

Giggles N' Hugs, Inc.
Form 10-Q
November 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended **September 29, 2013**

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

Commission file number **000-53948**

GIGGLES N HUGS, INC.

(Exact name of registrant as specified in its charter)

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

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

(310) 553-4847

(Registrant's telephone number, including area code)

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Los Angeles, CA 90024

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

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

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

Yes No

The number of shares of Common Stock, \$0.001 par value, outstanding on November 11, 2013 was 24,139,145 shares.

GIGGLES N HUGS, INC.
THIRTEEN WEEKS ENDED SEPTEMBER 29, 2013

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

GIGGLES N HUGS, INC.
CONSOLIDATED BALANCE SHEETS

(unaudited)

	September 29, 2013	December 31, 2012
Assets		
Current assets:		
Cash and equivalents	\$67,464	\$156,474
Inventory	31,185	16,755
Prepaid stock-based compensation	-	244,366
Prepaid expenses, other	7,955	2,470
Total current assets	106,604	420,065
Fixed assets:		
Total fixed assets, net	2,094,397	1,198,084
Other assets:		
Security deposits, other	38,730	32,500
Total other assets	38,730	32,500
Total assets	\$2,239,731	\$1,650,649
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$354,341	\$294,919
Incentive from lessor — current portion	63,151	49,910
Note payable from lessor - current portion	21,290	-
Accrued expenses	320,246	72,868
Deferred revenue	55,556	45,770
Due to related party	40,000	-
Convertible note payable, net of debt discount of \$7,295 and \$44,795, respectively	42,705	5,205
Total current liabilities	897,289	468,672
Long-term liabilities:		

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Incentive from lessor — long-term	1,160,891	724,917
Note payable - lessor	398,710	-
Total long-term liabilities	1,599,601	724,917
Total liabilities	2,456,890	1,193,589
Stockholders' equity (Deficit):		
Common stock, \$0.001 par value, 1,125,000,000 shares authorized, 24,055,812 and 23,149,145 shares issued and outstanding as of September 29, 2013 and December 31, 2012, respectively	24,056	23,149
Common stock payable (133,334 shares as of September 29, 2013)	415,500	347,400
Additional paid-in capital	3,566,837	3,357,544
Accumulated deficit	(4,223,552)	(3,271,033)
Total stockholders' equity (Deficit)	(217,159)	457,060
Total liabilities and stockholders' equity (Deficit)	\$2,239,731	\$1,650,649

See Accompanying Notes to Consolidated Financial Statements.

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

	Thirteen Weeks Ended September 29, 2013		Nine Months Ended September 30, 2013	
	2013	2012	2013	2012
Revenue				
Food and beverage sales	\$346,059	\$199,075	\$901,814	\$534,885
Private party rentals	113,638	70,875	368,890	266,824
Other sales	184,978	79,828	442,765	213,718
Allowances, returns and discounts	(30,165)	(16,741)	(88,528)	(40,516)
Net sales	614,510	333,037	1,624,941	974,911
Costs and operating expenses				
Cost of sales including food and beverage	100,548	78,516	264,265	217,321
Labor	230,979	97,109	599,705	329,485
Occupancy cost	153,242	62,323	358,761	181,790
Other	92,516	-	185,697	-
Depreciation and amortization	56,928	26,101	137,039	77,633
Total operating expenses	634,213	264,049	1,545,467	806,229
Other expenses				
Executive compensation	94,545	108,783	264,661	318,458
Employee stock-based compensation	-	-	-	1,100,883
Non-employee stock-based compensation	87,600	62,900	272,666	115,380
Professional and consulting expenses	86,794	92,320	345,117	262,349
General and administrative expenses	31,759	19,753	136,454	150,066
Finance and interest expense	31,355	-	58,355	-
Gain on stock issuance for payable settlement	-	-	(50,000)	-
Total costs and operating expenses	966,266	547,805	2,572,720	2,753,365
Loss before provision for income taxes	\$(351,756)	\$(214,768)	\$(947,779)	\$(1,778,454)
Provision for income taxes	\$4,740	\$-	\$4,740	\$(1600)
Net loss	\$(356,496)	\$(214,768)	\$(952,519)	\$(1,780,054)
Net loss per share - basic	\$(0.01)	\$(0.01)	\$(0.04)	\$(0.08)
Weighted average number of common shares outstanding - basic	23,886,123	22,875,692	23,522,653	22,875,692

See Accompanying Notes to Consolidated Financial Statements.

