

Giggles N' Hugs, Inc.  
Form 10-K/A  
April 23, 2019

UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K/A**

**AMENDMENT NO. 1**

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

**For the fiscal year ended December 30, 2018**

**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**  
(State or other jurisdiction)

**20-1681362**  
(I.R.S. Employer)

of incorporation or organization) 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:

BEVILACQUA PLLC

1050 Connecticut Avenue, NW, Suite 500

Washington, DC 20036

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

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

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  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  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 July 1, 2018 (the last business day of the registrant's second quarter) was \$10,166,715 based on a share value of

\$0.0127.

The number of shares of Common Stock, \$0.001 par value, outstanding on April 15, 2019 was 168,774,080 shares.

DOCUMENTS INCORPORATED BY REFERENCE: None.

EXPLANATORY NOTE

Giggles N' Hugs, Inc. (the "Company") is filing this Amendment No. 1 (the "Amendment No. 1") to our Form 10-K for the fiscal year ended December 30, 2018 (the "2018 Form 10-K", originally filed with the Securities Exchange Commission on April 15, 2019 (the "Original Filing"), for the purpose of clarifying certain information with respect to the Company's public right offering which closed on April 19, 2018 in which the Company's co-Chief Executive Officer, Joey Parsi, participated.

No other information included in the 2018 Form 10-K has been modified or updated in any way. This Amendment No. 1 continues to speak as of the date of the Original Filing date and does not reflect any events that may have occurred subsequent to the date of the Original Filing.

**GIGGLES N' HUGS, INC.**

**FOR THE YEAR ENDED DECEMBER 30, 2018**

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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 expressions. 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.*





## 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.

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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 or using the franchise model, or through both of these methods, but such expansion will be limited to our ability to raise sufficient capital to meet new store start-up requirements. In September 2018, we formed GNH Restaurant 3, LLC, a Delaware limited liability company wholly owned by us, for the purpose opening our third Company-owned restaurant. We initiated a Regulation CF equity crowdfunding campaign on the Wefunder portal to raise capital for this new location, but we cannot assure you that we will be successful in this fundraising effort or that we will raise sufficient funds to open our third location through Wefunder or otherwise.

Additionally, 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](http://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.

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## 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 \$22,933. 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 \$13,431. The lease started in November 2013.

## ITEM 3. LEGAL PROCEEDINGS

As of December 30, 2018, there was no material outstanding litigation.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

**Market Information**

Our common stock is quoted on the OTC Markets Group Inc. QB tier (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.

|             | 2018       |        | 2017       |        |
|-------------|------------|--------|------------|--------|
|             | BID PRICES |        | BID PRICES |        |
|             | High       | Low    | High       | Low    |
| 1st Quarter | \$0.02     | \$0.02 | \$0.09     | \$0.07 |
| 2nd Quarter | \$0.02     | \$0.02 | \$0.12     | \$0.10 |
| 3rd Quarter | \$0.01     | \$0.01 | \$0.06     | \$0.06 |
| 4th Quarter | \$0.01     | \$0.01 | \$0.03     | \$0.02 |

**Holders of Common Stock**

As of April 15, 2019, we had approximately 88 active stockholders of record of the 168,774,080 shares outstanding. The closing stock price on April 15, 2019 was \$0.02.

**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 30, 2018.

### 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 30, 2018 and December 31, 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.



The following table sets forth information about the 2012 stock incentive plan as of December 30, 2018.

| Range of Exercise Prices | Number Outstanding | Weighted Average | Weighted Average Remaining Contractual Life | Number Exercisable | Weighted Average |
|--------------------------|--------------------|------------------|---|--------------------|------------------|
|                          |                    | Exercise Price   |   |                    | 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 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS  
7. 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 and forward only include operations from two stores.

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<br>Ended<br>December<br>30,<br>2018 | Fiscal Year<br>Ended<br>December<br>31,<br>2017 | <b>Increase<br/>(Decrease)</b><br>\$ | <b>%</b> |
|--|---|---|--------------------------------------|----------|
| Revenue:   |   |   |                                      |          |
| Net sales  | \$2,431,903                                     | \$2,454,125                                     | \$(22,222 )                          | -1 %     |
| Costs and operating expenses:                    |   |   |                                      |          |
| Cost of operations                               | \$1,920,493                                     | \$1,883,816                                     | \$36,677                             | 2 %      |
| General and administrative expenses              | 907,224   | 1,791,190                                       | (883,966)                            | -49 %    |
| Depreciation                                     | 232,344   | 256,421   | (24,077 )                            | -9 %     |
| Total costs and operating expenses               | 3,060,061                                       | 3,931,427                                       | (871,366)                            | -22 %    |
| Loss from Operations                             | (628,158 )                                      | (1,477,302)                                     | 849,144                              | -57 %    |
| Other Expenses                                   |   |   |                                      |          |
| Finance and interest expense                     | (61,811 )                                       | (90,546 )                                       | 28,735                               | -32 %    |
| Gain on lease termination                        | (1,400 )  | -   | (1,400 )                             | *        |
| Change in fair value of derivatives              | -   | 11,567  | (11,567 )                            | *        |
| Gain on extinguishment of derivatives            | -   | 185,604   | (185,604)                            | *        |
| Loss on extinguishment of debt                   | -   | (249,014 )                                      | 249,014                              | *        |
| Loss before provision for income taxes liability | (691,369 )                                      | (1,619,691)                                     | 928,322                              | -57 %    |
| Provision (benefit) for income taxes             | -   | 2,719   | (2,719 )                             | -100%    |
| Net Loss   | \$(691,369 )                                    | \$(1,622,410)                                   | \$931,041                            | -57 %    |

\*Not divisible by zero

*Net Sales.* During the fiscal year ended December 30, 2018, net sales reflected a drop of \$22,222. A decline of 1%, from the year ended December 31, 2017 was attributable to decreased party sales.

