

Giggles N' Hugs, Inc.  
Form 10-Q  
November 19, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended September 30, 2012**

**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 of incorporation or organization)

20-1681362

(I.R.S. Employer Identification No.)

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

**(310) 553-4847**

(Registrant's telephone number, including area code)

*Copies of Communications to:*

Richardson & Patel, LLP

1100 Glendon Avenue

Suite 850

Los Angeles, CA 90024

(310) 208-1182

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

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

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

Yes  No

The number of shares of Common Stock, \$0.001 par value, outstanding on November 14, 2012 was 22,894,145 shares.

**GIGGLES N HUGS, INC.**

**QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012**

**Index to Report on Form 10-Q**

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**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements.**

GIGGLES N HUGS, INC.  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and equivalents	\$94,725	\$608,309
Inventory	15,055	14,297
Prepaid stock compensation	328,400	-
Prepaid expenses	3,487	-
Total current assets	441,667	622,606
Fixed assets:		
Total fixed assets, net	966,011	880,999
Other assets:		
Security deposits	32,500	30,000
Total assets	\$1,440,178	\$1,533,605
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$127,873	\$116,031
Incentive from less or – current portion	48,530	44,406
Accrued expenses	57,895	15,888
Deferred revenue	17,130	16,942
Total current liabilities	251,428	193,267
Long-term liabilities:		
Incentive from lessor – long-term	498,862	490,059
Total long-term liabilities	498,862	490,059
Total liabilities	750,290	683,326
Stockholders' equity:		

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Common stock, \$0.001 par value, 1,125,000,000 shares authorized, 22,894,145 and 22,862,145 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	22,894	22,862
Common stock payable	675,800	-
Additional paid-in capital	2,053,616	2,001,168
Accumulated deficit	(2,062,422)	(1,173,751)
Total stockholders' equity	689,888	850,279
Total liabilities and stockholders' equity	\$1,440,178	\$1,533,605

**See Accompanying Notes to Financial Statements.**

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Revenue				
Food and beverage sales	\$ 199,075	\$ 175,242	\$ 534,885	\$ 503,939
Private party rentals	70,875	81,791	266,824	228,214
Other sales	79,828	62,843	213,718	176,661
Allowances, returns and discounts	(16,741 )	(28,686 )	(40,516 )	(83,854 )
Net sales	333,037	291,190	974,911	824,960
Costs and operating expenses				
Cost of sales including food and beverage	78,516	69,427	217,321	204,742
Labor	97,109	130,986	329,485	388,573
Occupancy cost	62,323	56,014	181,790	182,277
Depreciation	26,101	25,449	77,633	76,062
Total operating expenses	264,049	281,875	806,229	851,653
Other expenses				
Executive compensation	108,783	-	318,458	38,269
Stock-based executive compensation	-	-	209,500	-
Non-employee stock based compensation	62,900	-	115,380	-
Consulting expenses	12,000	26,306	27,000	417,895
Professional expenses	80,320	71,412	235,349	202,182
General and administrative expenses	19,753	109,746	150,066	214,693
Total costs and operating expenses	547,805	489,338	1,861,982	1,724,692
Loss before provision for income taxes	\$(214,768 )	\$(198,148 )	\$(887,071 )	\$(899,732 )
Provision for income taxes	\$-	\$-	\$(1,600 )	\$-
Net loss	\$(214,768 )	\$(198,148 )	\$(888,671 )	\$(899,732 )
Net loss per share - basic	\$(0.01 )	\$(0.01 )	\$(0.04 )	\$(0.05 )
Weighted average number of common shares outstanding - basic	22,875,692	18,854,020	22,875,692	18,709,590

See Accompanying Notes to Financial Statements.





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

	For the nine months ended September 30,	
	2012	2011
Cash flows from operating activities		
Net loss	\$(888,671)	\$(899,732 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	77,633	76,062
Stock based compensation	115,380	-
Shares issued for executive compensation	209,500	-
Changes in operating assets and liabilities:		
Increase in prepaid expenses and deposits	(5,987 )	-
Increase in inventory	(758 )	(6,214 )
Increase (decrease) in accounts payable	11,842	(80,631 )
Increase (decrease) in lease incentive liability	12,927	(29,621 )
Increase in accrued expenses	42,007	8,928
Increase in deferred revenue	188	7,878
Net cash used in operating activities	(425,939)	(923,331 )
Cash flows from investing activities		
Acquisition of fixed assets	(162,645)	(40,324 )
Net cash used in investing activities	(162,645)	(40,324 )
Cash flows from financing activities		
Proceeds from note payable	-	(3,000 )
Members' distribution	-	(20,836 )
Proceeds from reverse merger	-	769
Proceeds from shares issued	-	2,003,500
Proceeds from common stock payable	75,000	-
Net cash provided by financing activities	75,000	1,980,433
NET INCREASE (DECREASE) IN CASH	(513,584)	1,016,778
CASH AT BEGINNING OF PERIOD	608,309	15,584
CASH AT END OF PERIOD	\$94,725	\$1,032,362
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$-	\$-
Income taxes paid	\$-	\$-
NON-CASH INVESTING AND FINANCING ACTIVITIES:		

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Incentive from lessor	\$-	\$590,000
Liabilities assumed with the merger	\$-	\$79,725

**See Accompanying Notes to Financial Statements.**

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**GIGGLES N' HUGS, INC.**

**(FORMERLY TEACHER'S PET, INC.)**

**(A Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 1 – HISTORY AND ORGANIZATION**

Giggles N' Hugs, Inc. ("GIGL Inc") was originally organized 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 its \$0.001 par value common stock.

