Giggles N' Hugs, Inc.
Form 10-Q
May 13, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 27, 2016

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

Commission files number 000-53948

GIGGLES N HUGS, INC.

(Exact name of registrant as specified in its charter)

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

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

(310) 356-1992

(Registrant’s telephone number, including area code)

Copies of Communications to:

Libertas Law Group, Inc.

225 Santa Monica Blvd., 11th Floor

Santa Monica, CA 90401

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

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

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

Yes [ ] No [X]

The number of shares of Common Stock, $0.001 par value, outstanding on May 13, 2016 was 42,893,533 shares.

GIGGLES N' HUGS, INC.

THIRTEEN WEEKS ENDED MARCH 27, 2016

Index to Report on Form 10-Q

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

GIGGLES N' HUGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 27, 2016 Unaudited	December 27, 2015
Assets		
Current assets:		
Cash and equivalents	$77,230	$334,191
Inventory	32,987	37,660
Prepaid expenses, other	21,988	26,919
Total current assets	132,205	398,770
Fixed assets:		
Total fixed assets, net	1,640,695	1,729,836
Other assets	32,620	32,620
Total assets	$1,805,520	$2,161,226
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$576,583	$554,230
Incentive from lessor — current portion	140,613	134,645
Note Payable from lessor, net of discount of $27,102 and $35,094, respectively	656,214	648,222
Accrued expenses	282,559	396,568
Deferred revenue	67,161	52,334
Promissory note payable, net of discount $27,806 and $60,306, respectively	237,194	204,694
Convertible note payable and accrued interest, net of debt discount of $100,753 and $139,471, respectively	115,361	71,779
Total current liabilities	2,075,685	2,062,472
Long-term liabilities:		
Incentive from lessor — long-term	1,029,311	1,063,453

Total liabilities	3,104,996	3,125,925
Stockholders’ deficit:		
Common stock, $0.001 par value, 1,125,000,000 shares authorized, 42,723,533 and 41,821,033 shares issued and outstanding as of March 27, 2016 and December 27, 2015, respectively	42,722	41,820
Common stock payable (555,556 shares as of March 27, 2016 and December 27, 2015)	245,498	245,498
Additional paid-in capital	8,029,261	7,970,268
Accumulated deficit	(9,616,957)	(9,222,285)
Total stockholders’ deficit	(1,299,476)	(964,699)
Total liabilities and stockholders’ deficit	$1,805,520	$2,161,226

See Accompanying Notes to Condensed Consolidated Financial Statements.

F-1

GIGGLES N' HUGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Thirteen Weeks Ended March 27, 2016			Thirteen Weeks Ended March 29, 2015		
Revenue						
Net sales	$	878,932		$	918,228	
Costs and operating expenses						
Cost of operations		770,518			765,372	
General and administrative expenses		324,192			345,668	
Depreciation and amortization		89,141			90,618	
Total operating expenses		1,183,851			1,201,658	
Loss from Operations		(304,919	)		(283,430	)
Finance and interest expense		88,953			16,953	
Loss (gain) on stock issuance for payable settlement		-			18,297	
Loss before provision for income taxes		(393,872	)		(318,680	)
Provision for income taxes		800			-	
Net loss	$	(394,672	)	$	(318,680	)
Net loss per share - basic and diluted	$	(0.01	)	$	(0.01	)
Weighted average number of common shares outstanding - basic and diluted		42,140,868			34,786,204	

See Accompanying Notes to Condensed Consolidated Financial Statements.

F-2

GIGGLES N' HUGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

(Unaudited)

	Common Stock		**Additional Paid in**	**Stock**	**Accumulated**	**Total Stockholders'**
	Shares	**Amount**	**Capital**	**Payable**	**Deficit**	**Deficit**
Balance, December 27, 2015	41,821,033	$41,820	$7,970,268	$245,498	$(9,222,285)	$(964,699)
Shares issued for professional services	377,500	377	28,018			28,395
Shares issued to settle the accounts payable	525,000	525	30,975			31,500
Net loss					(394,672)	(394,672)
	42,723,533	$42,722	$8,029,261	$245,498	$(9,616,957)	$(1,299,476)

See Accompanying Notes to Condensed Consolidated Financial Statements.

