnel**

As of the date of this filing, and as a result of our recent organizational establishment, we have 93 employees.

### **Available Information**

Our periodic reports filed with the SEC, which include Form 10-K, Form 10-Q, Form 8-K, and amendments thereto, may be accessed by the public free of charge from the SEC. Electronic copies of these reports can be accessed at the SEC's website (<http://www.sec.gov>). Copies of these reports may also be obtained, free of charge, upon written request to: Giggles N Hugs, Inc. 1000 North Green Valley Parkway, Suite 440-484, Henderson, Nevada 89074, Attn: Corporate Secretary. The public may read or obtain copies of these reports from the SEC at the SEC's Public Reference Room at 450 Fifth Street N.W., Washington, D.C. 20549 (1-800-SEC-0330).

## **ITEM 1A. RISK FACTORS**

### **RISKS ASSOCIATED WITH OUR BUSINESS AND MARKETPLACE**

***We have a limited operating history in the restaurant industry on which to evaluate our potential and determine if we will be able to execute our business plan, and depends on our three restaurant locations to generate all of our restaurant revenues.***

Although we plan on identifying and opening new restaurant locations, we will initially rely on the Century City, Topanga, and Glendale locations for all of our revenue. Investments in our securities should be considered in light of the risks and difficulties we will encounter as we attempt to penetrate the restaurant industry.

In addition, we cannot guarantee that we will be able to achieve our expansion goals or that new restaurants will generate sufficient revenues or be operated profitably. Our ability to expand will depend on a number of factors many of which are beyond our control. These risks may include, but are not limited to:

- Locating suitable restaurant sites in new and existing markets;
- Obtaining acceptable financing for construction of new restaurants or negotiating acceptable lease terms;
- Recruiting, training and retaining qualified corporate and restaurant personnel and management;
- Cost effective and timely planning, design and build-out of restaurants;
- Obtaining and maintaining required local, state and federal government approvals;
- Creating guest awareness of our restaurants in new markets;
- Competition in our markets; and
- General economic conditions.

***If we are unable to expand our restaurant concept, our potential for growth and our results of operations could be harmed significantly.***

A critical factor in our future viability will be our ability to expand our Giggles N Hugs restaurant concept. Our growth plans contemplate opening a number of additional restaurants in future months and years. If we do not open and operate new restaurants, our growth and results of operations could be harmed significantly. Our ability to open new restaurants in a timely manner and operate them profitably depends upon a number of factors, many of which are beyond our control, including the following:

- Our ability to generate or raise the capital necessary to open new restaurants;
- The availability and cost of suitable restaurant locations for development, our ability to compete effectively for those locations, and enter into purchase or long-term lease agreements for such locations on acceptable terms;
- The timing of delivery of leased premises from our landlords so we can commence our build-out constructions activities;
- Construction and development costs;
- Obtaining and maintaining required local, state and federal governmental approvals and permits related to the construction of restaurant sites and the sale of prepared food products;

Labor shortages or disputes experienced by our landlords or outside contractors; and  
Unforeseen engineering or environmental problems with the leased premises.

***Our expansion into new markets may present increased risks due to our unfamiliarity with the geographic area.***

As a part of our expansion strategy, we expect we will be opening restaurants in markets in which we have no prior operating experience. These new markets may have different competitive conditions, consumer tastes and discretionary spending patterns. In addition, any new restaurants may take several months to reach budgeted operating levels due to problems associated with new restaurants, including lack of market awareness, inability to hire sufficient staff and other factors. Although we will attempt to mitigate these factors by paying careful attention to training and staffing needs, there can be no assurance that we will be able to operate new restaurants on a profitable basis.

***We may be unable to compete effectively in both our current Century City, Topanga, and Glendale locations and at those sites where we may establish and operate additional restaurants. Our inability to compete could adversely affect your investment.***

The restaurant industry is intensely competitive and fragmented. We believe that we compete primarily with casual and quick-casual establishments with play areas. We also compete with play areas without restaurants such as Under the Sea Indoor Playgrounds. Many of our direct and indirect competitors in the Century City, Topanga, and Glendale locations, where our restaurants are located, are well-established national, regional or local chains with a greater market presence than us. Further, many of these competitors have substantially greater financial, marketing and other resources than us, have been in business longer, have greater name recognition and are better established in the markets where our first restaurant is located and in those markets where our future restaurants are planned to be located.

***We will need additional capital in the future to finance our planned growth, which we may not be able to raise or it may only be available on terms unfavorable to us or our stockholders. Ultimately, this may result in our inability to fund our working capital requirements and harm our operational results.***

We have and expect to continue to have substantial capital expenditure and working capital needs. We expect the cash generated from operations and our current cash, cash equivalents and short-term investments to meet our working capital and capital expenditure requirements for only the next 12 months. However, after that time we will need to raise additional funds to fund our anticipated development needs and implement our growth strategy, or to respond to competitive pressures and/or perceived opportunities, such as investment, acquisition, marketing and development activities.

We will require additional financing, in addition to anticipated cash generated from our operations, to fund our planned growth. Additional financing might not be available on terms favorable to us, or at all. If adequate funds were not available or were not available on acceptable terms, our ability to fund our operations, take advantage of

unanticipated opportunities, develop or enhance our business or otherwise respond to competitive pressures would be significantly limited. In such a capital restricted situation, we may curtail our marketing, development, and operational activities or be forced to sell some of our assets on an untimely or unfavorable basis.

***Our auditors have expressed substantial doubt about our ability to continue as a going concern.***

In their report dated April 11, 2014, De Joya Griffith, LLC stated that our financial statements for the fiscal year ended December 29, 2013, were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of our recurring losses from operations and our net capital deficiency. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit.



## **RISKS RELATED TO THE RESTAURANT INDUSTRY**

*Fluctuations in the cost, availability and quality of our raw ingredients and natural resources such as energy affect our results of operations.*

The cost, availability and quality of the ingredients that we use to prepare our food are subject to a range of factors, many of which are beyond our control. Fluctuations in economic and political conditions, weather and demand could adversely affect the cost of our ingredients. We have limited control over these changes in the price and quality of commodities, since we typically do not enter into long-term pricing agreements for our ingredients. We may not be able to pass through any future cost increase by increasing menu prices. These factors could adversely affect our business, reputation and financial results.

*Litigation concerning our food quality, our employment practices, and other issues could result in significant expenses to us and could divert resources from our operations.*

Like other restaurants, we expect we may receive complaints or litigation from, and potential liability to, our guests involving food-borne illness or injury or other operational issues, such as injuries suffered by persons using our play areas. We may also be subject to complaints or allegations from, and potential liability to, our former, existing, or prospective employees involving our restaurant employment practices and procedures. Regardless of whether any claims against us are valid or whether we are liable, our sales may be adversely affected by publicly resulting from such claims. Such claims may also be expensive to defend and may divert time and money away from our operations and adversely affect our financial condition and results of operations.

*Labor shortages or increases in labor costs could restrict our ability to grow or adversely affect our results of operations.*

We expect that our success will depend in part on our ability to attract, motivate, and retain a sufficient number of qualified restaurant employees, necessary to build and grow our operations. If we are unable to identify, and attract a sufficient number of qualified employees, we will be unable to open and operate the locations called for by our development plans. Competition for qualified restaurant employees could require us to pay higher wages and benefits, which could result in higher labor costs.

*We may not be able to protect our trademarks and other proprietary rights.*

We believe that our trademarks and other proprietary rights, including our restaurant and mascot designs, are important to our brand and our competitive position. Accordingly, we devote substantial resources to the development and protection of our trademarks and proprietary rights. However, the actions taken by us may be inadequate to prevent infringement or other unauthorized use of our trademarks and other proprietary rights by others, which may thereby dilute our trademarks in the marketplace and/or diminish the value of such proprietary rights. We may also be unable to prevent others from claiming infringement or other unauthorized use of our trademarks and other proprietary rights by us. In addition, others may assert rights in our trademarks and other proprietary rights. Our rights to our trademarks may in some cases be subject to the common law rights of any other person who began using the trademark (or a confusingly similar mark) prior to both the date of our registration and our first use of such trademarks in the relevant territory. We cannot assure you that third parties will not assert claims against our trademarks and other proprietary rights or that we will be able to successfully resolve each claim which could result in our inability to use certain trademarks or other proprietary rights in certain jurisdictions or in connection with certain goods or services. Future actions by third parties may diminish the strength of our trademarks or other proprietary rights, injure the goodwill associated with our business and decrease our competitive strength and performance. We could also incur substantial costs to defend or pursue legal actions relating to the use of our trademarks and other proprietary rights, which could have a material adverse affect on our business, results of operations or financial condition.

## RISKS RELATING TO OUR COMMON STOCK

***Because our common stock is deemed a low-priced “Penny” stock, an investment in our common stock should be considered high risk and subject to marketability restrictions.***

Since our common stock is currently under \$5 per share, it is considered a penny stock, as defined in Rule 3a51-1 under the Securities Exchange Act, it will be more difficult for investors to liquidate their investment even if and when a market develops for the common stock. Until the trading price of the common stock rises above \$5.00 per share, if ever, trading in the common stock is subject to the penny stock rules of the Securities Exchange Act specified in rules 15g-1 through 15g-10. Those rules require broker-dealers, before effecting transactions in any penny stock, to:

Deliver to the customer, and obtain a written receipt for, a disclosure document;

Disclose certain price information about the stock;

Disclose the amount of compensation received by the broker-dealer or any associated person of the broker-dealer;

Send monthly statements to customers with market and price information about the penny stock; and

In some circumstances, approve the purchaser’s account under certain standards and deliver written statements to the customer with information specified in the rules.

Consequently, the penny stock rules may restrict the ability or willingness of broker-dealers to sell the common stock and may affect the ability of holders to sell their common stock in the secondary market and the price at which such holders can sell any such securities. These additional procedures could also limit our ability to raise additional capital in the future.

***FINRA sales practice requirements may also limit a stockholder’s ability to buy and sell our stock.***

In addition to the “penny stock” rules described above, the Financial Industry Regulatory Authority (FINRA) has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse

effect on the market for our shares.