*Cost of Operations.* Cost of operations consist of cost of goods sold, restaurant utilities, supplies, administrative and other operating expense, labor costs, and occupancy cost. During the year ended December 30, 2018, cost of operations was \$1,920,493, the increase of \$36,677, or 2% in comparison to the prior year due to the major factor of increased food costs and occupancy expenses.

*General and Administrative costs.* Total general and administrative costs decreased by \$883,966 (49%) from comparison in prior year. The significant decrease is mainly attributable to the fair value of \$531,000 for warrants issued as payment for professional services rendered occurred in 2017. For which there was no corresponding cost in 2018. Additionally, the reduction of legal fees and other non-employee stock compensation also the factor.

*Depreciation expenses.* Depreciation expenses declined by \$24,077 (9%) compared to the same period in the previous year. The decrease was due to some assets have been fully depreciated.

*Loss from Operations.* The loss from operations during the year ended December 30, 2018 decreased by \$849,144 (57%) as compared to the prior period mainly was attributable to substantial decreased general and administrative expenses.

*Net Loss.* The net loss decreased by \$931,041 (57%) due to the factors noted above.

**LIQUIDITY AND CAPITAL RESOURCES**

As of December 30, 2018, we had \$57,642 in cash and cash equivalents. The following table provides detailed information about our net cash flow 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<br>Year<br>Ended<br>December<br>30,<br>2018 | Fiscal<br>Year<br>Ended<br>December<br>31,<br>2017 |
|---|--|--|
| Net cash used in operating activities     | \$(610,874)  | \$(173,848)  |
| Net cash used in investing activities     | -  | (2,482 )   |
| Net cash provided by financing activities | 537,180  | 163,146  |
| Net decrease in Cash                      | (73,694 )  | (13,184 )  |
| Cash, beginning of year                   | 131,336  | 144,520  |
| Cash, end of year                         | \$57,642   | \$131,336  |

**Operating activities**

Net cash used in operating activities was \$610,874 for the year ended December 30, 2018 compared to \$173,848 used in operating activities for year ended December 31, 2017. This significant increase of cash used is mostly due to decreased liabilities.

**Investing activities**

No net cash was used in investing activities during the year ended December 30, 2018, compared to \$2,482 cash was used for year ended December 31, 2017.

**Financing activities**



Net cash provided by financing activities for the year ended December 30, 2018 and December 31, 2017 was \$537,180 and \$163,146, respectively. The substantial increase was due to a public equity rights offering in April 2018 (the "Rights Offering"). In the Rights Offering, the Company sold 19,791,829 units (the "Units") at a price of \$.03 per unit. Each unit consisted of one share of common stock and 0.70 of a warrant. Each whole warrant will be exercisable for one share of common stock at a price of \$.06. per share. Joey Parsi, the Company's Co-Executive Officer, participated in the Rights Offering and purchased 333,334 Units.

### **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 30, 2018, the Company incurred a net loss of \$691,369 used cash in operations of \$610,874 and had a stockholders' deficit of \$2,002,101 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 30, 2018, the Company had cash on hand in the amount of \$57,642. Management estimates that the current funds on hand will be sufficient to continue operations through May 2019. 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.

#### Note Payables

GGP Limited Partnership - On February 12, 2013, the Company entered into a Promissory Note Payable Agreement (the "Note Agreement") with GGP Limited Partnership ("GGP" or, the "Lender") pursuant to which the Company issued to the Lender a \$700,000 promissory note (the "Promissory Note") in exchange for a loan of \$700,000 to be used by the Company for a portion of the construction work to be performed by the Company under the lease (the "Lease") by and between the Company and Glendale II Mall Associates, LLC for its restaurant space at The Glendale Galleria. The Promissory Note, as originally issued 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 to the Lease and a related amendment to the Note Agreement. The amendments covered several matters, including an adjustment to percentage rent payable, a reduction to the minimum rent payable, and certain changes with respect to the payment and principal and interest on the 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 the maturity of the Promissory Note on the revised maturity date, May 31, 2028. The Company imputed interest using a discount rate of 10% to determine a fair value of the Promissory Note of \$433,521. The balance of notes payable at December 30, 2018 and December 31, 2017 was \$420,881 and \$422,361, respectively.

GGP, the Lender, is an affiliate of Glendale II Mall Associates, LLC, the lessor of the Company's Glendale Mall restaurant location. In accordance with the Note Agreement, an event of default would occur if the Company defaults under the Lease. Upon the occurrence of an event of default, the entire balance of the Promissory Note and accrued but unpaid interest would become due and payable, and the balance due would become subject to a default interest rate (which is 5% higher than the defined interest rate). As of December 30, 2018, the Company is in default of its monthly payments under the Promissory Note.

#### Convertible Note Payable

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. By oral agreement with the lender, the maturity date was extended, and the note is now considered to be due on demand.

*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 December 30, 2018. 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 has been no material changes in our internal control over financial reporting have occurred during our most recent fiscal quarter that have materially affected, or 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

None.

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:

| <b>Name</b>   | <b>Age</b> | <b>Position</b>  | <b>Term Commencing</b> |
|---------------|------------|--|------------------------|
| Joey Parsi    | 50         | Co-Chief Executive Officer, President, Treasurer, and Director | December 30, 2011      |
| Philip Gay    | 61         | Co-Chief Executive Officer                                     | April 1, 2018          |
| Sean Richards | 49         | Chief Officer of Operations and Secretary                      | February 23, 2012      |

**Joey Parsi, Co-Chief Executive Officer, President, Treasurer and Director** – 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. Mr. Parsi became our Co-Chief Executive Officer May 1, 2018.

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.

