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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 28, 2015

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

Commission files number 000-53948

GIGGLES N HUGS, INC.

(Exact name of registrant as specified in its charter)

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

10250 Santa Monica, #155, Los Angeles, CA 90067

(Address of principal executive offices) (Zip Code)

(310) 553-4847

(Registrant's telephone number, including area code)

Copies of Communications to:

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Los Angeles, CA 90064

(310) 312-3240

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

Large accelerated filer [ ] Accelerated filer [ ]

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

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

Yes [ ] No [X]

The number of shares of Common Stock, $0.001 par value, outstanding on August 17, 2015 was 39,231,746 shares.

GIGGLES N' HUGS, INC.

TWENTY-SIX WEEKS ENDED JUNE 28, 2015

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

GIGGLES N' HUGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	June 28, 2015	**December 28, 2014**
Assets		
Current assets:		
Cash and equivalents	$144,768	$108,236
Inventory	36,321	37,397
Prepaid stock-based compensation	107,583	13,222
Prepaid expenses, other	18,994	9,810
Total current assets	307,666	168,665
Fixed assets:		
Total fixed assets, net	2,262,679	2,437,730
Other assets:		
Security deposits, other	37,380	41,980
Intangible asset, net	21,409	23,881
Total other assets	58,789	65,861
Total assets	$2,629,134	$2,672,256
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$552,490	$432,508
Incentive from lessor – current portion	117,432	111,644
Note payable from lessor - current portion	-	91,500
Accrued expenses	356,567	330,498
Deferred revenue	36,226	43,437
Total current liabilities	1,062,715	1,009,587
Long-term liabilities:		

Incentive from lessor – long-term	1,144,185	1,204,199
Note payable - lessor, net of discount of $60,228 and $0, respectively	623,088	609,150
Total long-term liabilities	1,767,273	1,813,349
Total liabilities	2,829,988	2,822,936
Stockholders' deficit:		
Common stock, $0.001 par value, 1,125,000,000 shares authorized, 38,958,413 and 33,563,830 shares issued and outstanding as of June 28, 2015 and December 28, 2014, respectively	38,958	33,563
Common stock payable (348,333 and 1,887,148 shares as of June 28, 2015 and December 28, 2014, respectively)	173,550	668,114
Additional paid-in capital	7,533,741	6,301,241
Accumulated deficit	(7,947,103)	(7,153,598)
Total stockholders' deficit	(200,854)	(150,680)
Total liabilities and stockholders' deficit	$2,629,134	$2,672,256

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

GIGGLES N' HUGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Thirteen Weeks Ended June 28, 2015	**Thirteen Weeks Ended June 29, 2014**	**Twenty -Six Weeks Ended June 28, 2015**	**Twenty -Six Weeks Ended June 29, 2014**
Revenue				
Food and beverage sales	$415,154	$416,768	$821,461	$854,925
Private party rentals	204,053	198,133	496,956	391,493
Other sales	247,205	238,463	494,728	459,977
Allowances, returns and discounts	(35,600)	(28,753)	(64,106)	(59,734)
Net sales	830,812	824,611	1,749,039	1,646,661
Costs and operating expenses				
Cost of sales including food and beverage	212,038	229,570	426,356	443,654
Labor	336,877	315,747	668,947	635,265
Occupancy cost	218,161	222,482	437,145	457,152
Depreciation and amortization	93,753	86,966	184,371	171,152
Total operating expenses	860,829	854,765	1,716,819	1,707,223
Other expenses				
Executive compensation	98,750	99,615	212,827	202,115
Employee stock-based compensation	-	-	13,500	-
Non-employee stock-based compensation	226,600	20,346	269,600	43,034
Professional and consulting expenses	102,274	160,622	177,541	399,996
General and administrative expenses	81,058	67,656	180,880	146,992
Finance and interest expense	5,880	95,716	22,833	130,606
Gain on debt modification	(69,228)	-	(69,228)	-
Loss (gain) on stock issuance for payable settlement	(525)	-	17,772	(2,133)
Total costs and operating expenses	1,305,638	1,298,720	2,542,544	2,627,833
Loss before provision for income taxes	$(474,826)	$(474,109)	$(793,505)	$(981,172)
Provision for income taxes	$-	$3,200	$-	$2,400
Net loss	$(474,826)	$(477,309)	$(793,505)	$(983,572)
Net loss per share – basic	$(0.01)	$(0.02)	$(0.02)	$(0.04)
Weighted average number of common shares outstanding – basic	37,709,576	22,524,733	35,759,702	22,636,405

