Giggles N' Hugs, Inc.
Form 10-K
April 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2017

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

Commission file number 000-53948

GIGGLES N HUGS, INC.

(Exact name of registrant as specified in its charter)

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

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

Registrant's telephone number, including area code: **(818) 956-4847**

Copies of Communications to: Libertas Law Group, Inc.

225 Santa Monica Blvd., 11th Floor Santa Monica, CA 90401

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

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

Common Stock, $0.001 par value

(Title of class)

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

Yes [ ] No [X]

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

Yes [ ] No [X]

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

[ ]

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

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

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

Yes [ ] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of July 2, 2017 (the last business day of the registrant's second quarter) was $10,166,715 based on a share value of $0.0934.

The number of shares of Common Stock, $0.001 par value, outstanding on March 31, 2018 was 147,332,251 shares.

DOCUMENTS INCORPORATED BY REFERENCE: None.

GIGGLES N HUGS, INC.

FOR THE YEAR ENDED DECEMBER 31, 2017

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FORWARD-LOOKING STATEMENTS

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

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

As well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may appear throughout this report, including without limitation, the following sections: Item 1 “Business,” Item 1A “Risk Factors,” and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “will be,” “will continue,” “will likely result,” and similar ex These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Annual Report on Form 10-K, and in particular, the risks discussed under the caption “Risk Factors” in Item 1A and those discussed in other documents we file with the Securities and Exchange Commission (SEC). We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

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

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PART I

ITEM 1. BUSINESS

Business Development

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

Giggles currently owns and operates kid-friendly restaurants named Giggles N Hugs in the Westfield Topanga Shopping Center located in Woodland Hills, California, and the Glendale Galleria located in Glendale, California, and owns the intellectual property rights for Giggles N Hugs facilities.

Business Overview

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

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

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

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

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

Restaurant Concept:

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

Dining Area:

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

Menu:

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

Play Area:

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

Activities and Entertainment:

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

Birthday parties and other special events:

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

History

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

With the successful launch and proof of concept that was realized at our Brentwood location, the Company decided to expand to the Westfield Shopping Mall in Century City in December of 2010. This ideal location highlights a play space two times the size of the original location and includes additional sources of revenue including beer and wine sales, drop off service, private party rentals, and in-store merchandise. In June 2016, the Century City mall began a $700 million remodeling of the Westfield Shopping Mall, which closed 90% of the retailers, including the Giggles N Hugs store.

Expansion

Our intent is to expand and open new stores either through the Company-owned approach, using the franchise model, or both, but such expansion will be limited to our ability to raise capital to meet this need.

Furthermore, Giggles N Hugs intends to introduce a new line of frozen foods, specifically designed for children, and organic baby foods, both of which we hope will be available at grocery stores. We are in discussions to license our brand for merchandising, publishing, children’s apparel, entertainment, and more. With sufficient financing, Giggles N Hugs plans to expand to other parts of the country in the future.

***Company-owned stores*.** We estimate that we would have to expend $700,000 - $900,000 (net of any – landlord-tenant improvement allowances) to construct, staff, and open each new restaurant, excluding rent. Our build- out cost of new restaurants will vary depending on a number of factors, including the size of the location, whether we are converting an existing restaurant space as we did with our Brentwood location, or moving into a "build to suit" location constructed from a building shell, typically with a monetary contribution (also typically referred to as a tenant improvement allowance) from the landlord. While the latter development model generally involves greater costs (depending on the level of landlord contribution) and time to open (because the permitting process is typically significantly longer), we believe that positioning our restaurants in popular, "marquee" locations (which typically operate on the "build to suit" model) will greatly increase public awareness and recognition of the Giggles brand, which we believe is critical to our continued growth.

Marketing and Advertising

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

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

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

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

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

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

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

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

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

Competition

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

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

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

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

- Delicious, but also nutritious, food.
- Sundry, novel, child-oriented toys and overall environment.
- Quality offerings for adults while waiting.
- Theme nights such as “Disco Night”.
- Entertainment such as puppet shows, magic shows and music shows.
- “Aides” to assist in the kids’ enjoyment while parents relax.

We are aware that many of our competitors and potential competitors have greater financial and other resources, have been in business longer, have greater name recognition and are better established in the markets where our first restaurant is located and where our future restaurants will be located. Although we believe that our restaurant concept offers features and advantages not currently available elsewhere, and we have taken reasonable steps to adequately protect our proprietary concepts and other intellectual property, we cannot assure you that these companies will not seek to copy aspects of our restaurant concept, or develop similar or competing features, in the future.

Government Regulation

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

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

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

Intellectual Property

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

Personnel

As of the date of this filing, and as a result of our recent organizational establishment, we have 53 employees .

Available Information

Our periodic reports filed with the SEC, which include Form 10-K, Form 10-Q, Form 8-K, and amendments thereto, may be accessed by the public free of charge from the SEC. Electronic copies of these reports can be accessed at the SEC's website (*http://www.sec.gov*). The public may read or obtain copies of these reports from the SEC at the SEC's Public Reference Room at 450 Fifth Street N.W., Washington, D.C. 20549 (1-800-SEC-0330).

ITEM 1A. RISK FACTORS

Disclosure pursuant to this Item 1A is not required as we are smaller reporting company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently maintain two locations:

Westfield Mall Topanga location at 6600 Topanga Canyon Blvd, Canoga Park, CA 91303. Our current monthly rent at this location is $20,387. The lease started on March 23, 2013.

Glendale Galleria location at 3222 Glendale Galleria Way, Glendale, CA 91210. Our current monthly rent at this location is $12,660. The lease started in November 2013.

Previously, the Company had a store located at the Westfield Mall Century City at 10250 Santa Monica Blvd., #155, Los Angeles, California 90067. The lease started on August 1, 2010, however, in March 2016, the Lessor approached the Company about recapturing its Century City space due to a major remodeling. Approximately 90% of the mall was closed or being remodeled with the completion expected sometime during 2017. On May 13, 2016, Giggles N' Hugs, Inc. entered into a Termination of Lease Agreement with Century City Mall, LLC ("landlord"), accelerating the termination date of the Lease dated January 13, 2010 for its store located in Westfield Century City, Los Angeles, California. Pursuant to the agreement, the lease was terminated in June, 2016 and the landlord agreed to a monetary reimbursement of $350,000 which was received by June 26, 2016.

ITEM 3. LEGAL PROCEEDINGS

On August 14, 2017, the Company and St. George Investments, LLC ("St. George") entered into a settlement agreement. As of October 1, 2017, all the terms and conditions of the settlement have been satisfied.

As of December 31, 2017, there was no material outstanding litigation.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASE OF EQUITY SECURITIES

Market Information

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

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

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

	2017 BID PRICES		2016 BID PRICES	
	High	Low	High	Low
1st Quarter	$0.09	$0.07	$0.09	$0.08
2nd Quarter	$0.12	$0.10	$0.08	$0.07
3rd Quarter	$0.06	$0.06	$0.05	$0.04
4th Quarter	$0.03	$0.02	$0.01	$0.01

Holders of Common Stock

As of March 31, 2018, we had approximately 88 active stockholders of record of the 147,332,251 shares outstanding. The closing stock price on March 31, 2018 was $0.03.

Dividends

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

Issuer Purchases of Equity Securities

The Company did not repurchase any of its equity securities during the fourth quarter ended December 31, 2017.