F-3

GIGGLES N' HUGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Thirteen Weeks ended March 27, 2016	Thirteen Weeks ended March 29, 2015
Cash flows from operating activities		
Net loss	$(394,672)	$ (3 18,680)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	89,141	90,618
Amortization of debt discount	79,209	-
Stock-based compensation	-	52,289
Loss (gain) on stock issuance for payable settlement	-	18,297
Warrant expenses	-	19,211
Shares issued for services	28,396	-
Increase in accrued interest	4,864	-
Changes in operating assets and liabilities:		
Decrease in prepaid expenses and deposits	4,931	2,204
Increase in security deposits, other	-	(2,000)
Decrease (increase) in inventory	4,673	(2,511)
Increase in accounts payable	53,854	34,898
Decrease in lease incentive liability	(28,175)	(26,486)
(Decrease) increase in accrued expenses	(114,009)	56,129
Decrease in accrued interest	-	(10,846)
Increase in deferred revenue	14,827	1,186
Net cash used in operating activities	(256,961)	(85,691)
Cash flows from investing activities		
Purchase of fixed assets	-	(1,321)
Net cash used in investing activities	-	(1,321)
Cash flows from financing activities		
Payments on note payable	-	(1,199)
Proceeds from common stock payable	-	97,816
Net cash provided by financing activities	-	96,617
NET INCREASE (DECREASE) IN CASH	(256,961)	9,605
CASH AT BEGINNING OF PERIOD	334,191	108,236
CASH AT END OF PERIOD	$77,230	$117,841

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$-	$26,834
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Shares issued for prepaid stock compensation	$-	$103,333
Shares issued to settle payable	$31,500	$20,093
Shares issued for stock payable	$-	$515,378

See Accompanying Notes to Condensed Consolidated Financial Statements.

GIGGLES N' HUGS, INC.

NOTES TO FINANCIAL STATEMENTS

For the Thirteen Weeks ended March 27, 2016 and March 29, 2015

(Unaudited)

NOTE 1 – HISTORY AND ORGANIZATION

Giggles N' Hugs, Inc. ("GIGL Inc." or the "Company") was originally organized on September 17, 2004 under the laws of the State of Nevada, as Teacher's Pet, Inc. GIGL Inc. was organized to sell teaching supplies and learning tools. On August 20, 2010, GIGL Inc. filed an amendment to its articles of incorporation to change its name to Giggles N' Hugs, Inc.

On December 30, 2011, GIGL Inc. completed the acquisition of all the issued and outstanding shares of GNH, Inc. ("GNH"), a Nevada corporation, pursuant to a Stock Exchange Agreement. For accounting purposes, the acquisition of GNH by GIGL Inc. has been recorded as a reverse merger.

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

NOTE 2 – BASIS OF PRESENTATION

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

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these interim financial statements be read in conjunction with the financial statements of the Company for the year ended December

27, 2015 and notes thereto included in the Company’s annual report on Form 10-K. The Company follows the same accounting policies in the preparation of interim reports.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, during the thirteen weeks ended March 27, 2016, the Company incurred a net loss of $394,672, used cash in operations of $256,961, and had a stockholders' deficit of $1,299,476 as of that date. In addition, the Company was behind in certain lease payments of one of its restaurant locations and was in default on a note payable of $656,214. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise additional funds and implement its business plan. In addition, the Company's independent registered public accounting firm in its report on the December 27, 2015 financial statements has raised substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company has and will continue to use significant capital to grow and acquire market share. At March 27, 2016, the Company had cash on hand in the amount of $77,230. Management estimates that the current funds on hand will be sufficient to continue operations through June 2016. Management is currently seeking additional funds, primarily through the issuance of debt and equity securities for cash to operate our business. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stock holders, in case of equity financing.

Principles of consolidation

At March 27, 2016, the consolidated financial statements include the accounts of Giggles N Hugs, Inc., GNH, Inc., GNH CC, Inc. for restaurant operations in Westfield Mall in Century City, California, GNH Topanga, Inc. for restaurant operations in Westfield Topanga Shopping Center in Woodland Hills, California, and Glendale Giggles N Hugs, Inc. for restaurant operations in Glendale Galleria in Glendale, California. Intercompany balances and transactions have been eliminated. Giggles N Hugs, Inc., GNH, Inc., GNH CC, Inc., GNH Topanga, Inc., and Glendale Giggles N Hugs, Inc. will be collectively referred herein to as the "Company".