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

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

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

of the Company.

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**GIGGLES N' HUGS, INC.**

**(FORMERLY TEACHER'S PET, INC.)**

**(A Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 2 – BASIS OF PRESENTATION**

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

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these interim financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2011 and notes thereto included in the Company's Form 10-K annual report. The Company follows the same accounting policies in the preparation of interim reports.

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

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

For the period ended September 30, 2012 and 2011, the consolidated financial statements include the accounts of Giggles N' Hugs, Inc., GNH, Inc., GNH Topanga, Inc. and restaurant operations of Giggles N Hugs in Westfield mall in Century City, California. All significant intercompany balances and transactions have been eliminated. Giggles N' Hugs, Inc., GNH, Inc., GNH Topanga, Inc. and restaurant operations of Giggles N Hugs in Westfield mall in Century City, California will be collectively referred herein to as the "Company".

**Use of estimates**

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

**Cash and cash equivalents**

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

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**GIGGLES N' HUGS, INC.**

**(FORMERLY TEACHER'S PET, INC.)**

**(A Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Inventories**

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

**Property and equipment**

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

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

**Leases**

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

Minimum base rent for the Company's operating leases, which generally have escalating rentals over the term of the lease, is recorded on a straight-line basis over the lease term. The initial rent term includes the build-out, or rent

holiday period, for the Company's leases, where no rent payments are typically due under the terms of the lease. Deferred rent expense, which is based on a percentage of revenue, is also recorded to the extent it exceeds minimum base rent per the lease agreement.

The Company disburses cash for leasehold improvements and furniture, fixtures and equipment to build out and equip its leased premises. The Company also expends cash for structural additions that it makes to leased premises of which \$590,000 were reimbursed to the Century City location 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.**

**(FORMERLY TEACHER'S PET, INC.)**

**(A Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of long-lived assets**

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

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

During the nine months ended September 30, 2012 and 2011 we did not record an impairment charge against the carrying value of the restaurant located in Century City, California.

**Stock-based compensation**

The Company records stock based compensation in accordance with the guidance in ASC Topic 505 and 718 which requires the Company to recognize expenses related to the fair value of its employee stock option awards. This

eliminates accounting for share-based compensation transactions using the intrinsic value and requires instead that such transactions be accounted for using a fair-value-based method. The Company recognizes the cost of all share-based awards on a graded vesting basis over the vesting period of the award.

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

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**GIGGLES N' HUGS, INC.**

**(FORMERLY TEACHER'S PET, INC.)**

**(A Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Loss per common share**

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

**Fair Value of Financial Instruments**

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

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

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

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

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

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

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**GIGGLES N' HUGS, INC.**

**(FORMERLY TEACHER'S PET, INC.)**

**(A Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue recognition**

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

With respect to memberships, access to our play area 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. Century City receives payment from its customers at the start of the subscription period and Century City 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.

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.

**Recent pronouncements**

The Company has evaluated the recent accounting pronouncements through August 2012 and believes that none of them will have a material effect on the company's financial position, results of operations or cash flows.

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**GIGGLES N' HUGS, INC.**

**(FORMERLY TEACHER'S PET, INC.)**

**(A Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 4 – RECLASSIFICATION OF PRIOR YEAR PRESENTATION**

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations. In second quarter of fiscal 2012, the Company concluded that it was appropriate to classify its incentive from lessor as a long-term liability. Previously, the incentive from lessor had been classified as a current liability. Accordingly, the Company had revised the classification to report the incentive from lessor under the long-term liabilities caption, with the current portion thereof remaining in the current liabilities section. This change in classification does not materially affect the Company's previously reported balance sheet, cash flows from operations or from financing activities in the Condensed Statement of Cash Flows, and had no effect on the previously reported Condensed Statement of Operations for any period.

As of September 30, 2012 and December 31, 2011, \$498,862 and \$490,059 of the incentive from lessor previously classified as current liabilities were reclassified as long-term liabilities.

**NOTE 5 – GOING CONCERN**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplate continuation of the Company as a going concern. The Company has recently sustained operating losses and has an accumulated deficit of \$2,063,422 at September 30, 2012. In addition, the Company has negative working capital of \$138,161, excluding non-cash prepaid stock compensation of \$328,400, at September 30, 2012.

The Company has and will continue to use significant capital to grow and acquire market share. These factors raise substantial doubt about the ability of the Company to continue as a going concern. In this regard, management is proposing to raise any necessary additional funds not provided by operations through loans or through sales of their common stock. There is no assurance that the Company will be successful in raising this additional capital or in

achieving profitable operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might result from this uncertainty.