2012 Stock Incentive Plan

We have reserved for issuance an aggregate of 5,000,000 shares of common stock under our 2012 Stock Incentive Plan (“the Plan”) that was adopted in February 23, 2012. As of the year ended December 31, 2017 and January 1, 2017, 115,000 stock options are outstanding.

Purposes of the Plan

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

Stock Subject to the 2012 Plan

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

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

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The following table sets forth information about the 2012 stock incentive plan as of December 31, 2017.

Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
$ 4.50	115,000	$ 4.50	0.85	115,000	$ 4.50
	115,000		0.85	115,000	

Eligibility

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

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

Equity Compensation Plan Information

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

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

Recent Sales of Unregistered Securities

ITEM 6. SELECTED FINANCIAL DATA

*Not applicable.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

OVERVIEW AND OUTLOOK

Our Operations

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

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

With the successful launch and proof of concept that was realized at our Brentwood location, the Company decided to expand to the Westfield Shopping Mall in Century City in December of 2010. The Century City mall began a $700 million remodeling of the Westfield Shopping Mall, which closed 90% of the retailers, including the Giggles N Hugs store. On May 13, 2016, Giggles N' Hugs, Inc. entered into a Termination of Lease Agreement with Century City Mall, LLC ("landlord"), accelerating the termination date of the Lease dated January 13, 2010 for its store located in Westfield Century City, Los Angeles, California. Pursuant to the agreement, the lease terminated June 30, 2016 and the landlord agreed to a monetary reimbursement of $350,000 which was received by June 26, 2016. As such, sales from June 30, 2016 only include operations from two stores, as compared to three stores in the prior fiscal year.

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

RESULTS OF OPERATIONS

	Fiscal Year Ended December 31, 2017	**Fiscal Year Ended** January 1, 2017	**Increase (Decrease)** $	%
Revenue:				
Net sales	$2,454,125	$3,023,494	$(997,647)	-33 %
Costs and operating expenses:				
Cost of operations	$1,883,816	$2,538,968	$(655,152)	-26 %
General and administrative expenses	1,610,441	878,847	731,594	83 %
Other operating expenses	180,749	230,108	(49,359)	-21 %
Depreciation	256,421	306,019	(49,598)	-16 %
Total costs and operating expenses	3,931,427	3,953,942	(22,515)	-1 %
Loss from Operations	(1,477,302)	(930,448)	(546,854)	59 %
Other Expenses				
Finance and interest expense	(90,546)	(497,714)	407,168	-82 %
Gain on sales of asset	-	5,971	(5,971)	*
Gain on lease termination	-	214,111	(214,111)	*
Change in fair value of derivatives	11,567	(369,861)	381,428	*
Gain on extinguishment of derivatives	185,604	190,370	(4,766)	*
Loss on extinguishment of debt	(249,014)	-	(249,014)	*
Loss before provision for income taxes liability	(1,619,691)	(1,387,571)	(233,120)	17 %
Provision (benefit) for income taxes	2,719	(616)	3,335	-541%
Net Loss	$(1,622,410)	$(1,386,955)	$(236,455)	17 %

*Not divisible by zero

Net Sales. During the fiscal year ended December 31, 2017, net sales reflected a drop of $997,647, a decline of 33%, from the year ended January 1, 2017. Due to the major remodeling of the Century City Westfield Mall, our Century City store closed on June 30, 2016. The remaining two stores combined had increased sales of 0.6%.

Cost and operating expenses. Total costs and operating expenses of $3,931,427 for the year ended December 31, 2017, reflected a slightly drop from $3,953,942 for the year ended January 1, 2017. The decline of $22,515 (1%) was mainly due to multiple factors such as the closing of the Century City store; lower other operating expenses; and lower depreciation.

Cost of Operations. Cost of operations during the year ended December 31, 2017 decreased by $655,152 (26%) from comparison in prior year, of which $414,157 was attributable to the closing of the Century City store on June 30, 2016. The additional decrease of $240,995 was due to reduced food cost and renegotiation of lease at Glendale store, which is more than offset by slightly higher labor cost and other restaurant costs.

General and Administrative costs. Total general and administrative costs increased by $731,594 (83%) from comparison in the prior year. The significant increase included the fair value of $531,000 for warrants issued as payment for professional services rendered. Additionally, legal fees and non-employee stock compensation increased $290,442 compared to the fiscal year ended January 1, 2017.

Depreciation and other operating expenses. Depreciation and other operating expenses declined by $98,957 (37%), which was mostly reflected by the closing of the Century City store.

Loss from Operations. The loss from operations during the year ended December 31, 2017 increased by $546,854 (59%) as compared to the prior period mainly due to an increase in noncash stock compensation costs included in general and administrative expenses.

Loss on extinguishment of debt. During the year ended December 31, 2017 the Company incurred a loss of $249,014 on extinguishment and conversion of an outstanding convertible note. There was no similar transaction in the comparable period in 2016.

Other Expenses. Other expenses reflected a net decrease of $313,734 in the year ended December 31, 2017 over the year ended January 1, 2017. Finance and interest expense decreased by $407,168 over the prior year due to the resolution of debt among certain parties. The reduction in the change of the fair value of derivatives amount to $381,428, which is more than offset by the loss on extinguishment of debt.

Net Loss. The net loss increased by $236,455 (17%) due to the factors noted above.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2017, we had $131,336 in cash and cash equivalents. The following table provides detailed information about our net cash flows for all financial statement periods presented in this Annual Report. To date, we have financed our operations through the issuance of stock and borrowings, in addition to store revenue.

	Fiscal Year Ended December 31, 2017	Fiscal Year Ended January 1, 2017
Net cash used in operating activities	$(173,848)	$(518,526)
Net cash (used) provided in investing activities	(2,482)	360,500
Net cash provided (used) by financing activities	163,146	(31,645)
Net decrease in Cash	(13,184)	(189,671)
Cash, beginning of year	144,520	334,191
Cash, end of year	$131,336	$144,520

Operating activities

Net cash used in operating activities was $173,848 for the year ended December 31, 2017 compared to $518,526 used in operating activities for year ended January 1, 2017. This improvement of $344,678 between the two periods mostly resulted from reduced costs from the closing of the Century City store.

Investing activities

Net cash of $2,482 was used in investing activities during the year ended December 31, 2017, compared to $350,000 cash that was provided by investing activities for the year ended January 1, 2017, which resulted from the closure of the Century City restaurant as the landlord, Westfield Mass paid for the early termination of the lease. In addition, the furniture and fixtures were sold for another $10,500.

Financing activities

Net cash provided by financing activities for the year ended December 31, 2017 was $163,146 from proceeds from common stock issuable, proceeds from sales of stock upon note settlement, and proceeds from a promissory note and a note payable, while net cash was used in financing activities of $31,645 for the year ended January 1, 2017 for payments on a promissory note and a note payable.

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 consolidated financial statements, during the year ended December 31, 2017, the Company incurred a net loss of $1,622,410 used cash in operations of $173,848 and had a stockholders' deficit of $1,917,577 as of that date. In addition, the Company is in default of a note payable to one of its landlords. These factors raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. 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 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 December 31, 2017, the Company had cash on hand in the amount of $131,336. Management estimates that the current funds on hand will be sufficient to continue operations through April 2017. Management is currently seeking additional funds, primarily through the issuance of debt and equity securities for cash to operate its business. No assurance can be given that any future financing will be available or, if available, that it will be on terms satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on its operations, in the case of debt financing or cause substantial dilution for our stockholders, in the case of equity financing.