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions used by management affected impairment analysis for fixed assets, intangible assets, amounts of potential liabilities and valuation of issuance of equity securities issued for services. Actual results could differ from those estimates.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value of financial instruments

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

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

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

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

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

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

Income taxes

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

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

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

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

Leases

The Company currently leases its restaurant locations. The Company evaluates the lease to determine its appropriate classification as an operating or capital lease for financial reporting purposes. 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 $700,000, $506,271, and $475,000 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-based compensation

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

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

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

Loss per common share

Net loss per share is provided in accordance with ASC Subtopic 260-10. We present basic loss per share ("EPS") and diluted EPS on the face of statements of operations. Basic EPS is computed by dividing reported losses by the weighted average shares outstanding. Except where the result would be anti-dilutive to income from continuing operations, diluted earnings per share has been computed assuming the conversion of the convertible long-term debt and the elimination of the related interest expense, and the exercise of stock options and warrants. Loss per common share has been computed using the weighted average number of common shares outstanding during the year. For the period ended March 27, 2016 and March 29, 2015, the assumed conversion of convertible note payable and the exercise of stock warrants are anti-dilutive due to the Company's net losses and are excluded in determining diluted loss per share.

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. 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. As of March 27, 2016 and December 27, 2015, the amount of gift cards sales were $2,614 and $4,448, respectively, and were recorded as deferred revenue.

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Standards

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

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, Compensation – Stock Compensation (Topic 718). The pronouncement was issued to clarify the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The pronouncement is effective for reporting periods beginning after December 15, 2015. The adoption of ASU 2014-12 is not expected to have a significant impact on the Company’s consolidated financial position or results of operations.

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

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

F-11

NOTE 4 – FIXED ASSETS

Fixed assets consisted of the following at:

	March 27, 2016	December 27, 2015
Lease hold improvements	$2,847,565	$2,847,565
Fixtures and equipment	85,267	85,267
Computer software and equipment	282,445	283,001
Property and equipment, total	3,215,277	3,215,833
Less: accumulated depreciation	(1,574,582)	(1,485,997)
Property and equipment, net	$1,640,695	$1,729,836

Depreciation and amortization expenses for the thirteen weeks ended March 27, 2016 and March 29, 2015 were $89,141 and $90,618, respectively. Repair and maintenance expenses for the thirteen weeks ended March 27, 2016 and March 29, 2015 were $28,992 and $23,422, respectively.

NOTE 5 – INCENTIVE FROM LESSOR

The Company received $700,000 for Century City, $506,271 for Topanga and $475,000 for Glendale from the Company’s landlords as construction contributions pursuant to agreed-upon terms in the lease agreements as of March 27, 2016 and December 27, 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.

The balance of the incentive from lessor as of March 27, 2016 and December 27, 2015, was $1,169,924 and $1,198,098, and included deferred rent of $227,747 and $218,874, respectively. As of March 27, 2016, $140,613 of the incentive from lessor was current and $1,029,311 was long term. Amortization of the incentive from lessor was $28,174 and $26,486 for the thirteen weeks ended March 27, 2016 and March 29, 2015, respectively.

NOTE 6 – NOTE PAYABLE LESSOR

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

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

NOTE 6 – NOTE PAYABLE LESSOR (CONTINUED)

Due to the two year interest free period, the Company recalculated the fair value of the note taking into account the payment stream and the incremental changes in the interest rate and determined the fair value of the new note on the date of modification to be $619,377, net of a discount of $63,939. The Company determined that the discount should be amortized over the two year period where no interest was due or payable. As such, the Company amortized $7,992 of the discount during the thirteen weeks ended March 27, 2016. The unamortized discount at March 27, 2016 was $27,102, and the net balance due was $656,214.

The lender under the Note is GGP Limited Partnership (GGP). GGP is an affiliate of Glendale II Mall Associates, the lessor of the Company’s Glendale Mall restaurant location. In accordance with the note agreement, an event of default would occur if the Borrower defaults under the lease between the Company and Glendale II Mall Associates. Upon the occurrence of an event of default, the entire balance of the Note payable and accrued interest would become due and payable, and the balance due becomes subject to a default interest rate (which is 5% higher than the defined interest rate). As of March 27, 2016, the Company was past due in its rental obligation and the Note is in default. As of March 27, 2016, the entire principal and accrued interest is due and payable and is classified as current liability.

