
BAB, Inc.**Project Type: 10-Q**

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Submission Information

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Reporting Period	8/31/2019
Smaller Reporting Company?	True

Documents

10-Q	FORM 10-Q
EX-21.1	Exhibit 21.1
EX-31.1	Exhibit 31.1
EX-31.2	Exhibit 31.2
EX-32.1	Exhibit 32.1
EX-32.2	Exhibit 32.2

FORM 10-Q
U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
(Mark One)

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

For the quarterly period ended August 31, 2019

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

For the transition period from _____ to _____

Commission file number: 0-31555

BAB, Inc.
(Name of small business issuer in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

36-4389547
(I.R.S. Employer Identification No.)

500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015

(Address of principal executive offices) (Zip Code)

Issuer's telephone number (847) 948-7520

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	BABB	OTCQB

Indicate by checkmark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 every Interactive Data File required to be submitted 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 such files). Yes No

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company. Yes No

As of October 11, 2019 BAB, Inc. had: 7,263,508 shares of Common Stock outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

**BAB, Inc.
 Consolidated Balance Sheets**

	August 31, 2019 (unaudited)	November 30, 2018
ASSETS		
Current Assets		
Cash	\$ 1,031,722	\$ 1,065,265
Restricted cash	385,655	443,962
Receivables		
Trade accounts and notes receivable (net of allowance for doubtful accounts of \$22,256 in 2019 and \$39,377 in 2018)	86,778	78,012
Marketing fund contributions receivable from franchisees and stores	20,301	15,831
Prepaid expenses and other current assets	93,199	69,490
Total Current Assets	1,617,655	1,672,560
Property, plant and equipment (net of accumulated depreciation of \$155,367 in 2019 and \$155,024 in 2018)		
	799	1,142
Trademarks	461,445	459,637
Goodwill	1,493,771	1,493,771
Definite lived intangible assets (net of accumulated amortization of \$124,892 in 2019 and \$123,949 in 2018)	12,911	9,742
Operating lease right of use	403,773	480,785
Deferred tax asset	200,000	248,000
Total Noncurrent Assets	2,572,699	2,693,077
Total Assets	\$ 4,190,354	\$ 4,365,637
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 20,821	\$ 38,224
Accrued expenses and other current liabilities	236,487	296,227
Unexpended marketing fund contributions	404,569	459,413
Deferred franchise fee revenue	23,100	27,000
Deferred licensing revenue	20,030	46,667
Current portion operating lease liability	90,422	48,635
Total Current Liabilities	795,429	916,166
Long-term Liabilities (net of current portion)		
Operating lease liability	383,008	449,409
Deferred franchise revenue	75,844	-
Deferred licensing revenue	8,333	-
Total Long-term Liabilities	467,185	449,409
Total Liabilities	\$ 1,262,614	\$ 1,365,575
Stockholders' Equity		
Preferred shares -\$.001 par value; 4,000,000 authorized; no shares outstanding as of August 31, 2019 and November 30, 2018	-	-
Preferred shares -\$.001 par value; 1,000,000 Series A authorized; no shares outstanding as of August 31, 2019 and November 30, 2018	-	-
Common stock -\$.001 par value; 15,000,000 shares authorized; 8,466,953 shares issued and 7,263,508 shares outstanding as of August 31, 2019 and November 30, 2018	13,508,257	13,508,257
Additional paid-in capital	987,034	987,034
Treasury stock	(222,781)	(222,781)
Accumulated deficit	(11,344,770)	(11,272,448)
Total Stockholders' Equity	2,927,740	3,000,062
Total Liabilities and Stockholders' Equity	\$ 4,190,354	\$ 4,365,637

SEE ACCOMPANYING NOTES

BAB, Inc.
Consolidated Statements of Income
For the Three and Nine Month Periods Ended August 31, 2019 and 2018
(Unaudited)