Notes Payables

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 August 12, 2016, the Company entered into a third amendment on its lease at The Glendale Galleria. The amendment covered several areas, including adjustment to percentage rent payable, reduced the minimum rent payable, along with the payment and principal of Promissory Note. The Promissory Note was adjusted to a balance due of $763,261.57 from $683,316, with zero percent interest, payable in equal monthly instalments of $5,300 through maturity of Note on May 31, 2028. The Company imputed interest using a discount rate of 10% to determine a fair value of the note of $433,521. The balance of note payable at December 31, 2017 and January 1, 2017 was $422,361 and $432,717, respectively.

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 December 31, 2017, the Company is in default of its payments under the note payable.

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

The balance of the note was $84,191 at January 1, 2017. During the period ended December 31, 2017, the Company converted the remaining balance of the principal of $81,491 and accrued interest of $39,741 into 38,457,435 shares of common stock at average conversion price $0.00259 per share. Upon extinguishment of note, the derivative of $118,873 was eliminated.

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

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St. George Investments, LLC - On December 18, 2015, the Company issued a six-month unsecured promissory note in the principal sum of $265,000 in favor of St. George Investments, LLC, pursuant to the terms of a securities purchase agreement of the same date. The Note went into default when the Company failed to make payment on the due date. Consequently, on July 8, 2016, the Company entered into an Exchange Agreement with St. George Investments, LLC, to replace the original Promissory Note with a new Convertible Promissory Note ("Note"). The Note carries a Conversion clause that allows the Holder to have a cashless conversion into shares of Common Stock for all or part of the principal, at a price equal to the average market price for 20 days prior to the conversion.

As of January 1, 2017, the amount due under the promissory note was $193,450. During January and February of 2017. the Holder converted $48,914 of its debt into 15,660,611 shares of Common Stock with a fair value of $48,914. In addition, the Company paid $7,517 of the principal balance. On March 23, 2017, St. George Investments, LLC ("St. George") served an arbitration demand and summons claiming that the Company had breached its obligations under a convertible note by preventing St. George from converting the remaining balance of the note to common stock. The parties disagreed as to the conversion price set in the note agreement due to execution by the parties of different versions of the document. St. George claimed for additional damages. The Company believed these claims lacked merit and the Company retained counsel to vigorously defend this action. Effective May 3, 2017, the Company counter-sued for full damages for breaching the contract, claiming mistakes, rescission, breach of the covenant of good faith and fair dealing and unjust enrichment. On August 14, 2017, the Company and St. George entered into a settlement agreement whereby the Company agreed to deliver 7,900,000 unrestricted free-trading shares to St. George upon signing a final settlement agreement.

As part of the settlement agreement, St. George agreed to purchase an additional 1,100,000 shares of common stock for a purchase price of $110,000 at $0.10 per share.

As of December 31, 2017, all the terms and conditions of the settlement have been completed.

Off-Balance Sheet Arrangements

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

Operation Plan

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Financial Statements and Financial Statement Schedules appearing on page F-1 through F-25 of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

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

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

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

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

Management has undertaken an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based upon this evaluation, management concluded that our internal control over financial reporting was not effective as of January 1, 2017. The material weaknesses noted were as follows:

- Lack of independent audit committee and Board Members;
- Lack of formal approval policies of the Board of Directors;
- Insufficient personnel appropriately qualified to perform control monitoring activities, including the recognition of risks and complexities of its business operations; and,
- Insufficient monitoring and review controls over the financial reporting closing process.

The Company has resourced outside consultants to assist in implementing the necessary financial controls over the financial reporting and the utilization of internal management and staff to effectuate these controls.

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

Changes in Internal Control over Financial Reporting

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

Limitations on Effectiveness of Controls and Procedures

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

ITEM 9B. OTHER INFORMATION

GGP Limited Partnership is an affiliate of Glendale II Mall Associates, the lessor of the Company’s Glendale Mall restaurant location. In accordance with the Company’s note agreement with GGP, an event of default occurs if the Company 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 becomes due and payable, and the balance due becomes subject to a default interest rate (which is 5% higher than the defined interest rate). As December 31, 2017, the Company is in default of its payments under the note payable. The outstanding balance on this Note as of December 31, 2017 was $422,361.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

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

Name	Age	Position	Term Commencing
Joey Parsi	49	President, Treasurer and Director	December 30, 2011
Sean Richards	48	Chief Officer of Operations and Secretary	February 23, 2012

Joey Parsi, President – Mr. Joey Parsi is a founder of Giggles N Hugs Restaurant, a children's themed restaurant with play areas for children 10 years and younger and serve healthy, gourmet food. Mr. Parsi and his wife founded the Giggles N Hugs Restaurant in 2007 after experiencing the same issues as all parents while dining out with their daughter. Mr. Parsi and his wife decided to open a children's restaurant (Giggles N Hugs) that served healthy, gourmet food, with an area that allowed kids to play with toys, be entertained, play games, and various other family friendly activities. By having a restaurant with a play area, parents are able to enjoy a relaxing healthy gourmet meal, while their kids are entertained. Since the launch of Giggles N Hugs, Mr. Parsi and the restaurant have been praised by parents from all over the world. Mr. Parsi has been featured in Businessweek Magazine, the Los Angeles Business Journal, Los Angeles Times, People Magazine, US Weekly, OK Magazine, and many TV shows, including FOX News, Extra TV, Entertainment Tonight, TV Guide Channel, and most recently, The Talk on CBS among others.

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

At TD Waterhouse, between 2001 and 2006, Mr. Parsi personally managed more than $350 million in assets for clients, and oversaw more than $1 billion in assets in his region. From 2006 to 2010, Mr. Parsi served as the Senior

Vice President at Stockcross Financial Services. There, he advised high net worth clients on investment matters.

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

Family Relationships

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

Indemnification of Directors and Officers

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

Limitation of Liability of Directors

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

Election of Directors and Officers

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

Code of Ethics

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

1) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

2) Full, fair, accurate, timely and understandable disclosure in reports and documents that are filed with, or submitted to, the Commission and in other public communications made by an issuer;

3) Compliance with applicable governmental laws, rules and regulations;

4) The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and

5) Accountability for adherence to the code.

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

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

Corporate Governance

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

Involvement in Certain Legal Proceedings

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

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

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

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

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

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

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

ITEM 11. EXECUTIVE COMPENSATION

Overview of Compensation Program

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

Compensation Philosophy and Objectives

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

Role of Executive Officers in Compensation Decisions

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

Summary Compensation Table

The following table sets forth information with respect to compensation earned by our Chief Executive Officer, President, and Chief Operations Officer for the years ended December 31, 2017 and January 1, 2017.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation ($)	All Other Compensation ($)	Total ($)
Joey Parsi(1)	2017	300,000	-0-	27,319	-0-	-0-	-0-	-0-	300,000
President and Treasurer	2016	300,000	-0-	-0-	-0-	-0-	-0-	-0-	300,000
Sean Richards(2),	2017	95,000	-0-	980	-0-	-0-	-0-	-0-	95,980
COO and Secretary	2016	95,000	8,650	-0-	-0-	-0-	-0-	-0-	103,650

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

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

Summary Compensation

In connection with Mr. Sean Richards appointment as Secretary and Chief Operations Officer on February 23, 2012, Mr. Richards was granted an initial equity award of 50,000 shares of the Company's restricted common stock and 100,000 stock options were granted at a strike price of $4.50 per share with the immediate vesting. Additionally, in 2017, he received a base annual salary of $95,000 and was granted a stock award of 350,000 shares of common stock with a fair value of $980. The Board of Directors had authorized to compensate Joey Parsi at annual rate of $300,000. As of December 31, 2017, the unpaid portion of his pay was $375,900. In addition, on January 4, 2017, the Board of

Directors authorized granting him 9,759,000 shares of common stock.