NOTE 7 – CONVERTIBLE NOTE PAYABLE

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

	March 27, 2016	December 27, 2015
Iconic Holdings, LLC	$161,250	$161,250
J&N Invest LLC	50,000	50,000
Accrued interest	4,864	-
Total Convertible Notes	216,114	211,250
Less: Discount	(100,753)	(139,471)
Net Convertible Notes	$115,361	$71,779

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

The Company determined that the ability of the holder to convert the note to common shares at 65% of the market created a beneficial conversion feature upon issuance. The Company also considered if the conversion feature required liability accounting under current accounting guidelines but determined that the conversion of the shares were indexed to the Company's stock, and that the floor of $0.08 would not allow the conversion to exceed the Company's authorized share limit. Based on the current market price on the date of issuance of the note of $0.13 and the discount of 65%, the Company calculated an initial beneficial conversion feature of $86,827. The total note discount was $109,327 including the $22,500 discussed above. Such amount is being recognized as a note discount and amortized over the life of the note. The Company amortized $27,332 of the discount during the thirteen weeks ended March 27, 2016. The unamortized discount at March 27, 2016 was $80,734.

J&N Invest LLC - On August 24, 2015, the Company entered into an unsecured Note Payable Agreement with an investor for which the Company issued a $50,000 Convertible Note Payable, which accrues interest at a rate of 5% per annum and matures on August 31, 2016. The Lender may also convert all or a portion of the Note Payable at any time into shares of common stock at a price of $0.10 per share. As the market price of the stock on the date of issuance was $0.23, the Company recognized a debt discount at the date of issuance in the amount of $50,000 related to the fair value of the conversion feature. The discount will be amortized over the life of the note. The Company amortized $12,393 of the discount during the thirteen weeks ended March 27, 2016. The unamortized discount at March 27, 2016 was $20,019.

NOTE 8 – PROMISSORY NOTE

On December 18, 2015, the Company issued an unsecured promissory note in the principal sum of $265,000 in favor of St. George Investments, LLC, pursuant to the terms of a securities purchase agreement of the same date. The note was subject to an original issue discount of $60,000 and a $5,000 fee to cover certain expenses of lender. The note matures in six months and carries no interest unless there is an event of default. GNH may prepay the note in full within 90 days of the issuance date for $235,000. The Company has accounted for the discount as a contra account to the note and will be amortized to interest expense over the life of the note. As such, the Company amortized $32,500 of the discount during the thirteen weeks ended March 27, 2016. The unamortized discount at March 27, 2016 was $27,806, and the net balance due was $237,194.

The terms of the note transaction are subject to adjustment on a retroactive basis should the Registrant enter into a financing transaction with terms that would have been more favorable to the lender at any time any portion of the note remains outstanding. The Company considered whether this potential adjustment had any effect on the accounting of the note at issuance. The Company believes this is a contingent transaction, not subject to estimation at this point, and believes such adjustment should be accounted for at the date it occurs.

NOTE 9 – BUSINESS LOAN AND SECURITY AGREEMENT

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

The loan requires a loan fee of .5% of the outstanding balance as of each disbursement date. At March 27, 2016, the advance for the month of March 2016 had been entirely paid off and there was no amount due as of that date.

NOTE 10 – COMMON STOCK

<u>Issuance of Common Stock</u>

During the thirteen weeks ended March 27, 2016, the following shares of common stock were issued:

There were 377,500 shares of common stock issued for professional services render, with a fair value of $28,395.

There were 525,000 shares of common stock issued in settlement of an accounts payable with a fair value of $31,500.

NOTE 11 – STOCK OPTIONS AND WARRANTS

Employee Stock Options

The following table summarizes the changes in the options outstanding at March 27, 2016, and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan.

A summary of the Company's stock awards for options as of March 27, 2016 is presented below:

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

As of March 27, 2016, the stock options had no intrinsic value due to the low stock price of the Company's stock.

There were no options granted during the fiscal year ended March 27, 2016.

There were no stock-based compensation expense in connection with options granted to employees recognized in the consolidated statement of operations for the thirteen weeks ended March 27, 2016.

NOTE 11 – STOCK OPTIONS AND WARRANTS (CONTINUED)

Warrants

The following table summarizes the changes in the warrants outstanding at March 27, 2016, and the related prices.