***Philip Gay, Co-Chief Executive Officer*** - Philip Gay was appointed as our Chief Executive Officer on April 1, 2018 and then became our Co-Chief Executive Officer, along with Joey Parsi, May 1, 2018. Mr. Gay currently serves as Managing Director of Triple Enterprises, a business advisory service firm that assists mid-cap sized companies with financing, mergers and acquisitions and strategic financing, which he had previously managed from March 2000 until June 2004. From March 2015 to May 2015 Mr. Gay served as a director and chief executive officer at Diego Pellicer Worldwide Inc. From July 2006 until June 2010, Mr. Gay served as President, Chief Executive Officer and a Director of Grill Concepts, Inc., a company that operates a chain of upscale casual restaurants throughout the United States. From March 2000 to November 2001, Mr. Gay served as an independent consultant with El Paso Energy from time to time and assisted El Paso Energy with its efforts to reduce overall operating and manufacturing overhead costs. Previously he has served as chief financial officer for California Pizza Kitchen (1987 to 1994) and Wolfgang Puck Food Company (1994 to 1996), and he has held various Chief Operating Officer and Chief Executive Officer positions at Color Me Mine and Diversified Food Group from 1996 to 2000. Mr. Gay is also a retired Certified Public Accountant, a former audit manager at Laventhol and Horwath and a graduate of the London School of Economics.

***Sean Richards, Secretary, Chief Officer of Operations*** - Sean Richards has worked as Chief Officer of Operations (“COO”) of Giggle N’ Hugs., 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, 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 a Compensation Committee of the Board of Directors. Until a formal committee is established, our entire Board of Directors, which is currently composed of one member, 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 three 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 30, 2018 and December 31, 2017.

| Name and<br>Principal Position              | Year | Salary<br>(\$) | Bonus<br>(\$) | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$) | Non-Equity                                | Nonqualified                     | All Other<br>Compensation<br>(\$) | Total<br>Compensation<br>(\$) |
|---|------|----------------|---------------|-------------------------|--------------------------|---|----------------------------------|-----------------------------------|-------------------------------|
|   |      |                |               |                         |                          | Incentive<br>Plan<br>Compensation<br>(\$) | Deferred<br>Compensation<br>(\$) |                                   |                               |
| Joey Parsi(1)<br>President and<br>Treasurer | 2018 | 250,000        | -0-           | -0-                     | -0-                      | -0-                                       | -0-                              | -0-                               | 250,000                       |
|   | 2017 | 300,000        | -0-           | -0-                     | -0-                      | -0-                                       | -0-                              | -0-                               | 300,000                       |
| Philip Gay (2)<br>CO-CEO                    | 2018 | -0-            | -0-           | 31,500                  | -0-                      | -0-                                       | -0-                              | -0-                               | 31,500                        |
|   | 2017 | -0-            | -0-           | -0-                     | -0-                      | -0-                                       | -0-                              | -0-                               | -0-                           |
| Sean Richards (3)<br>COO and Secretary      | 2018 | 95,000         | -0-           | 980                     | -0-                      | -0-                                       | -0-                              | -0-                               | 95,980                        |
|   | 2017 | 95,000         | -0-           | -0-                     | -0-                      | -0-                                       | -0-                              | -0-                               | 95,000                        |

(1) Mr. Parsi became our President and Treasurer effective December 30, 2011, and our Co-Chief Executive Office on May 1, 2018.

(2) Mr. Gay became our Chief Executive Office effective April 1, 2018, and our Co-Chief Executive Office effective May 1, 2018.

(3) 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 2018, he received a base annual salary of \$95,000 and was granted a stock award of 200,000 shares of common stock with a fair value of \$4,600. Mr. Richards's compensation is a base salary of 6,000,000 warrants of the Company common share, issued for a 10 year period at strike price of \$0.0001 per annum to be paid on each anniversary date.

### **Executive Employment Agreements**

**Sean Richards:** On January 1, 2019, we entered into an employment agreement with Sean Richards, pursuant to which Mr. Richards agreed to devote all of his working time to our business as our Chief Operating Officer and we agreed to pay Mr. Richards an annual base salary of \$101,500, plus a onetime bonus of warrants exercisable for 1,000,000 shares of our common stock issued for a ten-year period with an exercise price of \$0.0001 per share. In addition, we also agreed to pay the monthly premiums for health care coverage for Mr. Richards and the other members of his immediate family up to a maximum of \$15,000 per year. Mr. Richards will receive an annual bonus in cash of up to \$10,000, in our sole discretion and based on mutually agreed upon financial performance goals.

The employment agreement also contains covenants prohibiting Mr. Richards from competing with us during his employment, and from (i) competing with us in California and in any other states where we provide management services relating to our business, (ii) soliciting any of our employees or consultants and (iii) disparaging the Company or any of our officers, directors, employees or agents for a period of two years after his employment ends. The employment agreement also contains customary confidentiality provisions. The employment agreement may be terminated by either party for any reason at any time.

**Joey Parsi:** On January 1, 2019, we entered into an employment agreement with Joey Parsi, pursuant to which Mr. Parsi agreed to devote a majority of his working time to our business as our Co-Chief Executive Officer and we agreed to pay Mr. Parsi an annual base salary of \$225,000, plus a onetime bonus of warrants exercisable for 25,997,000 shares of our common stock issued for a ten-year period with an exercise price of \$0.0001 per share. In addition, we also agreed to pay the monthly premiums for health care coverage for Mr. Parsi and the other members of his immediate family. Mr. Parsi will receive an annual bonus in cash of up to \$175,000, in our sole discretion and based on mutually agreed upon financial performance goals. Mr. Parsi will also be entitled to reimbursement for all ordinary and reasonable expenses incurred in the performance of his duties for the Company, including for a company car, lap top computer and cell phone. Mr. Parsi will also be entitled to six weeks of vacation annually.

The employment agreement may be terminated by either party for any reason at any time. If Mr. Parsi's employment is terminated by the Company with or without cause, Mr. Parsi will be entitled to receive a severance payment in the amount of 12 months of his base salary plus all unvested options, warrants and shares.

The employment agreement also contains covenants prohibiting Mr. Parsi from disparaging the Company or any of our officers, directors, employees or agents for a period of two years after his employment ends. The employment agreement also contains customary confidentiality provisions.

