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amily: Times New Roman, Times, Serif">31,500Shares issued for stock payable 150,000 150 26,813 (26,963) -Warrants vested for professional services 31,000 31,000Shares issued for convertible notes 24,940,672 24,940 133,419 158,359Net loss (1,386,955) (1,386,955)Balance January 1, 2017 67,934,205 $67,933 $8,229,747 $218,535 $(10,609,240) $(2,093,025)

See Accompanying Notes to Consolidated Financial Statements.

GIGGLES N HUGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended January 1, 2017	Fiscal Year Ended December 27, 2015
Cash flows from operating activities		
Net loss	$(1,386,955)	$(2,068,687)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	306,019	367,549
Write off of intangibles	-	23,881
Amortization of debt discount	215,762	67,261
Shares issued for services	37,770	341,547
Gain on note payable modification	-	(69,228)
Gain on sales of fixed assets	(5,971)	-
Gain on lease termination	(214,111)	-
Warrants vested for service	31,000	-
Loss on impairment	-	353,414
Interest and fees included in promissory note payable	47,673	(16,135)
Bonus shares issued to investors	-	200,200
Amortization of deferred gain	(26,172)	-
Derivative liability recorded upon extinguishment of promissory note payable	177,920	
Gain on extinguishment of derivative liability	(190,370)	-
Change in fair value of derivative liability	369,861	
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses and other	13,113	(3,887)
Decrease in other assets	30,000	9,360
Decrease (increase) in inventory	17,329	(263)
Increase in accounts payable	253,183	190,003
Decrease in incentive from lessor	(98,785)	(117,744)
(Decrease) increase in accrued expenses	(67,616)	66,070
(Decrease) increase in deferred revenue	(28,176)	8,897
Net cash used in operating activities	(518,526)	(647,762)
Cash flows from investing activities		
Provided (acquisition) of fixed assets	10,500	(13,069)
Proceeds from lease termination	350,000	-
Net cash provided (used in) investing activities	360,500	(13,069)
Cash flows from financing activities		
Proceeds from convertible note payable	-	238,500

Proceeds from note payable	-	200,000
Proceeds from shares issued	-	449,485
Payments to promissory note payable	(20,841)	-
Payments to note payable-lessor	(10,804)	(1,199)
Net cash provided (used in) by financing activities	(31,645)	886,786
NET INCREASE (DECREASE) IN CASH	(189,671)	225,955
CASH AT BEGINNING OF THE YEAR	334,191	108,236
CASH AT END OF YEAR	$144,520	$334,191
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$37,759	$26,834
Income taxes paid	$-	$-
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Shares issued to settle convertible notes payable	$158,359	$50,000
Accounts payable settled by share issuance	$31,500	$68,282
Conversion feature and discounts on notes payable credit to additional paid in capital	$-	$145,154
Deferred gain recorded upon amendment of lease agreement and promissory note	$455,287	$-

See Accompanying Notes to Consolidated Financial Statements.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

The Company adopted a 52/53 week fiscal year ending on the Sunday closest to December 31st for financial reporting purposes. Fiscal year 2016 consists of a year ending January 1, 2017. Fiscal year 2015 consists of a year ending December 27, 2015.

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 January 1, 2017, the Company incurred a net loss of $1,386,955 used cash in operations of $518,526 and had a stockholders’ deficit of $2,093,025 as of that date. 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 January 1, 2017, the Company had cash on hand in the amount of $144,520. Management estimates that the current funds on hand will be sufficient to continue operations through May 2017. 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 January 1, 2017 and December 27, 2015, the consolidated financial statements include the accounts of Giggles N Hugs, Inc., GNH, Inc., GNH CC, Inc. for restaurant operations in Westfield Mall in Century City, California, GNH Topanga, Inc. for restaurant operations in Westfield Topanga Shopping Center in Woodland Hills, California, and Glendale Giggles N Hugs, Inc. for restaurant operations in Glendale Galleria in Glendale, California. Intercompany balances and transactions have been eliminated. Giggles N Hugs, Inc., GNH, Inc., GNH CC, Inc., GNH Topanga, Inc., and Glendale Giggles N Hugs, Inc. will be collectively referred herein to as the “Company”.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions used by management include estimates made for impairment analysis for fixed assets and other long term assets, estimates of potential liabilities and, assumptions made in valuing derivative liabilities and the valuation of issuance of debt and equity securities. 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.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income taxes

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

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

Cash and cash equivalents

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

Inventories

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

Property and equipment

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

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

Management assesses the carrying value of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If there is indication of impairment, management prepares an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. For the year ended December 27, 2015 the Company took a loss on impairment of $353,414. For the year ended January 1, 2017, there were no indications of further impairment based on management's assessment of these assets.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Company currently leases its restaurant locations. The Company evaluates 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.