A summary of the Company's warrant for the thirteen weeks ended March 27, 2016 is presented below:

	Warrants	Weighted Average Exercise Price
Outstanding, December 27, 2015	166,500	$ 0.13
Granted	-	-
Exercised	-	-
Outstanding, March 27, 2016	166,500	$ 0.13
Exercisable, March 27, 2016	166,500	$ 0.13

Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
$0.01 ~ $0.37	166,500	$ 0.13	6.14	166,500	$ 0.13
	166,500		6.14	166,500	

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The Company leases its Century City restaurant location under an operating lease, with the initial term being 10 years. Restaurant leases typically include land and building shells, and may 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 leases generally have a renewal option, which the Company may exercise in the future. The Company's current lease at Century City 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. In October 2015, Westfield group, the landlord of our Century City location embarked on a massive $700 million renovation of the mall. In March 2016 (Westfield) approached the Company about recapturing its Century City space due to the remodeling. Currently, approximately 90% of the mall is closed or being remodeled with the completion expected sometime during 2017. Negotiations are ongoing, and the Company expects to receive compensation that will exceed the net book value of its assets. Based on our discussions, the store is expected to close late in the third quarter, and the Company will be relived of its remaining lease obligation.

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.

On April 1, 2013, the Company entered into a Lease Agreement with GLENDALE II MALL ASSOCIATES, LLC, a Delaware limited liability company, to lease approximately 6,000 square feet in the Glendale Galleria in the City of Glendale, County of Los Angeles, and State of California. The lease includes land and building shells, provides a construction reimbursement allowance of up to $475,000, requires contingent rent above the minimum base rent payments based on a percentage of sales ranging from 4% to 7% and require other expenses incidental to the use of the property. The lease commenced on November 21, 2013 and expires on October 31, 2023. As of December 27, 2015, the Company was in default of certain of the payments due under this lease.

Rent expense for the Company's restaurant operating leases was $627,668 and $606,714 for the fiscal years ended December 27, 2016 and December 29, 2015, respectively, and is included as part of the cost of operations.

Litigation

On April 20, 2016, the Company entered into a stipulated judgment in favor of TKM in the amount of $40,000. Under the stipulated judgment, the Company would only be compelled to pay $20,000 in four equal installments of $5,000, provided they meet the ascribed timely payments as set forth in the stipulated judgment. The initial payment was due and payable upon execution of the agreement, which payment has been met.

NOTE 13 – SUBSEQUENT EVENTS

On April 5, 2016, the Company issued a total of 170,000 shares of common stock as payment for services rendered, with a fair value of $15,079.

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

This thirteen 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", and similar terms refer to Giggles N' Hugs, Inc. unless otherwise expressly stated or the context otherwise requires.

The Company adopted a 52/53 week fiscal year ending on the Sunday closest to December 31st for financial reporting purposes. For the years 2015 and 2016 consists of a year ending December 28, 2015 and December 27, 2016.

Overview

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

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.

RESULTS OF OPERATIONS

Results of Operations for the Thirteen Weeks Ended March 27, 2016 and Thirteen Weeks Ended March 29, 2015:

REVENUE

	For Thirteen Weeks Ended March 27, 2016	For Thirteen Weeks Ended March 29, 2015	Increase (Decrease) $	%
Revenue:				
Net sales	$878,932	$918,228	$(39,296)	-4.3%

The net sales for the thirteen weeks ended March 27, 2016 and March 29, 2015 were $878,932 and $918,288, respectively. The decrease of $39,296, or 4.3%%, was due mostly to a drop of $33,882 in food and beverage sales.

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

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 continuously evaluate and modify our menu to accommodate guest requests.

COSTS AND OPERATING EXPENSES

	For Thirteen Weeks Ended March 27, 2016	For Thirteen Weeks Ended March 29, 2015	Increase (Decrease) $	%
Revenue: Net sales	$878,932	$918,228	$(39,296)	-4.3 %
Costs and operating expenses:				
Cost of operations	770,518	765,372	5,146	0.7 %
General and administrative expenses	324,192	345,668	(21,476)	-6.2 %
Depreciation and amortization	89,141	90,618	(1,477)	-1.6 %
Total operating expenses	1,183,851	1,201,658	(17,807)	-1.5 %
Loss from Operations	(304,919)	(283,430)	(21,489)	7.6 %
Other expenses:				
Finance and interest expenses	88,953	16,953	72,000	424.7%
(Gain)/ Loss on stock issuance for payable settlement	-	18,297	(18,297)	100.0%
Total other expenses	88,953	35,250	53,703	152.3%
Provision for income taxes	800	-	800	100 %
Net Loss	$(394,672)	$(318,680)	$(75,992)	23.8 %

Notes to Costs and Operating Expenses Table:

Cost of operations. Costs of operations of $770,518 for the thirteen weeks ended March 27, 2016 was virtually unchanged from the $765,372 for the thirteen weeks ended March 29, 2015, having increased only $5,146 (0.7%)

General and administrative expenses. General and administrative expenses for the thirteen weeks ended March 27, 2016 and March 29, 2015 were $324,192 and $345,668, respectively. The decline of $21,476 is mostly attributable to lower costs for advertising and marketing of $3,659 (-40.4%), and nightly entertainment of $15,849 (-62.9%).