	Three months ended August 31,		Nine months ended August 31,	
	2019	2018	2019	2018
REVENUES				
Royalty fees from franchised stores	\$ 435,616	\$ 431,786	\$ 1,228,471	\$ 1,242,272
Franchise Fees	3,455	18,000	20,281	19,500
Licensing fees and other income	101,165	106,402	293,378	355,354
Marketing fund revenue	253,003	-	737,623	-
Total Revenues	<u>793,239</u>	<u>556,188</u>	<u>2,279,753</u>	<u>1,617,126</u>
OPERATING EXPENSES				
Selling, general and administrative expenses:				
Payroll and payroll-related expenses	228,437	228,806	679,069	666,499
Occupancy	35,130	41,017	85,677	123,908
Advertising and promotion	19,916	875	42,579	3,047
Professional service fees	30,072	26,768	111,936	104,287
Travel	10,007	10,847	27,742	28,070
Employee benefit expenses	32,672	33,121	106,595	91,147
Depreciation and amortization	486	288	1,286	728
Marketing fund expenses	253,003	-	737,623	-
Other	29,158	41,928	98,275	133,569
Total Operating Expenses	<u>638,881</u>	<u>383,650</u>	<u>1,890,782</u>	<u>1,151,255</u>
Income from operations	<u>154,358</u>	<u>172,538</u>	<u>388,971</u>	<u>465,871</u>
Interest income	118	17	502	64
Income before provision for income taxes	<u>154,476</u>	<u>172,555</u>	<u>389,473</u>	<u>465,935</u>
Provision for income taxes				
Current tax expense	5,000	-	15,000	15,000
Net Income	<u>\$ 149,476</u>	<u>\$ 172,555</u>	<u>\$ 374,473</u>	<u>\$ 450,935</u>
Net Income per share - Basic and Diluted	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.05</u>	<u>\$ 0.06</u>
Weighted average shares outstanding - Basic and diluted	<u>7,263,508</u>	<u>7,263,508</u>	<u>7,263,508</u>	<u>7,263,508</u>
Cash distributions declared per share	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ 0.04</u>

SEE ACCOMPANYING NOTES

BAB, Inc.
Consolidated Statements of Cash Flows
For the Nine Months Ended August 31, 2019 and 2018
(Unaudited)

	For the nine months ended:	
	August 31, 2019	August 31, 2018
Operating activities		
Net Income	\$ 374,473	\$ 450,935
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	1,286	728
Deferred tax expense	48,000	-
Provision for uncollectible accounts, net of recoveries	(15,372)	(3,210)
Noncash lease expense	52,398	-
Changes in:		
Trade accounts receivable and notes receivable	6,606	(16,129)
Marketing fund contributions receivable	(4,470)	(3,588)
Inventories	-	15,260
Prepaid expenses and other	(23,709)	(8,121)
Accounts payable	(17,403)	(3,530)
Accrued liabilities	(59,740)	16,701
Unexpended marketing fund contributions	(54,844)	(118,898)
Deferred revenue	(29,979)	(2,679)
Net Cash Provided by Operating Activities	<u>277,246</u>	<u>327,469</u>
Investing activities		
Capitalization of trademark renewals	(5,920)	(6,825)
Proceeds from sale of property and equipment	-	4,516
Net Cash Used In Investing Activities	<u>(5,920)</u>	<u>(2,309)</u>
Financing activities		
Cash distributions/dividends	(363,176)	(290,540)
Net Cash Used In Financing Activities	<u>(363,176)</u>	<u>(290,540)</u>
Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash	(91,850)	34,620
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	1,509,227	1,486,080
Cash, Cash Equivalents and Restricted Cash - End of Period	<u>\$ 1,417,377</u>	<u>\$ 1,520,700</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ -	\$ -
Income taxes paid	<u>\$ 2,800</u>	<u>\$ 769</u>

SEE ACCOMPANYING NOTES

BAB, Inc.
Notes to Unaudited Consolidated Financial Statements
For the Three and Nine Month Periods Ended August 31, 2019 and 2018

(Unaudited)