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

GIGGLES N' HUGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Twenty-Six Weeks Ended June 28, 2015	Twenty-Six Weeks Ended June 29, 2014
Cash flows from operating activities		
Net loss	$ (793,505)	$ (983,573)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	184,371	171,152
Amortization of debt discount	3,711	(19,405)
Non-employee stock-based compensation	230,822	85,312
Employee stock-based compensation	13,500	-
Loss (gain) on stock issuance for payable settlement	17,772	(2,133)
Gain on note payable modification	(69,228)	-
Warrants granted for commission	38,778	60,795
Changes in operating assets and liabilities:		
Increase in prepaid expenses and deposits	(9,184)	(13,434)
Decrease (increase) in security deposits, other	4,600	(4,118)
Decrease in inventory	1,076	8,849
Increase in unamortized fees	-	(3,335)
Increase in accounts payable	144,200	49,445
Decrease in lease incentive liability	(54,226)	(39,484)
Increase in accrued expenses	26,069	156,353
(Decrease) increase in accrued interest	(10,846)	2,933
Decrease in deferred revenue	(7,211)	(1,144)
Net cash provided used in operating activities	(279,301)	(531,787)
Cash flows from investing activities		
Acquisition of fixed assets	(6,848)	(93,831)
Net cash used in investing activities	(6,848)	(93,831)
Cash flows from financing activities		
Proceeds from convertible note payable	-	50,000
Payments on note payable	(1,199)	(22,184)
Proceeds from shares issued	323,880	542,000
Proceeds from related party	-	(25,000)
Net cash provided by financing activities	322,681	544,816
NET INCREASE (DECREASE) IN CASH	36,532	(80,802)

CASH AT BEGINNING OF PERIOD	108,236	71,223
CASH AT END OF PERIOD	$ 144,768	$ (9,579)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 26,834	$ 29,948
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Shares issued for prepaid stock compensation	$ 107,583	$ 117,494
Shares issued to settle payable	$ 24,218	$ 11,800
Shares issued for stock payable	$ 650,462	$ 299,500
Shares issued to settle convertible notes payable	$ -	$ 156,149

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – HISTORY AND ORGANIZATION

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

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

For accounting purposes, the acquisition of GNH by GIGL Inc. has been recorded as a reverse merger of a public company (the "Merger"), with the exception that no goodwill is generated, and followed up with a recapitalization of GNH based on the factors demonstrating that GNH represents the accounting acquirer. As part of closing of the Merger between GNH and GIGL Inc., GNH obtained 100% of the restaurant operations of Giggles N' Hugs in Westfield Mall in Century City, California. The restaurant operations of Giggles N' Hugs in Westfield Mall in Century City, California was originally formed April 30, 2010 and opened for operation December 3, 2010. 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 31st 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.

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GIGGLES N’ HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 – BASIS OF PRESENTATION

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

At June 28, 2015 the consolidated financial statements include the accounts of Giggles N’ Hugs, Inc., GNH CC, Inc. for restaurant operations of Giggles N’ Hugs in Westfield Mall in Century City, California, GNH Topanga, Inc. for restaurant operations in Westfield Topanga Shopping Center in Woodland Hills, California, and Glendale Giggles N’ Hugs, Inc. for restaurant operations in Glendale Galleria in Glendale, California. At June 29, 2014, consolidated financial statements include the accounts of Giggles N’ Hugs, Inc. GNH CC, Inc. for restaurant operations of Giggles N’ Hugs in Westfield Mall in Century City, California, GNH Topanga, Inc. for restaurant operations in Westfield Topanga Shopping Center in Woodland Hills, California. All significant intercompany balances and transactions have

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

Use of estimates

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

Cash and cash equivalents

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

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Property and equipment

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

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

Leases

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

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

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

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of long-lived assets

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

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

At June 28, 2015 and June 29, 2014, we did not record an impairment charge against the carrying value of the restaurants located in Century City, Topanga, and Glendale, California.

Stock-based compensation

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

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

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loss per common share

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

Fair Value of Financial Instruments

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

As required by the Fair Value Measurements and Disclosures Topic of the FASB ASC, fair value is measured based on a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The three levels of the fair value hierarchy are described below:

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

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

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

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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

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

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

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

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

Convertible Debentures

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

Debt Modification

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

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

Recent pronouncements

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

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4 – GOING CONCERN

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplate continuation of the Company as a going concern. The Company has recently sustained operating losses and has an accumulated deficit of $7,947,103 at June 28, 2015. In addition, the Company has negative working capital of $755,049 at June 28, 2015.

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

NOTE 5 – INVENTORY

Inventory consisted of the following at:

	June 28, 2015	**December 28, 2014**
Restaurant food and supplies	$36,321	$ 37,397
Total	$36,321	$ 37,397

NOTE 6 – FIXED ASSETS

Fixed assets consisted of the following at:

	June 28, 2015	December 28, 2014
Leasehold improvements	$2,847,565	$2,847,565
Fixtures and equipment	85,267	85,267
Computer software and equipment	280,881	269,932
Property and equipment, total	3,213,713	3,202,764
Less: accumulated depreciation	(951,034)	(765,034)
Property and equipment, net	$2,262,679	$2,437,730

Depreciation expenses for the thirteen weeks and twenty-six weeks ended June 28, 2015 were $92,517 and $181,899, respectively, for the thirteen weeks and twenty-six weeks ended June 29, 2014 were $86,966 and $171,152, respectively. Repair and maintenance expenses for the thirteen weeks and twenty-six weeks ended June 28, 2015 were $24,242 and $47,664, respectively, and for thirteen weeks and twenty-six weeks ended June 29, 2014 were $23,316 and $45,432, respectively.