Termination of Employment

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

Option Grants in Last Fiscal Year

During the fiscal year ended December 31, 2017, no additional options were granted. There are 115,000 exercisable shares that remain outstanding as of December 31, 2017.

Director Compensation

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table presents information, to the best of our knowledge, about the beneficial ownership of our common stock on March 31, 2018, by those persons known to beneficially own more than 5% of our capital stock and by our Directors and executive officers. The percentage of beneficial ownership for the following table is based on 133,552,194 shares of common stock outstanding.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and does not necessarily indicate beneficial ownership for any other purpose. Under these rules, beneficial ownership includes those shares of common stock over which the stockholder has sole or shared voting or investment power. It also includes shares of common stock that the stockholder has a right to acquire within 60 days after March 31, 2018, pursuant to options, warrants, conversion privileges or other rights. The percentage of ownership of the outstanding common stock, however, is based on the assumption, expressly required by the rules of the Securities and Exchange Commission, that only the person or entity whose ownership is being reported has converted options or warrants into shares of our common stock.

Security Ownership of Management

Title of Class	Name and address of Beneficial Owner(1)	Amount of Beneficial Ownership		Percent of Class	
Common	Joey Parsi	26,070,913	(2)	19.52	%
	Sean Richards	750,000	(3)	0.56	%
	All Beneficial Owners as a Group	26,820,913		20.08	%

(1) As used in this table, “beneficial ownership” means the sole or united power to vote, or to direct the voting of, a security, or the sole or united investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of a security). Each party’s address is in care of the Company at 3222 Galleria Way, Glendale, CA 91210.

(2) Of the 26,070,913 shares, Mr. Paris may be deemed to have indirect control over 8,811,913 shares of common stock held by his wife Dorsa Foroughi. In fact, Mr. Parsi and Ms. Foroughi may be deed a group for reporting purpose. Additionally, Mr. Parsi has direct control over 17,259,000 shares of common stock.

(3) This amount includes an option to purchase 100,000 shares of common stock at a price per share of $4.50 granted to Mr. Richards on February 2012, and 250,000 shares issued to Mr. Richards in March 2014. There were 50,000 shares and 350,000 shares granted and issued to Mr. Richards in March 2015 and January 2017, respectively.

Changes in Control

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPNDENCE

Transactions with Related Persons

From time to time, the Company has received advances from certain of its officers to meet short term working capital needs. These advances may not have formal repayment terms or arrangements. As of December 31, 2017, there were no advances from related persons

Promoters and Certain Control Persons

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

Director Independence

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

(1) AUDIT FEES

Audit and Non-Audit Fees

Fiscal Year Ended December 31, 2017 and January 1, 2017:

The following table sets forth the fees paid or accrued by us for the audit and other services provided by Weinberg & Company for the audit of our annual financial statements for the years ended December 31, 2017 and January 1, 2017.

	Fiscal Years Ended December 31, 2017	**Fiscal Years Ended January 1, 2017**
Audit Fees(1)	$ 52,000	$ 40,500
Total	$ 52,000	$ 40,500

1. AUDIT FEES: This category represents fees for professional services provided in connection with the audit of our financial statements and review of our quarterly financial statements.

2. AUDIT COMMITTEE POLICIES AND PROCEDURES

a. We do not have an audit committee.

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

a. Not applicable.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. The financial statements listed in the "Index to Financial Statements" at page 34 are filed as part of this report.
2. Financial statement schedules are omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.
3. Exhibits included or incorporated herein: See index to Exhibits.

Exhibit Index

			Incorporated by reference			
Exhibit Number	**Exhibit Description**	**Filed herewith**	**Form**	**Period ending**	**Exhibit**	**Filing date**
2.1	Acquisition Agreement and Plan of Merger by and among Giggles N Hugs Inc., Giggles N Hugs Sub Co and GNH, Inc.		8-K		2.1	9/24/2010
3.1	Articles of Incorporation		SB-2		3(a)	11/24/2006
3.2	Certificate of Amendment to Articles of Incorporation dated August 20, 2010 (Name Change to Giggles N Hugs Inc.)		8-K		3(i)(b)	8/26/2010
3.3	Certificate of Amendment to Articles of Incorporation dated effective July 30, 2010		S-1		3.3	2/8/2018
3.4	Bylaws		SB-2		3.4	11/24/2006
4.1	Form of Common Stock Certificate		S-1		4.1	2/8/2018
4.2	Form of Warrant dated February 28, 2017		S-1		4.2	2/8/2018
4.3	Form of 8% Promissory Note dated December 21, 2015 issued to Iconic Holdings, LLC		S-1		4.3	2/8/2018
4.4	Form of Warrant dated March 7, 2017		S-1		4.4	2/8/2018
4.5	Form of 5% Convertible Debenture dated August 24, 2015		S-1		4.5	2/8/2018
4.6	Form of Warrant Certificate		S-1		4.6	2/8/2018
4.7	Form of Warrant Agency Agreement		S-1		4.7	2/8/2018
4.8	Form of Warrant dated March 25, 2017		S-1		4.8	2/8/2018
10.1	2016 Equity Incentive Plan		8-K		10.1	8/1/2016
10.2	Form of Brand Ambassador Agreement dated march 7, 2017 by and among Giggles N' Hugs, Inc., Firelight, LLC and G-Money, LLC		S-1		10.2	2/8/2018

23.1	Consent of Weinberg & Company, PA. Independent Registered Public Accounting Firm, filed herewith	X
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act.	X
32.2	Certification Pursuant to X Section 906 of the Sarbanes-Oxley Act.	X
101.INS**	XBRL Instance Document	X
101.SCG**	XBRL Taxonomy Extension Schema	X
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X
101.LAB**	XBRL Taxonomy Extension Label Linkbase	X
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase	X

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

ITEM 16. NOT APPLICABLE

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GIGGLES N HUGS, INC.

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

Date: April 16, 2018

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

Signature	Title	Date
/S/ Joey Parsi		April 16, 2018
Joey Parsi	Chief Executive Officer (Principal Executive Officer), President, Principal Financial Officer, Treasurer, and Director	

GIGGLES N HUGS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2017

AND JANUARY 1, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors

Giggles N' Hugs, Inc.

Los Angeles, California

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Giggles N' Hugs, Inc. (the "Company") as of December 31, 2017 and January 1, 2017, the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and January 1, 2017, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has a stockholders' deficit at December 31, 2017, and incurred a net loss and utilized cash in operations during the year ended December 31, 2017. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1 to the financial statements. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Weinberg & Company, P.A.

We have served as the Company's auditor since 2016.