#### NOTE 6 – INVENTORY

Inventory consisted of the following at:

	September 30, 2012	December 31, 2011
Restaurant food and supplies	\$ 15,055	\$ 14,297
Total	\$ 15,055	\$ 14,297

#### NOTE 7 – FIXED ASSETS

Fixed assets consisted of the following at:

	September 30, 2012	December 31, 2011
Leasehold improvements	\$1,116,680	\$958,538
Fixtures and equipment	24,137	21,887
Computer software and equipment	12,162	9,909
Property and equipment, total	1,152,980	990,334
Less: accumulated depreciation	(186,969 )	(109,336)
Property and equipment, net	\$966,011	\$880,999

Repair and maintenance expenses for the nine months ended September 30, 2012 and 2011 were \$14,292 and \$19,451, respectively. Depreciation expenses for the three and nine months ended September 30, 2012 were \$26,101 and \$77,633, respectively, and for the three and nine months ended September 30, 2011 were \$25,449 and \$76,062, respectively.



**GIGGLES N' HUGS, INC.**

**(FORMERLY TEACHER'S PET, INC.)**

**(A Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 8 – DEFERRED REVENUE**

Deferred revenue consisted of the following at:

	September 30, 2012	December 31, 2011
Membership cards	\$ 2,905	\$ 2,225
Gift cards	3,626	3,001
Party deposits	10,599	11,716
Total	\$ 17,130	\$ 16,942

**NOTE 9 – INCENTIVE FROM LESSOR**

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.

The Company received \$590,000 from the Company's landlords as construction contributions pursuant to agreed-upon terms in its lease agreement with Westfield Century City.

The Company is currently building out its Topanga location. As of September 30, 2012, the Company received a total of \$47,500 from the landlords as construction contributions related to the Topanga lease.

Amortization of the incentive from lessor was \$30,132 and \$29,621 for the nine months ended September 30, 2012 and 2011, respectively.

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**GIGGLES N' HUGS, INC.**

**(FORMERLY TEACHER'S PET, INC.)**

**(A Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 10 – STOCKHOLDERS' EQUITY**

On July 15, 2010, the Company amended its articles of incorporation to increase the authorized capital from 75,000,000 common shares to 1,125,000,000 common shares. The Company has only one class of stock. All rights and privileges normally associated with stock ownership are vested in that single class of stock.

During the three months ended March 31, 2012, the Company authorized the issuance of 50,000 shares of common stock to Sean Richards related to his appointment as Chief Operating Officer of the Company. The fair value of the shares of common stock was \$209,500 which is recorded to common stock payable. As of the date of this filing, the shares have not been issued.

On June 11, 2012, the Company authorized the issuance of 25,000 shares of common stock to a third party entity in exchange for consulting services. The fair value of the shares of common stock was \$41,000, based upon the closing market price of the Company's common stock at the date the service was rendered.

On June 11, 2012, the Company authorized the issuance of 7,000 shares of common stock to a third party entity for internet design and consulting services. The fair value of the shares of common stock was \$11,480, based upon the closing market price of the Company's common stock at the date the service was rendered.

During the three months ended September 30, 2012, the Company authorized the issuance of 15,000 shares of common stock to a third party entity for investor relation services. The fair value of the shares of common stock was \$22,500 which is recorded to common stock payable. As of the date of this filing, the shares have not been issued.

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During the three months ended September 30, 2012, the Company authorized the issuance of 10,000 shares of common stock to a third party entity for financial and governance reporting services, SEC reporting services, and other business related services. The fair value of the shares of common stock was \$10,000 which is recorded to common stock payable. As of the date of this filing, the shares have not been issued.

During the three months ended September 30, 2012, the Company authorized the issuance of 25,000 shares of common stock to a third party entity for financial consulting services. The fair value of the shares of common stock was \$36,000 which is recorded to common stock payable and the expense is amortized over one-year of service. As of the date of this filing, the shares have not been issued.

During the three months ended September 30, 2012, the Company authorized the issuance of 20,000 shares of common stock to a third party entity for advisory board services. The fair value of the shares of common stock was \$6,000 which is recorded to common stock payable and the expense is amortized over one-year of service. As of the date of this filing, the shares have not been issued.

During the three months ended September 30, 2012, the Company authorized the issuance of 220,000 shares of common stock to a third party entity for advisory board services. The fair value of the shares of common stock was \$316,800 which is recorded to common stock payable and the expense is amortized over one-year of service. As of the date of this filing, the shares have not been issued.

During the three months ended September 30, 2012, the Company authorized the issuance of 75,000 shares of common stock to an investor for \$75,000 which is recorded to common stock payable. As of the date of this filing, the shares have not been issued.

As of September 30, 2012, there have been no other issuances of common stock.

### **NOTE 11 – WARRANTS AND OPTIONS**

As of September 30, 2012, there were no warrants or options outstanding to acquire any additional shares of common stock.

**GIGGLES N' HUGS, INC.**

**(FORMERLY TEACHER'S PET, INC.)**

**(A Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

The Company leases its restaurant location under an operating lease, with the remaining term being 10 years. Restaurant leases typically include land and building shells, require contingent rent above the minimum base rent payments based on a percentage of sales ranging from 7% to 10%, have escalating minimum rent requirements over the term of the lease and require various expenses incidental to the use of the property. The lease also has a renewal option, which Century City 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.