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 7 – INTANGIBLE ASSETS

	June 28, 2015	December 28, 2014
Intangible Asset	$24,703	$ 24,703
Less: accumulated amortization	(3,294)	(822)
Intangible Asset, net	$21,409	$ 23,881

Amortization expense was $1,236 and $2,472 for the thirteen weeks and twenty-six weeks ended June 28, 2015. There was no amortization expense for the thirteen weeks and twenty-six weeks ended June 29, 2014.

NOTE 8 – DEFERRED REVENUE

Deferred revenue consisted of the following at:

	June 28, 2015	December 28, 2014
Membership cards	$1,379	$ 1,263
Gift cards	4,070	4,212
Dining credit program	1,166	1,166
Party deposits	29,611	36,796
Total	$36,226	$ 43,437

NOTE 9 – INCENTIVE FROM LESSOR

Pursuant to agreed-upon terms within each store's lease agreements, the Company's landlords provided construction contributions in the amount of $590,000 for Century City; $489,770 for Topanga' and $475,000 for Glendale. All funds had been received prior to 2015.

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

Amortization of the incentive from lessor was $27,740 and $54,226 for the thirteen weeks and twenty-six weeks ended June 28, 2015 and $19,331 and $20,153 for thirteen weeks and twenty-six weeks ended June 29, 2014, respectively.

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 10 – NOTE PAYABLE LESSOR

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

As of June 29, 2014, the Company had drawn $595,000 from the Promissory Note. During the thirteen weeks and twenty-six weeks ended June 29, 2014, the Company paid a total of $25,133 and $52,133, respectively, which included interest of $14,930 and $31,068, respectively. As of June 29, 2014, the Company has a Promissory Note balance of $572,816, and accrued interest balance of $25,114.

In 2015, the Company renegotiated the terms of the Promissory Note with a new principal balance of $683,316. The lender waived principal and interest payments for two years beginning March 1, 2015. Thereafter, principal and interest will be paid in equal monthly installments of $12,707, with interest rates applied under the following terms:

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

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

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

As a result of the loan modification, the Company recognized a gain of $69,228 and a discount of $63,929, of which $3,711 of interest has amortized as of June 28, 2015.

NOTE 11 – PRIVATE PLACEMENT OFFERINGS

On May 22, 2013, the Company entered into a Private Placement Agreement with WestPark Capital, Inc. (“WestPark”), which was amended on April 30, 2014. Under the amendment to the Private Placement Engagement Agreement (the “Agreement”), WestPark will be compensated 10% of transaction value for all equity related transactions, 5% of debt placement for subordinated debt, 2.5% of debt on senior debt placement, 0.5% on credit enhancement, 5% of transaction value for all transactions that are placed through general solicitation of the Company’s customer database, and 7 year warrants for the purchase of an equity interest of the Company equal to 3% of the outstanding shares after the final closing of funding pursuant to the terms of this Agreement. If funds raised are less than $2,000,000, such 3% will be prorated accordingly. The warrants will have a nominal exercise price of $0.1 per share and a cashless exercise provision.

During the thirteen weeks ended March 29, 2015, the Company had the following three offerings:

On January 15, 2015, the Company entered into a private placement (the “2014 Offering”) to raise capital by issuing 13,333 shares of common stock for a total of $4,000 in cash.

On February 27, 2015, the Company entered into a private placement (the “2014 Offering”) to raise capital by issuing 200,000 shares of common stock for a total of $30,000 in cash.

On March 6, 2015, the Company entered into a private placement (the “2014 Offering”) to raise capital by issuing 533,333 shares of common stock for a total of $86,000 in cash.

During the thirteen weeks ended March 29, 2015, the Company granted approximately 64,373 warrants to WestPark based on the aforementioned terms. The warrant expense was $19,211 for the thirteen weeks ended March 29, 2015.

During the thirteen weeks ended June 28, 2015, the Company had one offering. On March 31, 2015, the Company entered into a private placement (the “2015 Offering”) to raise capital by issuing a total of 1,100,000 shares of common stock for a total of $165,000 in cash, less $22,936 offering cost.

During the thirteen weeks ended June 28, 2015, the Company granted approximately 97,099 warrants to WestPark based on the aforementioned terms. The warrant expense is $19,567 for the thirteen weeks ended June, 28, 2015.

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 12 – STOCKHOLDERS' DEFICIT

The Company is authorized to issue 1,125,000,000 shares of $0.001 par value common stock. As of June 28, 2015, and December 28, 2014, 38,958,413 shares and 33,563,830 shares were issued and outstanding, respectively.

On December 31, 2014, the Company issued 80,768 shares of common stock to a third party to settle accounts payable of $16,093. The fair value of the shares of common stock was $31,390. As a result, $15,297 was recorded as loss on settlement of payable.