11

***If we fail to remain current on our reporting requirements, we could be removed from the OTC Markets QB (OTCQB), which would limit the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.***

Companies trading on the OTC Markets QB (OTCQB), such as us, generally must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTCQB. More specifically, FINRA has enacted Rule 6530, which determines eligibility of issuers quoted on the OTCQB by requiring an issuer to be current in its filings with the Commission. Pursuant to Rule 6530(e), if we file our reports late with the Commission three times in a two-year period or our securities is removed from the OTCQB for failure to timely file twice in a two-year period, and then we will be ineligible for quotation on the OTCQB. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market. As of the date of this filing, we have two late filing reported by FINRA.

***Our internal controls may be inadequate, which could cause our financial reporting to be unreliable and lead to misinformation being disseminated to the public.***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, the principal executive and principal financial officer and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Giggles N Hugs; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of Giggles N Hugs are being made only in accordance with authorizations of management and directors of Giggles N Hugs, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Giggles N Hugs' assets that could have a material effect on the financial statements.

We have two individuals performing the functions of all officers and directors. These individuals developed our internal control procedures and are responsible for monitoring and ensuring compliance with those procedures. As a result, our internal controls may be inadequate or ineffective, which could cause our financial reporting to be unreliable and lead to misinformation being disseminated to the public. Investors relying upon this misinformation may make an uninformed investment decisions.

***Our auditors have expressed substantial doubt about our ability to continue as a going concern.***

In their report dated April 11, 2014, De Joya Griffith, LLC stated that our financial statements for the fiscal year ended December 29, 2013, were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of our recurring losses from operations and our net capital deficiency. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

12

## **ITEM 2. PROPERTIES**

We currently maintain three locations:

Westfield Mall Century City location restaurant at 10250 Santa Monica Blvd., #155, Los Angeles, California 90067. Our monthly rent for this location is \$15,326. The lease started on August 1, 2010.

Westfield Mall Topanga location at 6600 Topanga Canyon Blvd, Canoga Park, CA 91303. Our monthly rent at this location is \$18,408. The lease started on March 23, 2013.

Glendale Galleria location at 3222 Glendale Galleria Way, Glendale, CA 91210. Our monthly rent at this location is \$15,535. The lease started in November 2013.

## **ITEM 3. LEGAL PROCEEDINGS**

The Company, the Company's CEO, Joey Parsi, and a third party, were named in a complaint filed on July 19, 2012 in the Los Angeles Superior Court by Alex Nerush and Preferred Scan, Inc., that alleges fraud, negligent misrepresentation, sale of securities by unlicensed broker, sale of securities by means of false and misleading statements, and money had and received. The Company does not believe there is any merit to the allegations and will vigorously defend this action. Furthermore, on September 24, 2012 the Company and the Company's CEO, Joey Parsi counter-sued Richard Steele, Jr., Donald Stoecklein, and Anthony Risas for breach of fiduciary duty, breach of contract, negligence and negligent misrepresentation, fraud and indemnity.

On October 13, 2012, Stoecklein Law Group, LLP ("Law Group") which acted as our securities counsel from September 2010 until September 2012, filed an Interpleader action in the United States District Court for the Southern District of California to determine the proper ownership of 16 stock certificates representing an aggregate of 2,364,000 shares of our stock (the "Disputed Certificates") held by the Law Group. Joey Parsi, Balata Partners, Inc., and Patrick Deparini were each named as defendants (the "Defendants"). Law Group claims that they entered into an oral agreement to hold the Disputed Certificates unless and until each of the Defendants agreed otherwise. The Company maintains that no such oral agreement was entered into and plans to vigorously argue for the release of the Disputed Certificates into the custody of our current securities counsel. The Company does not believe there is any merit to the allegations and will vigorously defend this action.

As of the date of this Report, the Company was not subject to any other material legal proceedings. From time to time, however, the Company is 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.



**PART II**

**ITEM MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL  
4. BUSINESS ISSUER PURCHASE OF EQUITY SECURITIES**

**Market Information**

Our common stock is quoted on the Over-the-Counter Quotation Board (OTCQB) under the symbol “GIGL.”

Historically, there has not been an active trading market for our common stock. We have been eligible to participate in the OTCQB since May 24, 2010 and from that time our common stock has traded on a very sporadic basis.

The following table sets forth, for the periods indicated, the high and low bid prices of our common stock as reported by a Quarterly Trade and Quote Summary Report of the OTCQB. These quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions.

	<b>2013</b>		<b>2012</b>	
	<b>BID</b>		<b>BID</b>	
	<b>PRICES</b>		<b>PRICES</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
1st Quarter	\$0.75	\$0.12	\$5.98	\$1.90
2nd Quarter	\$0.73	\$0.20	\$3.69	\$1.01
3rd Quarter	\$0.40	\$0.10	\$1.61	\$0.20
4th Quarter	\$0.48	\$0.10	\$1.00	\$0.27

**Holders of Common Stock**

As of April 1, 2014, we had approximately 72 stockholders of record of the 24,807,478 shares outstanding. The closing stock price on April 1, 2014 was \$0.20.

**Dividends**

The payment of dividends is subject to the discretion of our Board of Directors and will depend, among other things, upon our earnings, our capital requirements, our financial condition, and other relevant factors. We have not paid or declared any dividends upon our common stock since our inception and, by reason of our present financial status and our contemplated financial requirements do not anticipate paying any dividends upon our common stock in the foreseeable future.

We have never declared or paid any cash dividends. We currently do not intend to pay cash dividends in the foreseeable future on the shares of common stock. We intend to reinvest any earnings in the development and expansion of our business. Any cash dividends in the future to common stockholders will be payable when, as and if declared by our Board of Directors, based upon the Board's assessment of:

- our financial condition;
- earnings;
- need for funds;
- capital requirements;
- prior claims of preferred stock to the extent issued and outstanding; and
- other factors, including any applicable laws.

Therefore, there can be no assurance that any dividends on the common stock will ever be paid.

### **Issuer Purchases of Equity Securities**

The Company did not repurchase any of its equity securities during the fourth quarter ended December 29, 2013.

### **2012 Stock Incentive Plan**

We have reserved for issuance an aggregate of 5,000,000 shares of common stock under our 2012 Stock Incentive Plan ("the Plan") that was adopted in February 23, 2012. During the year ended December 29, 2013, 225,000 stock options were granted under this Plan.

### **Purposes of the Plan**

The purposes of the Plan are (a) to enhance the Company's ability to attract and retain the services of qualified employees, officers and directors, contractors and other service providers upon whose judgment, initiative and efforts the successful conduct and development of the Company's business largely depends, and (b) to provide additional incentives to such persons or entities to devote their utmost effort and skill to the advancement and betterment of the Company by providing them an opportunity to participate in the ownership of the Company and thereby have an interest in the success and increased value of the Company.

### **Stock Subject to the 2012 Plan**

Shares that are eligible for grant under the Plan to participants include Incentive Stock Options, Non-Qualified Stock Options and Restricted Stock. "Incentive Options" are any options designated and qualified as an "incentive stock option" as defined in Section 422 of the Internal Revenue Code. "Non-Qualified Options" are any options that are not an Incentive Option. To the extent that any option designated as an Incentive Option fails in whole or in part to qualify as an Incentive Option, including, without limitation, for failure to meet the limitations applicable to a ten percent stockholder or because it exceeds the annual limit, it shall to that extent constitute a Non-Qualified Option. "Restricted Stock" are shares of common stock issued pursuant to any restrictions and conditions as established in the Plan.

The Plan provides that a maximum of Five Million (5,000,000) shares of common stock are available for grant as awards under the Plan.

## **Eligibility**

*Incentive Options.* Only employees of the Company or of an affiliated company (including officers of the Company and members of the Board of Directors if they are employees of the Company or of an affiliated company) are eligible to receive Incentive Options under the Plan.

*Non-Qualified Options and Restricted Stock.* Employees of the Company or of an affiliated company, officers of the Company and members of the Board of Directors (whether or not employed by the Company or an affiliated company), and service providers are eligible to receive Non-Qualified Options or acquire Restricted Stock under the Plan.

## **Equity Compensation Plan Information**

We maintain the Plan to allow the Company to compensate employees, directors, consultants and certain other individuals providing bona fide services to the Company or to compensate officers, directors and employees for accrual of salary through the award of common stock.

The Plan is intended to encourage directors, officers, employees and consultants to acquire ownership of common stock. The opportunity so provided is intended to foster in participants a strong incentive to put forth maximum effort for its continued success and growth, to aid in retaining individuals who put forth such effort, and to assist in attracting the best available individuals to the Company in the future.

## **Recent Sales of Unregistered Securities**

On January 12, 2013, the Company authorized the issuance of 670,000 shares of common stock to an investor for \$100,000 cash received. The Company issued the shares on April 19, 2013.

On March 7, 2013, the Company authorized the issuance of 166,667 shares of common stock to an investor for \$50,000 cash received. The Company issued the shares on April 19, 2013.

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

On September 9, 2013, the Company entered into a private placement with WestPark Capital to raise capital by issuing Debentures attached with sixty percent (60%) warrants maturing four years from the date of issuances.

The Debentures accrue interest at a rate of 7% per annum and mature four years from the date of issuance, which are listed above. The Debentures have a conversion price of \$0.37 per unit and the attached warrants exercise price is 30% discount of market price, subject to a \$0.25 per share floor, or \$0.37 per warrant share on date of maturity.

The Company may require conversion of the Debentures if the Company's Common Stock is trading at a volume of 50,000 shares per day for thirty consecutive trading days, provided the average trading price of such stock is \$0.75 or greater during such time. The Debentures shall automatically convert at maturity. For fiscal year ending December 29, 2013, the Company raised a total of \$355,000 in Debentures from the private placements with WestPark Capital.

We made the aforementioned securities issuances in reliance upon the exemption from registration under Section 4(2) of the Securities Act for private offerings not involving a public distribution.

## **ITEM 5. SELECTED FINANCIAL DATA**

Not applicable.

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

### **OVERVIEW AND OUTLOOK**

#### **Our Operations**

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

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

### **RESULTS OF OPERATIONS**

As a result of our recent acquisition of 100% of GNH and change in business and operations, a discussion of the past financial results of Giggles is not pertinent and the financial results of GNH and its Giggles N Hugs restaurant locations, the accounting acquirer, are considered the financial results of the Company on a going-forward basis.