**Philip Gay:** On January 1, 2019, we entered into an employment agreement with Philip Gay effective as of April 1, 2018, pursuant to which Mr. Gay agreed to serve as our Co-Chief Executive Officer and we agreed to pay Mr. Gay an annual base salary consisting of warrants exercisable for 6,000,000 shares of our common stock issued for a ten-year period with an exercise price of \$0.0001 per share. These warrants will be paid on each anniversary date of Mr. Gay's employment and each annually grant will vest at the rate of twenty-five percent (25%) per calendar quarter. Mr. Gay will also be entitled to reimbursement for all ordinary and reasonable expenses incurred in the performance of his duties for the Company, and he will receive an annual bonus in cash of up to \$75,000, in our sole discretion and based on mutually agreed upon financial performance goals. If Mr. Gay's employment is terminated by the Company with or without cause, all unvested equity, options and equity grants will be cancelled.

The employment agreement with Mr. Gay also contains customary confidentiality provisions and may be terminated by either party for any reason at any time.

#### Termination of Employment

Other than severance payments that Mr. Parsi would be entitled to as described above, 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 30, 2018, no additional options were granted. There are 115,000 exercisable shares that remain outstanding as of December 30, 2018.

#### Director Compensation

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

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

The following table presents information, to the best of our knowledge, about the beneficial ownership of our common stock on April 15, 2019, 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 168,774,080 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 April 15, 2019, 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*

| Name and Address of Beneficial Owner (1)                      | Title of Class | Amount and Nature of Beneficial Ownership | Percentage of Class |
|---|----------------|---|---------------------|
| Joey Parsi  | Common Stock   | 26,637,580 (2)                            | 15.75 %             |
| Philip Gay  | Common Stock   | 1,240,000 (3)                             | 0.73 %              |
| Sean Richards   | Common Stock   | 700,000 (4)                               | 0.41 %              |
| All officers and directors as a group (3 persons named above) |                | 28,577,580                                | 16.89 %             |

(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 26,637,580 shares, Mr. Parsi 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 deemed a group for reporting purposes. Additionally, Mr. Parsi has direct control over 17,825,667 shares of common stock, that includes (i) 333,334 as common stock and (ii) warrants exercisable within 60 days for 233,333 shares of common stock, both

of which were issued in connection with the Rights Offering.

(3) 1,240,000 shares to Philip Gay was for consulting service rendered over the year.

This amount includes an option to purchase 100,000 shares of common stock at a price per share of \$4.50 granted (4) to Mr. Richards on February 2012, and 250,000 shares issued to Mr. Richards in March 2014. There were 350,000 shares and 200,000 shares granted and issued to Mr. Richards in January 2017 and January 2018, 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 INDEPENDENCE**

**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 30, 2018, 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 30, 2018 and December 31, 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 30, 2018 and December 31, 2017.

|               | Fiscal<br>Years<br>Ended<br>December<br>30,<br>2018 | Fiscal<br>Years<br>Ended<br>December<br>31,<br>2017 |
|---------------|---|---|
| Audit Fees(1) | \$ 32,550   | \$ 52,000   |
| Total         | \$ 32,550   | \$ 52,000   |

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.

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.

## 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

| Exhibit Number | Exhibit Description  | Incorporated by reference |      |               | Exhibit | Filing date |
|----------------|--|---------------------------|------|---------------|---------|-------------|
|                |  | Filed herewith            | Form | Period ending |         |             |
| 2.1            | <u>Acquisition Agreement and Plan of Merger by and among Giggles N' Hugs Inc., Giggles N' Hugs Sub Co and GNH, Inc.</u>  |                           | 8-K  |               | 2.1     | 9/24/2010   |
| 3(i)(a)        | <u>Articles of Incorporation</u>   |                           | SB-2 |               | 3(a)    | 11/24/2006  |
| 3(i)(b)        | <u>Certificate of Amendment to Articles of Incorporation dated August 20, 2010 (Name Change to Giggles N' Hugs Inc.)</u> |                           | 8-K  |               | 3(i)(b) | 8/26/2010   |
| 3(ii)(a)       | <u>Bylaws</u>  |                           | SB-2 |               | 3(b)    | 11/24/2006  |
| 10.1           | <u>Employment Agreement with Sean Richards</u>   |                           | 10-K |               | 10.1    | 4/15/19     |
| 10.2           | <u>Employment Agreement with Joey Parsi</u>  |                           | 10-K |               | 10.2    | 4/15/19     |
| 10.3           | <u>Employment Agreement with Philip Gay</u>  |                           | 10-K |               | 10.3    | 4/15/19     |
| 21.1           | <u>Subsidiaries of Registrant</u>  |                           | 10-K |               | 21.1    | 4/15/19     |
| 31.1/31.2      | <u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act.</u>  | X                         |      |               |         |             |
| 32.1/32.2      | <u>Certification pursuant to Section 906 of the Sarbanes-Oxley Act.</u>  | X                         |      |               |         |             |
| 99.4           | <u>2012 Stock Option Plan-Dated February 2, 2012</u>   |                           | 8-K  |               |         | 2/27/2012   |
| 101.INS        | XBRL Instance Document   |                           | 10-K |               |         | 4/15/19     |
| 101.SCG        | XBRL Taxonomy Extension Schema   |                           | 10-K |               |         | 4/15/19     |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase   |                           | 10-K |               |         | 4/15/19     |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase  |                           | 10-K |               |         | 4/15/19     |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase   |                           | 10-K |               |         | 4/15/19     |



**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.**

Date April 22, 2019 By: */s/ Joey Parsi*

Joey Parsi  
Chief Executive Officer  
(Principal Executive Officer and duly authorized signatory)

By: */s/ Philip Gay*

Philip Gay  
Co- Chief Executive Officer

Pursuant to the requirements of the Exchange Act of 1934, this registration statement has been signed by the following persons in the capacities.

| <b>Signature</b>                    | <b>Title</b>  | <b>Date</b>    |
|-------------------------------------|---|----------------|
| <i>/s/ Joey Parsi</i><br>Joey Parsi | Chairman of the Board of Directors, Co-Chief Executive Officer,<br>President and Treasurer (Principal Executive Officer, Principal Financial Officer) | April 22, 2019 |

GIGGLES N' HUGS, INC.