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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 January 1, 2017 and December 27, 2015, the assumed conversion of convertible note payable and the exercise of warrants to acquire shares of common stock were 606,500 shares and 166,500 shares, respectively, and the employee stock options to acquire 115,000 shares are anti-dilutive due to the Company’s net losses and are excluded in determining diluted loss per share.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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

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

We recognize a liability upon the sale of our gift cards and recognize revenue when these gift cards are redeemed in our restaurants. As of January 1, 2017 and December 27, 2015, the amount of gift cards sales were $172 and $4,448, respectively, and were recorded as deferred revenue.

For party rental agreements, we rely upon a signed contract with 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 January 1, 2017 and December 27, 2015, there were $30,308 and $29,946, respectively in advertising costs included in general and administrative expenses.

Derivative Financial Instruments

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

Convertible Debentures

If the conversion features of conventional convertible debt provide for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature (“BCF”). A BCF is recorded by the Company as a debt discount pursuant to ASC Topic 470-20 “Debt with Conversion and Other Options.” In those circumstances, the convertible debt is recorded net of the discount related to the BCF and the Company amortizes the discount to interest expense over the life of the debt on the effective interest method.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Standards

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

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

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

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

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – FIXED ASSETS

Fixed assets consisted of the following at:

	January 1, 2017	December 27, 2015
Leasehold improvements	$1,889,027	$2,847,565
Fixtures and equipment	60,310	85,267
Computer software and equipment	264,890	283,001
Property and equipment, total	2,214,227	3,215,833
Less: accumulated depreciation	(1,220,099)	(1,485,997)
Property and equipment, net	$994,128	$1,729,836

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

Depreciation expense was $306,019 and $367,549 for the fiscal years ended January 1, 2017 and December 27, 2015, respectively. Repair and maintenance expenses for the years ended January 1, 2017 and December 27, 2015 were $85,860 and $111,977, respectively.

NOTE 3 – INCENTIVE FROM LESSOR

The Company previously received $700,000 for Century City, $506,271 for Topanga and $475,000 for Glendale restaurant locations from the Company's landlords as construction contributions pursuant to agreed-upon terms in the lease agreements as of December 27, 2015.

Landlord construction contributions usually take the form of up-front cash. Depending on the specifics of the leased space and the lease agreement, amounts paid for structural components are recorded during the construction period as leasehold improvements or the landlord construction contributions are recorded as an incentive from lessor. The incentive from lessor is amortized over the life of the lease, which is 10 years and netted against occupancy cost.

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

The balance of the incentive from lessor as of January 1, 2017 and December 27, 2015 was $740,428 and $1,198,098 respectively, and included deferred rent of $117,056 and $218,874, respectively. As of January 1, 2017, $87,420 of the incentive from lessor was current and $653,008 was long term. Amortization of the incentive from lessor was $98,785 and $117,744 for the fiscal years ended January 1, 2017 and December 27, 2015 and respectively.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – NOTE PAYABLE LESSOR

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

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

Due to the two-year interest free period, the Company recalculated the fair value of the note taking into account the payment stream and the incremental changes in the interest rate and determined the fair value of the new note on the date of modification of March 1, 2015 to be $619,377, net of a discount of $63,939. The Company determined that the discount should be amortized over the two year period where no interest was due or payable. As such, the Company amortized $28,845 of the discount during the fiscal year ended December 27, 2015, resulting in an unamortized balance of $35,094 at December 27, 2015. The Company further amortized $15,985 of the discount during 2016. The unamortized discount at June 26, 2016 was $19,109, and the net balance due was $664,207.

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 installments of $5,300 through maturity of Note on May 31, 2028. The Company imputed interest using a discount rate of 10% to determine a fair value of the note of $433,521, resulting in a valuation discount of $329,740. As of January 1, 2017, the balance of the note payable was $723,270, and the unamortized note discount was $290,553, resulting in a balance due of $432,717, of which, $21,544 was reported as part of current liabilities and $411,173 as long-term liabilities in the accompanying balance sheets.