On January 19, 2015, the Company issued 733,333 common stock in settlement of stock payable of $110,000 recorded as of December 28, 2014.

On January 19, 2015, the Company issued 50,000 shares of common stock to a third party in settlement of a law suit with a fair value of $26,438 recorded as common stock payable as of December 28, 2014.

On January 26, 2015, the Company issued 20,000 shares of common stock to a third party for settlement of an account payable balance of $4,000. The fair value of the shares of common stock was $7,000. As a result, $3,000 has been recorded as a loss on settlement of payable.

On February 10, 2015, the Company issued 864,649 shares of common stock in settlement of stock payable of $378,941 as of December 28, 2014.

On March 9, 2015, the Company issued 50,000 shares of common stock to an employee as additional compensation. The fair value of these shares of common stock on the grant date was $13,500.

On March 11, 2015, the Company issued 400,000 common shares to a third party for services and the shares are fair valued at $124,000. The shares were for a contract period of twelve months. As of June 28, 2015, the Company has recorded $72,333 as prepaid expenses, and $51,667 as non-employee stock compensation.

On April 2, 2015, the Company issued 70,000 shares of common stock to a third party in settlement of stock payable of $20,183 recorded as of December 31, 2014 and services rendered with a fair value of $4,900.

On April 9, 2015, the Company issued 150,000 shares of common stock to a consultant as a signing bonus under a one-year contract. The fair market value for the shares issued was $42,300.

On April 24, 2015, the Company issued 1,833,333 shares of common stock to several investors under a private placement agreement. The proceeds from the sale of these shares amounted to $275,000, less $22,936 offering cost.

On May 24, 2015, the Company issued 560,000 shares of common stock to a founding investor. The proceeds from this sale amounted to $84,000. In addition, another 560,000 shares of common stock were granted for his service towards the development of the Company. The fair value for the shares issued was $100,800.

On May 27, 2015, the Company issued 22,500 shares of common stock to a third party to settle accounts payable of $4,125. The fair market value of common shares was $3,600. As a result, $525 was recorded as a gain on settlement of accounts payable.

The Company issued 23,333 shares to a third party on July 6, 2015 in settlement of $4,433 stock payable recorded as of June 28, 2015.

The Company issued 250,000 shares to a third party in July 6, 2015 in settlement of $35,250 stock payable recorded as of June 28, 2015.

As of June 28, 2015, the Company has an agreement with a consultant to issue 75,000 shares for services rendered and has recorded stock payable at fair value of $13,500.

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 13 – STOCK OPTIONS AND WARRANTS

Employee Stock Options

The following table summarizes the changes in the options outstanding at June 28, 2015, and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan.

Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
$ 4.50	135,000	$ 4.50	2.60	135,000	$ 4.50
	135,000		2.60	135,000	

A summary of the Company's stock awards for options as of December 28, 2014 and changes for the thirteen weeks ended June 28, 2015 is presented below:

	Stock Options	Weighted Average Exercise Price
Outstanding, December 28, 2014	135,000	$ 4.50
Granted	—	—
Exercised	—	—
Expired/Cancelled	—	—
Outstanding, June 28, 2015	135,000	$ 4.50
Exercisable, June 28, 2015	135,000	$ 4.50

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GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 13 – STOCK OPTIONS AND WARRANTS (CONTINUED)

The weighted-average fair value of stock options granted to employees during the period ended June 28, 2015 and June 29, 2014 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes-Merton ("Black-Scholes") option pricing model are as follows:

	June 28, 2015	**June 29, 2014**
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	1.53% ~ 2.04 %	0.78 %
Expected stock price volatility	331% ~ 335 %	139 %
Expected dividend payout	-	-
Expected option life (in years)	7.00	5.00
Expected forfeiture rate	- %	- %
Fair value per share of options granted	$0.27 ~ 0.32	$3.96

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

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

There were no options granted during the quarter ended June 28, 2015.

There were no stock-based compensation expenses in connection with options granted to employees recognized in the condensed consolidated statement of operation for the twenty-six weeks ended June 28, 2015 and June 29, 2014.

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 13 – STOCK OPTIONS AND WARRANTS (CONTINUED)

Warrants

The following table summarizes the changes in the warrants outstanding at June 28, 2015, and the related prices.

Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
$ 0.37	162,162	$ 0.37	3.79	162,162	$ 0.37
0.01	377,820	0.01	6.38	377,820	0.01
	539,982		5.44	539,982	

A summary of the Company's warrant as of December 28, 2014 and the changes for the twenty-six weeks ended June 28, 2015 is presented below:

	Warrants	Weighted Average Exercise Price
Outstanding, December 28, 2014	378,510	$ 0.16
Granted	161,472	0.01
Exercised	—	—
Expired/Cancelled	—	—
Outstanding, June 28, 2015	539,982	$ 0.12
Exercisable, June 28, 2015	539,982	$ 0.12

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

	June 28, 2015	**June 29, 2014**
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	1.53% ~ 2.04 %	0.78%
Expected stock price volatility	331% ~ 335 %	139 %
Expected dividend payout	-	-
Expected option life (in years)	7.00	5.00
Expected forfeiture rate	- %	- %
Fair value per share of options granted	$0.27 ~ 0.32	$3.96

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 14 – RELATED PARTY TRANSACTIONS

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

During the twenty-six weeks ended June 28, 2015, the Company did not receive any advances from related parties.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

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

As of June 28, 2015, the aggregate minimum annual lease payments under operating leases, including amounts characterized as deemed landlord financing payments are as follows:

2015	$100,485
2016	206,498
2017	212,692
2018	219,073
2019	225,645
Thereafter	38,265
Total	$1,002,658

Rent expense for the Company’s Century City operating lease was $34,767 and $34,766 for the thirteen weeks ended June 28, 2015 and June 29, 2014, respectively, and was $69,533 and $69,532 for the twenty-six weeks ended June 28, 2015 and June 29, 2014, respectively.

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 15 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

During the year ended December 31, 2012, GNH Topanga entered into a Lease Agreement with Westfield Topanga Owner, LP, a Delaware limited partnership, to lease approximately 5,900 square feet in the Westfield Topanga Shopping Center. The lease includes land and building shells, provides a construction reimbursement allowance of up to $489,770, requires contingent rent above the minimum base rent payments based on a percentage of sales ranging from 7% to 10% and require other expenses incidental to the use of the property. The lease also has a renewal option, which GNH Topanga may exercise in the future. The Company's current lease provides early termination rights, permitting the Company and its landlord to mutually terminate the lease prior to expiration if the Company does not achieve specified sales levels in certain years. The lease commenced on March 23, 2013, Topanga's grand opening, and expires on April 30, 2022.

As of June 28, 2015, the aggregate minimum annual lease payments under operating leases, including amounts characterized as deemed landlord financing payments are as follows:

2015	$119,461
2016	247,682
2017	257,589
2018	267,891
2019	278,606
Thereafter	694,884
Total	$1,866,113

Rent expense for the Company's Topanga operating lease was $51,873 and $51,873 for the thirteen weeks ended June 28, 2015 and June 29, 2014, respectively, and was $103,745 and $103,745 for the twenty-six weeks ended June 28, 2015 and June 29, 2014, respectively.

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 15 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

2015	$98,877
2016	203,648
2017	211,794
2018	220,266
2019	229,077
Thereafter	964,800
Total	$1,928,462

Rent expense for the Company's Glendale operating lease was $44,064 and $45,867 for the thirteen weeks ended June 28, 2015 and June 29, 2014, respectively. And $88,128 and $91,734 for the twenty-six weeks ended June 28, 2015 and June 29, 2014, respectively.

Litigation

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

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

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

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

GIGGLES N' HUGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

NOTE 16 – SUBSEQUENT EVENTS

The Company's Management has reviewed all material events through the date of this report in accordance with ASC 855-10, and believes the only subsequent events that have occurred since June 28, 2015 were as follows:

The Company issued 23,333 shares to a third party on July 6, 2015 in settlement of $4,433 stock payable recorded as of June 28, 2015.

The Company issued 250,000 shares to a third party in July 6, 2015 in settlement of $35,250 stock payable recorded as of June 28, 2015.

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

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

- our ability to diversify our operations;
- inability to raise additional financing for working capital;
- the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require our management to make estimates about matters that are inherently uncertain;
- our ability to attract key personnel;
- our ability to operate profitably;
- deterioration in general or regional economic conditions;
- adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;
- changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate;
- the inability of management to effectively implement our strategies and business plan;
- inability to achieve future sales levels or other operating results;
- the unavailability of funds for capital expenditures;
- other risks and uncertainties detailed in this report;

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

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

The Company adopted a 52/53 week fiscal year ending on the Sunday closest to December 31st 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.

Overview

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

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

RESULTS OF OPERATIONS

Results of Operations for the Thirteen Weeks Ended June 28, 2015 and June 29, 2014:

REVENUE

	For Thirteen Weeks Ended June 28, 2015	**For Thirteen Weeks Ended June 29, 2014**	**Increase (Decrease)**	
			$	**%**
Revenue:				
Food and beverage sales	$415,154	$416,768	$(1,614)	-0.4 %
Private party rentals	204,053	198,133	5,920	3.0 %
Other sales	247,205	238,463	8,742	3.7 %
Allowances, returns and discounts	(35,600)	(28,753)	(6,847)	23.8 %
Net sales	$830,812	$824,611	$6,201	0.8 %

The net sales for the thirteen weeks ended June 28, 2015 and June 39, 2014 were $830,812 and $824,611, respectively. The slight increase of 0.8% was due primarily to a continuing trend for higher party rentals.