### **REVENUE**

**Ended**

	<b>Fiscal Year Ended</b>		<b>Increase (Decrease)</b>	
	<b>December 29, 2013</b>	<b>December 31, 2012</b>	<b>\$</b>	<b>%</b>
Revenue:				
Food and beverage sales	\$1,264,987	\$704,560	\$560,427	80 %
Private party rentals	520,063	423,778	96,285	23 %
Other sales	596,329	280,181	316,148	113 %
Allowances, returns and discounts	(120,649 )	(59,828 )	(60,821 )	102 %
Net sales	\$2,260,730	\$1,348,691	\$912,039	317 %



Our food and beverage sales for the fiscal year ended December 29, 2013 were \$1,264,987 compared to \$704,560 in the fiscal year ended December 31, 2012. This resulted in an increase in food and beverage sales of \$560,427, or 80%, from the same period one year ago. We offer a healthy alternative to typical child-friendly restaurants, offering appetizing menu options that incorporate nutritious ingredients some children would normally shy away from. We are continuously evaluating and modifying our menu to accommodate guest requests.

Our private party rentals for the fiscal year ended December 29, 2013 were \$520,063 compared to \$423,778 in the fiscal year ended December 31, 2012. This resulted in an increase in private party rentals of \$96,285, or 23%, from the same period one year ago. Party rentals range from as few as 15 guests up to 200 and contribute significantly to our revenues. Private party rentals accounted for over 23% of net sales during the year ended December 29, 2013 and over 31% in the year ended December 31, 2012. We believe that party revenue will continue to be a significant contributor to net sales and we plan to work diligently to advertise the availability of and attract future parties.

Sales from other sources include the fee we charge for guests to access our over 2,000 square-foot children's play area, sales of our one-, three- or six-month membership cards entitling entrance to the play area at a discounted price and sales from Giggles N Hugs-branded merchandise. Other sales for the fiscal year ended December 29, 2013 were \$596,329 compared to \$280,181 in the fiscal year ended December 31, 2012. This resulted in an increase in sales of \$316,149 or 113%, from the same period a year ago.

Allowances, returns and discounts for the fiscal year ended December 29, 2013 were \$120,649 compared to \$59,828 in the fiscal year ended December 31, 2012. This resulted in an increase in allowances, returns and discounts of \$60,821, or 102%, from the same period a year ago.

## COSTS AND OPERATING EXPENSES

	<b>Fiscal Year Ended December 29, 2013</b>	<b>Fiscal Year Ended December 31, 2012</b>	<b>Increase (Decrease)</b>	
			<b>\$</b>	<b>%</b>
Costs and operating expenses:				
Cost of sales	\$376,353	\$299,496	\$76,857	26 %
Labor	874,205	444,871	429,334	97 %
Occupancy cost	528,090	243,545	284,545	117 %
Other	240,246	39,712	200,534	505 %
Depreciation	204,317	102,088	102,229	100 %
Total operating expenses	2,223,211	1,129,712	1,093,499	97 %

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

Other Expenses				
Executive compensation	367,161	388,573	(21,412 )	-6 %
Stock-based executive compensation	90,000	1,100,883	(1,010,883)	-92 %
Non-employee stock based compensation	272,333	233,814	38,519	16 %
Professional and Consulting expenses	540,243	417,817	122,426	29 %
Finance and interest expense	90,587	6,154	84,433	1372 %
General and administrative expenses	246,752	169,020	77,732	46 %
Gain on stock issuance for payable settlement	(50,000 )	-	(50,000 )	*
Total other expenses	1,557,076	2,316,261	(759,185 )	-33 %
Total costs and operating expenses	3,780,287	3,445,973	334,314	10 %
Provision for income taxes	5,698	-	5,698	*
Net Loss	\$(1,525,255)	\$(2,097,282)	\$(572,027 )	27 %

Notes to Costs and Operating Expenses table:

\* Not divisible by zero

*Cost of sales.* Costs related to food purchases, supplies and general restaurant operations totaled \$376,353 during the year ended December 29, 2013, which was 26% higher than cost of sales of \$299,496 in the year ended December 31, 2012. Food costs fluctuate regularly and are difficult to offset or minimize. Any increase in costs of certain commodities could adversely impact our operations unless we pass any such price increases to our guests.

*Labor.* Labor expenses for the year ended December 29, 2013 was \$874,205, an increase of 97%, from the year ended December 31, 2012. We are a customer service company and our primary variable cost is related to providing such services. As a result, labor costs comprised 39% of our total operating expenses during the year ended December 29, 2013, compared to 40% in the comparable period ended December 31, 2012. Labor costs are constantly fluctuating and any changes to minimum wages payable could adversely impact our operations.

*Occupancy Cost.* Occupancy cost for the year ended December 29, 2013 was \$528,090, an increase of 117%, from the year ended December 31, 2012. Rent and other related items should not materially vary from period to period, aside from additional locations being opened and periodic increases in accordance to our lease schedule. Future increases may also be related to recording additional deferred rent expense or potential increases resulting from new store development.

*Depreciation.* Depreciation for the year ended December 29, 2013 was \$204,317, an increase of 100%, from the year ended December 31, 2012. We depreciate and amortize purchases of our ongoing capital investments and the construction and leasehold improvements related to the development of our locations.

*Professional and Consulting Expenses.* Professional and consulting fees for the year ended December 29, 2012 was \$540,243, an increase of 29%, from the year ended December 31, 2012, in which we incurred \$417,817 in professional fees. These fees primarily include accounting fees, fees related to the audit of our financial statements, legal fees and fees incurred from other professional service firms. We expect to continue to incur professional fees in relation to maintaining our public reporting status with the Securities and Exchange Commission. The professional and consulting expenses in the 2011 year primarily related to the reverse merger, and the majority of fees paid to consultants in 2012 were non-recurring. During 2013, two new locations were opened causing increase in professional fees.

*Stock-Based Compensation.* During the year ended December 29, 2013 and December 31, 2012, we incurred employee stock based compensation expenses of \$90,000 and \$1,100,833 from the issuances of stock and employee incentive stock options. The incentive stock options issued in 2012 were valued using the Black Scholes method, with 225,000 options becoming exercisable immediately.

*Non-Employee Stock-Based Compensation.* Non-Employee Stock-Based Compensation for the year ended December 29, 2013 was \$272,333 and increase of 16% from \$233,814 for the year ended and December 31, 2012. The Company issues these stocks for professional and advisory services.

*General and Administrative.* In the normal course of our operations, we incur various expenses, including, but not limited to, advertising and promotion, utilities, office supplies and postage and shipping expenses. During the year ended December 29, 2013, general and administrative expenses were \$246,752, compared to \$169,020 in the year ended December 31, 2012.

## **Net Loss**

Our net loss for the fiscal year ended December 31, 2013 was \$1,525,255, a decrease of \$572,027 or 27%, from \$2,097,282 for the fiscal year ended December 31, 2012. We continue to have a net loss and believe the loss will be reduced as the Topanga restaurant and Glendale have opened, and future planned sites will provide additional profitability in future quarters.

**LIQUIDITY AND CAPITAL RESOURCES**

As of December 29, 2013, we had \$71,222 in cash and equivalents and \$41,744 in inventory. The following table provides detailed information about our net cash flow for all financial statement periods presented in this Annual Report. To date, we have financed our operations through the issuance of stock and borrowings, in addition to sales-generated revenue.

The following table sets forth a summary of our cash flows for the year ended December 29, 2013 and December 31, 2012:

	<b>Fiscal Year Ended December 29, 2013</b>	<b>Fiscal Year Ended December 31, 2012</b>
Net cash provided in operating activities	\$521,564	\$(165,537)
Net cash used in investing activities	(1,701,447)	(419,173)
Net cash provided by financing activities	1,094,631	132,875
Net (decrease) increase in Cash	(85,252 )	(451,835 )
Cash, beginning of year	156,474	608,309
Cash, end of year	\$71,222	\$156,474

***Operating activities***

Net cash provided in operating activities was \$521,564 for the year ended December 29, 2013, as compared to \$165,537 used in operating activities for the same period in 2012.

***Investing activities***

Net cash used in investing activities was \$1,701,447 for the year ended December 29, 2013, as compared to \$419,173 used in investing activities for the same period in 2012. The increase primarily related to the build-out costs of the Topanga and Glendale facility.

***Financing activities***

Net cash provided by financing activities for the year ended December 29, 2013 was \$1,094,631 as compared to \$132,875 for the same period of 2012. In 2013, \$355,000 was provided through a convertible note payable, and \$32,125 was provided by related party.

We expect to use our cash to invest in our core businesses, including new product innovations, advertising and marketing, as well as the construction and build-out of additional restaurant locations. Other than normal operating expenses, cash requirements for fiscal year 2014 are expected to consist primarily of capital expenditures for additional investments, and advertising and marketing efforts.

***Off-Balance Sheet Arrangements***

We do 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.

## Operation Plan

Our overall business plan is to expand and grow our restaurants and increase revenues. Our business and strategy will be directed toward the following approaches.

**Company-Owned Restaurants.** One-year term strategy is to explore new opening company-owned and/or managed restaurants within the next twelve months. During 2013, we opened two new Southern California locations in Westfield Topanga Mall and Glendale Galleria. In addition, we are considering The Westfield Valencia Mall and The Westfield Santa Anita Mall as potential locations.

**Franchising.** In addition to, or in lieu of our company-owned restaurants, we believe we can efficiently grow our operations by franchising our stores to qualified area developers.

**Existing Services.** We believe that we provide some of the best overall dining experiences for parents and their young children. We plan to further market and promote our existing products and designs directly to consumers. In addition, we plan to constantly refine and improve our food products.

**New Products and Services.** We are currently expanding, and intend to further expand, our product and service offerings. Some of the new products and services we are currently developing include:

**Curb-side take-out.** As with many restaurants with no drive-thru, we have established a curb-side, take-out service for our customers. Since the majority of our patrons are parents, convenient take-out is a significant factor. The ease of not having to remove kids from their car-seats when purchasing food is a significant factor for return patronage.

**Beer/Wine license.** Parents have inquired about beer and/or wine to accompany their meals. Since margins from alcoholic beverages are often high, we believe this would increase our revenues without a proportional increase in costs.

**Furniture and Equipment Referrals.** Parents frequently ask us where to purchase various furniture, fixtures, toys, and equipment inside our play area. We are considering a partnership with a baby products supplier to receive commissions for each referral.