Los Angeles, CA

April 16, 2018

GIGGLES N HUGS, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2017	January 1, 2017
Assets		
Current assets:		
Cash and equivalents	$131,336	$144,520
Inventory	24,710	20,331
Prepaid expenses and other	21,196	13,806
Total current assets	177,242	178,657
Fixed assets, net of accumulated depreciation and amortization of $1,476,520 and $1,220,099	740,189	994,128
Other assets	2,620	2,620
Total assets	$920,051	$1,175,405
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$677,692	$610,925
Incentive from lessor – current portion	102,168	87,420
Note payable to lessor-in default, current portion net of discount of $273,607 and $35,094, respectively	422,361	21,544
Accrued expenses	250,876	208,052
Accrued officers salary	375,900	120,900
Deferred revenue	6,530	24,159
Promissory note payable and accrued interest,	-	193,340
Convertible note payable and accrued interest	50,000	151,383
Derivative liability	-	357,411
Total current liabilities	1,885,527	1,775,134
Long-term liabilities:		
Incentive from lessor – long-term	550,839	653,008
Note payable to lessor	-	411,173
Deferred gain	401,262	429,115
Total long-term liabilities	952,101	1,493,296
Total liabilities	2,837,628	3,268,430
Stockholders' deficit:		
	145,602	67,933

Common stock, $0.001 par value, 1,125,000,000 shares authorized, 145,602,251 and 67,934,205 shares issued and outstanding as of December 31, 2017 and January 1, 2017, respectively		
Common stock payable (1,397,619 and 405,556 shares as of December 31, 2017 and January 1, 2017, respectively)	293,535	218,535
Additional paid-in capital	9,874,936	8,229,747
Accumulated deficit	(12,231,650)	(10,609,240)
Total stockholders' deficit	(1,917,577)	(2,093,025)
Total liabilities and stockholders' deficit	$920,051	$1,175,405

See Accompanying Notes to Consolidated Financial Statements.

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GIGGLES N HUGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended December 31, 2017	Fiscal Year Ended January 1, 2017
Revenue		
Net sales	$2,454,125	$3,023,494
Costs and operating expenses		
Cost of operations	1,883,816	2,538,968
General and administrative expenses	1,610,441	878,847
Other operating expenses	180,749	230,108
Depreciation and amortization	256,421	306,019
Total costs and operating expenses	3,931,427	3,953,942
Loss from Operations	(1,477,302)	(930,448)
Other Income (Expenses):		
Finance and interest expense	(90,546)	(497,714)
Gain on sales of asset	-	5,971
Gain on lease termination	-	214,111
Change in fair value of derivatives	11,567	(369,861)
Gain on extinguishment of derivatives	185,604	190,370
Loss on extinguishment of debt	(249,014)	-
Loss before provision for income taxes	(1,619,691)	(1,387,571)
Provision (benefit) for income taxes	2,719	(616)
Net loss	$(1,622,410)	$(1,386,955)
Net loss per share – basic and diluted	$(0.01)	$(0.03)
Weighted average number of common shares outstanding – basic and diluted	135,950,336	43,786,858

See Accompanying Notes to Consolidated Financial Statements.

GIGGLES N HUGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

	Common Stock		Additional Paid in	Common Stock	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Issuable	Deficit	Deficit
Balance, December 27, 2015	41,821,033	$41,820	$7,970,268	$245,498	$(9,222,285)	$(964,699)
Shares issued for professional services	497,500	498	37,272			37,770
Shares issued to settle accounts payable	525,000	525	30,975			31,500
Shares issued for stock payable	150,000	150	26,813	(26,963)		-
Fair value of warrants granted for professional services			31,000			31,000
Shares issued for convertible notes	24,940,672	24,940	133,419			158,359
Net loss					(1,386,955)	(1,386,955)
Balance January 1, 2017	67,934,205	67,933	8,229,747	218,535	(10,609,240)	(2,093,025)
Shares issued for employees compensation	10,170,000	10,170	18,300			28,470
Shares issued for settle accounts payable	2,884,226	2,884	273,012			275,896
Shares issued for convertible notes and settlement	62,018,046	62,019	663,828			725,847
Shares issued for cash as part of settlement agreement	1,100,000	1,100	108,900			110,000
Cash received for stock issuable				75,000		75,000
Shares issued for professional services	1,495,774	1,496	50,149			51,645
Fair value of warrants granted for services			531,000			531,000
Net loss					(1,622,410)	(1,622,410)
Balance December 31, 2017	145,602,251	$145,602	$9,874,936	$293,535	$(12,231,650)	$(1,917,577)

See Accompanying Notes to Consolidated Financial Statements.

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GIGGLES N HUGS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Fiscal Year Ended December 31, 2017	Fiscal Year Ended January 1, 2017
Cash flows from operating activities		
Net loss	$(1,622,410)	$(1,386,955)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	256,421	306,019
Amortization of debt discount	-	215,762
Shares issued for services	51,645	37,770
Stock-based compesation	28,470	-
Loss on stock issuance for payable settlement	109,096	-
Gain on sales of fixed assets	-	(5,971)
Gain on lease termination	-	(214,111)
Warrants vested for service	531,000	31,000
Interest and fees included in promissory note payable	25,674	47,673
Amortization of deferred gain	(27,853)	(26,172)
Derivative liability recorded upon extinguishment of promissory note payable	-	177,920
Gain on extinguishment of derivative liability	(185,604)	(190,370)
Change in fair value of derivative liability	(11,567)	369,861
Promissory note settlement	249,014	-
Changes in operating assets and liabilities:		
(Increase) decrease in prepaid expenses and other	(7,390)	13,113
Decrease in other assets	-	30,000
(Increase) decrease in inventory	(4,379)	17,329
Increase in accounts payable	233,567	253,183
Decrease in incentive from lessor	(87,421)	(98,785)
Increase (decrease) in accrued expenses	305,518	(67,616)
Decrease in deferred revenue	(17,629)	(28,176)
Net cash used in operating activities	(173,848)	(518,526)
Cash flows from investing activities		
(Acquisition) provided of fixed assets	(2,482)	10,500
Proceeds from lease termination	-	350,000
Net cash (used) in provided investing activities	(2,482)	360,500
Cash flows from financing activities		
Proceeds from common stock issuable	75,000	-
Proceeds from sale of stock upon note settlement	110,000	-
Payments to promissory note payable	(11,498)	(20,841)
Payments to note payable-lessor	(10,356)	(10,804)

Net cash provided (used) by financing activities	163,146	(31,645)
NET DECREASE IN CASH	(13,184)	(189,671)
CASH AT BEGINNING OF THE YEAR	144,520	334,191
CASH AT END OF YEAR	$131,336	$144,520
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$-	$37,759
Income taxes paid	$-	$-
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Shares issued to settle convertible notes payable	$835,847	$158,359
Accounts payable settled by share issuance	$146,904	$31,500
Relcass of notes payable to accrued interest	$3,125	$-
Deferred gain recorded upon amendment of lease agreement and promissory note	$-	$455,287

See Accompanying Notes to Consolidated Financial Statements.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

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 year ended December 31, 2017, the Company incurred a net loss of $1,622,410, used cash in operations of $173,848 and had a stockholders' deficit of $1,917,577 as of that date. In addition, the Company was in default of a note payable to one of its landlords. These factors raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. 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 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 December 31, 2017, the Company had cash on hand in the amount of $131,336. Management estimates that the current funds on hand will be sufficient to continue operations through April 2018. Management continues to seek additional funds, primarily through the issuance of debt and equity securities for cash to operate our business. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stock holders, in case or equity financing.