The net sales consist of revenue from food and beverages, private party rentals, fees for access to the children's play area, sales from membership cards (of varying terms), sales from Giggles N' Hugs-branded merchandise, and net of allowances, return and discount. Sales were up for private party rentals and other sales, offsetting the increase allowances, returns and discounts. The Glendale location showed the highest increase of 5.5% over the comparable period from last year, which offset the slightly lower sales from the other locations.

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

COSTS AND OPERATING EXPENSES

	For Thirteen Weeks Ended June 28, 2015	For Thirteen Weeks Ended June 29, 2014	Increase (Decrease) $	Increase (Decrease) %
Costs and operating expenses:				
Cost of sales including food and beverage	$212,038	$229,570	$(17,532)	-7.6 %
Labor	336,877	315,747	21,130	6.7 %
Occupancy cost	218,161	222,482	(4,321)	-1.9 %
Depreciation	93,753	86,966	6,787	7.8 %
Total operating expenses	$860,829	$854,765	$6,064	0.7 %
Other expenses:				
Executive compensation	98,750	99,615	(865)	-0.9 %
Non-employee stock-based compensation	226,600	20,346	206,254	1013.7 %
Professional and consulting expenses	102,274	160,622	(58,348)	-36.3 %
General and administrative expenses	81,058	67,656	13,402	19.8 %
Finance and interest expenses	5,880	95,716	(89,836)	-93.9 %
Gain on debt modification	(69,228)	-	(69,228)	*
Gain on stock issuance for payable settlement	(525)	-	(525)	*
Total other expenses	444,809	443,955	854	0.2 %
Total costs and operating expenses	1,305,638	1,298,720	6,918	0.5 %
Provision for income taxes	-	3,200	(3,200)	*
Net loss	$(474,826)	$(477,309)	$(2,483)	0.5 %

Notes to Costs and Operating Expenses table:

Cost of sales. Costs related to food purchases, supplies and general restaurant operations totaled $212,038 during the thirteen weeks ended June 28, 2015, compared to $229,570 for the thirteen weeks ended June 29, 2014, representing a 7.6% decline. Any increase in costs of certain commodities could adversely impact operations unless we pass any such price increases on to our guests.

Labor. Labor expenses for the thirteen weeks ended June 28, 2015 and June 29, 2014, were $336,877, and $315,747, respectively, reflecting an increase of 6.7%. Despite constant pressure for increased wages, the Company was successful in keeping labor cost at around 39% of revenue for comparable periods.

Occupancy Cost. Occupancy cost for the thirteen weeks ended June 28, 2015 and June 29, 2014 were $218,161 and $222,482 respectively, virtually unchanged from the prior year, but a slight improvement of 4.5% as a percentage of sales. Facility costs generally do not fluctuate much from period to period.

Depreciation and Amortization. Depreciation and amortization for the thirteen weeks ended June 28, 2015 and June 29, 2014, were $93,753 and $86,966 respectively, an increase 7.8%. We depreciate and amortize purchases of our ongoing capital investments and the construction and leasehold improvements related to the development of our stores.

Executive Compensation. During the thirteen weeks ended June 29, 2014 and June 28, 2015, executive compensation decreased from $99,615, to $98,750, a drop of less than 1%, as there was no change.

Non-Employee Stock Based Compensation. Non-employee stock compensation for the thirteen weeks ended June 28, 2015 and June 29, 2014 were $226,600 and $20,346, respectively. This jump in cost was mostly attributable to the issuance of stock to certain vendors for services rendered.

Professional and Consulting Expenses. Professional Expenses and Fees for the thirteen weeks ended June 28, 2015 and June 29, 2014, were $102,274 and $160,622, respectively. This large decrease of $58,348, or 36.3%, was due primarily to a reduction in legal fees related to both transactional matters as well as litigation issues.

General and Administrative. Other General and Administrative expenses consists of other such costs for advertising, promotion, utilities, office supplies, postage and shipping expenses. For the thirteen weeks ended June 28, 2015 and June 29, 2014, these cost were $80,533 and $67,656, respectively.

Finance and interest Costs. Finance and interest expenses are determined by Notes Payable, Convertible Debentures, and other similar obligations. These costs were $5,880 and $95,716 for the thirteen weeks ended June 28, 2015 and June 29, 2014, respectively. The large drop was mostly attributable to the conversion of the debentures to equity in the latter half of 2014, together with payments on the other notes.

Net Loss

The net result for the thirteen weeks ending June 28, 2015 and June 29, 2014 showed a small decline of $2,483 in the quarterly loss, despite a 7.6% decline in net sales.