**Baby Food.** As part of our branding, we may add Giggles N Hugs baby foods for toddlers too young for solid foods. We already offer mashed bananas and pureed butternut squash.

Merchandising. We intend to sell books, stuffed animals, toys, cups, t-shirts, and balls all with the Giggles N Hugs logo.

Gift Certificates. We offer gift certificates of different denominations that are an extremely popular gift item for people of all ages.

#### **ITEM 6A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

#### **ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See Index to Financial Statements and Financial Statement Schedules appearing on page F-1 through F-21 of this Form 10-K.

#### **ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

We have had no disagreements with our independent auditors on accounting or financial disclosures.



## **ITEM 8A (T). 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 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. Management is in the process of determining how to most effectively improve our disclosure controls and procedures.

### *Management's Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control, as is defined in the Securities Exchange Act of 1934, as amended. These internal controls are designed to provide reasonable assurance that the reported financial information is presented fairly, that disclosures are adequate and that the judgments inherent in the preparation of financial statements are reasonable. There are inherent limitations in the effectiveness of any system of internal controls, including the possibility of human error and overriding of controls. Consequently, an effective internal control system can only provide reasonable, not absolute, assurance with respect to reporting financial information.

Our internal control over financial reporting includes policies and procedures that: (i) pertain to maintaining records that in reasonable detail accurately and fairly reflect our transactions; (ii) provide reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with generally accepted accounting principles and the receipts and expenditures of company assets are made and in accordance with our management and directors authorization; and (iii) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Management has undertaken an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based upon this evaluation, management concluded

that our internal control over financial reporting was not effective as of December 31, 2013. The Company has resourced outside consultants to assist in implementing the necessary financial controls over the financial reporting and the utilization of internal management and staff to effectuate these controls.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

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

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or reasonably likely to materially affect, our 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.

**ITEM 8B. OTHER INFORMATION**

None.

**PART III**

**ITEM 9. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The members of our board of directors serve for one year terms and are elected at the next annual meeting of stockholders, or until their successors have been elected. The officers serve at the pleasure of the board of directors.

The following sets forth information about our directors and executive officers as of the date of this report:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Term Commencing</b>
Joey Parsi	45	President, Treasurer and Director	December 30, 2011
Sean Richards	44	Chief Officer of Operations and Secretary	February 23, 2012

**Joey Parsi, President** – Mr. Joey Parsi is a founder of Giggles N Hugs Restaurant, a children’s themed restaurant with play areas for children 10 years and younger and serve healthy, gourmet food. Mr. Parsi and his wife founded the Giggles N Hugs Restaurant in 2007 after experiencing the same issues as all parents while dining out with their

daughter. Mr. Parsi and his wife decided to open a children's restaurant (Giggles N Hugs) that served healthy, gourmet food, with an area that allowed kids to play with toys, be entertained, play games, and various other family friendly activities. By having a restaurant with a play area, parents are able to enjoy a relaxing healthy gourmet meal, while their kids are entertained. Since the launch of Giggles N Hugs, Mr. Parsi and the restaurant have been praised by parents from all over the world. Mr. Parsi has been featured in Businessweek Magazine, the Los Angeles Business Journal, Los Angeles Times, People Magazine, US Weekly, OK Magazine, and many TV shows, including FOX News, Extra TV, Entertainment Tonight, TV Guide Channel, and most recently, The Talk on CBS among others.

Between 1991 and 1994, Mr. Parsi served as an Investment Advisor for Lehman Brothers. From 1994 to 1996, Mr. Parsi served as Senior Vice President at Sutro and Company, where he managed and oversaw millions of dollars for individual and institutional investors specializing in IPOs and technology equities. Between 1996 and 1998, Mr. Parsi worked at Prudential Securities, where he oversaw client assets in a number of investments, including fixed income assets, equities, and mutual funds. In 1998, Mr. Parsi opened Barron Chase and was able to expand the company to more than 30 employees. In total, Mr. Parsi and his team raised more than \$30 million in funding for nine separate companies, many of which are now publicly traded on the NASDAQ markets. In 2001, he liquidated the business and joined TD Waterhouse.

At TD Waterhouse, between 2001 and 2006, Mr. Parsi personally managed more than \$350 million in assets for clients, and oversaw more than \$1 billion in assets in his region. From 2006 to 2010, Mr. Parsi served as the Senior Vice President at Stockcross Financial Services. There, he advised high net worth clients on investment matters.

***Sean Richards, Secretary, Chief Officer of Operations*** - Sean Richards has worked as Chief Officer of Operations (“COO”) of Giggle N Hugs, LLC., a children’s themed restaurant with play areas for children 10 years and younger that serves healthy, gourmet food since February 2012. As the COO of Giggles N Hugs, LLC., Mr. Richards is responsible for the day-to-day operations of the restaurant, including all marketing, HR, service standards, facility management, training, financial performance and strategic growth planning. Between March 2010 and March 2011, Mr. Richards served as a Sales Associate with Sysco, where he provided sales and consulting services to a multitude of restaurant groups. From January 2008 to February 2010, Mr. Richards served as a General Manager of the Pink Taco and the Viper Room of Larry Morton Holdings, LLC, where he was responsible for overseeing the operations of 400+ seat hi-energy Mexican restaurant/bar with annual sales of over \$9.4 million and a 300 person live music venue on the Sunset Strip. From June 2003 to January 2008, Mr. Richards served as a Regional Director of Hootwinc, LLC where he was responsible for overseeing the operations of 7 Hooters Restaurants, 1 Casino and 2 bars in Washington and Oregon.

### **Family Relationships**

There are no family relationships among any of our officers or directors.

### **Indemnification of Directors and Officers**

Our Articles of Incorporation and Bylaws both provide for the indemnification of our officers and directors to the fullest extent permitted by Nevada law.

### **Limitation of Liability of Directors**

Pursuant to the Nevada General Corporation Law, our Articles of Incorporation exclude personal liability for our Directors for monetary damages based upon any violation of their fiduciary duties as Directors, except as to liability for any breach of the duty of loyalty, acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or any transaction from which a Director receives an improper personal benefit. This exclusion of liability does not limit any right which a Director may have to be indemnified and does not affect any Director’s liability under federal or applicable state securities laws. We have agreed to indemnify our directors against expenses, judgments, and amounts paid in settlement in connection with any claim against a Director if he acted in good faith and in a manner he believed to be in our best interests.

### **Election of Directors and Officers**

Directors are elected to serve until the next annual meeting of stockholders and until their successors have been elected and qualified. Officers are appointed to serve until the meeting of the Board of Directors following the next annual meeting of stockholders and until their successors have been elected and qualified.

*Section 16(a) Beneficial Ownership Reporting Compliance*

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires our executive officers and directors, and persons who beneficially own more than ten percent of our common stock, to file initial reports of ownership and reports of changes in ownership with the SEC. Executive officers, directors and greater-than-ten-percent beneficial owners are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based upon a review of the copies of such forms furnished to us and written representations from our executive officers and directors, we believe that as of the date of this filing they were all current in their filings.

## **Code of Ethics**

A code of ethics relates to written standards that are reasonably designed to deter wrongdoing and to promote:

- 1) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- 2) Full, fair, accurate, timely and understandable disclosure in reports and documents that are filed with, or submitted to, the Commission and in other public communications made by an issuer;
- 3) Compliance with applicable governmental laws, rules and regulations;
- 4) The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and
- 5) Accountability for adherence to the code.

We have not adopted a corporate code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

Our decision to not adopt such a code of ethics results from our having a small management structure for the Company. We believe that the limited interaction which occurs having such a small management structure for the Company eliminates the current need for such a code, in that violations of such a code would be reported to the party generating the violation.

## **Corporate Governance**

We currently do not have standing audit, nominating and compensation committees of the board of directors, or committees performing similar functions. Until formal committees are established, our entire board of directors will perform the same functions as an audit, nominating and compensation committee.

## **Involvement in Certain Legal Proceedings**

To the best of our knowledge, none of our directors or executive officers has, during the past five years:

been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offences);

had any bankruptcy petition filed by or against the business or property of the person, or of any partnership, corporation or business association of which he was a general partner or executive officer, either at the time of the bankruptcy filing or within two years prior to that time;

been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or federal or state authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting, his involvement in any type of business, securities, futures, commodities, investment, banking, savings and loan, or insurance activities, or to be associated with persons engaged in any such activity;

been found by a court of competent jurisdiction in a civil action or by the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;



been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated (not including any settlement of a civil proceeding among private litigants), relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

## **ITEM 10. EXECUTIVE COMPENSATION**

### **Overview of Compensation Program**

We currently have not appointed members to serve on the Compensation Committee of the Board of Directors. Until a formal committee is established, our entire Board of Directors has responsibility for establishing, implementing and continually monitoring adherence with the Company's compensation philosophy. The Board of Directors ensures that the total compensation paid to the executives is fair, reasonable and competitive.

### **Compensation Philosophy and Objectives**

The Board of Directors believes that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals by the Company, and which aligns executives' interests with those of the stockholders by rewarding performance above established goals, with the ultimate objective of improving stockholder value. As a result of the size of the Company and only having two executive officers, the Board evaluates both performance and compensation on an informal basis. Upon hiring additional executives, the Board intends to establish a Compensation Committee to evaluate both performance and compensation to ensure that the Company maintains its ability to attract and retain superior employees in key positions and that compensation provided to key employees remains competitive relative to the compensation paid to similarly-situated executives of our peer companies. To that end, the Board believes executive compensation packages provided by the Company to its executives, including the named executive officers, should include both cash and stock-based compensation that reward performance as measured against established goals.



## Role of Executive Officers in Compensation Decisions

The Board of Directors makes all compensation decisions for, and approves recommendations regarding equity awards to, the executive officers and Directors of the Company. Decisions regarding the non-equity compensation of other employees of the Company are made by management.

## Summary Compensation Table

The following table sets forth information with respect to compensation earned by our Chief Executive Officer, President, and Chief Financial Officer for the years ended December 29, 2013 and December 31, 2012.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation (\$)	Other Compensation (\$)	Total Compensation (\$)
Joey Parsi(1) President and Treasurer	2013	250,000	-	-	-	-	-	-	250,000
	2012	27,5000	-	-	-	-	-	-	275,000
Sean Richards(2), COO and Secretary	2013	110,000	-	-	-	-	-	-	110,000
	2012	95,000	10,000	209,500	396,170	-	-	-	710,670

(1)Mr. Parsi became our President and Treasurer effective December 30, 2011.