Principles of consolidation

For the years ended December 31, 2017 and January 1, 2017, 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 include estimates made for impairment analysis for fixed assets and other long term assets, estimates of potential liabilities and, assumptions made in valuing derivative liabilities, the valuation of issuance of debt and equity securities, and realization of deferred tax assets. Actual results could differ from those estimates.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

The Company has no significant off-balance-sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign hedging arrangements. The Company maintains the majority of its cash balances with financial institutions, in the form of demand deposits. The Company believes that no significant concentration of credit risk exists with respect to these cash balances because of its assessment of the creditworthiness and financial viability of these two financial institutions.

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 the Company's financing obligations approximate their fair values due to the fact that the interest rates on these obligations are based on prevailing market interest rates.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Cash and cash equivalents

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

Inventories

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

Property and equipment

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

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

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 31, 2017 and January 1, 2017 there were no indications of further impairment based on management’s assessment of these assets.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The Company currently has two 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 its leased premises which are reimbursed to the Company by its 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 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – 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 the 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 the statements of operations. Basic EPS is computed by dividing reported losses by the weighted average shares outstanding. Except where the result would be anti-dilutive to income from continuing operations, diluted earnings per share has been computed assuming the conversion of the convertible long-term debt and the elimination of the related interest expense, and the exercise of stock options and warrants. Loss per common share has been computed using the weighted average number of common shares outstanding during the year. For the years ended December 31, 2017 and January 1, 2017, warrants to acquire 6,113,643 and 606,500 shares of common stock, respectively , and options to acquire 115,000 shares of common stock are anti-dilutive due to the Company's net losses and are excluded in determining diluted loss per share.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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

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

We recognize a liability upon the sale of our gift cards and recognize revenue when these gift cards are redeemed in our restaurants. As of December 31, 2017 and January 1, 2017, the amount of gift cards sales were ($2,338) and $172, 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.

Advertising costs

Advertising costs are expensed as incurred. During the fiscal years ended December 31, 2017 and January 1, 2017, there were $29,939 and $30,308, respectively in advertising costs included in general and administrative expenses.

Derivative Financial Instruments

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

Convertible Debentures

If the conversion features of conventional convertible debt provide 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 on the effective interest method.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – 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, but does not believe adoption of this pronouncement will have a material effect, if any.

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, and believes the adoption of the pronouncement will result in the recording of lease assets and lease liabilities of approximately $1,500,000 to our balance sheet upon adoption.

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.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – FIXED ASSETS

Fixed assets consisted of the following at:

	December 31, 2017	January 1, 2017
Leasehold improvements	$1,889,027	$1,889,027
Fixtures and equipment	60,310	60,310
Computer software and equipment	267,372	264,890
Property and equipment, total	2,216,709	2,214,227
Less: accumulated depreciation	(1,476,520)	(1,220,099)
Property and equipment, net	$740,189	$994,128

Effective June 30, 2016, the Company entered into a termination agreement with Westfield Mall Associates to close the Century City Store resulting from a major reconstruction of the entire Mall. As such, the leasehold improvements with a cost basis of $958,538 and accumulated amortization of $533,377 were written off and included in the gain on the lease termination during the year ended January 1, 2017 (see Note 10). In conjunction with the closing of the Century City store, the Company also sold for $10,500, all of its furniture, fixtures and office equipment with a cost basis, net of accumulated depreciation, of $4,529 resulting in a gain of $5,971.

Depreciation expense was $256,421 and $306,019 for the fiscal years ended December 31, 2017 and January 1, 2017, respectively. Repair and maintenance expenses for the years ended December 31, 2017 and January 1, 2017 were $58,724 and $85,860, respectively.

NOTE 3 – INCENTIVE FROM LESSOR

The Company previously received $700,000 for Century City, $506,271 for Topanga and $475,000 for Glendale restaurant locations from the Company's landlords as construction contributions pursuant to agreed-upon terms in the lease agreements as of 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.

Effective June 26, 2016, the Company entered into a lease termination agreement with the Westfield Mall Associates that released the Company from any further obligations on its Century City store location. As such, our remaining unamortized tenant improvement allowance as of that date of $225,739, and deferred rent of $63,529 were written off an included in the gain on lease termination during the year ended January 1, 2017.

The balance of the incentive from lessor as of December 31, 2017 and January 1, 2017 was $653,007 and $740,428 respectively, and included deferred rent of $132,818 and $117,056, respectively. As of December 31, 2017, $102,168 of the incentive from lessor was current and $550,839 was long term. Amortization of the incentive from lessor was

$87,420 and $99,380 for the fiscal years ended December 31, 2017 and January 1, 2017, respectively.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – NOTE PAYABLE LESSOR – IN DEAULT

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

On March 1, 2015, the Company and the lender renegotiated the terms of the Promissory Note and agreed to a new note with a principal balance due of $683,316. As part of the new agreement, the Lender waived principal and interest payments for two years beginning March 1, 2015. Thereafter, principal and interest will be paid in equal monthly installments of $12,707, within increasing interest rates. As of June 26, 2016 and December 27, 2015, the principal balance due under the note was $683,316.

On August 12, 2016, the Company entered into a third amendment on its lease at The Glendale Galleria. The amendment covered several areas, including adjustment to percentage rent payable, reduced the minimum rent payable, along with the payment and principal of Promissory Note. The Promissory Note was adjusted to a balance due of $763,262 from $683,316, with zero percent interest, payable in equal monthly instalments of $5,300 through maturity of Note on May 31, 2028. The Company imputed interest using a discount rate of 10% to determine a fair value of the note of $443,521, resulting in a valuation discount of $319,740. As of December 31, 2017 and January 1, 2017, the balance of the note payable was $695,968 and $723,270, and the unamortized note discount was $273,607 and $290,533, resulting in a balance due of $422,361 and $432,717, respectively.

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

The lender under the Note is GGP Limited Partnership (GGP). GGP is an affiliate of Glendale II Mall Associates, the lessor of the Company's Glendale Mall restaurant location. In accordance with the note agreement, an event of default would occur if the Borrower defaults under the lease between the Company and Glendale II Mall Associates. Upon the occurrence of an event of default, the entire balance of the Note payable and accrued interest would become due and payable, and the balance due becomes subject to a default interest rate (which is 5% higher than the defined interest rate). As of December 31, 2017, the Company was in default in its payments to GGP under the note, accordingly, the full amount is reflected as a current liability.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – CONVERTIBLE NOTE PAYABLE

A summary of convertible debentures payable as of December 31, 2017 and January 1, 2017 is as follows:

	December 31, 2017	January 1, 2017
Iconic Holdings, LLC	$ -	$ 84,191
J&N Invest LLC	50,000	50,000
Accrued interest	-	17,192
Total Convertible Notes	$ 50,000	$ 151,383

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 per share. 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 per share 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, of which $107,691 was unamortized at December 27, 2015. The Company amortized the remaining discount during the year ended January 1, 2017.