Depreciation and amortization. The depreciation and amortization was virtually unchanged at $89,141 for the thirteen weeks ended March 27, 2016 versus $90,618 for the thirteen weeks ended March 29, 2015.

Finance and interest expense. The total finance and operating expenses of $88,953 for the thirteen weeks ended March 27, 2016 increased from the $16,953 for the thirteen weeks ended March 29, 2015. The increase is due to the incurrence of new Notes Payable during the second half of 2015.

Net Loss. The overall net loss increased by $75,992 for the thirteen weeks ended March 27, 2016 compared to the thirteen weeks ended March 29, 2015. The increase in the net loss is primarily a result of the reduction in net sales of $39,296 and the increase of interest expenses of $72,000, and was partially offset by the drop in general and administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

As of March 27, 2016, the Company has $77,230 in cash and equivalents, $32,987 in inventory, and $21,988 in prepaid expenses and other. The following table provides detailed information about our net cash flow for all financial statement periods presented in this 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 thirteen weeks ended March 27, 2015 and thirteen weeks ended March 29, 2015:

	For Thirteen Weeks Ended March 27, 2016	For Three Months Ended March 29, 2015
Net cash used in operating activities	$(256,961)	$(85,691)
Net cash used in investing activities	-	(1,321)
Net cash provided by financing activities	-	96,617
Net increase (decrease) in Cash	(256,961)	9,605
Cash, beginning of period	334,191	108,236
Cash, end of period	$77,230	$117,841

Operating activities

Net cash used in operating activities was $256,961 for the thirteen weeks ended March 27, 2016, as compared to $85,691 used in operating activities for the thirteen weeks ended March 29, 2015. The biggest contributors to the increase in cash used in operating activities of $171,270 for the thirteen weeks ended March 27, 2016 over the thirteen weeks ended March 29, 2015, was the $75,992 increase in net loss, and the change in accrued expenses by $114,009, partially offset by the $79,209 increase in amortization of debt discount.

Investing activities

There was no net cash provided or used in investing activities for the thirteen weeks ended March 27, 2016 compared to the minimal fixed assets acquired during for the thirteen weeks ended March 29, 2015.

Financing activities

There was no cash provided by financing activities for the thirteen weeks ended March 27, 2016, while $96,617 was provided during the thirteen weeks ended March 29, 2015.

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

Going Concern and Liquidity

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying condensed consolidated financial statements, during the thirteen weeks ended March 27, 2016, the Company incurred a net loss of $394,672, used cash in operations of $256,961 and had a stockholders' deficit of $1,299,476 as of that date. In addition, the Company was behind in certain lease payments of one of its restaurant locations and was in default on a note payable of $656,214. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise additional funds and implement its business plan. The Company's independent registered public accounting firm in its report on the December 27, 2015 financial statements has raised substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company has and will continue to use significant capital to grow and acquire market share At March 27, 2016, the Company had cash on hand in the amount of $77,230. Management estimates that the current funds on hand will be sufficient to continue operations through June 2016. Management is currently seeking additional funds, primarily through the issuance of debt and equity securities for cash to operate our business. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stock holders, in case of equity financing.

Notes Payable

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

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

The lender under the Note is GGP Limited Partnership (GGP). GGP is an affiliate of Glendale II Mall Associates, the lessor of the Company's Glendale Mall restaurant location. In accordance with the note agreement, an event of default would occur if the Borrower defaults under the lease between the Company and Glendale II Mall Associates. Upon the occurrence of an event of default, the entire balance of the Note payable and accrued interest would become due and payable, and the balance due becomes subject to a default interest rate (which is 5% higher than the defined interest rate). As of March 27, 2016, the Company was past due in its rental obligation and the Note is in default. As of March 27, 2016, the entire principal and accrued interest is due and payable and is classified as current liability.