(2)Mr. Richards became was our Chief Operating Officer and Secretary effective February 23, 2012.

## Summary Compensation

Our officers have agreed to provide services to us without further compensation until such time as we have sufficient earnings from our revenue.

In connection with Mr. Sean Richards appointment as Secretary and Chief Officer of Operations on February 23, 2012, Mr. Richards was granted an initial equity award of 50,000 shares of the Company's restricted common stock and 100,000 stock options were granted at a strike price of \$4.50 per share vesting immediately. Additionally, he receives a base annual salary of \$110,000 in 2013 and 200,000 shares payable for opening of our Topanga and Glendale locations.

### **Termination of Employment**

There are no compensatory plans or arrangements, including payments to be received from the Company, with respect to any person which would in any way result in payments to any such person because of his/her resignation, retirement, or other termination of such persons employment with the Company or its subsidiaries, or any change in control of the Company, or a change in the persons responsibilities following a change in control of the Company, except with respect to a breach of contract on the part of the Company.

### **Option Grants in Last Fiscal Year**

During the fiscal year ended December 31, 2012, there were additional options, there are 175,000 options granted to the company's employees at an exercise price of \$4.50 per share. The options are immediately exercisable in full.

### **Director Compensation**

As a result of having limited resources we do not currently have an established compensation package for board members.

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table presents information, to the best of our knowledge, about the beneficial ownership of our common stock on April 7, 2014 by those persons known to beneficially own more than 5% of our capital stock and by our Directors and executive officers. The percentage of beneficial ownership for the following table is based on 24,159,145 shares of common stock outstanding.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and does not necessarily indicate beneficial ownership for any other purpose. Under these rules, beneficial ownership includes those shares of common stock over which the stockholder has sole or shared voting or investment power. It also includes shares of common stock that the stockholder has a right to acquire within 60 days after April 1, 2014 pursuant to options, warrants, conversion privileges or other rights. The percentage of ownership of the outstanding common stock, however, is based on the assumption, expressly required by the rules of the Securities and Exchange Commission, that only the person or entity whose ownership is being reported has converted options or warrants into shares of our common stock.

*Security Ownership of Management*

Title of Class	Name and address of Beneficial Owner <sup>(1)</sup>	Amount of Beneficial Ownership	Percent of Class
Common	Joey Parsi	17,623,825 <sup>(2)</sup>	72.95 %
	Sean Richards	400,000 <sup>(3) (4)</sup>	1.66 %
	All Beneficial Owners as a Group	18,023,825	74.60 %

(1) As used in this table, “beneficial ownership” means the sole or united power to vote, or to direct the voting of, a security, or the sole or united investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of, a security). Each Party’s address is in care of the Company at 10250 Santa Monica Blvd, #155, Los Angeles, CA 90067.

(2) Of the 17,623,825 shares, Mr. Parsi may be deemed to have indirect control over 8,811,913 shares of common stock held by his wife Dorsa Foroughi. In fact, Mr. Parsi and Ms. Foroughi may be deemed a group for reporting purposes. Additionally, Mr. Parsi has direct control over 8,811,912 shares of common stock.

(3) The 200,000 shares have not been issued as of the date of this report for the opening of Topanga and Glendale. Additionally, 50,000 shares that have not been issued from 2012.

(4) The 100,000 stock options were issued to Mr. Richards upon his employment on February 23, 2012.

**Changes in Control**

There are no arrangements, known to the Company, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

## **ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

### **Transactions with Related Persons**

From time to time, the Company has received advances from certain of its officers to meet short term working capital needs. These advances may not have formal repayment terms or arrangements. As of December 29, 2013, Joe Parsi, Chief Executive Officer, advanced \$40,000 to the Company. These advances are unsecured, bear no interest, and do not have formal repayment terms or arrangements.

### **Promoters and Certain Control Persons**

We did not have any promoters at any time since our inception.

### **Director Independence**

We currently do not have any independent directors, as the term “independent” is defined in Section 803A of the NYSE Amex LLC Company Guide. Since the Over the Counter Quotation Board (“OTCQB”) does not have rules regarding director independence, the Board makes its determination as to director independence based on the definition of “independence” as defined under the rules of the New York Stock Exchange (“NYSE”) and American Stock Exchange (“Amex”).

## **ITEM 13. PRINCIPAL ACCOUNTING FEES AND SERVICES**

### **(1) AUDIT FEES**

**Audit and Non-Audit Fees**

*Fiscal Year Ended December 29, 2013:*

The following table sets forth the fees paid or accrued by us for the audit and other services provided by De Joya Griffith, LLC for the audit of our annual financial statements for the years ended December 29, 2013 and December 31, 2012.

	<b>Fiscal Years Ended December 29, 2013</b>	<b>3Fiscal Years Ended December 31, 2012</b>
Audit Fees <sup>(1)</sup>	\$ 59,100	\$ 50,587
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total	\$ 59,100	\$ 50,587

<sup>1</sup> Audit Fees: This category represents fees for professional services provided in connection with the audit of our financial statements and review of our quarterly financial statements.

**2. AUDIT-RELATED FEES**

a. None.

**3. TAX FEES**

a. None.

**4. ALL OTHER FEES**

a. None.



5. AUDIT COMMITTEE POLICIES AND PROCEDURES

a. We do not have an audit committee.

If greater than 50 percent, disclose the percentage of hours expended on the principal accountant's engagement to  
6. audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by  
persons other than the principal accountant's full-time, permanent employees.

a. Not applicable.

30

**PART IV****ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

a) We have filed the following documents as part of this Annual Report on Form 10-K:

1. The financial statements listed in the “Index to Financial Statements” at page 32 are filed as part of this report.
2. Financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.
3. Exhibits included or incorporated herein: See index to Exhibits.

## Exhibit Index

Exhibit Number	Exhibit Description	Filed herewith	Incorporated by reference		
			Form	Period ending	Exhibit Filing date
2.1	Acquisition Agreement and Plan of Merger by and among Giggles N Hugs Inc., Giggles N Hugs Sub Co and GNH, Inc.		8-K	2.1	9/24/2010
3(i)(a)	Articles of Incorporation		SB-2	3(a)	11/24/2006
3(i)(b)	Certificate of Amendment to Articles of Incorporation dated August 20, 2010 (Name Change to Giggles N Hugs Inc.)		8-K	3(i)(b)	8/26/2010
3(ii)(a)	Bylaws		SB-2	3(b)	11/24/2006
31	Certification pursuant to Section 302 of the Sarbanes-Oxley Act.	X			
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act.	X			
99.4	2012 Stock Option Plan – Dated February 2, 2012		8-K		2/27/2012
101.INS**	XBRL Instance Document	X			
101.SCG**	XBRL Taxonomy Extension Schema	X			
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase	X			
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X			
101.LAB**	XBRL Taxonomy Extension Label Linkbase	X			
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase	X			

*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.*

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.**

By: */s/ Joey Parsi*  
Joey Parsi,  
Chief Executive Officer

Date: April 14, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<i>/s/ Joey Parsi</i>		April 14, 2014
Joey Parsi	Chief Executive Officer (Principal Executive Officer), President, Principal Financial Officer, Treasurer, and Director	

**GIGGLES N HUGS, INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 29, 2013 AND DECEMBER 31, 2012**

	PAGES
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	F-1
<u>CONSOLIDATED BALANCE SHEETS</u>	F-2
<u>CONSOLIDATED STATEMENTS OF OPERATIONS</u>	F-3
<u>CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)</u>	F-4
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	F-5
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-6 – F-24

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

Giggles N Hugs, Inc.

We have audited the accompanying consolidated balance sheets of Giggles N Hugs, Inc. and subsidiaries (the “Company”) as of December 29, 2013 and December 31, 2012 and the related consolidated statements of operations, stockholders’ equity (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Giggles N Hugs, Inc. as of December 29, 2013 and December 31, 2012 and the related consolidated statements of operations, stockholders’ equity (deficit) and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered losses from operations, which raise substantial doubt about the ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*/s/ De Joya Griffith, LLC*  
Henderson, Nevada  
April 11, 2014

Corporate Headquarters:

De Joya Griffith, LLC

2580 Anthem Village Drive, Henderson, NV 89052 Phone: (702) 563-1600 Fax: (702) 920-8049

F-1

**GIGGLES N HUGS, INC.****CONSOLIDATED BALANCE SHEETS****(AUDITED)**

	December 29, 2013	December 31, 2012
Assets		
Current assets:		
Cash and equivalents	\$71,222	\$156,474
Inventory	41,744	16,755
Prepaid stock-based compensation	-	244,366
Prepaid expenses, other	6,247	2,470
Total current assets	119,213	420,065
Fixed assets:		
Total fixed assets, net	2,695,214	1,198,084
Other assets:		
Security deposits, other	38,730	32,500
Unamortized fees	68,390	-
Total other assets	107,120	32,500
Total assets	\$2,921,547	\$1,650,649
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
Current liabilities:		
Accounts payable	\$850,126	\$294,919
Incentive from lessor — current portion	80,158	49,910
Note payable from lessor - current portion	79,735	-
Accrued expenses	301,845	64,993
Deferred revenue	40,527	45,770
Due to related party	40,000	7,875
Convertible note payable, net of debt discount of \$0 and \$44,795, respectively	54,703	5,205
Total current liabilities	1,447,094	468,672
Long-term liabilities:		
Incentive from lessor — long-term	1,248,051	724,917
Note payable - lessor	541,913	-
Convertible note payable, net of debt discount of \$36,269 and \$0, respectively	321,911	-
Total long-term liabilities	2,111,875	724,917
Total liabilities	3,558,969	1,193,589



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

Stockholders' equity (deficit):

Common stock, \$0,001 par value, 1,125,000,000 shares authorized, 24,159,145 and 23,149,145 shares issued and outstanding as of December 29, 2013 and December 31, 2012, respectively	24,159	23,149
Common stock payable (678,333 and 200,000 shares as of December 29, 2013 and December 31, 2012)	480,500	347,400
Additional paid-in capital	3,654,207	3,357,544
Accumulated deficit	(4,796,288)	(3,271,033)
Total stockholders' equity (deficit)	(637,422 )	457,060
Total liabilities and stockholder's equity (deficit)	\$2,921,547	\$1,650,649

See Accompanying Notes to Consolidated Financial Statements.