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED DECEMBER 30, 2018 AND DECEMBER 31, 2017**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Stockholders and the Board of Directors**

**Giggles N' Hugs, Inc.**

**Glendale, California**

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Giggles N' Hugs, Inc. (the "Company") as of December 30, 2018 and December 31, 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 30, 2018 and December 31, 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, the Company has a stockholders' deficit at December 30, 2018, and incurred a net loss and utilized cash in operation during the year ended December 30, 2018. 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 audit 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

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

Weinberg & Company, P.A.

Los Angeles, CA

April 15, 2019

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## GIGGLES N' HUGS, INC.

## CONSOLIDATED BALANCE SHEETS

|   | December<br>30, 2018 | December<br>31, 2017 |
|---|----------------------|----------------------|
| Assets  |                      |                      |
| Current assets:   |                      |                      |
| Cash and equivalents  | \$57,642             | \$131,336            |
| Inventory   | 23,860               | 24,710               |
| Prepaid expenses and other  | 22,458               | 21,196               |
| Total current assets  | 103,960              | 177,242              |
| Property, and equipment, net of accumulated depreciation and amortization of \$1,708,865 and \$1,476,520  | 507,844              | 740,189              |
| Other assets  | 2,620                | 2,620                |
| Total assets  | \$614,424            | \$920,051            |
| Liabilities and Stockholders' Deficit   |                      |                      |
| Current liabilities:  |                      |                      |
| Accounts payable  | \$621,454            | \$677,692            |
| Incentive from lessor – current portion   | 117,460              | 102,168              |
| Note payable from lessor- in default  | 420,881              | 422,361              |
| Accrued expenses  | 157,368              | 250,876              |
| Accrued officers salary   | 466,541              | 375,900              |
| Deferred revenue  | 16,964               | 6,530                |
| Convertible note payable and accrued interest   | 50,000               | 50,000               |
| Total current liabilities   | 1,850,668            | 1,885,527            |
| Long-term liabilities:  |                      |                      |
| Incentive from lessor – long-term   | 433,379              | 550,839              |
| Deferred gain   | 332,478              | 401,262              |
| Total long-term liabilities   | 765,857              | 952,101              |
| Total liabilities   | 2,616,525            | 2,837,628            |
| Stockholders' deficit:  |                      |                      |
| Common stock, \$0.001 par value, 1,125,000,000 shares authorized, 168,424,080 and 145,602,251 shares issued and outstanding as of December 30, 2018 and December 31, 2017, respectively | 168,424              | 145,602              |
| Common stock issuable (1,397,619 and 1,397,619 shares as of December 30, 2018 and December 31, 2017, respectively)  | 293,535              | 293,535              |

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|   |              |              |
|---|--------------|--------------|
| Additional paid-in capital                  | 10,458,959   | 9,874,936    |
| Accumulated deficit                         | (12,923,019) | (12,231,650) |
| Total stockholders' deficit                 | (2,002,101 ) | (1,917,577 ) |
| <br>  |              |              |
| Total liabilities and stockholders' deficit | \$614,424    | \$920,051    |

See Accompanying Notes to Consolidated Financial Statements.

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## GIGGLES N' HUGS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Fiscal Year<br>Ended<br><b>December 30<br/>2018</b> | Fiscal Year<br>Ended<br><b>December 31<br/>2017</b> |
|--|---|---|
| Revenue  |   |   |
| Net sales  | \$2,431,903   | \$2,454,125   |
| Costs and operating expenses   |   |   |
| Cost of operations   | 1,920,493   | 1,883,816   |
| General and administrative expenses                                      | 907,224   | 1,791,190   |
| Depreciation and amortization  | 232,344   | 256,421   |
| Total costs and operating expenses                                       | 3,060,061   | 3,931,427   |
| Loss from Operations   | (628,158 )  | (1,477,302 )  |
| Other Income (Expenses):   |   |   |
| Finance and interest expense   | (61,811 )   | (90,546 )   |
| Loss on settlement   | (1,400 )  | -   |
| Change in fair value of derivatives                                      | -   | 11,567  |
| Gain on extinguishment of derivatives                                    | -   | 185,604   |
| Loss on extinguishment of debt   | -   | (249,014 )  |
| Loss before provision for income taxes                                   | (691,369 )  | (1,619,691 )  |
| Provision (benefit) for income taxes                                     | -   | 2,719   |
| Net loss   | \$(691,369 )  | \$(1,622,410 )                                      |
| Net loss per share – basic and diluted                                   | \$0.00  | \$(0.01 )   |
| Weighted average number of common shares outstanding – basic and diluted | 162,505,289   | 135,950,336   |

See Accompanying Notes to Consolidated Financial Statements.



## GIGGLES N' HUGS, INC.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**

|  | Common Stock |           | Additional   | Common    | Accumulated    | Total          |
|--|--------------|-----------|--------------|-----------|----------------|----------------|
|  | Shares       | Amount    | Paid in      | Stock     | Deficit        | Stockholders'  |
|  |              |           | Capital      | Issuable  |                | Deficit        |
| 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 grated 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 )   |
| Shares issued for cash proceeds                        | 19,791,829   | 19,792    | 573,963      |           |                | 593,755        |
| Offering costs   |              |           | (51,575 )    |           |                | (51,575 )      |
| Shares issued for employees compensation               | 200,000      | 200       | 4,400        |           |                | 4,600          |
| Shares issued to settle accounts payable               | 1,500,000    | 1,500     | 39,150       |           |                | 40,650         |
| Shares issued for professional services                | 1,330,000    | 1,330     | 18,085       |           |                | 19,415         |
| Net Loss   |              |           |              |           | (691,369 )     | (691,369 )     |
| Balance December 30, 2018                              | 168,424,080  | \$168,424 | \$10,458,959 | \$293,535 | \$(12,923,019) | \$(2,002,101 ) |

See Accompanying Notes to Consolidated Financial Statements.