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

The lender under the Note is GGP Limited Partnership (GGP). GGP is an affiliate of Glendale II Mall Associates, the lessor of the Company's Glendale Mall restaurant location. In accordance with the note agreement, an event of default would occur if the Borrower defaults under the lease between the Company and Glendale II Mall Associates. Upon the occurrence of an event of default, the entire balance of the Note payable and accrued interest would become due and payable, and the balance due becomes subject to a default interest rate (which is 5% higher than the defined interest rate). Landlord shall have the unconditional right to terminate the Lease by giving Tenant at least 120 days' advance written notice of Landlord's election to terminate the Lease, under lease amendment in the event of default. As of January 1, 2017, the Company was current in its rental obligation.

The following is the 5-year payment schedule:

2017	$63,605
2018	63,605
2019	63,605
2020	63,605
2021	63,605
Thereafter	405,245
Total	$723,270

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GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – CONVERTIBLE NOTE PAYABLE

A summary of convertible debentures payable as of January 1, 2017 and December 27, 2015 is as follows:

	January 1, 2017	December 27, 2015
Iconic Holdings, LLC	$84,191	$161,250
J&N Invest LLC	50,000	50,000
Accrued interest	17,192	-
Total Convertible Notes	151,383	211,250
Less: Discount	-	(139,471)
Convertible Notes, net	$151,383	$71,779

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

The Company determined that the ability of the holder to convert the note to common shares at 65% of the market created a beneficial conversion feature upon issuance. The Company also considered if the conversion feature required liability accounting under current accounting guidelines but determined that the conversion of the shares were indexed to the Company's stock, and that the floor of $0.08 per share would not allow the conversion to exceed the Company's authorized share limit. Based on the current market price on the date of issuance of the note of $0.13 and the discount of 65%, the Company calculated an initial beneficial conversion feature of $86,827. The total note discount was

$109,327 including the $22,500 discussed above, of which $107,691 was unamortized at December 27, 2015. The Company amortized the remaining discount during the year ended January 1, 2017.

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

During the period ended January 1, 2017, the Company converted $77,059 of principal into 2,555,906 shares of common stock. As of January 1, 2017 the balance of principal due was $84,191. The entire note principal and accrued interest was converted to share of common stock in March 2017.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – CONVERTIBLE NOTE PAYABLE (CONTINUED)

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

NOTE 6 – PROMISSORY NOTE

On December 18, 2015, the Company issued an unsecured promissory note in the principal sum of $265,000 in favor of St. George Investments, LLC, pursuant to the terms of a securities purchase agreement of the same date. The note was subject to an original issue discount of $60,000 and a $5,000 fee to cover certain expenses of lender. The note matured in six months and carries no interest unless there is an event of default. GNH may prepay the note in full within 90 days of the issuance date for $235,000. The Company has accounted for the discount as a contra account to the note and will be amortized to interest expense over the life of the note. As such, the Company amortized $4,694 of the discount during the year ended December 27, 2015. The balance of the note outstanding at December 27, 2015, was $265,000 net of an unamortized discount of $60,306.

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 with a new Promissory Note (“Note”) carrying the following terms and conditions:

1. The new Note added 10% ($26,500) to the original principal as an Exchange Fee, making the new principal amount $291,500, and the Note shall carry an interest rate of 8% per annum. The amount of the exchange fee was recognized as a finance cost.

2.

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.

3. In conjunction with the conversion provision, the Company agreed to an Irrevocable Letter of Instructions to Transfer Agent, along with a Secretary's Certificate and Board Resolution, which allows a Share Reserve equal to three times the number of shares of Common Stock divided by outstanding debt by the defined conversion price, but not less than 18,000,000 shares.

4. In addition, the Company executed a Share Issuance Resolution Authorizing the Issuance of New Shares of Common Stock. This document, in effect, allows the Holder to provide, at their discretion, a Conversion Notice directly to the Transfer Agent to receive unrestricted shares under the terms of this Exchange Agreement.

5. Further to this Exchange Agreement, the Company executed an Authorization to Initiate ACH Debit Entries that allowed the Holder to receive a daily payment of $312.50 ($7,500 per month). The Company can cancel such authorization with five days' written notice.

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GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – PROMISSORY NOTE (CONTINUED)

The Company determined that since the conversion floor had no limit to the conversion price, that the Company could no longer determine if it had enough authorized shares to fulfill the conversion obligation. As such, the Company determined that the conversion feature created a derivative with a fair value of $98,544 at the date of the modification, and the value of such conversion feature should be considered a finance cost.