**GIGGLES N HUGS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(AUDITED)**

	<b>Fiscal Year Ended December 29, 2013</b>	<b>Fiscal Year Ended December 31, 2012</b>
Revenue		
Food and beverage sales	\$1,264,987	\$704,560
Private party rentals	520,063	423,778
Other sales	596,329	280,181
Allowances, returns and discounts	(120,649 )	(59,828 )
Net sales	2,260,730	1,348,691
Costs and operating expenses		
Cost of sales including food and beverage	376,353	299,496
Labor	874,205	444,871
Occupancy cost	528,090	243,545
Other	240,246	39,712
Depreciation and amortization	204,317	102,088
Total operating expenses	2,223,211	1,129,712
Other expenses		
Executive compensation	367,161	388,573
Employee stock-based compensation	90,000	1,100,883
Non-employee stock-based compensation	272,333	233,814
Professional and consulting expenses	540,243	417,817
General and administrative expenses	246,752	169,020
Finance and interest expense	90,587	6,154
Gain on stock issuance for payable settlement	(50,000 )	-
Total costs and operating expenses	3,780,287	3,445,973
Loss before provision for income taxes	\$(1,519,557 )	\$(2,097,282 )
Provision for income taxes	\$5,698	\$-
Net loss	\$(1,525,255 )	\$(2,097,282 )
Net loss per share - basic	\$(0.06 )	\$(0.09 )
Weighted average number of common shares outstanding - basic	23,886,123	22,917,846

See Accompanying Notes to Consolidated Financial Statements.

F-3

**GIGGLES N HUGS, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)****(AUDITED)**

	<b>Common Stock</b>		<b>Additional</b>	<b>Stock</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid in</b>	<b>Payable</b>	<b>Deficit</b>	<b>Stockholders'</b>
			<b>Capital</b>			<b>Equity</b>
Balance, December 31, 2011	22,862,145	22,862	2,001,168	-	(1,173,751 )	850,279
Shares issued for professional services	287,000	287	414,993	-	-	415,280
Stock payable for professional services and executive compensation	-	-	-	272,400	-	272,400
Stock payable for cash	-	-	-	75,000	-	75,000
Stock-based compensation related to employee stock options	-	-	891,383	-	-	891,383
Beneficial conversion feature for convertible note	-	-	50,000	-	-	50,000
Net loss	-	-	-	-	(2,097,282 )	(2,097,282 )
Balance, December 31, 2012	23,149,145	\$23,149	\$3,357,544	\$347,400	\$(3,271,033 )	\$457,060
Shares issued for professional services	173,333	173	84,694	(56,900 )	-	27,967
Stock payable for settling accounts payable	-	-	-	100,000	-	100,000
Stock payable executive compensation	-	-	-	90,000	-	90,000
Shares issued for cash proceeds	836,667	837	149,163	-	-	150,000
Warrant conversion feature for convertible note	-	-	62,806	-	-	62,806
Net loss	-	-	-	-	(1,525,255 )	(1,525,255 )
Balance, December 29, 2013	24,159,145	\$24,159	\$3,654,207	\$480,500	\$(4,796,288 )	\$(637,422 )

See Accompanying Notes to Consolidated Financial Statements.

**GIGGLES N HUGS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(AUDITED)**

	<b>Fiscal Year Ended December 29, 2013</b>	<b>Fiscal Year Ended December 31, 2012</b>
<b>Cash flows from operating activities</b>		
Net loss	\$(1,525,255)	\$(2,097,282)
Provided by adjustments to reconcile net loss to net cash provide by (used in) operating activities:		
Depreciation and amortization	204,317	102,088
Amortization of debt discount	53,896	5,205
Non-employee stock-based compensation	272,333	233,814
Gain on stock issuance for payable settlement	(50,000 )	-
Employee stock-based compensation	90,000	1,100,883
Warrants conversion features for convertible notes	62,806	-
Changes in operating assets and liabilities:		
Increase in prepaid expenses and deposits	(3,777 )	(2,470 )
Increase in security deposits, other	(6,230 )	(2,500 )
Increase in inventory	(24,989 )	(2,458 )
Increase in unamortized fees	(68,390 )	-
Increase in accounts payable	697,332	178,888
Increase in lease incentive liability	553,382	240,362
Increase in accrued expenses	236,852	49,105
Increase in accrued interest	34,530	-
Increase (decrease) in deferred revenue	(5,243 )	28,828
Net cash provided by (used in) operating activities	521,564	(165,537 )
<b>Cash flows from investing activities</b>		
Acquisition of fixed assets	(1,701,447)	(419,173 )
Net cash used in investing activities	(1,701,447)	(419,173 )
<b>Cash flows from financing activities</b>		
Proceeds from convertible note payable	309,631	50,000
Proceeds from note payable	595,000	-
Proceeds from shares issued	150,000	75,000
Proceeds from related party	150,000	7,875
Payments to related party	(110,000 )	-
Net cash provided by financing activities	1,094,631	132,875

NET DECREASE IN CASH	(85,252 )	(451,835 )
CASH AT BEGINNING OF THE YEAR	156,474	608,309
CASH AT END OF PERIOD	\$71,222	\$156,474
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$-	\$-
Income taxes paid	\$5,698	-
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Shares issued for prepaid stock compensation	\$-	\$242,033
Accounts payable settled by share issuance	\$150,000	\$-

See Accompanying Notes to Consolidated Financial Statements.

**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

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

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

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

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

The Company adopted a 52/53 week fiscal year ending on the Sunday closest to December 31<sup>st</sup> for financial reporting purposes. Fiscal year 2013 consists of a year ending December 29, 2013. Fiscal year 2012 consists of year ending December 31, 2012. The election for fiscal year was made with the 8-K filing in October 2013.

#### Principles of consolidation

For the years ended December 31, 2013 and 2012, 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. All significant 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 revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.



**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Fair value of financial instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of and December 29, 2013 and December 31, 2012. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, prepaid expenses and accounts payable. Fair values were assumed to approximate carrying values for cash and payables because they are short term in nature and their carrying amounts approximate fair values or they are payable on demand.

*Level 1:* The preferred inputs to valuation efforts are “quoted prices in active markets for identical assets or liabilities,” with the caveat that the reporting entity must have access to that market. Information at this level is based on direct observations of transactions involving the same assets and liabilities, not assumptions, and thus offers superior reliability. However, relatively few items, especially physical assets, actually trade in active markets.

*Level 2:* FASB acknowledged that active markets for identical assets and liabilities are relatively uncommon and, even when they do exist, they may be too thin to provide reliable information. To deal with this shortage of direct data, the board provided a second level of inputs that can be applied in three situations.

*Level 3:* If inputs from levels 1 and 2 are not available, FASB acknowledges that fair value measures of many assets and liabilities are less precise. The board describes Level 3 inputs as “unobservable,” and limits their use by saying they “shall be used to measure fair value to the extent that observable inputs are not available.” This category allows “for situations in which there is little, if any, market activity for the asset or liability at the measurement date”. Earlier in the standard, FASB explains that “observable inputs” are gathered from sources other than the reporting company and that they are expected to reflect assumptions made by market participants.

Income taxes

The Company follows ASC Topic 740 for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse.

The Company applies a more-likely-than-not recognition threshold for all tax uncertainties. ASC Topic 740 only allows the recognition of those tax benefits that have a greater than fifty percent likelihood of being sustained upon examination by the taxing authorities. As of December 29, 2013 and December 31, 2012, the Company reviewed its tax positions and determined there were no outstanding, or retroactive tax positions with less than a 50% likelihood of being sustained upon examination by the taxing authorities, therefore this standard has not had a material effect on the Company.

**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

The Company classifies tax-related penalties and net interest as income tax expense. As of December 29, 2013 and December 31, 2012, no income tax expense has been incurred.

Cash and cash equivalents

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

Inventories

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

Property and equipment

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

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

### Leases

The Company currently leases its restaurant locations. The Company evaluates the lease to determine its appropriate classification as an operating or capital lease for financial reporting purposes. The Company currently has three leases, which are 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 \$590,000, \$488,409, and \$403,750 were 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.

**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Impairment of long-lived assets

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

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

During the years ended December 29, 2013 and December 31, 2012, we did not record an impairment charge against the carrying value of the GNH CC, Inc., GNH Topanga, Inc. and Glendale Giggles N Hugs.

Stock-based compensation

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

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

#### 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 years ended December 29, 2013 and December 31, 2012, 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.

**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue recognition

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

With respect to memberships, access to our play area extends throughout the term of membership. The vast majority of memberships sold are for one month terms. Revenue is recognized on a straight line basis over the membership period. 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 obligation is included in other accrued expenses until the taxes are remitted to the appropriate taxing authorities.

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

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

For dining credit program agreement, we agreed to apply a discount of 12% on qualified sales determined by Rewards Network, in which we receive prepayment from the Rewards Network for future qualified sales. Dining credit prepayment is recorded as deferred revenue at the full value with an unamortized discount upon receipt of prepayment

and recognizes the revenue and 12% discount 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.

#### Advertising costs

Advertising costs are anticipated to be expensed as incurred. During the fiscal years ended December 29, 2013 and December 31, 2012, there were \$29,223 and \$58,461 in advertising costs included in general and administrative expenses, respectively.

#### Convertible Debentures

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

#### Recent pronouncements

The Company has evaluated the recent accounting pronouncements through April 2014 and believes that none of them will have a material effect on the company's financial position, results of operations or cash flows.



**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Going concern

The Company has recently sustained operating losses totaling \$1,525,255 for the year ended December 29, 2013 and has an accumulated deficit of \$4,796,288 at December 29, 2013. The Company has and will continue to use significant capital to grow and acquire market share. These factors raise substantial doubt about the ability of the Company to continue as a going concern. In this regard, management is proposing to raise any necessary additional funds not provided by operations through loans or through sales of their common stock. There is no assurance that the Company will be successful in raising this additional capital or in achieving profitable operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might result from this uncertainty.