Note 1. Nature of Operations

BAB, Inc. ("the Company") has three wholly owned subsidiaries: BAB Systems, Inc. ("Systems"), BAB Operations, Inc. ("Operations") and BAB Investments, Inc. ("Investments"). Systems was incorporated on December 2, 1992, and was primarily established to franchise Big Apple Bagels® ("BAB") specialty bagel retail stores. My Favorite Muffin ("MFM") was acquired in 1997 and is included as a part of Systems. Brewster's ("Brewster's") was established in 1996 and the coffee is sold in BAB and MFM locations. SweetDuet® ("SD") frozen yogurt can be added as an additional brand in a BAB location. Operations was formed in 1995, primarily to operate Company-owned stores of which there are currently none. The assets of Jacobs Bros. Bagels ("Jacobs Bros.") were acquired in 1999, and any branded wholesale business uses this trademark. Investments was incorporated in 2009 to be used for the purpose of acquisitions. To date there have been no acquisitions.

The Company was incorporated under the laws of the State of Delaware on July 12, 2000. The Company currently franchises and licenses bagel and muffin retail units under the BAB, MFM and SD trade names. At August 31, 2019, the Company had 73 franchise units and 6 licensed units in operation in 23 states and the United Arab Emirates. There are 3 units under development. The Company additionally derives income from the sale of its trademark bagels, muffins and coffee through nontraditional channels of distribution including under a licensing agreement with Green Beans Coffee.

The BAB franchised brand consists of units operating as "Big Apple Bagels®," featuring daily baked bagels, flavored cream cheeses, premium coffees, gourmet bagel sandwiches and other related products. BAB units are primarily concentrated in the Midwest and Western United States. The MFM brand consists of units operating as "My Favorite Muffin Gourmet Muffin Bakery™" ("MFM Bakery"), featuring a large variety of freshly baked muffins and coffees and units operating as "My Favorite Muffin Your All Day Bakery Café®" ("MFM Cafe") featuring these products as well as a variety of specialty bagel sandwiches and related products. The SweetDuet® is a branded self-serve frozen yogurt that can be added as an additional brand in a BAB location. Although the Company doesn't actively market Brewster's stand-alone franchises, Brewster's coffee products are sold in most franchised units.

The Company is leveraging on the natural synergy of distributing muffin products in existing BAB units and, alternatively, bagel products and Brewster's Coffee in existing MFM units. The Company expects to continue to realize efficiencies in servicing the combined base of BAB and MFM franchisees.

The accompanying condensed consolidated financial statements are unaudited. These financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted pursuant to such SEC rules and regulations; nevertheless, the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements and the notes hereto should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended November 30, 2018 which was filed February 25, 2019. In the opinion of the Company's management, the condensed consolidated financial statements for the unaudited interim period presented include all adjustments, including normal recurring adjustments, necessary to fairly present the results of such interim period and the financial position as of the end of said period. The results of operations for the interim period are not necessarily indicative of the results for the full year.

2. Summary of Significant Accounting Policies

Unaudited Consolidated Financial Statements

The accompanying unaudited Condensed Consolidated Financial Statements of BAB, Inc. have been prepared pursuant to generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information and the rules and regulations of the United States Securities and Exchange Commission (the "SEC") for Form 10-Q. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Uses of Estimates

The preparation of the financial statements and accompanying notes are in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates.

Accounts and Notes Receivable

Receivables are carried at original invoice amount less estimates for doubtful accounts. Management determines the allowance for doubtful accounts by reviewing and identifying troubled accounts and by using historical collection experience. A receivable is considered to be past due if any portion of the receivable balance is outstanding 90 days past the due date. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as income when received. Certain receivables have been converted to unsecured interest-bearing notes.

Property, Plant and Equipment

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 3 to 7 years for property and equipment and 10 years, or term of lease if less, for leasehold improvements. Maintenance and repairs are charged to expense as incurred. Expenditures that materially extend the useful lives of assets are capitalized.