As of September 30, 2012, the aggregate minimum annual lease payments under operating leases, including amounts characterized as deemed landlord financing payments are as follows:

2012	\$45,979
2013	188,975
2014	194,644
2015	200,483
2016	206,498
2017	212,692
Thereafter	482,983
Total	\$1,532,254

Rent expense for the Company's operating lease was \$46,181 and \$37,246 for the periods during the three months ended September 30, 2012 and 2011, respectively. Rent expense for the Company was \$104,299 and \$98,598 for the periods during the nine months ended September 30, 2012 and 2011, respectively.

On March 23, 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 is expected to commence on March 1, 2013 and expire on April 30, 2022. Upon commencement, the aggregate minimum annual lease payments under operating leases, including amounts characterized as deemed landlord financing payments are as follows:

2013	\$212,400
2014	220,896
2015	229,732
2016	238,921
2017	248,478
Thereafter	1,714,073
Total	\$2,864,500

Rent expense for the Company's operating lease was \$0 and \$0 for the periods during the three and nine months ended September 30, 2012 and 2011, respectively.

## **Litigation**

The Company, the Company's CEO, Joey Parsi, and a third party, were named in a complaint filed on July 19, 2012 in the Los Angeles Superior Court by Alex Nerush and Preferred Scan, Inc., that alleges fraud, negligent misrepresentation, sale of securities by unlicensed broker, sale of securities by means of false and misleading statements, and money had and received.

The Company does not believe there is any merit to the allegations and will vigorously defend this action. Furthermore, on September 24, 2012 the Company and the Company's CEO, Joey Parsi counter-sued Richard Steele, Jr., Donald Stoecklein, Anthony Risas for breach of fiduciary duty, breach of contract, negligence and negligent misrepresentation, fraud and indemnity.

The Company does not believe there is any merit to the allegations and will vigorously defend this action.

**GIGGLES N' HUGS, INC.**

**(FORMERLY TEACHER'S PET, INC.)**

**(A Development Stage Company)**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 13 – SUBSEQUENT EVENTS**

The Company's Management has reviewed all material events through the date of this report in accordance with ASC 855-10, and believes there are no material subsequent events to report.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Quarterly Report on Form 10-Q 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;

- 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. These forward-looking statements are subject to certain risks and uncertainties that 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 Quarterly Report on Form 10-Q, and in particular, the risks discussed under the heading “Risk Factors” in Part II, Item 1A and those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

*References in the following discussion and throughout this quarterly report to “we”, “our”, “us”, “Giggles”, “the Company” similar terms refer to Giggles N’ Hugs, Inc. unless otherwise expressly stated or the context otherwise requires.*

## **Overview**

Giggles is a 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.

Currently, Giggles owns and operates one restaurant in the Westfield mall in Century City, California, and our second restaurant which is currently in development in the Westfield mall in Topanga, California. In the future, we plan to open a number of our Giggles N Hugs themed restaurants in high end malls throughout the country.



**RESULTS OF OPERATIONS***Results of Operations for the Three Months Ended September 30, 2012 and September 30, 2011:***REVENUE**

	Three Months Ended		Increase	
	September 30, 2012	2011	(Decrease) \$	%
Revenue:				
Food and beverage sales	\$199,075	\$175,242	\$23,833	13.60 %
Private party rentals	70,875	81,791	(10,916)	(13.35)%
Other sales	79,828	62,843	16,985	27.03 %
Allowances, returns and discounts	(16,741 )	(28,686 )	(11,945)	(41.64)%
Net sales	\$333,037	\$291,190	\$41,243	14.37 %

Our food and beverage sales for the three months ended September 30, 2012 were \$199,075 compared to \$175,242 in the three months ended September 30, 2011. This resulted in an increase in food and beverage sales of \$23,833, or 13.60%, from the same period a year ago. We offer a healthy alternative to typical child friendly restaurants, offering appetizing menu options that incorporate nutritious ingredients some children would normally shy away from. We are continuously evaluating and modifying our menu to accommodate guest requests. During July 2011, we obtained our liquor license and began to offer alcoholic beverages. To date, we have realized modest sales volumes related to the purchases of alcoholic beverages by our customers.

Our private party rentals for the three months ended September 30, 2012 were \$70,875 compared to \$81,791 in the three months ended September 30, 2011. This resulted in a decrease in private party rentals of \$10,916, or 13.35%, from the same period a year ago. Party rentals range from as few as 15 guests up to 200 and contribute significantly to our revenues. Private party rentals accounted for over 21% of net sales during the three months ended September 30, 2012 and over 28% in the three months ended September 30, 2011. We believe that party revenue will continue to be a significant contributor to net sales and we plan to work diligently to advertise the availability of and attract future parties. Management believes that party revenue will tend to be cyclical; the first fiscal quarter of the year is a typically slower period for parties, as there are fewer major holidays compared to the fourth quarter, for example. As a result, management expects revenues from parties to increase during the summer months and winter, while the first and third quarters may experience some weakness.

Sales from other sources include the fee we charge for guests to access our over 2,000 square-foot children's play area, sales of our one-, three- or six-month membership cards entitling entrance to the play area at a discounted price and

sales from Giggles N Hugs-branded merchandise. Other sales for the three months ended September 30, 2012 were \$79,828 compared to \$62,843 in the three months ended September 30, 2011. This resulted in an increase in sales of \$16,985, or 27.03%, from the same period a year ago. Management attributes this to our own internal marketing efforts, as well as the Westfield Century City Mall holding periodic events to boost traffic to the mall, in general.