Results of Operations for the Twenty Six Weeks Ended June 28, 2015 and June 29, 2014:

REVENUE

	For Twenty-Six Weeks Ended June 28, 2015	**For Twenty-Six Weeks Ended June 29, 2014**	**Increase (Decrease)**	
			$	***%***
Revenue:				
Food and beverage sales	$ 821,461	$ 854,925	$ (33,464)	-3.9 %
Private party rentals	496,956	391,493	105,463	26.9 %
Other sales	494,728	459,977	34,751	7.6 %
Allowances, returns and discounts	(64,106)	(59,734)	(4,372)	7.3 %
Net sales	$ 1,749,039	$ 1,646,661	$ 102,378	6.2 %

For the twenty-six weeks ended June 28, 2015 and June 29, 2014, the Company had sales of $1,749,039 and $1,646,661 respectively, reflecting a slight increase of $102,378, or 6.2% rise. The one category that showed the largest gain and made up virtually all the increase was private party rentals. They were 26.9% over the same period last year. The Company expects that area to continue to grow.

The Food and Beverage sales declined by $33,464, or 3.9%, but that was offset by the rise in Other Sales by $34,751, or 7.6%. The latter item includes fees for memberships, brand merchandise and entrance fees to play areas.

Allowances, returns and discounts for the twenty-six weeks ended June 28, 2015 were $64,106, compared to $59,734 in the same period last year, which reflects a small increase of $4,372, or 7.3%. As the Company’s brand continues to grow, we expect to reduce our reliance on the use of coupons and discounts to attract customers in future periods.

With regard to the individual stores, the Glendale Galleria and the Century City stores had the best performances showing increased sales from year to year of 7.3% and 8.9%, respectively, while the Topanga store showed only a 2.3% gain in sales over the same period last year.

COSTS AND OPERATING EXPENSES

	For Twenty-Six Weeks Ended June 28, 2015	For Twenty-Six Weeks Ended June 29, 2014	Increase (Decrease) $	%
Costs and operating expenses:				
Cost of sales including food and beverage	$ 426,356	$ 443,654	$ (17,298)	-3.9 %
Labor	668,947	635,265	33,682	5.3 %
Occupancy cost	437,145	457,152	(20,007)	-4.4 %
Depreciation	184,371	171,152	13,219	7.7 %
Total operating expenses	$ 1,716,819	$ 1,707,223	$ 9,596	0.6 %
Other expenses:				
Executive compensation	212,827	202,115	10,712	5.3 %
Employee stock-based compensation	13,500	-	13,500	*
Non-employee stock-based compensation	269,600	43,034	226,566	526.5 %
Professional and consulting expenses	177,541	399,996	(222,455)	-55.6 %
General and administrative expenses	180,880	146,992	33,888	23.1 %
Finance and interest expenses	22,833	130,606	(107,773)	-82.5 %
(Gain) on debt modification	(69,228)	-	(69,228)	*
(Gain)/ Loss on stock issuance for payable settlement	17,772	(2,133)	19,905	*
Total other expenses	825,725	920,610	(94,885)	-10.3 %
Total costs and operating expenses	2,542,544	2,627,833	(85,289)	-3.2 %
Provision for income taxes	-	2,400	2,400	*
Net loss	$ (793,505)	$ (983,572)	$ 185,267	-18.8 %

Notes to Costs and Operating Expenses table:

* Not divisible by zero.

Cost of sales. Costs related to food purchases, supplies and general restaurant operations for the twenty-six weeks ended June 28, 2015 and June 29, 2014, totaled $426,356 and $443,654, respectively. This small decline of $17,298, or 3.9% occurred even though sales rose for the like period. Food costs fluctuate regularly and any increase in costs of certain commodities could adversely impact our operations unless we pass any such price increases to our guests.

Labor. Labor expenses for the twenty-six weeks ended June 28, 2015 and June 29, 2014, were $668,947 and $635,265, respectively. Labor represents our primary variable cost and, although costs increased by $33,682 in a year to year comparison, it reflected a decline as a percentage of sales from 38.6% to 38.2% for comparable periods.

Occupancy Cost. Occupancy cost for the twenty-six weeks ended June 28, 2015 and June 29, 2014, were $437,145 and $457,152, respectively. Although costs dropped by $20,007, or 4%, rent and other facilities should not materially vary from period to period.

Depreciation and Amortization. The Depreciation and amortization expense for the twenty-six weeks ended June 28, 2015 and June 29, 2014, were $184,371 and $171,152, respectively. The increase of $13,219, or 7.7%, reflects mostly the full amortization of leasehold improvements that were placed into service. It's expected that increased acquisitions should slow in the coming periods. We depreciate and amortize purchases of our ongoing capital investments and the construction and leasehold improvements related to the development of our stores.

Executive Compensation. Executive compensation for the twenty-six weeks ended June 28, 2015 and June 29, 2014, were $212,827 and $202,115, respectively. This compensation includes only the two key executives and has been fairly consistent for the each of the two years.

Non-Employee Stock Based Compensation. Non-employee stock compensation for the twenty-six weeks ended June 28, 2015 and June 29, 2014, were $284,600 and $43,034, respectively. The sharp rise in the current period of $241,566 (561%) was attributable mostly to issuance of stock to certain vendors in settlement of the debt obligations.