During the fiscal year ended January 1, 2017, the Holder converted $81,300 of debt into 9,261,973 shares of Common Stock. In addition, the Company paid $20,841 of the principal balance. The balance outstanding as of January 1, 2017 was $183,359 plus $9,981 of accrued interest, and is past its maturity date of September 15, 2016.

Subsequent to January 1, 2017, additional balance of $48,914 was converted to approximately 15.7 million shares of common stock pursuant to the terms of the note (See Note 10 and 12). The Balance as of this filling was $132,000 and is being disputed (See Legal Proceedings).

NOTE 7 – BUSINESS LOAN AND SECURITY AGREEMENT

In August 2015, the Company entered into a Business Loan and Security Agreement with American Express Bank, which allows the Company to borrow up to $174,000. The loan matures in August 2016 and will remain in effect for successive one year periods unless terminated by either party. In August 2016, the loan amount was amended up to $180,000. The loan is secured by credit card collections from the Company's store operations. The agreement provides that the Company will receive an advance of up to $180,000 at the beginning of each fiscal month, and requires the Company to repay the loan from the credit card deposits it receives from its customers. Assuming the balance has been paid off by the end of the month, the Company will receive another advance up to the face amount of the note at the beginning of the next fiscal month.

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

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GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - DERIVATIVE LIABILITY

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

As of January 1, 2017, and upon issuance, the derivative liabilities were valued using a probability weighted average Black-Scholes-Merton pricing model with the following assumptions:

Warrants:

	Upon Issuance		January 1, 2017	
Exercise Price	$0.07		$ 0.07 .05-0.01	
Stock Price	$0.05-0.02		$	
Risk-free interest rate	0.57	%	0.57	%
Expected volatility	216	%	216	%
Expected life (in years)	1		1	
Expected dividend yield	0		0	
Fair Value:	$177,920		$ 357,411	

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

During the fiscal year ended January 1, 2017, convertible notes and accrued interest totaling $158,359 were converted into shares of common stock or paid off in cash, and the Company recorded a gain of $190,370 related to the extinguishment of the corresponding derivative liabilities. Also during the fiscal year ended January 1, 2017, the Company recorded a change in fair value of derivatives of $369,861. At January 1, 2017, the balance of the derivative liabilities was $357,411.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – COMMON STOCK

Issuance of Common Stock

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

497,500 shares of common stock valued at $37,170 for services. The shares were valued based on the closing price of the stock on the date of agreement.

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

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

4,779,236 shares of its common stock for conversion of convertible notes in the amount of $107,497

During the fiscal year ended December 27, 2015, the Company issued

1,293,333 shares of its common stock valued at $341,547 for services. The shares were valued based on the closing price of the stock on the date of agreement.

423,268 shares of its common stock valued at $68,282 in settlement of accounts payable balances

3,070,776 shares of its common stock for cash of $449,485 net of closing costs. In conjunction with the sale of these shares, the company issued to the underwriter warrants to acquire 152,885 shares of our common stock at an exercise price of $0.01 per share. As of January 1, 2017, 555,556 of these shares have not yet been issued.

910,000 shares of its common stock valued at $200,200 to investors as bonus. The shares were valued based on the closing price of the stock on the date of issuance and reflected the fair value of these shares as a financing cost.

1,597,982 shares of its common stock valued at $488,078 previously accounted for as common stock payable.

On July 1, 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 accrued interest at a rate of 15% per annum and matured July 31, 2016. The note was convertible at a conversion price of $0.15 per share. The Note Payable had warrants attached, with an exercise term of 3 years and convertible into 66,667 shares of common stock at an exercise price of $0.15 per share. The Company recognized a debt discount at the date of issuance in the amount of $9,647 related to the fair value of the warrants. During 2015 the Company offered the note holder an inducement to convert the note at a conversion price of $0.09 per share. As such, the note was converted into 555,223 shares of the Company's common stock and the note was retired. The Company calculated the difference between the initial conversion price and the modified conversion price to be $20,000 and recorded such amount as an inducement to convert.

During the year ended December 27, 2015, the Company granted warrants to an underwriter to purchase 152,885 shares of common stock in conjunction with our private offering. In addition, the Company also granted warrants to purchase 233,334 shares of common stock in conjunction with the issuance of our notes payable. The warrants are exercisable at a price range of $0.01 per share through $0.25 per shares and will expire in three years and seven years. See Note 8 for further discussion.