Allowances, returns and discounts for the three months ended September 30, 2012 were \$16,741 compared to \$28,686 in the three months ended September 30, 2011. This resulted in an decrease in allowances, returns and discounts of \$11,945, or (41.64)%, from the same period a year ago. We believe 2011 allowances were higher primarily because we offered a greater number of coupons and discounts to attract customers to our location, which had only opened its doors in December 2010. We hope to reduce our reliance on the use of coupons and discounts to attract customers in future periods.

## COSTS AND OPERATING EXPENSES

	Three Months Ended September 30,		Increase (Decrease)	
	2012	2011	\$	%
Costs and operating expenses:				
Cost of sales including food and beverage	\$78,516	\$69,427	\$9,089	13.09 %
Labor	97,109	130,986	(33,877 )	(25.86)%
Occupancy cost	62,323	56,014	6,309	11.26 %
Depreciation	26,101	25,449	652	2.56 %
Total operating expenses	\$264,049	\$281,876	\$(17,826 )	(6.32 )%
Other Expenses				
Executive compensation	108,783	-	108,783 *	
Non-employee stock based compensation	62,900	-	62,900 *	
Consulting expenses	12,000	26,306	(14,306 )	(54.38)%
Professional expenses	80,320	71,412	8,908	12.47 %
General and administrative expenses	19,753	109,746	(89,993 )	(82.00)%
Total other expenses	283,756	207,464	76,292	36.77 %
Total costs and operating expenses	547,805	489,338	58,467	11.95 %
Net Loss	\$(214,768)	\$(198,148)	\$(16,620 )	(8.39 )%

\* Not divisible by zero.

Notes to Costs and Operating Expenses table:

*Cost of sales.* Costs related to food purchases, supplies and general restaurant operations totaled \$78,516 during the three months ended September 30, 2012, which was 13.09% higher than cost of sales of \$69,427 in the three months ended September 30, 2011. Food costs fluctuate regularly and are difficult to offset or minimize. Any increase in costs of certain commodities could adversely impact our operations unless we pass any such price increases to our guests.

*Labor.* Labor expenses for the three months ended September 30, 2012 was \$97,109, a decrease of 25.86%, from the three months ended September 30, 2011. We are a customer service company and our primary variable cost is related to providing such services. As a result, labor costs comprised 36.8% of our total expenses during the three months ended September 30, 2012, compared to 46.5% in the comparable period ended September 30, 2011. Labor costs are constantly fluctuating and any changes to minimum wages payable could adversely impact our operations.

*Occupancy Cost.* Occupancy cost for the three months ended September 30, 2012 was \$62,323, an increase of 11.26%, from the three months ended September 30, 2011. Rent and other related items should not materially vary from period to period.



*Depreciation.* Depreciation for the three months ended September 30, 2012 was \$26,101, an increase of 2.56%, from the three months ended September 30, 2011. We depreciate and amortize purchases of our ongoing capital investments and the construction and leasehold improvements related to the development of our Century City store. On March 23, 2012, we entered into a lease to develop a new location in Topanga, California, for which we expect to incur further construction costs that will be depreciated and amortized in future periods.

*Executive Compensation.* During the three months ended September 30, 2012, executive compensation increased \$108,783 from \$0 for the three months ended September 30, 2011.

*Non-Employee Stock Based Compensation.* During the three ended September 30, 2012 we incurred non-cash non-employee stock based compensation charges of \$62,900. In the three month period ending September 30, 2012, the Company issued 340,000 shares of common stock shares for stock issuances for professional and advisory services.

*Consulting Expenses.* In the three months ended September 30, 2012, we incurred consulting expense of \$12,000, compared to \$26,306 in the comparable period ended September 30, 2011. Our management expects consulting fees to continue to decline during the fiscal year 2012. Unfortunately, there can be no assurance we will experience any such decline in consulting expenses.

*Professional Expenses.* Professional fees for the three months ended September 30, 2012 was \$80,320, an increase of 12.47%, from the three months ended September 30, 2011, in which we incurred \$71,412 in professional fees. These fees primarily include accounting fees, fees related to the audit of our financial statements, legal fees and fees incurred from other professional service firms. We expect to continue to incur professional fees in relation to maintaining our public reporting status with the Securities and Exchange Commission.

*General and Administrative.* In the normal course of our operations, we incur various expenses, including, but not limited to, legal fees, accounting fees, advertising and promotion, utilities, office supplies and postage and shipping expenses. During the three months ended September 30, 2012, general and administrative expenses were \$19,753, compared to \$109,745 in the three months ended September 30, 2011.

## **Net Loss**

Our net loss before tax for the three months ended September 30, 2012 was \$214,768, an increase of \$16,619, or 8.39%, from \$198,149 for the three months ended September 30, 2011. We continue to have a net loss and believe the



loss will be reduced and profitability will be attained in future quarters as the popularity of our restaurants increase.