**GIGGLES N' HUGS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | Fiscal<br>Year<br>Ended<br>December<br>30, 2018 | Fiscal Year<br>Ended<br>December<br>31, 2017 |
|---|---|--|
| Cash flows from operating activities  |   |  |
| Net loss  | \$(691,369)                                     | \$(1,622,410)                                |
| Adjustments to reconcile net loss to net cash used in operating activities: |   |  |
| Depreciation and amortization   | 232,345   | 256,421                                      |
| Shares issued for services  | 19,415  | 51,645                                       |
| Stock-based compensation  | 4,600   | 28,470                                       |
| Loss on stock issuance for payable settlement                               | 1,400   | 109,096                                      |
| Warrants vested for service   | -   | 531,000                                      |
| Interest and fees included in promissory note payable                       | 3,520   | 25,674                                       |
| Amortization of deferred gain   | (68,784 )                                       | (27,853 )                                    |
| Gain on extinguishment of derivative liability                              | -   | (185,604 )                                   |
| Change in fair value of derivative liability                                | -   | (11,567 )                                    |
| Promissory note settlement  | -   | 249,014                                      |
| Changes in operating assets and liabilities:                                |   |  |
| (Increase) decrease in prepaid expenses and other                           | (1,262 )  | (7,390 )                                     |
| (Increase) decrease in inventory  | 850   | (4,379 )                                     |
| (Decrease) increase in accounts payable                                     | (16,988 )                                       | 233,567                                      |
| Decrease in incentive from lessor   | (102,168)                                       | (87,421 )                                    |
| (Decrease) increase in accrued expenses                                     | (2,867 )  | 305,518                                      |
| Decrease in deferred revenue  | 10,434  | (17,629 )                                    |
| Net cash used in operating activities                                       | (610,874)                                       | (173,848 )                                   |
| Cash flows from investing activities  |   |  |
| Acquisition of fixed assets   | -   | (2,482 )                                     |
| Net cash used in investing activities                                       | -   | (2,482 )                                     |
| Cash flows from financing activities  |   |  |
| Proceeds from sale common stock   | 593,755   | 75,000                                       |
| Proceeds from sale of stock upon note settlement                            | -   | 110,000                                      |
| Payments to promissory note payable   | -   | (11,498 )                                    |
| Payments to note payable-lessor   | (5,000 )  | (10,356 )                                    |
| Offering costs  | (51,575 )                                       | -  |
| Net cash provided by financing activities                                   | 537,180   | 163,146                                      |
| <b>NET DECREASE IN CASH</b>   | <b>(73,694 )</b>                                | <b>(13,184 )</b>                             |

|   |          |           |
|---|----------|-----------|
| CASH AT BEGINNING OF THE YEAR                     | 131,336  | 144,520   |
| CASH AT END OF YEAR                               | \$57,642 | \$131,336 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: |          |           |
| Interest paid                                     | \$-      | \$-       |
| Income taxes paid                                 | \$-      | \$-       |
| NON-CASH INVESTING AND FINANCING ACTIVITIES:      |          |           |
| Shares issued to settle convertible notes payable | \$-      | \$835,847 |
| Accounts payable settled by share issuance        | \$40,650 | \$146,904 |
| Relcass of notes payable to accrued interest      | \$-      | \$3,125   |

See Accompanying Notes to Consolidated Financial Statements.

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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 2018 consists of a year ending December 30, 2018. Fiscal year 2017 consists of a year ending December 31, 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 30, 2018, the Company incurred a net loss of \$691,369, used cash in operations of \$610,874 and had a stockholders' deficit of \$2,002,101 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 30, 2018,

the Company had cash on hand in the amount of \$57,642. Management estimates that the current funds on hand will be sufficient to continue operations through May 2019. 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 30, 2018 and December 31, 2017, the consolidated financial statements include the accounts of Giggles N' Hugs, Inc., GNH, Inc., 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 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 financing obligations approximate their fair values due to the fact that the interest rates on these obligations are based on prevailing market interest rates.

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**GIGGLES N' HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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. 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 years ended December 30, 2018 and December 31, 2017 there were no indications of 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 the 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 measurement date which is either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete.

Loss per common share

Net loss per share is provided in accordance with ASC Subtopic 260-10. We present basic loss per share (“EPS”) and diluted EPS on the face of statements of operations. Basic EPS is computed by dividing reported losses by the weighted average shares outstanding. Except where the result would be anti-dilutive to income from continuing operations, diluted earnings per share has been computed assuming the conversion of the convertible long-term debt and the elimination of the related interest expense, and the exercise of stock options and warrants. Loss per common share has been computed using the weighted average number of common shares outstanding during the year. For the years ended December 30, 2018 and December 31, 2017, warrants to acquire 19,967,917 and 6,113,643 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.

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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.

Through December 31, 2017, the Company recognized revenue from restaurant sales when payment was 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

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method. This standard provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services. This standard does not impact the Company's recognition of revenue from Company-operated restaurants as those sales are recognized on a cash basis at the time of the underlying sale and are presented net of sales tax and other sales-related taxes.

The standard also does not change the recognition of revenue from restaurant membership fees. 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.

The adoption of ASC 606 had no effect on previously reported amounts

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 30, 2018 and December 31, 2017, the amount of gift cards sales were \$1,647 and (\$2,338) 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 30, 2018 and December 31, 2017, there were \$34,539 and \$29,939, respectively in advertising costs included in general and administrative expenses.