**GIGGLES N HUGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 2 – INVENTORY**

Inventory consisted of the following at:

	December 29, 2013	December 31, 2012
Restaurant food and supplies	\$ 41,744	\$ 16,755
Total	\$ 41,744	\$ 16,755

**NOTE 3 – FIXED ASSETS**

Fixed assets consisted of the following at:

	December 29, 2013	December 31, 2012
Leasehold improvements	\$2,845,274	\$1,359,141
Fixtures and equipment	76,157	37,457
Computer software and equipment	189,525	12,910
Property and equipment, total	3,110,956	1,409,508
Less: accumulated depreciation	(415,742 )	(211,424 )
Property and equipment, net	\$2,695,214	\$1,198,084

Depreciation expense was \$204,317 and \$102,088 for the fiscal years ended December 29, 2013 and December 31, 2012, respectively. Repair and maintenance expenses for the years ended December 29, 2013 and December 31, 2012 were \$56,943 and \$19,726, respectively.

**NOTE 4 – DEFERRED REVENUE**

Deferred revenue consisted of the following at:

	December 29, 2013	December 31, 2012
Membership cards	\$ 1,482	\$ 1,463
Gift cards	5,495	3,626
Dining credit program	12,179	32,382
Party deposits	21,371	8,299
Total	\$ 40,527	\$ 45,770

F-12

**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 – INCENTIVE FROM LESSOR**

The Company received \$590,000 for Century City, \$488,409 for Topanga and \$403,750 for Glendale from the Company's landlords as construction contributions pursuant to agreed-upon terms in the lease agreements as of December 29, 2013. The Glendale commitment is a total of \$475,000 of which the remaining \$71,250 will be received in 2014.

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

Amortization of the incentive from lessor was \$53,776 and \$40,931 for the fiscal years ended December 29, 2013 and December 31, 2012, 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 Glendale II Mall Associates, LLC. The Note Payable accrues interest at a rate of 10% through October 15, 2015, 12% through October 31, 2017, and 15% through October 31, 2023 and matures on October 31, 2023. The monthly principal and interest payment will commence upon the earlier of (i) the Rental Commencement Date (as defined in the Lease); or (ii) November 1, 2013 and continuing through and including the Maturity Date, make a fixed monthly installment payment of principal and accrued Interest in an amount equal to the principal and interest commencing from the date of the first advance and continuing through and including the Maturity Date.

The Lender agrees to loan draws to the Company in accordance with the following schedule:

1. An amount equal to 35% of the Principal Amount upon completion of all the requirements for payment of the Construction Allowance set forth in the Lease.
2. An amount equal to 25% of the Principal Amount upon completion of all the requirements for payment of the Construction Allowance set forth in the Lease.
3. An amount equal to 25% of the Principal Amount upon completion of all the requirements for payment of the Construction Allowance set forth in the Lease.
4. An amount equal to 15% of the Principal Amount upon completion of all the requirements for payment of the Construction Allowance set forth in the Lease.

As of December 29, 2013, the Company had drawn \$595,000 from the Promissory Note, which incurred and accrued interest expense in the amount of \$26,648.

**GIGGLES N HUGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 7 – CONVERTIBLE NOTE PAYABLE**

A summary of convertible debentures payable as of December 29, 2013 and December 31, 2012 is as follows:

	December 29, 2013	December 31, 2012
Convertible note, accrue interest at 8% per annum and mature on November 23, 2013	\$ 50,000	\$ 50,000
Debt discount - beneficial conversion feature	-	(44,795 )
Convertible note, net unamortized discount	\$ 50,000	\$ 5,205

On November 23, 2012, the Company entered into an unsecured Note Payable Agreement with Gary Schahet (the “Buyer”) pursuant to which the Company issued \$50,000 of an unsecured convertible note (the “Note Payable”).

The Note Payable accrues interest at a rate of 8% per annum and matured on November 23, 2013 and is currently due as of December 29, 2013. The Buyer may also convert all or a portion of the Note at any time at a price equal to the lesser of (i) \$0.25, or (ii) ninety percent (90%) of a Subsequent Financing Price (price per share paid by investors in a subsequent financing), or (iii) ninety percent (90%) of a the Change of Control price (per share consideration paid in a change of control transaction).

The Company has determined the value associated with the beneficial conversion feature in connection with the notes to be \$50,000. The aggregate beneficial conversion feature has been accreted and charged to financing expense in the amount of \$50,000 and \$5,205 as of December 29, 2013 and December 31, 2012, respectively. During the fiscal year December 29, 2013 and December 31, 2012, the Company recorded interest expense of \$4,000 and \$416, respectively. The current status of the Notes Payable to the Buyer is in default. There is no change in the interest rate due to the default. The Company is planning to issue shares in 2014 to settle the Notes Payable.

	December 29, 2013	December 31, 2012
Debentures, accrue interest at 7% per annum and mature on October 8, 2017	\$ 100,000	\$ –
Debentures, accrue interest at 7% per annum and mature on November 17, 2017	100,000	–
Debentures, accrue interest at 7% per annum and mature on November 25, 2017	75,000	–

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

Debentures, accrue interest at 7% per annum and mature on November 26, 2017	40,000	—
Debentures, accrue interest at 7% per annum and mature on November 25, 2017	40,000	—
Debt discount - beneficial conversion feature	(36,269 )	—
Convertible note, net unamortized discount	\$ 318,731	\$ —

On September 9, 2013, the Company entered into a private placement to raise capital by issuing Debentures attached with sixty percent (60%) warrants maturing four years from the date of issuances.

F-14

**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 – CONVERTIBLE NOTE PAYABLE (CONTINUED)**

The Debentures accrue interest at a rate of 7% per annum and mature four years from the date of issuance, which are listed on the chart. The Debentures have a conversion price of \$0.37 per unit and the attached warrants exercise price is 30% discount of market price, subject to a \$0.25 per share floor, or \$0.37 per warrant share on date of maturity.

The Company may require conversion of the Debentures if the Company's Common Stock is trading at a volume of 50,000 shares per day for thirty consecutive trading days, provided the average trading price of such stock is \$0.75 or greater during such time. The Debentures shall automatically convert at maturity.

The Company had determined the value associated with the beneficial conversion feature in connection with the Debentures to be \$318,731. The aggregate beneficial conversion feature of the Debentures has been accreted and charged to Unamortized Discount in the amount of \$36,269 and \$0 as of December 29, 2013 and December 31, 2012, respectively. During the fiscal year December 29, 2013 and December 31, 2012, the Company recorded interest expense of \$4,388 and \$0, respectively. As of December 29, 2013, the company has accrued interest of \$3,180.

**NOTE 8 – STOCKHOLDERS' EQUITY**

The Company is authorized to issue 1,125,000,000 shares of \$0.001 par value common stock. As of December 29, 2013 and December 31, 2012, 24,159,145 and 23,149,145 shares were issued and outstanding.

On February 23, 2012, the Company authorized the issuance of 50,000 shares of common stock to Sean Richards related to his appointment as Chief Operating Officer of the Company. The fair value of the shares of common stock was \$209,500 which is recorded to common stock payable. As of the date of this filing, the shares have not been issued.

On June 11, 2012, the Company authorized the issuance of 25,000 shares of common stock to a third party entity in exchange for consulting services. The fair value of the shares of common stock was \$41,000, based upon the closing



market price of the Company's common stock at the date the service was rendered.

On June 11, 2012, the Company authorized the issuance of 7,000 shares of common stock to a third party entity for internet design and consulting services. The fair value of the shares of common stock was \$11,480, based upon the closing market price of the Company's common stock at the date the service was rendered.

On July 1, 2012, the Company authorized the issuance of 15,000 shares of common stock to a third party entity for investor relation services. The fair value of the shares of common stock was \$22,500 which is recorded to common stock payable as of December 31, 2012. The 15,000 shares of common stock have been issued during the year ended December 29, 2013

On July 17, 2012, the Company authorized the issuance of 10,000 shares of common stock to a third party entity for financial and governance reporting services, SEC reporting services, and other business related services. The fair value of the shares of common stock was \$10,000.

On August 1, 2012, the Company authorized the issuance of 20,000 shares of common stock to a third party entity for advisory board services. The fair value of the shares of common stock was \$6,000 which is recorded to common stock payable as of December 31, 2012 and the expense is amortized over one-year of service. The 20,000 shares of common stock have been issued during the year ended December 29, 2013. As of the date of this filing, the shares have not been issued. As of December 31, 2012, the remaining prepaid stock-compensation is \$3,500, which this amount has been expensed as of December 29, 2013.

**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 – STOCKHOLDERS' EQUITY (CONTINUED)**

On August 18, 2012, the Company authorized the issuance of 220,000 shares of common stock to a third party entity for advisory board services. The fair value of the shares of common stock was \$316,800 which the expense is amortized over one-year of service. As of December 31, 2012, the remaining prepaid stock-compensation is \$211,200, which this amount has been expensed as of December 29, 2013.

On August 25, 2012, the Company authorized the issuance of 25,000 shares of common stock to a third party entity for financial consulting services. The fair value of the shares of common stock was \$36,000 which the expense is amortized over one-year of service. As of December 31, 2012, the remaining prepaid stock-compensation is \$24,000, which this amount has been expensed as of December 29, 2013.

During the year ended December 31, 2012, the Company authorized the issuance of 75,000 shares of common stock to an investor for \$75,000 in cash which is recorded to common stock payable. As of the date of this filing, the shares have not been issued.

On October 1, 2012, the Company authorized the issuance of 20,000 shares of common stock to a third party entity for financial and governance reporting services, SEC reporting services, and other business related services. The fair value of the shares of common stock was \$17,400 which is recorded to common stock payable as of December 31, 2012. As of December 31, 2012, the remaining prepaid stock-compensation is \$5,666, which this amount has been expensed as of December 29, 2013. The 20,000 shares of common stock have been issued during the year ended December 29, 2013.

On October 31, 2012, the Company authorized the issuance of 20,000 shares of common stock to a third party entity for strategic management services. The fair value of the shares of common stock was \$17,000 which is recorded to common stock payable as of December 31, 2012. The 20,000 shares of common stock have been issued during the year ended December 29, 2013.

On January 12, 2013, the Company authorized the issuance of 670,000 shares of common stock to an investor for \$100,000 cash received. The Company issued the shares on April 19, 2013.

On March 7, 2013, the Company authorized the issuance of 166,667 shares of common stock to an investor for \$50,000 cash received. The Company issued the shares on April 19, 2013.

