

Giggles N' Hugs, Inc.
Form 10-K
April 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended January 1, 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 []

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

Yes No

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

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

Large accelerated filer

Accelerated filer

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

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

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 26, 2016 (the last business day of the registrant's second quarter) was \$1,989,577 based on a share value of \$0.08.

The number of shares of Common Stock, \$0.001 par value, outstanding on April 14, 2017 was 134,372,251 shares.

DOCUMENTS INCORPORATED BY REFERENCE: None.

GIGGLES N HUGS, INC.
FOR THE YEAR ENDED
JANUARY 1, 2017

Index to Report on Form 10-K

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	7
Item 1B. <u>Unresolved Staff Comments</u>	7
Item 2. <u>Properties</u>	8
Item 3. <u>Legal Proceedings</u>	8
Item 4. <u>Mine Safety Disclosures</u>	8
<u>PART II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	9
Item 6. <u>Selected Financial Data</u>	11
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	19
Item 8. <u>Financial Statements and Supplementary Data</u>	19
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	19
Item 9A. <u>Controls and Procedures</u>	19
Item 9B. <u>Other Information</u>	20
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	21
Item 11. <u>Executive Compensation</u>	24
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	26
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	27
Item 14. <u>Principal Accounting Fees and Services</u>	27
<u>PART IV</u>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	28
<u>SIGNATURES</u>	29

INDEX TO FINANCIAL STATEMENTS

FORWARD-LOOKING STATEMENTS

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

our ability to diversify our operations;

inability to raise additional financing for working capital;

the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require our management to make estimates about matters that are inherently uncertain;

our ability to attract key personnel;

our ability to operate profitably;

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

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

deterioration in general or regional economic conditions;

adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;

changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate;

the inability of management to effectively implement our strategies and business plan;

inability to achieve future sales levels or other operating results;

the unavailability of funds for capital expenditures;

other risks and uncertainties detailed in this report;

other statements regarding our future operations, financial condition and prospects and business strategies.

Forward-looking statements may appear throughout this report. Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “will be,” “will continue,” “will likely result,” and similar expressions. Accordingly, these statements involve estimates, assumptions and uncertainties, which could cause actual results to differ materially from those expressed in them. Any forward-looking

statements are qualified in their entirety by reference to the factors discussed throughout this document. All forward-looking statements concerning economic conditions, rates of growth, rates of income or values as may be included in this document are based on information available to us on the dates noted, and we assume no obligation to update any such forward-looking statements.

Management cautions that forward-looking statements are qualified by their terms and/or important factors, many of which are outside of our control, involve a number of risks, uncertainties and other factors that could cause actual results and events to differ materially from the statements made. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements.

Certain risks and uncertainties could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us, and you should not place undue reliance on any such forward-looking statements. Actual results or outcomes may differ materially from those expressed in any forward-looking statements made by us, and you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and we do not undertake any obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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

PART I

ITEM 1. BUSINESS

Business Development

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

Giggles 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 a unique restaurant concept 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 The Talk on CBS, KTLA morning news, KABC, TV Guide Channel, FOX Business 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, In Touch magazine, Life and Style Magazine, Wall street Journal, and the LA Business Journal to name a few. 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, food and beverage sales, beer and wine sales, admission and monthly membership fees, 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 which sold its lease back to Westfield.

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.

Also, through our recent engagement of Domain and Michelle Steinburg, who joined our team in early 2016, we've brought on two high-profile brand ambassadors, Jillian Michaels and Tia Mowry-Hardict. We hope to attract other celebrities to help us spread the Giggles N' Hugs story further, extending our reach. With Domain's help, we intend on having our brand ambassadors appear on national talk and entertainment shows on major networks and cable TV outlets.

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 50 employees.

Available Information