GIGGLES N' HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Recent Accounting Standards

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 – PROPERTY AND EQUIPMENTS**

Property and equipment consisted of the following at:

|                                 | December<br>30, 2018 | December<br>31, 2017 |
|---------------------------------|----------------------|----------------------|
| Leasehold improvements          | \$ 1,889,027         | \$ 1,889,027         |
| Fixtures and equipment          | 60,310               | 60,310               |
| Computer software and equipment | 267,372              | 267,372              |
| Property and equipment, total   | 2,216,709            | 2,216,709            |
| Less: accumulated depreciation  | (1,708,865)          | (1,476,520)          |
| Property and equipment, net     | \$ 507,844           | \$ 740,189           |

Depreciation expense was \$232,345 and \$256,421 for the fiscal years ended December 30, 2018 and December 31, 2017, respectively. Repair and maintenance expenses for the years ended December 30, 2018 and December 31, 2017 were \$59,684 and \$58,724, respectively.

**NOTE 3 – INCENTIVE FROM LESSOR**

The Company previously received \$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.



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The balance of the incentive from lessor as of December 30, 2018 and December 31, 2017 was \$550,839 and \$653,007 respectively, and included deferred rent of \$133,832 and \$132,818, respectively. As of December 30, 2018, \$117,460 of the incentive from lessor was current and \$433,379 was long term. Amortization of the incentive from lessor was

\$102,168 and \$87,420 for the fiscal years ended December 30, 2018 and December 31, 2017, respectively.

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GIGGLES N' HUGS, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 – NOTE PAYABLE LESSOR – IN DEFAULT**

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. 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 payment for two years beginning March 1, 2015.

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. As of December 30, 2018 and December 31, 2017, the balance of the note payable net of unamortized note discount were \$420,881 and \$422,361, 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 8) were agreed to at the same time, that the change in the lease payment terms of 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 related revision of lease were agreed to at the same time, that the change in the lease payment terms and 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 aggregated 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 is being amortized on the straight-line basis over the remaining life of the lease as an adjustment to rent expense. The balance of the deferred gain was \$332,478 as of, December 30, 2018.

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 30, 2018, the Company was delinquent in its payments to GGP under the note, accordingly, the full amount is in current.

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GIGGLES N' HUGS, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 – CONVERTIBLE NOTE PAYABLE – PAST DUE**

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. The balance of the Note was \$50,000 as of December 30, 2018 and December 31, 2017 and was past due.

**NOTE 6 – SETTLED NOTES**

**St. George Investments**

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. 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.

#### Iconic Holdings

As of January 1, 2017, the balance of a convertible note payable to Iconic Holdings was \$84,191. During the year 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 7 – COMMON STOCK**

Issuance of Common Stock

During the fiscal year ended December 30, 2018,

On April 19, 2018, Giggles N' Hugs Inc. closed a public rights offering. The Company sold 19,791,829 units at a price of \$.03 per unit. Each unit consists of one share of common stock and 0.70 of a warrant. Each whole warrant will be exercisable for one share of common stock at a price of \$.06. per share. In the aggregate 19,791,829 shares of common stock and 13,854,274 warrants were issued for gross proceeds, before expenses and dealer-manager fees, of \$593,755. Direct costs of the offering were \$51,575 and were charged to paid in capital.

The Company granted and issued 200,000 shares of restricted common stock with a fair value of \$4,600 for an employee compensation.

The Company issued 1,500,000 shares of common stock in settlement of an accounts payable amounting to \$39,250. The fair value of the shares issued was \$40,650 based on the fair value of the shares on the date of settlement resulting in an additional cost to the Company of \$1,400.

The Company issued 1,330,000 shares of common stock at fair value of \$19,415 for services rendered.

During the fiscal year ended December 31, 2017, the Company issued

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.

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.

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**GIGGLES N' HUGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 7 – COMMON STOCK (CONTINUED)**Employee Stock Options

The following table summarizes the changes in the options outstanding at December 30, 2018, 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 30, 2018 and changes for the fiscal year ended December 31, 2017 is presented below:

|                                | Stock<br>Options | Weighted<br>Average<br>Exercise<br>Price |
|--------------------------------|------------------|--|
| Outstanding, January 1, 2017   | 115,000          | \$ 4.50                                  |
| Granted                        | —                | —  |
| Exercised                      | —                | —  |
| Expired/Cancelled              | —                | —  |
| Outstanding, December 31, 2017 | 115,000          | \$ 4.50                                  |
| Granted                        | —                | —  |
| Exercised                      | —                | —  |
| Expired/Cancelled              | —                | —  |
| Outstanding, December 30, 2018 | 115,000          | \$ 4.50                                  |
| Exercisable, December 30, 2018 | 115,000          | \$ 4.50                                  |

As of December 30, 2018, the stock options had no intrinsic value.

There were no options granted during the fiscal year ended December 30, 2018.



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 30, 2018 and December 31, 2017.

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**GIGGLES N' HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 – COMMON STOCK (CONTINUED)**

Warrants

The following table summarizes the changes in the warrants outstanding at December 30, 2018, and the related prices.

A summary of the Company's warrant as of December 30, 2018 is presented below:

|                                | Warrants   | Weighted<br>Average<br>Exercise<br>Price |
|--------------------------------|------------|--|
| Outstanding, January 1, 2017   | 606,500    | \$ 0.13                                  |
| Granted                        | 5,507,143  | 0.10                                     |
| Exercised                      | -          | -  |
| Outstanding, December 31, 2017 | 6,113,643  | \$ 0.11                                  |
| Granted                        | 13,854,274 | -  |
| Exercised                      | -          | -  |
| Outstanding, December 30, 2018 | 13,854,274 | \$ 0.07                                  |
| Exercisable, December 30, 2018 | 13,854,274 | \$ 0.07                                  |

As of December 30, 2018, the stock warrants had no intrinsic value.

| Range of<br>Exercise<br>Prices | Number<br>Outstanding    | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Number<br>Exercisable    | Weighted<br>Average<br>Exercise<br>Price |
|--------------------------------|--------------------------|--|---|--------------------------|--|
| \$0.01 \$0.37                  | 6,113,643                | \$ 0.07                                  | 2.31  | 6,113,643                | \$ 0.05                                  |
| \$0.06                         | 13,854,274<br>19,967,917 | 0.06                                     | 4.50<br>6.81  | 13,854,274<br>19,967,917 | 0.06                                     |

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 warrant 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 30, 2018, 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.