*Results of Operations for the Nine Months Ended September 30, 2012 and September 30, 2011:*

**REVENUE**

	Nine Months Ended		Increase	
	September 30, 2012	2011	\$(Decrease)	%
Revenue:				
Food and beverage sales	\$534,885	\$503,939	\$30,946	6.14 %
Private party rentals	266,824	228,214	38,610	16.92 %
Other sales	213,718	176,661	37,057	20.98 %
Allowances, returns and discounts	(40,516 )	(83,854 )	43,338	(51.68)%
Net sales	\$974,911	\$824,960	\$149,951	18.18 %

Our food and beverage sales for the nine months ended September 30, 2012 were \$534,885 compared to \$503,939 in the nine months ended September 30, 2011. This resulted in an increase in food and beverage sales of \$30,946, or 6.14%, from the same period a year ago. We offer a healthy alternative to typical child friendly restaurants, offering appetizing menu options that incorporate nutritious ingredients some children would normally shy away from. We are continuously evaluating and modifying our menu to accommodate guest requests. During July 2011, we obtained our liquor license and began to offer alcoholic beverages. To date, we have realized modest sales volumes related to the purchases of alcoholic beverages by our customers.

Our private party rentals for the nine months ended September 30, 2012 were \$266,824 compared to \$228,214 in the nine months ended September 30, 2011. This resulted in an increase in private party rentals of \$38,610, or 16.92%, from the same period a year ago. Party rentals range from as few as 15 guests up to 200 and contribute significantly to our revenues. Private party rentals accounted for over 27.4% of net sales during the nine months ended September 30, 2012 and 27.7% in the nine months ended September 30, 2011. We believe that party revenue will continue to be a significant contributor to net sales and we plan to work diligently to advertise the availability of and attract future parties. Management believes that party revenue will tend to be cyclical; the first fiscal quarter of the year is a typically slower period for parties, as there are fewer major holidays compared to the fourth quarter, for example. As a result, management expects revenues from parties to increase during the summer months and winter, while the first and third quarters may experience some weakness.

Sales from other sources include the fee we charge for guests to access our over 2,000 square-foot children's play area, sales of our one-, three- or six-month membership cards entitling entrance to the play area at a discounted price and sales from Giggles N Hugs-branded merchandise. Other sales for the nine months ended September 30, 2012 were \$213,718 compared to \$176,661 in the nine months ended September 30, 2011. This resulted in an increase in sales of \$37,057, or 20.98%, from the same period a year ago. Management attributes this to our own internal marketing efforts, as well as the Westfield Century City Mall holding periodic events to boost traffic to the mall, in general.

Allowances, returns and discounts for the nine months ended September 30, 2012 were \$40,516 compared to \$83,854 in the nine months ended September 30, 2011. This resulted in a decrease in allowances, returns and discounts of \$43,338, or 51.68%, from the same period a year ago. We believe 2011 allowances were higher primarily because we offered a greater number of coupons and discounts to attract customers to our location, which had only opened its doors in December 2010. We hope to reduce our reliance on the use of coupons and discounts to attract customers in future periods.

**COSTS AND OPERATING EXPENSES**

Nine Months Ended		Increase (Decrease)	
September 30,			
2012	2011	\$	%

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Costs and operating expenses:

Cost of sales including food and beverage	\$217,321	\$204,742	\$12,579	6.14 %
Labor	329,485	388,573	(59,088 )	(15.21 )%
Occupancy cost	181,790	182,277	(487 )	(0.27 )%
Depreciation	77,633	76,062	1,571	2.07 %
Total operating expenses	\$806,229	\$851,653	\$(45,424 )	(5.33 )%

Other Expenses

Executive compensation	318,458	38,269	280,189	732.16 %
Stock-based executive compensation	209,500	-	209,500 *	
Non-employee stock compensation	115,380	-	115,380 *	
Consulting expenses	27,000	417,895	(390,895 )	(93.54 )%
Professional expenses	235,349	202,182	33,167	16.40 %
General and administrative expenses	150,066	214,693	(64,627 )	(30.10 )%
Total other expenses	1,055,753	873,039	182,714	20.93 %

Total costs and operating expenses	1,861,982	1,724,692	137,290	7.96 %
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Net Loss before tax	\$(887,071 )	\$(899,732 )	\$12,661	(1.41 )%
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Notes to Costs and Operating Expenses table:

\* Not divisible by zero.

*Cost of sales.* Costs related to food purchases, supplies and general restaurant operations totaled \$217,321 during the nine months ended September 30, 2012, which was 6.14% higher than cost of sales of \$204,742 in the nine months ended September 30, 2011. Food costs fluctuate regularly and are difficult to offset or minimize. Any increase in costs of certain commodities could adversely impact our operations unless we pass any such price increases to our guests.

*Labor.* Labor expenses for the nine months ended September 30, 2012 was \$329,485, a decrease of 15.21%, from the nine months ended September 30, 2011. We are a customer service company and our primary variable cost is related to providing such services. As a result, labor costs comprised 40.8% of our total expenses during the nine months ended September 30, 2012, compared to 45.6% in the comparable period ended September 30, 2011. Labor costs are constantly fluctuating and any changes to minimum wages payable could adversely impact our operations.

*Occupancy Cost.* Occupancy cost for the nine months ended September 30, 2012 was \$181,790, a decrease of 0.27%, from the nine months ended September 30, 2011. Rent and other related items should not materially vary from period to period.