Advertising and Promotion Costs

The Company expenses advertising and promotion costs as incurred. All advertising and promotion costs were related to the Company's franchise operations.

Leases

The company accounts for leases under ASC 842. Lease arrangements are determined at the inception of the contract. Operating leases are included in operating lease right-of-use ("ROU") assets, other current and long-term operating lease liabilities on the consolidated balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities on the consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most leases do not provide an implicit rate, we use an incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

2. Summary of Significant Accounting Policies (continued)

We have elected certain practical expedients available under the guidance, including a package of practical expedients which allow us to not reassess prior conclusions related to contracts containing leases, lease classification, and initial direct costs. We have also elected to not recast its comparative periods. The comparative periods will follow the guidance of ASC 840, while the current period will follow the guidance of the new ASC 842.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (“Topic 606”) and has since issued various amendments which provide additional clarification and implementation guidance on Topic 606. This guidance establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The Company adopted this new guidance effective the first day of fiscal 2019 using the modified retrospective transition method and applied Topic 606 to those contracts which were not completed as of December 1, 2018.

The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit at the beginning of fiscal 2019. In performing its analysis, the Company reflected the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price. Comparative information from prior year periods has not been adjusted and continues to be reported under the accounting standards in effect for those periods under “Revenue Recognition” (“Topic 605”). Refer to Note 3 for further disclosure of the impact of the new guidance.

In March 2016, the FASB issued ASU 2016-04, *Recognition of Breakage for Certain Prepaid Stored-Value Products*. The new guidance creates an exception under ASC 405-20, *Liabilities-Extinguishments of Liabilities*, to derecognize financial liabilities related to certain prepaid stored-value products using a revenue-like breakage model. In general, these liabilities may be extinguished proportionately in earnings as redemptions occur, or when redemption is remote if issuers are not entitled to the unredeemed stored value. The Company adopted this guidance effective December 1, 2018 in connection with its adoption of Topic 606, utilizing the modified retrospective method. Refer to Note 3 for further disclosure of the impact of the new guidance.

Statement of Cash Flows

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (a consensus of the FASB Emerging Issues Task Force), (“ASU 2016-18”). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this new guidance on December 1, 2018 using a retrospective transition method, and restated the cash flow statement for the prior period presented.

The chart below shows the cash, cash equivalents, and restricted cash within the consolidated statements of cash flows as of August 31, 2019 and August 31, 2018 were as follows:

	<u>August 31, 2019</u>	<u>August 31, 2018</u>
Cash and cash equivalents	\$ 1,031,722	\$ 948,818
Restricted cash	385,655	571,882
Total cash, cash equivalents and restricted cash	<u>\$ 1,417,377</u>	<u>\$ 1,520,700</u>

3. Revenue Recognition

The Company adopted Topic 606 on December 1, 2018 using the modified retrospective transition method and recorded an increase to opening accumulated deficit of \$84,000. The adoption of this standard update resulted in no tax impact. The Company adopted Topic 606 only for contracts with remaining performance obligations as of December 1, 2018, under the modified retrospective transition method. Comparative information from prior year periods has not been adjusted and continues to be reported under the accounting standards in effect for those periods under Topic 605.

The adoption changed the timing of recognition of initial franchise fees, development fees, the reporting of advertising fund contributions and related expenditures, as well as timing of the recognition of gift card breakage.

The cumulative effects of the changes made to the Condensed Consolidated Balance Sheets as of December 1, 2018, for the adoption of Topic 606 were as follows:

	Balance at November 30, 2018	Adjustments Due to ASC 606	Balance at December 1, 2018
Assets			
Other assets	\$ 66,295	\$ (1,348)	\$ 64,947
Liabilities			
Accrued gift card liability	146,290	2,742	149,032
Other current liabilities			
Deferred revenue	27,000	82,225	109,225
Shareholders (deficit) equity			
Accumulated deficit	(11,272,448)	(83,619)	(11,356,067)