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GIGGLES N' HUGS, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 – COMMON STOCK (CONTINUED)**

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 and was recognized as compensation costs during the year ended December 31, 2017. The fair value was calculated using a 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 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 accompanying balance sheet.)

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**GIGGLES N' HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

*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) were agreed to at the same time, that the change in the lease payment terms of 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 related revision of lease were agreed to at the same time, that the change in the lease payment terms and 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 aggregated 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 is being amortized on the straight-line basis over the remaining life of the lease as an adjustment to rent expense. The balance of the deferred gain was \$332,472 as of, December 30, 2018.

Rent expense for the Company's restaurant operating leases for the year ended December 30, 2018 and December 31, 2017 was \$353,024 and \$341,270, respectively

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**GIGGLES N' HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

As of December 30, 2018, the aggregate minimum annual lease payments under operating lease as follows:

|            |              |
|------------|--------------|
| 2019       | \$437,100    |
| 2020       | 452,956      |
| 2021       | 469,398      |
| 2022       | 279,077      |
| Thereafter | 151,172      |
| Total      | \$ 1,789,703 |

**Litigation**

As of December 30, 2018, there was no material outstanding litigation.

**GIGGLES N' HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 – RELATED PARTY TRANSACTIONS**

During the years ended December 30, 2018 and December 31, 2017, the Company incurred salary costs of \$250,000 and \$300,000 for Mr. Joey Parsi, our Co-Chief Executive Officer. As of December 30, 2018 and December 31, 2017, Mr. Parsi was owed \$466,541 and \$375,900, respectively, for accrued salary.

During the years ended December 30, 2018 and December 31, 2017, the Company incurred \$66,840 and \$66,839 of costs for management and accounting services from a company controlled by Phillip Gay, our Co-Chief Executive Officer. As of December 30, 2018 and December 31, 2017, this company was owed \$10,720 and \$10,380 for such costs.

**NOTE 10 – INCOME TAXES**

For the fiscal years ended December 30, 2018 and December 31, 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 30, 2018 the Company had \$8,103,000 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<br>30, 2018 | December<br>31, 2017 |
|---|----------------------|----------------------|
| Tax provision (benefits) computed at the statutory rate (21% and 34%) | \$(145,000)          | \$(256,000)          |
| State income tax, net of federal benefit                              | (30,000 )            | (44,000 )            |
| Change in valuation allowance   | 175,800              | 300,800              |
| 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<br>30, 2018 | December<br>31, 2017 |
|------------------------------|----------------------|----------------------|
| Net operating loss carryover | \$2,250,000          | \$1,900,000          |
| Depreciation and other       | 174,000              | 175,000              |
| Total deferred tax assets    | 2,424,000            | 2,075,000            |
| Valuation allowance          | (2,424,000)          | (2,075,000)          |
| Net deferred tax asset       | \$-                  | \$-                  |

**GIGGLES N' HUGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 – 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 30, 2018 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 11 – SUBSEQUENT EVENTS**

In January 2019, the Company issued total of 350,000 shares of common stock for services, with a fair value of \$2,800.

On January 1, 2019, the Company entered into an employment agreement with Joey Parsi, pursuant to which Mr. Parsi agreed to devote a majority of his working time to our business as our Co-Chief Executive Officer and we agreed to pay Mr. Parsi an annual base salary of \$225,000, plus a onetime bonus of warrants exercisable for 25,997,000 shares of our common stock issued for a ten-year period with an exercise price of \$0.0001 per share. In addition, we also agreed to pay the monthly premiums for health care coverage for Mr. Parsi and the other members of his immediate family. Mr. Parsi will receive an annual bonus in cash of up to \$175,000, in our sole discretion and

based on mutually agreed upon financial performance goals. Mr. Parsi will also be entitled to reimbursement for all ordinary and reasonable expenses incurred in the performance of his duties for the Company, including for a company car, lap top computer and cell phone. Mr. Parsi will also be entitled to six weeks of vacation annually.

The employment agreement may be terminated by either party for any reason at any time. If Mr. Parsi's employment is terminated by the Company with or without cause, Mr. Parsi will be entitled to receive a severance payment in the amount of 12 months of his base salary plus all unvested options, warrants and shares.

The employment agreement also contains covenants prohibiting Mr. Parsi from disparaging the Company or any of our officers, directors, employees or agents for a period of two years after his employment ends. The employment agreement also contains customary confidentiality provisions.

On January 1, 2019, the Company entered into an employment agreement with Philip Gay effective as of April 1, 2018, pursuant to which Mr. Gay agreed to serve as our Co-Chief Executive Officer and we agreed to pay Mr. Gay an annual base salary consisting of warrants exercisable for 6,000,000 shares of our common stock issued for a ten-year period with an exercise price of \$0.0001 per share. These warrants will be paid on each anniversary date of Mr. Gay's employment and each annually grant will vest at the rate of twenty-five percent (25%) per calendar quarter. Mr. Gay will also be entitled to reimbursement for all ordinary and reasonable expenses incurred in the performance of his duties for the Company, and he will receive an annual bonus in cash of up to \$75,000, in our sole discretion and based on mutually agreed upon financial performance goals. If Mr. Gay's employment is terminated by the Company with or without cause, all unvested equity, options and equity grants will be cancelled.

The employment agreement with Mr. Gay also contains customary confidentiality provisions and may be terminated by either party for any reason at any time.