*Depreciation.* Depreciation for the nine months ended September 30, 2012 was \$77,633, an increase of 2.07%, from the nine months ended September 30, 2011. We depreciate and amortize purchases of our ongoing capital investments and the construction and leasehold improvements related to the development of our Century City store. On March 23, 2012, we entered into a lease to develop a new location in Topanga, California, for which we expect to incur further construction costs that will be depreciated and amortized in future periods.

*Executive Compensation.* During the nine months ended September 30, 2012, executive compensation increased \$280,189 or 732.16%, to \$318,458 from \$38,269 for the nine months ended September 30, 2011. The comparative increase in executive compensation is primarily attributable to the addition of our chief operating officer in the first quarter of 2012 and the compensation of our chief executive officer beginning in the current year.

*Stock Based Executive Compensation.* During the nine months ended September 30, 2012 we incurred \$209,500 expense of non-cash stock compensation in conjunction with the addition of our chief operating officer during the period ended September 30, 2012.

*Non-Employee Stock Based Compensation.* During the nine months ended September 30, 2012 we incurred non-cash non-employee stock based compensation charges of \$115,380. In the nine month period ending September 30, 2012, the Company issued 372,000 shares of common stock shares for stock issuances for professional and advisory services.

*Consulting Expenses.* In the nine months ended September 30, 2012, we incurred consulting expense of \$27,000, compared to \$417,895 in the comparable period ended September 30, 2011. The consulting expense primarily related to the preparation for the December 2011 reverse merger, and we expect the majority of fees paid to consultants in 2011 were non-recurring. Our management expects consulting fees to continue to decline during the fiscal year 2012. Unfortunately, there can be no assurance we will experience any such decline in consulting expenses.

*Professional Expenses.* Professional fees for the nine months ended September 30, 2012 was \$235,349, an increase of 16.40%, from the nine months ended September 30, 2011, in which we incurred \$202,182 in professional fees. These fees primarily include accounting fees, fees related to the audit of our financial statements, legal fees and fees incurred from other professional service firms. We expect to continue to incur professional fees in relation to maintaining our public reporting status with the Securities and Exchange Commission.

*General and Administrative.* In the normal course of our operations, we incur various expenses, including, but not limited to, legal fees, accounting fees, advertising and promotion, utilities, office supplies and postage and shipping expenses. During the nine months ended September 30, 2012, general and administrative expenses were \$150,066, compared to \$214,693 in the nine months ended September 30, 2011.



**Net Loss**

Our net loss before tax for the nine months ended September 30, 2012 was \$887,071, a decrease of \$12,661, or 1.41%, from \$899,732 for the nine months ended September 30, 2011. We continue to have a net loss and believe the loss will be reduced and profitability will be attained in future quarters as the popularity of our restaurants increase.

**LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2012, we had \$94,725 in cash and equivalents, \$15,055 in inventory and \$3,487 in prepaid expenses. The following table provides detailed information about our net cash flow for all financial statement periods presented in this Report. To date, we have financed our operations through the issuance of stock and borrowings, in addition to sales-generated revenue.

The following table sets forth a summary of our cash flows for the nine months ended September 30, 2012 and 2011:

	Nine Months Ended September 30,	
	2012	2011
Net cash used in operating activities	\$(425,939)	\$(923,331 )
Net cash used in investing activities	(162,645)	(40,324 )
Net cash provided by financing activities	75,000	1,980,433
Net (decrease) increase in Cash	(513,584)	1,016,778
Cash, beginning of period	608,309	15,584
Cash, end of period	\$94,725	\$1,032,362

***Operating activities***

Net cash used in operating activities was \$425,939 for the nine months ended September 30, 2012, as compared to \$923,331 used in operating activities for the same period in 2011.

***Investing activities***

Net cash used in investing activities for acquisition of fixed assets was \$162,645 for the nine months ended September 30, 2012, as compared to \$40,324 used in investing activities for the same period in 2011.

***Financing activities***

Net cash provided by financing activities for the nine months ended September 30, 2012 was \$75,000, as compared to \$1,980,433 for the same period of 2011.

We expect to use our cash to invest in our core businesses, including new product innovations, advertising and marketing, as well as the construction and build-out of additional restaurant locations. Other than normal operating expenses, cash requirements for fiscal 2012 are expected to consist primarily of capital expenditures for the build out of our Topanga, California stores and additional investments in advertising and marketing efforts.



### **Off-Balance Sheet Arrangements**

We did 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. Subject to availability of sufficient capital, our business and strategy will be directed toward the following approaches.

**Company-Owned Restaurants.** One near term strategy is to explore opening company-owned and/or managed restaurants within the next twelve months. Currently, we are in discussions with The Westfield Group to potentially open new Giggles N Hugs restaurants in suitable markets within their West Coast locations. In March 2012, we signed a 10-year commercial lease for 5,900 square feet of space at The Westfield Topanga Shopping Center in the San Fernando Valley. We anticipate each location costing a total of \$1.1 million to open.

**Franchising.** In addition to, or in lieu of our company-owned restaurants, we believe we can efficiently grow our operations by franchising our stores to a well-qualified and financed franchising group for large scale development. Currently, we have no plans to franchise our stores unless we get an experienced franchisor to do multiple locations and that will maintain the quality, atmosphere, and reputation of our brand.