The following table presents disaggregation of revenue from contracts with customers for the three and nine months ended August 31, 2019 and 2018:

	For three months ended August 31, 2019	For three months ended August 31, 2018 (1)	For nine months ended August 31, 2019	For nine months ended August 31, 2018 (1)
Royalty revenue	\$ 435,616	\$ 431,786	\$ 1,228,471	\$ 1,242,272
Franchise fees	3,455	18,000	20,281	19,500
License fees	5,625	106,402	11,875	15,000
Gift card revenue	1,041	-	3,747	26,260
Sign Shop revenue	855	-	1,906	5,000
Settlement revenue	2,308	-	47,280	110,814
Nontraditional revenue	91,336	-	228,570	198,280
Marketing fund revenue	253,003	-	737,623	-
Net revenue	<u>\$ 793,239</u>	<u>\$ 556,188</u>	<u>\$ 2,279,753</u>	<u>\$ 1,617,126</u>

(1) As disclosed in Note 2, prior period amounts have not been adjusted under the modified retrospective method of adoption of Topic 606.

3. Revenue Recognition (continued)

Franchise and related revenue

The Company sells individual franchises. The franchise agreements typically require the franchisee to pay an initial, non-refundable fee prior to opening the respective location(s), and continuing royalty fees on a weekly basis based upon a percentage of franchisee net sales. The initial term of franchise agreements are typically 10 years. Subject to the Company's approval, a franchisee may generally renew the franchise agreement upon its expiration. If approved, a franchisee may transfer a franchise agreement to a new or existing franchisee, at which point a transfer fee is typically paid by the current owner which then terminates that franchise agreement. A franchise agreement is signed with the new franchisee with no franchise fee required. If a contract is terminated prior to its term, it is a breach of contract and a penalty is assessed based on a formula reviewed and approved by management. Revenue generated from a contract breach is termed settlement income by the Company and included in licensing fees and other income.

Under the terms of our franchise agreements, the Company typically promises to provide franchise rights, pre-opening services such as blueprints, operational materials, planning and functional training courses, and ongoing services, such as management of the marketing fund. Under ASC 605, initial franchise fees paid by franchisees for each arrangement were deferred until the store opened and were recognized as revenue in their entirety on that date. Upon adoption of Topic 606, the Company determined that certain pre-opening activities, and the franchise rights and related ongoing services, represented two separate performance obligations. The franchise fee revenue has been allocated to the two separate performance obligations using a residual approach. The Company has estimated the value of performance obligations related to certain pre-opening activities deemed to be distinct based on cost plus an applicable margin, and assigned the remaining amount of the initial franchise fee to the franchise rights and ongoing services. Revenue allocated to preopening activities is recognized when (or as) these services are performed. Revenue allocated to franchise rights and ongoing services is deferred until the store opens, and recognized on a straight line basis over the duration of the agreement, as this ensures that revenue recognition aligns with the customer's access to the franchise right.

Royalty income is recognized during the respective franchise agreement based on the royalties earned each period as the underlying franchise store sales occur. Adoption of ASC 606 will not change when the royalty revenue is recognized, this new guidance did not impact the recognition of royalty income.

There are two items involving revenue recognition of contracts that require us to make subjective judgments: the determination of which performance obligations are distinct within the context of the overall contract and the estimated stand alone selling price of each obligation. In instances where our contract includes significant customization or modification services, the customization and modification services are generally combined and recorded as one distinct performance obligation.

Gift Card Breakage Revenue

The Company sells gift cards to its customers in its retail stores and through its Corporate office. The Company's gift cards do not have an expiration date and are not redeemable for cash except where required by law. Revenue from gift cards is recognized upon redemption in exchange for product and reported within franchisee store revenue and the royalty and marketing fees are paid and shown in the Condensed Consolidated Statements of Income. Until redemption, outstanding customer balances are recorded as a liability. An obligation is recorded at the time of sale of the gift card and it is included in accrued expenses on the Company's Condensed Consolidated Balance Sheets.