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

As of January 1, 2017, the balance of the principal due was $84,191. During the period ended December 31, 2017, the entire note principal and accrued interest aggregating $121,232 was converted to 38,457,435 shares of common stock.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – CONVERTIBLE NOTE PAYABLE (CONTINUED)

J&N Invest LLC - On August 24, 2015, the Company entered into an unsecured Note Payable Agreement with an investor for which the Company issued a $50,000 Convertible Note Payable, which accrues interest at a rate of 5% per annum and matures on August 31, 2016. The Lender may also convert all or a portion of the Note Payable at any time into shares of common stock at a price of $0.10 per share. As the market price of the stock on the date of issuance was $0.23, the Company recognized a debt discount at the date of issuance in the amount of $50,000 related to the fair value of the conversion feature. The discount will be amortized over the life of the note. The balance of the unamortized note discount was $32,181 at December 27, 2015 The Company amortized the remaining discount to interest expense during the year ending January 1, 2017.

NOTE 6 – PROMISSORY NOTE

On December 18, 2015, the Company issued a six-month unsecured promissory note in the principal sum of $265,000 in favor of St. George Investments, LLC, pursuant to the terms of a securities purchase agreement of the same date. The Note went into default when the Company failed to make payment on the due date. Consequently, on July 8, 2016, the Company entered into an Exchange Agreement with St. George Investments, LLC, to replace the original Promissory Note with a new Convertible Promissory Note (“Note”). The Note carries a Conversion clause that allows the Holder to have a cashless conversion into shares of Common Stock for all or part of the principal, at a price equal to the average market price for 20 days prior to the conversion. The company determined that since the conversion floor had no limit to the conversion price, that the company could no longer determine if it had enough authorized shares to fulfil the conversion obligation. As such, the Company determined that the conversion feature created a derivative at the date of the modification with a fair value of $98,544 at the date of the modification, and the value of such conversion feature should be considered a finance cost.

As of January 1, 2017, the amount due under the promissory note was $193,450. During January and February of 2017. the Holder converted $48,914 of its debt into 15,660,611 shares of Common Stock with a fair value of $48,914. In addition, the Company paid $7,517 of the principal balance. On March 23, 2017, St. George Investments, LLC (“St. George”) served an arbitration demand and summons claiming that the Company had breached its obligations under a convertible note by preventing St. George from converting the remaining balance of the note to common stock. The parties disagreed as to the conversion price set in the note agreement due to execution by the parties of different versions of the document. St. George claimed for additional damages. The Company believed these claims lacked merit and the Company retained counsel to vigorously defend this action. Effective May 3, 2017, the Company counter-sued for full damages for breaching the contract, claiming mistakes, rescission, breach of the covenant of good faith and fair dealing and unjust enrichment. On August 14, 2017, the Company and St. George entered into a settlement agreement whereby the Company agreed to deliver 7,900,000 unrestricted free-trading shares to St. George upon signing a final settlement agreement. The fair value of shares issued was determined to be $553,000 based on the trading price of the shares at the date of the settlement. The company considered the settlement as a debt extinguishment and accounted for the issuance of the 7,900,000 shares valued at $553,000 offset by the extinguishment of the aggregate face value of the note and accrued interest of $143,740, and the remaining value of the derivative liability of $160,240, resulting in a loss on extinguishment of $249,014.

As part of the settlement agreement, St. George agreed to purchase an additional 1,100,000 shares of common stock for a purchase price of $110,000 at $0.10 per share.

As of fiscal year ended December 31, 2017, all the terms and conditions of the settlement have been completed.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – 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. In August 2016, the loan amount was amended up to $180,000. The loan is secured by credit card collections from the Company's store operations. The agreement provides that the Company will receive an advance of up to $180,000 at the beginning of each fiscal month, and requires the Company to repay the loan from the credit card deposits it receives from its customers. Assuming the balance has been paid off by the end of the month, the Company will receive another advance up to the face amount of the note at the beginning of the next fiscal month.

The loan requires a loan fee of 0.5% of the outstanding balance as of each disbursement date. At December 31, 2017 and January 1, 2017, the advance for the month of December 2017 and 2016 was $131,266 and $136,629, respectively, and is included in accounts payable on the accompanying balance sheet.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - DERIVATIVE LIABILITY

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

The fair value of the derivative liability related to the St. George note was determined to be $98,544 at the date the derivative liability was created, and $238,538 at January 1, 2017. During 2017, and through April 2, 2017, the Company settled principal balance of the St. George note amounting to $48,914. As a result, the Company extinguished the fair value of the corresponding derivative liability of $66,731 prior to conversion as a gain on settlement.. After the conversions through April 2, 2017, the Company and St. George had a dispute as to ultimate settlement of this obligation. During the period, the Company and St. George agreed to settle the outstanding amount of convertible notes due for the issuance of 7,900,000 shares of common stock at which time the fair value of derivative was determined to be $160,240. As a result, the Company recorded a cost of $11,567 to account for the change in fair value up to the date of extinguishment.

The settlement was accounted for as a debt extinguishment. As such, given that the debt was extinguished, the extinguishment of the remaining derivative liability of $160,240 was included in the calculation of loss on debt extinguishment.

The fair value of the derivative liability related to the Iconic note was determined to be $79,376 at date of issuance and $118,873 at January 1, 2017. In January 2017, the lender converted all outstanding principal and interest due him in exchange for 38,457,435 shares of common stock. As a result, the Company extinguished the recorded derivative liability of $118,873 and recorded as a gain on extinguishment.

The derivative liabilities were valued at the below dates using a probability weighted average Black-Scholes-Merton pricing model with the following assumptions:

	Upon Issuance in 2016	January 1, 2017	Upon Extinguishment in 2017
Exercise price	$0.07	$0.07-0.01	$0.07
Stock price	$0.05-0.02	$0.12-0.0036	$0.0032-0.023
Risk-free interest rate	0.57 %	0.57 %	0.56 %
Expetec volatility	216 %	216 %	212 %
Expected life (in years)	1	1	1
Expected divident yield	0	0	0
Fair value			
St. George Note	$98,554	$238,538	$160,240
Iconic Note	79,376	118,873	118,873
	$177,930	$357,411	$279,113

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

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – COMMON STOCK

Issuance of Common Stock

During the fiscal year ended December 31, 2017,

The Company granted and issued to officers and employees 10,170,000 shares of restricted common stock with a fair value of $28,470. The shares were valued based on the closing price of the stock on the date of agreement.

The Company issued 2,384,226 shares of common stock in settlement of an accounts payable amounting to $156,800. The fair value of the shares issued was $265,896 based on the fair value of the shares on the date of settlement resulting in an additional cost to the Company of $109,096. In addition, The Company issued 500,000 shares of common stock at fair value of $10,000 in settlement of an additional accounts payable.

The Company received $75,000 from the sale of 992,602 shares of common stock and warrants to acquire 357,142 shares of common stock at an excise price of $0.12 per share that expire in June 2020. The shares have not yet been issued and are included in common stock issuable as of October 1, 2017.

the Company issued 1,495,774 shares of common stock at fair value of $51,645 for services rendered The shares were valued based on the closing price of the stock on the date of agreement.

During the fiscal year ended January 1, 2017, the Company issued

497,500 shares of common stock valued at $37,770 for services provided. The shares were valued based on the closing price of the stock on the date of agreement.

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

150,000 shares of stock previously reflected as common stock issuable.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – COMMON STOCK (CONTINUED)

Employee Stock Options

The following table summarizes the changes in the options outstanding at December 31, 2017, and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan.