On May 15, 2013, the Company authorized the issuance of 333,333 shares of common stock to a construction contractor for the settlement of outstanding invoices due in the amount of \$150,000. The fair value of the shares of common stock on the settlement date was \$100,000 which is recorded to common stock payable as of June 30, 2013. The Company recorded a gain on accounts payable settlement of \$50,000 during the three months ended June 30, 2013.

On July 11, 2013, the Company issued 15,000 shares of common stock to a third party entity for graphic design services. The fair value of the shares of common stock was \$3,300 which is recorded to graphic design expense on July 11, 2013.

On October 29, 2013, the Company issued 83,333 shares of common stock for advisory services for 3 month service. The fair value of the share of common stock was \$37,500, which is recorded to advisory expense.

On December 3, 2013, the Company issued 20,000 shares of common stock to settle Accounts Payable in the amount of \$3,000 to Philip Gay (Triple Enterprises).

**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 – STOCKHOLDERS' EQUITY (CONTINUED)**

During the year ended December 29, 2013, the Company authorized 200,000 shares of common stock to the Chief Operating Officer of the Company for the opening of the Topanga and Glendale locations. The fair value of the shares of common stock was \$90,000, which is recorded to common stock payable. As of the date of this filing, the shares have not been issued.

F-17

**GIGGLES N HUGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 9 – STOCK OPTIONS AND WARRANTS**Employee Stock Options

The following table summarizes the changes in the options outstanding at December 29, 2013, 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.

Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
\$4.50	175,000	\$ 4.50	2.85	175,000	\$ 4.50
	175,000		2.85	175,000	

A summary of the Company's stock awards for options as of December 29, 2013 and changes for the fiscal year ended December 29, 2013 is presented below:

	Stock Options	Weighted Average Exercise Price
Outstanding, December 31, 2012	211,000	\$ 4.50
Granted	-	-
Exercised	-	-
Expired/Cancelled	(36,000 )	-
Outstanding, December 29, 2013	175,000	\$ 4.50
Exercisable, December 29, 2013	175,000	\$ 4.50



**GIGGLES N HUGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 9 – STOCK OPTIONS AND WARRANTS (CONTINUED)**

The weighted-average fair value of stock options granted to employees during the fiscal years ended December 29, 2013 and December 31, 2012 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes-Merton (“Black-Scholes”) option pricing model are as follows:

	December 29, 2013		December 31, 2012	
Significant assumptions (weighted-average):				
Risk-free interest rate at grant date	0.78	%	0.78	%
Expected stock price volatility	139	%	139	%
Expected dividend payout	-		-	
Expected option life (in years)	5.00		-	
Expected forfeiture rate	-	%	-	%
Fair value per share of options granted	\$ 3.96		\$ 3.96	

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

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

There were no options granted during the fiscal year ended December 29, 2013.

Total stock-based compensation expense in connection with options granted to employees recognized in the consolidated statement of operations for the fiscal years ended December 29, 2013 and December 31, 2012 was \$0 and \$891,383, respectively.

F-19



**GIGGLES N HUGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 9 – STOCK OPTIONS AND WARRANTS (CONTINUED)**

## Warrants

The following table summarizes the changes in the warrants outstanding at December 29, 2013, and the related prices.

<b>Range of Exercise Prices</b>	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Number Exercisable</b>	<b>Weighted Average Exercise Price</b>
\$ 0.37	575,676	\$ 0.37	3.89	575,676	\$ 0.37
	575,676		3.89	575,676	

A summary of the Company's warrant as of December 29, 2013 and the changes for the fiscal year ended December 29, 2013 is presented below:

	<b>Warrants</b>	<b>Weighted Average Exercise Price</b>
Outstanding, December 31, 2012	-	\$ -
Granted	575,676	0.37
Exercised	-	-
Expired/Cancelled	-	-
Outstanding, December 29, 2013	575,676	\$ 0.37
Exercisable, December 29, 2013	575,676	0.37

On September 9, 2013, the Company entered into a private placement to raise capital by issuing Debentures attached with sixty percent (60%) warrants maturing four years from the date of issuances.

The Debentures accrue interest at a rate of 7% per annum and mature four years from the date of issuance. The Debentures have a conversion price of \$0.37 per unit and the attached warrants exercise price is 30% discount of market price, subject to a \$0.25 per share floor, or \$0.37 per warrant share on date of maturity.

The Company may require conversion of the Debentures if the Company's Common Stock is trading at a volume of 50,000 shares per day for thirty consecutive trading days, provided the average trading price of such stock is \$0.75 or greater during such time. The Debentures shall automatically convert at maturity.

F-20

**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

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

As of December 29, 2013, the aggregate minimum annual lease payments under operating leases, including amounts characterized as deemed landlord financing payments are as follows:

2014	\$ 194,644
2015	200,483
2016	206,498
2017	212,692
2018	219,073
Thereafter	263,910
Total	\$ 1,297,300

Rent expense for the Company's Century City operating lease was \$139,065 and \$139,065 for the fiscal years ended December 29, 2013 and December 31, 2012, respectively.

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.

As of December 29, 2013, the aggregate minimum annual lease payments under operating leases, including amounts characterized as deemed landlord financing payments are as follows:

2015	238,155
2016	247,682
2017	257,589
2018	267,891
Thereafter	973,490
Total	\$2,213,803

Rent expense for the Company's Topanga operating lease was \$156,144 and \$0 for the fiscal years ended December 29, 2013 and December 31, 2012.

F-21

**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

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

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

2014	195,816
2015	203,648
2016	211,794
2017	220,266
Thereafter	1,171,766
Total	\$2,191,574

Rent expense for the Company's Glendale operating lease was \$19,947 and \$0 for the fiscal years ended December 29, 2013 and December 31, 2012.

**Litigation**

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

The Company does not believe there is any merit to the allegations and will vigorously defend this action. Furthermore, on September 24, 2012, the Company and the Company's CEO, Joey Parsi counter-sued Richard Steele, Jr., Donald Stoecklein, Anthony Risas for breach of fiduciary duty, breach of contract, negligence and negligent misrepresentation, fraud and indemnity. On October 13, 2012, Stoecklein Law Group, LLP ("Law Group") which acted as our securities counsel from September 2010 until September 2012, filed an Interpleader action in the United States District Court for the Southern District of California to determine the proper ownership of 16 stock certificates representing an aggregate of 2,364,000 shares of our stock (the "Disputed Certificates") held by the Law Group. Joey Parsi, Balata Partners, Inc., and Patrick Deparini were each named as defendants (the "Defendants"). Law Group claims that they entered into an oral agreement to hold the Disputed Certificates unless and until each of the Defendants agreed otherwise. The Company maintains that no such oral agreement was entered into and plans to vigorously argue for the release of the Disputed Certificates into the custody of our current securities counsel.

The Company does not believe there is any merit to the allegations and will vigorously defend this action.

**GIGGLES N HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 – RELATED PARTY TRANSACTIONS**

From time to time, the Company has received advances from certain of its officers to meet short term working capital needs. These advances may not have formal repayment terms or arrangements. As of December 29, 2013 and December 31, 2012, Joe Parsi, Chief Executive Officer, advanced a total of \$40,000 and \$7,875, respectively, to the Company. These advances are unsecured, bear no interest, and do not have formal repayment terms or arrangements.

**NOTE 12 – INCOME TAXES**

The net income generated from the Century City restaurant operations from Giggles N Hugs, LLC is treated as partnership income for federal and state income tax purposes and does not incur income tax expense for Giggles N Hugs, Inc. because the reverse merger was effectuated on December 30, 2011. Instead, its earnings and losses are allocated to and reported on the individual returns of the member's tax returns. Accordingly, no provision for income tax is included in the consolidated financial statements.

For the years ended December 29, 2013 and December 31, 2012, GNH, Inc. incurred net operating losses and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets. At December 29, 2013 and December 31, 2012, the Company had approximately \$3,783,533 and \$2,312,174 of federal and state net operating losses, respectively. The net operating loss carryforwards, if not utilized, will begin to expire in 2022.

Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse

A reconciliation of tax expense computed at the statutory federal tax rate income (loss) from operations before income taxes to the actual income tax expense is as follows:

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

	December 29. 2013	December 31. 2012
Tax provision (benefits) computed at tile statutory rate (39.83% )	\$(607,576)	\$(835,440)
Nondeductible expense	21,469	2,073
	(586,107)	(833,367)
Increase in valuation allowance for deferred tax assets	586,107	833,367
Income tax expense benefit	-	-

F-23



**GIGGLES N HUGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 12 – INCOME TAXES (CONTINUED)**

Deferred income taxes include the net tax effects of net operating loss (NOL) carryforwards and the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	December 29, 2013	December 31, 2012
Stock based compensation	\$ 169,352	\$ 531,768
Net operating loss carryover	416,507	301,598
Charitable contributions	249	100
Total deferred tax assets	586,108	833,466
Valuation allowance	(586,108)	(833,466)
Net deferred tax assets	\$-	\$-

The Company has provided a valuation reserve against the full amount of the net deferred tax assets, because in the opinion of management, it is more likely than not that these tax assets will not be realized.

The Company's NOL and tax credit carryovers may be significantly limited under the Internal Revenue Code (IRC). NOL and tax credit carryovers are limited under Section 382 when there is a significant "ownership change" as defined in the IRC. During the fiscal year December 29, 2013 and in prior years, the Company may have experienced such ownership changes, which could impose such limitations.

The limitation imposed by the IRC would place an annual limitation on the amount of NOL and tax credit carryovers that can be utilized. When the Company completes the necessary studies, the amount of NOL carryovers available may be reduced significantly. However, since the valuation allowance fully reserves for all available carryovers, the effect of the reduction would be offset by a reduction in the valuation allowance.

The company files income tax returns in the U.S. federal jurisdiction, and the State of Nevada.

**NOTE 13 – SUBSEQUENT EVENTS**

The Company's Management has reviewed all material events through the date of this report in accordance with ASC 855-10, and believes the only subsequent event is additional money raised from issuing additional Debentures.

The Company raised additional \$230,000 as of the date of the report with the terms for Debentures listed in Note 7 of the Notes to Consolidated Financial Statements.

The Company issued 250,000 shares of common stock to settle 50,000 payable to Sean Richards and 200,000 shares for the opening of the Topanga and Glendale locations on March 25, 2014.

Subsequent the balance sheet date December 29, 2013, the Company issued a total of 398,333 shares of common stock for various professional services.

F-24