**Existing Services.** 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. This is ongoing. This initiative includes new menu items, new activities, and expanding our marketing through social networks like Facebook and Twitter.

**New Products and Services.** We are currently expanding, and intend to further expand, our product and service offerings. Some of the new products and services include:

Curb-side take-out. As with many restaurants with no drive-thru, we have established a curb-side, take-out service for our customers. Since the majority of our patrons are parents, convenient take-out is a significant factor. The ease of not having to remove kids from their car-seats when purchasing food is a significant factor for return patronage. This

service is now available at our Century City location.

Drop-off service. We offer “drop-off” service where parents can drop off their kids at our unique restaurant to play while they go shopping in the mall. Parents must agree to remain on the premises of the mall, while we supervise their children. Our play aides supervise and interact with up to four children at a time and the service costs \$14.00 per hour. This service is now available at our Century City location.

Beer/Wine license. Parents have enquired about beer and/or wine to accompany their meals. Since margins from alcoholic beverages are often high, we believe this would increase our revenues without a proportional increase in costs. We recently acquired our beer and wine license for the Century City location. This service is now available at our Century City location.

Furniture and Equipment Referrals. Parents frequently ask us where to purchase various furniture, fixtures, toys, and equipment inside our play area. We are in discussions with a baby products supplier to potentially receive commissions for each referral. We have been in active discussions with manufacturers but have not come to any definitive agreement.

Baby food. As part of our branding, we may add Giggles N Hugs baby foods for toddlers too young for solid foods. We already offer mashed bananas, and pureed butternut squash. Currently, we are not planning on the branding initiative at this time.

Merchandising. We intend to sell books, stuffed animals, toys, cups, t-shirts, and balls all with the Giggles N Hugs logo. We are in active discussions with potential manufacturers and licensing agencies but we are 6 to 12 months away from any products.

Gift Certificates. We offer gift certificates of different denominations for people of all ages.

Without sufficient cash flow from operations we will require additional cash resources, including the sale of equity or debt securities, to meet our planned capital expenditures and working capital requirements for the next 12 months. We will require additional cash resources due to changed business conditions, implementation of our strategy to successfully expand our operations. If our own financial resources and then current cash-flows from operations are insufficient to satisfy our capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities will result in dilution to our stockholders. The incurrence of indebtedness will result in increased debt service obligations and could require us to agree to operating and financial covenants that could restrict our operations or modify our plans to grow the business. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, will limit our ability to expand our business operations and could harm our overall business prospects.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

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

#### **Item 4T. 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 designed at a reasonable assurance level and 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.



***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or reasonably likely 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.

**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The Company, the Company's CEO, Joey Parsi, and a third party, were named in a complaint filed on July 19, 2012 in the Los Angeles Superior Court by Alex Nerush and Preferred Scan, Inc., that alleges fraud, negligent misrepresentation, sale of securities by unlicensed broker, sale of securities by means of false and misleading statements, and money had and received.

The Company does not believe there is any merit to the allegations and will vigorously defend this action. Furthermore, on September 24, 2012 the Company and the Company's CEO, Joey Parsi counter-sued Richard Steele, Jr., Donald Stoecklein, Anthony Risas for breach of fiduciary duty, breach of contract, negligence and negligent misrepresentation, fraud and indemnity.

As of the date of this Report, the Company was not subject to any other material legal proceedings. From time to time, however, the Company is named as a defendant in legal actions arising from normal business activities. Although the Company cannot accurately predict the amount of its liability, if any, that could arise with respect to currently pending legal actions, it is not expected that any such liability will have a material adverse effect on the Company's financial

position, operating results or cash flows.

### **Item 1A. Risk Factors**

Our significant business risks are described in Item 1A to Form 10-K for the year ended December 31, 2011 to which reference is made herein.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

#### **Stock Issuances**

On August 22, 2012, we authorized the issuance of 75,000 shares of common stock to an investor in conjunction with a \$75,000 private placement. As of the date of this filing, the shares have not been issued.

We believe that the issuance and sale of the above securities was exempt from the registration and prospectus delivery requirements of the *Securities Act of 1933* by virtue of Section 4(2) and Regulation D Rule. The securities were sold directly by us and did not involve a public offering or general solicitation. The recipients of the securities were afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make their investment decision, including the financial statements and *34 Act reports*. We reasonably believed that the recipients, immediately prior to the sale of the securities, were accredited investors and had such knowledge and experience in our financial and business matters that they were capable of evaluating the merits and risks of their investment. The management of the recipients had the opportunity to speak with our management on several occasions prior to their investment decision. There were no commissions paid on the issuance and sale of the securities.

### **Issuer Purchases of Equity Securities**

We did not repurchase any of our equity securities from the time of our inception through the period ended September 30, 2012.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

### **Item 6. Exhibits.**

Exhibit No.	Description
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- 31.1 Certification of Principal Executive Officer & Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certifications of Principal Executive Officer & Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF\* XBRL Taxonomy Extension Definition Linkbase
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase

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

**SIGNATURE**

Pursuant to the requirements 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: November 19, 2012 By: */s/ Joey Parsi*  
Joey Parsi  
Chief Executive Officer  
(Principal Executive Officer and duly authorized signatory)