Previously, under Topic 605, the Company recognized revenue from gift cards on an annual basis in the first quarter per a management policy that was formulated based on when the likelihood of the gift card being redeemed by the customer was remote (also referred to as "breakage") and the Company determined that it did not have a legal obligation to remit the unredeemed gift cards to the relevant jurisdictions. The Company determined the gift card breakage amount based upon its historical redemption patterns. Gift card breakage revenue was previously included in licensing fees and other revenue in the Condensed Consolidated Statements of Operations. Under Topic 606, the Company recognizes gift card breakage proportional to actual gift card redemptions on a quarterly basis and it is included in licensing fees and other revenue. Significant judgments and estimates are required in determining the breakage rate and will be reassessed each quarter.

3. Revenue Recognition (continued)

Nontraditional and rebate revenue

As part of the Company's franchise agreements, the franchisee purchases products and supplies from designated vendors. The Company may receive various fees and rebates from the vendors and distributors on product purchases by franchisees. In addition, the Company may collect various initial fees, and those fees are classified as deferred revenue in the balance sheet and straight lined over the life of the contract as deferred revenue in the balance sheet. The Company does not possess control of the products prior to their transfer to the franchisee and products are delivered to franchisees directly from the vendor or their distributors. Under adoption of ASC 606 the revenue recognition did not change, the Company recognizes the rebates as franchisees purchase products and supplies from vendors or distributors and recognizes the initial fees over the contract life and the fees are reported as licensing fees and other income in the Condensed Consolidated Statements of Income.

Marketing Fund

Franchise agreements require the franchisee to pay continuing marketing fees on a weekly basis, based on a percentage of franchisees sales. Marketing fees are not paid on franchise wholesale sales. The balance sheet includes marketing fund cash, which is the restricted cash, accounts receivable and unexpended marketing fund contributions. Under Topic 606, the Company has determined that although the marketing fees are not separate performance obligations distinct from the underlying franchise right, the Company acts as the principal as it is primarily responsible for the fulfillment and control of the marketing services. As a result, the Company records marketing fees in revenues and related marketing fund expenditures in expenses in the Condensed Consolidated Statement of Income. The Company historically presented the net activities of the marketing fund within the balance sheet in the Condensed Consolidated Balance Sheet. While this reclassification impacts the gross amount of reported revenue and expenses the amounts will be offsetting, and there is no impact on net income.

Contract balances

Information about contract balances subject to ASC 606 is as follows:

	August 31, 2019	December 1, 2018
Assets		
Accounts receivable	\$ 79,918	\$ 36,337
Total Assets	<u>79,918</u>	<u>36,337</u>
Liabilities		
Contract liabilities - current	590,418	647,594
Contract liabilities - long-term	84,177	106,948
Total Contract Liabilities	<u>\$ 674,595</u>	<u>\$ 754,542</u>

Accounts receivable represent weekly royalty payments and monthly vendor rebate payments that represent billed and unbilled receivables due as of August 31, 2019 and December 1, 2018. The balance of contract liabilities includes franchise fees, license fees and vendor payments that have ongoing contract rights and the fees are being straight lined over the contract life. Contract liabilities also include marketing fund balances and gift card liability balances.

3. Revenue Recognition (continued)

	Accounts Receivable	Contract Liabilities
Balance at December 1, 2018	\$ 36,337	\$ 754,542
Revenue Recognized	463,565	(835,699)
Amounts (collected) or invoiced, net	(419,984)	755,752
Balance at August 31, 2019	<u>\$ 79,918</u>	<u>\$ 674,595</u>

Transaction price allocated to remaining performance obligations (franchise agreements and license fee agreement) for the year ended November 30:

2019 ^(a)	\$ 23,264
2020	25,321
2021	18,904
2022	16,942
2023	12,248
Thereafter	30,628
Total	<u>\$ 127,307</u>