A summary of the Company's stock awards for options as of December 31, 2017 and changes for the fiscal year ended January 1, 2017 is presented below:

	Stock Options	Weighted Average Exercise Price
Outstanding, December 27, 2015	115,000	$ 4.50
Granted	—	—
Exercised	—	—
Expired/Cancelled	—	—
Outstanding, January 1, 2017	115,000	$ 4.50
Exercisable, January 1, 2017	115,000	$ 4.50
Granted	—	—
Exercised	—	—
Expired/Cancelled	—	—
Outstanding, December 31, 2017	115,000	$ 4.50
Exercisable, December 31, 2017	115,000	$ 4.50

As of December 31, 2017, the stock options had no intrinsic value.

There were no options granted during the fiscal years ended December 31, 2017 and January 1, 2017.

There was no stock-based compensation expense in connection with options granted to employees recognized in the consolidated statement of operations for the fiscal years ended December 31, 2017 and January 1, 2017.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – COMMON STOCK (CONTINUED)

Warrants

A summary of the Company's warrants as of December 31, 2017 and the changes for the fiscal years ended December 31, 2017 and January 1, 2017 is presented below:

	Warrants	Weighted Average Exercise Price
Outstanding, December 27, 2015	166,500	$ 0.25
Granted	440000	—
Exercised	—	—
Outstanding, January 1, 2017	606,500	$ 0.13
Granted	5,507,143	0.10
Exercised	-	-
Outstanding, December 31, 2017	6,113,643	$ 0.11
Exercisable, December 31, 2017	6,113,643	$ 0.11

Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
$0.01 ~ $0.15	6,113,643	$ 0.11	4.07	6,113,643	$ 0.11
	6,113,643		4.07	6,113,643	

As of December 31, 2017, the warrants had no intrinsic value.

On May 17, 2016, GIGL entered into a Strategic Alliance Agreement with Kiddo, Inc., a Florida corporation ("consultant") whereby consultant will provide marketing and branding services as well as introductions to potential strategic partners and investors. As consideration for consultant's services pursuant to the Strategic Alliance Agreement, GIGL agreed to issue to consultant a warrant to purchase up to 4,400,000 shares of GIGL's common stock at an exercise price of $0.075 per share, which vests in increments based upon the achievement of certain milestones. As of January 1, 2017, 440,000 of these warrants with a fair value of $31,000 were deemed have been achieved and are included in the table of outstanding warrants above. At December 31, 2017, the achievement of the corresponding milestones for the remaining warrants to acquire 3,960,000 has been determined to be remote or undeterminable, as such, the warrants have not been included as outstanding in the table above.

During the year ended December 31, 2017, the Company entered into agreements to issue warrants to acquire 5,150,000 shares of common stock for celebrity services to promote the Company's business. The warrants were fully vested upon issuance, expire 5 years from the date of issuance, and 5,000,000 of the warrants are exercisable at $0.10 per share and 150,000 of the warrants are exercisable at $0.20 per share. The total fair value of these warrants at grant date was $531,000 using the Black-Scholes Option Pricing model with the following assumptions: life of 5 years; risk free interest rate of 1.73%; volatility of 350% and dividend yield of 0%.

During the year ended December 31, 2017, the Company issued a warrant to acquire 357,142 shares of common stock at an exercise price of $.12 per share and expiring in 2020 to an investor who acquired 714,285 shares of common stock for aggregate proceeds of $50,000 (the shares are reflected as common stock issuable on the accompanying December 31, 2017 balance sheet.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – COMMITMENTS AND CONTINGENCIES

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

Westfield Topanga. During the year ended December 31, 2012, GNH Topanga entered into a Lease Agreement with Westfield Topanga Owner, LP, a Delaware limited partnership, to lease approximately 5,900 square feet in the Westfield Topanga Shopping Center. The lease includes land and building shells, provides a construction reimbursement allowance of up to $475,000, requires contingent rent above the minimum base rent payments based on a percentage of sales ranging from 7% to 10% and require other expenses incidental to the use of the property. The lease also has a renewal option, which GNH Topanga may exercise in the future. The Company's current lease provides early termination rights, permitting the Company and its landlord to mutually terminate the lease prior to expiration if the Company does not achieve specified sales levels in certain years. The lease commenced on March 23, 2013 and expires on April 30, 2022.

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

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

4). The change in the payment terms of the lease caused a change in the previously calculated deferred rent of $69,614. For reporting purposes, the Company determined that since the GGP Promissory Note and the related revision of the lease were agreed to at the same time, that the change in the lease payment terms and the reduced rent, and the issuance of the new note are directly related. In addition, past due rent of $164,987 was forgiven. As such the gain on the termination of the note of $220,686, the adjustment to the deferred rent in the aggregate amount of $69,614, and the forgiveness of past due rent of $164,987, resulting in an aggregate gain of $455,287 had been deferred, and will amortized on the straight-line basis over the remaining life of the lease as an adjustment to rent expense. As of January 1, 2017, the balance of the deferred gain was $ 429,115 During the year ended December 31, 2017, an additional adjustment of outstanding rent of $37,937 was added to the deferred gain and will be amortized on the straight-line basis over the remainder of the lease. During the year ended December 31, 2017, $54,027 of the deferred gain was amortized and offset to rent expense, resulting in a remaining deferred gain balance of $401,260 as of December 31, 2017, which will be amortized over the remainder of the lease.

Rent expense for the Company’s restaurant operating leases for the years ended December 31, 2017 and January 1, 2017 was $341,270 and $514,275, respectively

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

As of December 31, 2017, the aggregate minimum annual lease payments under operating leases are as follows:

2018	$421,808
2019	437,100
2020	452,956
2021	469,398
2022	279,077
Thereafter	151,172
Total	$2,211,510

Litigation

On August 14, 2017, the Company and St. George Investments, LLC ("St. George") entered into a settlement agreement as described at Note 6. As of October 1, 2017, all the terms and conditions of the settlement have been satisfied.

As of December 31, 2017, there was no material outstanding litigation.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – INCOME TAXES

For the fiscal years ended December 31, 2017 and January 1, 2017 GNH, Inc. incurred net operating losses and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets. At December 31, 2017 the Company had $7,515,000 of federal and state net operating losses. The net operating loss carryforwards, if not utilized, will begin to expire in 2023.

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

	December 31, 2017	January 1, 2017
Tax provision (benefits) computed at the statutory rate (34%)	$(256,000)	$(214,000)
State income tax, net of federal benefit	(44,000)	(56,000)
Change in valuation allowance	300,800	270,800
Provision for income tax	$800	$800

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

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

	December 31, 2017	January 1, 2017
Net operating loss carryover	$1,900,000	$2,019,000
Depreciation and other	175,000	422,000

Total deferred tax assets	2,075,000	2,441,000
Valuation allowance	(2,075,000)	(2,441,000)
Net deferred tax asset	$-	$-

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – INCOME TAXES (CONTINUED)

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

The Company's NOL and tax credit carryovers may be significantly limited under the Internal Revenue Code (IRC). NOL and tax credit carryovers are limited under Section 382 when there is a significant "ownership change" as defined in the IRC. During the fiscal year December 31, 2017 and in prior years, the Company may have experienced such ownership changes, which could impose such limitations.

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

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

NOTE 12 – SUBSEQUENT EVENTS

Since the fiscal year-end of December 31, 2017, the following transactions have taken place:

In January 2018, the Company granted an officer 200,000 shares of common stock, with a fair value of $4,600.

In February 2018, the Company issued 1,000,000 shares of common stock at fair value of $36,000 in settlement of an accounts payable.

In January and February 2018, the Company issued 530,000 shares of common stock at fair value of $11,580 for service rendered.

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