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

	Thirteen Weeks ended September 29, 2013	Nine Months Ended September 30, 2013
Cash flows from operating activities		
Net loss	\$(952,519)	\$(1,780,054)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	137,039	77,633
Amortization of debt discount	37,500	-
Non-employee stock-based compensation	272,666	115,380
Gain on stock issuance for payable settlement	(50,000)	-
Employee stock-based compensation	-	1,100,883
Changes in operating assets and liabilities:		
Increase in prepaid expenses and deposits	(5,485)	(5,987)
Increase in security deposits, other	(6,230)	-
Increase in inventory	(14,430)	(758)
Increase in accounts payable	209,422	11,842
Increase in lease incentive liability	449,215	12,927
Increase in accrued expenses	247,378	42,007
Increase in deferred revenue	9,786	188
Net cash provided by (used in) operating activities	334,342	(425,939)
Cash flows from investing activities		
Acquisition of fixed assets	(1,033,352)	(162,645)
Net cash used in investing activities	(1,033,352)	(162,645)
Cash flows from financing activities		
Proceeds from lessor note payable	420,000	-
Proceeds from common stock payable	-	75,000
Proceeds from shares issued	150,000	-
Proceeds from related party	150,000	-
Payments to related party	(110,000)	-
Net cash provided by financing activities	610,000	75,000
NET DECREASE IN CASH	(89,010)	(513,584)
CASH AT BEGINNING OF PERIOD	156,474	608,309
CASH AT END OF PERIOD	\$67,464	\$94,725

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid	\$-	\$-
Income taxes paid	\$-	\$-

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Shares issued for prepaid stock compensation	-	-
Accounts payable settled by share issuance	\$150,000	\$-

See Accompanying Notes to Consolidated Financial Statements.

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GIGGLES N' HUGS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – HISTORY AND ORGANIZATION

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

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

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

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

GIGGLES N' HUGS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 – BASIS OF PRESENTATION

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

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these interim financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2012 and notes thereto included in the Company's annual report on Form 10-K. The Company follows the same accounting policies in the preparation of interim reports.

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

At September 29, 2013 and September 30, 2012, the consolidated financial statements include the accounts of Giggles N' Hugs, Inc., GNH CC, Inc., GNH Topanga, Inc. and restaurant operations of Giggles N Hugs in Westfield Mall in Century City, California. All significant intercompany balances and transactions have been eliminated. Giggles N' Hugs, Inc., GNH, Inc., GNH Topanga, Inc. and restaurant operations of Giggles N Hugs in Westfield Mall in Century City and Giggles N Hugs in Westfield Mall in Topanga, California will be collectively referred herein to as the "Company".

Use of estimates

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

Cash and cash equivalents

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

GIGGLES N' HUGS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Property and equipment

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

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

Leases

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

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

The Company disburses cash for leasehold improvements and furniture, fixtures and equipment to build out and equip its leased premises. The Company also expends cash for structural additions that it makes to leased premises of which \$590,000 was reimbursed to Century City, \$488,409 was reimbursed to Topanga, and \$284,000 was reimbursed to Glendale by their landlords as construction contributions pursuant to agreed-upon terms in the lease agreements. Landlord construction contributions usually take the form of up-front cash. Depending on the specifics of the leased space and the lease agreement, amounts paid for structural components are recorded during the construction period as leasehold improvements or the landlord construction contributions are recorded as an incentive from lessor.

GIGGLES N' HUGS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of long-lived assets

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

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

At September 29, 2013 and September 30, 2012 we did not record an impairment charge against the carrying value of the restaurants located in Century City and Topanga, California.

Stock-based compensation

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

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

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GIGGLES N' HUGS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loss per common share

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

Fair Value of Financial Instruments

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

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

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

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

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

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

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GIGGLES N' HUGS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

With respect to memberships, access to our play area exten