Professional Expenses and Consulting Expenses. Professional and consulting fees for the twenty-six weeks ended June 28, 2015 and June 29, 2014, were $177,541 and $399,996, respectively. While these expenses primarily include accounting fees related to audit and other such services; legal fees and fees incurred from other professional service firms, the sharp drop of $222,455 (55.6%) in the comparable period, was due to the reduced need for legal services related to contractual obligations and litigation matters.

General and Administrative. General and administrative expenses for the twenty-six weeks ended June 28, 2015 and June 29, 2014, were $197,152 and $146,992, respectively. In the normal course of our operations, we incur various expenses, including, but not limited to, advertising and promotion, utilities, insurance, office supplies and a range of other sundry categories. While an increase of $50,160 (34%) was incurred in the current comparable period, the amount was spread over numerous categories, none of which was significant.

Finance and Interest. Finance and interest expenses for the twenty-six weeks ended June 28, 2015 and June 29, 2014, were $22,833 and $130,608, respectively. The decrease of $107,773 is attributable to the conversion of certain debentures to equity along with payments on note obligations.

Loss on Loan Modification. The Company incurred a loss of $69,228 on the loan modification with the Lessor on our Glendale store.

Net Loss

Our net loss for the twenty-six weeks ended June 28, 2015 and June 29, 2014, was $793,505 and $983,572, respectively. This decrease in the loss of $185,267 (18.8%) over the comparable period last year is due primarily to the non-employee stock-based compensation in the current year.

LIQUIDITY AND CAPITAL RESOURCES

For the twenty-six weeks ended June 28, 2015, the Company had a negative cash flow of $36,532, consisting of a cash used for operating activities of $265,180 and investing activities of $10,950, which was mostly offset by net cash provided from financing activities in the amount of $312,662. To date, our operations, for the most part, have been funded through the issuance of stock and borrowings.

In the prior year, there was a net cash decrease of $80,802, which was a result of the cash used in operating activities of $531,787 and investing activities of $93,831, partially offset by cash provided by financing activities of $544,816.

The following table sets forth a summary of our cash flows for the twenty-six weeks ended June 28, 2015 and June 29, 2014:

	For Twenty-Six Weeks Ended June 28, 2015	**For Twenty-Six Weeks Ended June 29, 2014**
Net cash used in operating activities	$ (279,301)	$ (531,787)
Net cash used in investing activities	(6,848)	(93,831)
Net cash provided by financing activities	322,681	544,816
Net increase (decrease) in cash	36,532	(80,802)
Cash, beginning of period	108,236	71,223
Cash (deficit), end of period	$ 144,768	$ (9,579)

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

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

Off-Balance Sheet Arrangements

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

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

Item 3. Quantitative and Qualitative Disclosure about Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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Changes in Internal Control Over Financial Reporting

None.

Limitations on Effectiveness of Controls and Procedures

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

As of the date of this Report, the Company was not subject to any material legal proceedings. The only significant litigation that the Company was previously involved with was settled in August 2014 (see Note 15). From time to time, however, the Company may be named as a defendant in legal actions arising from normal business activities. Although the Company cannot accurately predict the amount of its liability, if any, that could arise with respect to currently pending legal actions, it is not expected that any such liability will have a material adverse effect on the Company’s financial position, operating results or cash flows.

Item 1A. Risk Factors

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

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

Stock Issuances

The Company is authorized to issue 1,125,000,000 shares of $0.001 par value common stock. As of June 28, 2015, and December 28, 2014, 38,958,413 shares and 33,563,830 shares were issued and outstanding, respectively.

On April 2, 2015, the Company issued 70,000 shares of common stock to a third party in settlement of stock payable of $20,183 recorded as of December 31, 2014 and services rendered with a fair value of $4,900.

On April 9, 2015, the Company issued 150,000 shares of common stock to a consultant as a signing bonus under a one-year contract. The fair market value for the share issued was $42,300.

On April 24, 2015, the Company issued 1,833,333 shares of common stock to several investors under a private placement agreement. The proceeds from the sale of these shares amounted to $275,000, less $22,936 offering cost.

On May 24, 2015, the Company issued 560,000 shares of common stock to a founding investor. The proceeds from this sale amounted to $84,000. In addition, another 560,000 shares of common stock were granted for his service towards the development of the Company. The fair value for the shares issued was $100,800.

On May 27, 2015, the Company issued 22,500 shares of common stock to a third party to settle accounts payable of $4,125. The fair market value of common shares was $3,600. As a result, $525 was recorded as a gain on settlement of accounts payable.

The Company issued 23,333 shares to a third party on July 6, 2015 in settlement of $4,433 stock payable recorded as of June 28, 2015.

The Company issued 250,000 shares to a third party in July 6, 2015 in settlement of $35,250 stock payable recorded as of June 28, 2015.

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

Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities from the time of our inception through the period ended June 28, 2015.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

* Filed herewith.

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

SIGNATURE

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

GIGGLES N' HUGS, INC.

Date: August 17, 2015 By: */s/ Joey Parsi*
Joey Parsi
Chief Executive Officer
(Principal Executive Officer and duly authorized signatory)

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