During the year ended December 27, 2015, a total of 406,621 warrants were exercised on cashless basis in exchange for 406,621 shares of our common stock.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – COMMON STOCK (CONTINUED)

Employee Stock Options

The following table summarizes the changes in the options outstanding at January 1, 2017, and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan.

A summary of the Company's stock awards for options as of January 1, 2017 and changes for the fiscal year ended December 27, 2015 is presented below:

	Stock Options	Weighted Average Exercise Price
Outstanding, December 28, 2014	135,000	$ 4.50
Granted	—	—
Exercised	—	—
Expired/Cancelled	(20,000)	—
Outstanding, December 27, 2015	115,000	$ 4.50
Exercisable, December 27, 2015	115,000	$ 4.50
Granted	—	—
Exercised	—	—
Expired/Cancelled	—	—
Outstanding, January 1, 2017	115,000	$ 4.50
Exercisable, January 1, 2017	115,000	$ 4.50

As of January 1, 2017, the stock options had no intrinsic value

There were no options granted during the fiscal year ended January 1, 2017.

There was no stock-based compensation expense in connection with options granted to employees recognized in the consolidated statement of operations for the fiscal years ended January 1, 2017 and December 27, 2015.

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GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – COMMON STOCK (CONTINUED)

Warrants

The following table summarizes the changes in the warrants outstanding at January 1, 2017, and the related prices.

A summary of the Company's warrant as of January 1, 2017 and the changes for the fiscal year ended December 27, 2015 is presented below:

	Warrants	Weighted Average **Exercise Price**
Outstanding, December 28, 2014	378,510	$0.16
Granted	219,552	0.01
Exercised	(406,621)	0.20
Expired/Cancelled	(24,941)	—
Outstanding, December 27, 2015	166,500	$0.25
Exercisable, December 27, 2015	166,500	$0.25
Granted	—	—
Exercised	—	—
Expired/Cancelled	—	—
Outstanding, January 1, 2017	166,500	$0.25
Exercisable, January 1, 2017	166,500	$0.25

Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	**Number Exercisable**	Weighted Average Exercise Price

$0.01~$0.37	166,500	$ 0.25	4.75	166,500	$ 0.25
	166,500		4.75	166,500	

As of January 1, 2017, the stock warrants had no intrinsic value.

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GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Westfield Century City. On January 13, 2010, the Company entered into a 10-year lease agreement with Westfield Century City for a lease for a restaurant operation. In October 2015, Westfield Group, the landlord of the Century City location, embarked on a massive $700 million renovation of the mall. In March 2016 they approached the Company about recapturing its Century City space due to this remodeling. Currently, approximately 90% of the mall is closed or being remodeled with the completion expected sometime during 2017. On May 13, 2016, Giggles N' Hugs, Inc. entered into a Termination of Lease Agreement with Century City Mall, LLC ("landlord"), accelerating the termination date of the Lease dated January 13, 2010 for its store located in Westfield Century City, Los Angeles, California. Pursuant to the agreement, the lease was terminated in June, 2016 and the landlord agreed to a monetary reimbursement of $350,000, which was received on June 26, 2016. For accounting purposes, the Company has removed all the leasehold improvements (net of accumulated amortization) and removed the deferred incentive due the lessor relating to tenant improvements and the remaining deferred rent existing at the date of termination resulting in a gain of $214,111.

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

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

On August 12, 2016 the Company entered into a third amendment on its lease at The Glendale Galleria. The amendment covered several areas, including adjustment to percentage rent payable, reduced the minimum rent payable and payment and principal of the Promissory Note payable to GGP. The Promissory Note was adjusted to a balance due of $763,262 from $683,316, with zero percent interest, payable in equal monthly installments 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 6). The change in the payment terms of the lease caused a change in the previously calculated deferred rent of $69,614. For reporting purposes, the Company determined that since the GGP Promissory Note and the related revision of the lease were agreed to at the same time, that the change in the lease payment terms and the reduced rent, and the issuance of the new note are directly related. In addition, past due rent of $164,987 was forgiven. As such the gain on the termination of the note of $220,686, the adjustment to the deferred rent in the aggregate amount of $69,614, and the forgiveness of past due rent of $164,987, resulting in an aggregate gain of $455,287 had been deferred, and will amortized on the straight-line basis over the remaining life of the lease as an adjustment to rent expense. During the year ended January 1, 2017, $26,172 of the deferred gain was amortized and offset to rent expense, resulting in a remaining deferred gain balance of $429,115 as of January 1, 2017, which will be amortized over the remainder of the lease.