7

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

J&N Invest LLC - On August 24, 2015, the Company entered into an unsecured Note Payable Agreement with an investor for which the Company issued a $50,000 Convertible Note Payable, which accrues interest at a rate of 5% per annum and matures on August 31, 2016. The Lender may also convert all or a portion of the Note Payable at any time into shares of common stock at a price of $0.10 per share.

Recent Accounting Pronouncements

A discussion with respect to recently issued accounting standards is provided at Note 2 to the Company's condensed consolidated financial statements.

Critical Accounting Policies and Estimates

The Company prepared its condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's condensed consolidated financial statements.

Long-Lived Assets

Management assesses the carrying value of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If there is indication of impairment, management prepares an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value.

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

Stock-Based Compensation

The Company periodically issues common stock to employees and consultants for services rendered. Options vest and expire according to terms established at the issuance date of each grant.

The Company accounts for stock-based payments to employees by measuring the cost of services received in exchange for equity awards based on the grant date fair value of the awards, with the cost recognized as compensation expense on the straight-line basis in the Company's financial statements over the vesting period of the awards. The Company accounts for stock-based payments to consultants by determining the value of the stock compensation based upon the measurement date at either (a) the date at which a performance commitment is reached or (b) at the date at which the necessary performance to earn the equity instruments is complete.

Stock options granted to outside consultants are revalued each reporting period to determine the amount to be recorded as an expense in the respective period. As the stock options vest, they are valued on each vesting date and an adjustment is recorded for the difference between the value already recorded and the value on the date of vesting.

The fair value of common stock issued as stock-based compensation is determined by reference to the closing price of the Company's common stock on the date of issuance. The fair value of stock options granted as stock-based compensation is determined utilizing the Black-Scholes option-pricing model, and is affected by several variables, the most significant of which are the life of the equity award, the exercise price of the stock option as compared to the fair market value of the common stock on the grant date, and the estimated volatility of the common stock over the term of the equity award. Estimated volatility is based on the historical volatility of the Company's common stock. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The fair market value of common stock is determined by reference to the quoted market price of the Company's common stock.

The Company recognizes the fair value of stock-based compensation awards in general and administrative costs in the Company's statement of operations. The Company issues new shares of common stock to satisfy stock option exercises.

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, conducted an evaluation of our disclosure controls and procedures, as such term is defined under Securities and Exchange Act of 1934 Rules 13a-15(f). Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that the Company’s disclosure controls and procedures were not effective as of March 27, 2016.

As a result, management considers the Company’s internal control over financial reporting to be ineffective.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting during the period covered by this report that have materially affected, or are 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.

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. On April 20, 2016, the Company entered into a stipulated judgment in favor of TKM in the amount of $40,000. Under the stipulated judgment, the Company would only be compelled to pay $20,000 in four equal installments of $5,000, provided they meet the ascribed timely payments as set forth in the stipulated judgment. The initial payment was due and payable upon execution of the agreement, which payment has been met.

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

Not required for a smaller reporting company.

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

Issuer Purchases of Equity Securities

During the period covered by this report, we issued 377,500 shares of common stock in exchange for professional services rendered, with a fair value of $28,395, and 525,000 shares of common stock in settlement of an account payable with a fair value of $31,500.

These issuances are exempt from registration under 4(2) of the Securities Act of 1933, as amended, on the basis that the recipients have a preexisting relationship with the Company and there was no public offering.

ITEM 3. Defaults Upon Senior Securities.

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

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

The lender under the Note is GGP Limited Partnership (GGP). GGP is an affiliate of Glendale II Mall Associates, the lessor of the Company's Glendale Mall restaurant location. In accordance with the note agreement, an event of default occurs if the Borrower defaults under the lease between the Company and Glendale II Mall Associates. Upon the occurrence of an event of default, the entire balance of the Note payable and accrued interest is due and payable immediately, and the balance due is subject to a default interest rate (which is 5% higher than the defined interest rate). As of March 27, 2016, the Company was past due in its rental obligation and the Note is in default as of March 27, 2016.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information.

None.

ITEM 6. Exhibits.

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

* Filed herewith.

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

SIGNATURE

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

GIGGLES N' HUGS, INC.

Date May 13, 2016 By:*/s/ Joey Parsi*
Joey Parsi
Chief Executive Officer
(Principal Executive Officer and duly authorized signatory)

12