Rent expense for the Company's restaurant operating leases for the year ended January 1, 2017 and December 27, 2015 was $514,275 and $629,783, respectively.

GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

As of January 1, 2017, the aggregate minimum annual lease payments under operating lease as follows:

2017	$407,060
2018	421,808
2019	437,100
2020	452,956
2021	469,398
Thereafter	430,249
Total	$2,618,571

Litigation

On April 20, 2016, the Company entered into a stipulated judgment in favor of TKM in the amount of $40,000. Under the stipulated judgment, the Company would only be compelled to pay $20,000 in four equal installments of $5,000, provided they meet the ascribed timely payments as set forth in the stipulated judgment. The Company has recorded the entire $40,000 judgment since the Company did not meet the agreed payment schedule. As of January 1, 2017, the outstanding balance was $30,000.

St. George Investments, LLC v Giggles N' Hugs

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 disagree as to the conversion price set in the note agreement due to execution by the parties of different versions of the document. St. George has claimed for additional damages. We believe these claims lack merit and have retained counsel to vigorously defend this action and present cross claims for mistake, rescission, breach of the covenant of good faith and fair dealing and unjust enrichment.

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GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – INCOME TAXES

The net income generated from the Century City restaurant operations from Giggles N Hugs, LLC is treated as partnership income for federal and state income tax purposes and does not incur income tax expense for Giggles N Hugs, Inc. because the reverse merger was effectuated on December 30, 2011. Instead, its earnings and losses are allocated to and reported on the individual returns of the member's tax returns. Accordingly, no provision for income tax is included in the consolidated financial statements.

For the fiscal years ended January 1, 2017 and December 27, 2015 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 January 1, 2017 the Company had $7,859,000 of federal and state net operating losses. The net operating loss carryforwards, if not utilized, will begin to expire in 2023.

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

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:

	January 1, 2017	December 27, 2015
Tax provision (benefits) computed at the statutory rate (34%)	$(214,000)	$(431,000)
State income tax, net of federal benefit	(56,000)	429,618
Change in valuation allowance	270,800	-
Provision for income tax	$800	$1,382

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:

	January 1, 2017	December 27, 2015
Net operating loss carryover	$2,019,000	$2,578,000
Depreciation and other	422,000	(624,000)
Total deferred tax assets	2,441,000	1,954,000
Valuation allowance	(2,441,000)	(1,954,000)
Net deferred tax asset	$-	$-

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GIGGLES N HUGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – INCOME TAXES (CONTINUED)

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

The Company's NOL and tax credit carryovers may be significantly limited under the Internal Revenue Code (IRC). NOL and tax credit carryovers are limited under Section 382 when there is a significant "ownership change" as defined in the IRC. During the fiscal year January 1, 2017 and in prior years, the Company may have experienced such ownership changes, which could impose such limitations.

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

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

NOTE 12 – SUBSEQUENT EVENTS

Since the fiscal year-ended January 1, 2017, the following transactions have taken place:

During January 2017, Iconic Holdings, LLC converted the remaining outstanding balance of $84,191 of its Promissory Note into 38,457,435 shares of common stock.

In January and February 2017, St. George Investments LLC converted $48,914 of its Promissory Note into 15,660,611 shares of common stock.

On January 4, 2017, the Company granted officers and employees 10,170,000 shares of restricted common stock, and non-employee 500,000 shares with a fair value of $29,876. On March 16, 2017, the Company issued 1,500,000 shares of common stock to a third party for a settlement of accounts payable of $72,000.

In March 2017, the Company granted two non-employee consultants warrants to purchase an aggregate of 2,650,000 shares of common stock. The warrants vest over a period of eight months, exercisable at an average price of $0.15 per share and will expire in one and five years. Total estimated fair value of the warrants at grant date amounted to $504,000 calculated using the Black-Scholes Option Pricing Model. In addition, the Company also granted one of the consultants, 150,000 shares of common stock with a fair value of $31,000.

GIGGLES N' HUGS, INC.

PROSPECTUS

SUBSCRIPTION RIGHTS TO PURCHASE UP TO 300,000,000 UNITS

CONSISTING OF UP TO 300,000,000 SHARES OF COMMON STOCK

AND WARRANTS TO PURCHASE UP TO 210,000,000 SHARES OF COMMON STOCK