(a) represents the estimate for the remainder of 2019

The Company has elected to apply certain practical expedients as defined in ASC 606-10-50-14 through 606-10-50-14A, including (i) performance obligations that are a part of a contract that has an original expected duration of one year or less; (ii) the right to invoice practical expedient; and (iii) variable consideration related to unsatisfied performance obligations that is allocated entirely to a wholly unsatisfied promise to transfer a distinct service that forms part of a single performance obligation, and the terms of that variable consideration relate specifically to our efforts to transfer the distinct service, or to a specific outcome from transferring the distinct service. As such, sales-based royalty and marketing income, as well as gift card breakage revenue, is not included in the above transaction price chart. Additionally, the Company has applied the transition practical expedient that allows the Company to omit the above disclosures for the fiscal year November 30, 2018.

3. Revenue Recognition (continued)

Impact of the Adoption of ASC 606

The adoption changed the timing of recognition of initial franchise fees, the reporting of advertising fund contributions and related expenditures, as well as timing of the recognition of gift card breakage.

In accordance with the new revenue standard requirements, the following tables summarize the effects of the new standard on the Company's Consolidated Balance Sheet and Statement of Operations for the nine months ended August 31, 2019.

	As reported August 31, 2019	Effect of change	Balance without ASC 606 adoption
Assets			
Other assets	\$ 1,617,655	\$ 1,348	\$ 1,616,307
Liabilities			
Accrued gift card liability	155,391	27,291	128,100
Other current liabilities			
Deferred revenue	127,307	87,570	39,737
Shareholders (deficit) equity			
Accumulated deficit	(11,344,770)	(116,209)	(11,228,561)

	As reported three months August 31, 2019	Effect of change	Balance without ASC606 adoption	As reported nine months August 31, 2019	Effect of change	Balance without ASC606 adoption
Royalty revenue	\$ 435,616	\$ -	\$ 435,616	\$ 1,228,471	\$ -	\$ 1,228,471
Franchise fees	3,455	3,455	-	20,281	5,281	15,000
License fees	5,625	(1,875)	7,500	11,875	(10,625)	22,500
Gift card revenue	1,041	1,041	-	3,747	(27,291)	31,038
Sign Shop revenue	855	-	855	1,906	-	1,906
Settlement revenue	2,308	-	2,308	47,280	-	47,280
Nontraditional revenue	91,336	-	91,336	228,570	-	228,570
Marketing fund revenue	253,003	253,003	0	737,623	737,623	-
Net revenue	793,239	255,624	\$ 537,615	2,279,753	704,988	1,574,765
Expenses unaffected by ASC 606						
Marketing fund expenses	385,878	-	385,878	1,153,159	-	1,153,159
Interest (income)/expense	253,003	253,003	-	737,623	737,623	-
Income tax expense	(118)	-	(118)	(502)	-	(502)
Net expenses	5,000	-	5,000	15,000	-	15,000
Net expenses	643,763	253,003	390,760	1,905,280	737,623	1,167,657
Net income	149,476	2,621	146,855	374,473	(32,635)	407,108

4. Units Open and Under Development

Units which are open or under development at August 31, 2019 are as follows:

Stores open:	
Franchisee-owned stores	73
Licensed Units	6
	<u>79</u>
Unopened stores with Franchise Agreements	2
	<u>81</u>
Total operating units and units with Franchise Agreements	<u><u>81</u></u>

5. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share:

	For the three months ended:		For the nine months ended:	
	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018
Numerator:				
Net income available to common shareholders	\$ 149,476	\$ 172,555	\$ 374,473	\$ 450,935
Denominator:				
Weighted average outstanding shares				
Basic and diluted common stock	7,263,508	7,263,508	7,263,508	7,263,508
Earnings per Share - Basic	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.05</u>	<u>\$ 0.06</u>

6. Goodwill and Other Intangible Assets

Accounting Standard Codification (“ASC”) 350 “Goodwill and Other Intangible Assets” requires that assets with indefinite lives no longer be amortized, but instead be subject to annual impairment tests.

Following the guidelines contained in ASC 350, the Company tests goodwill and intangible assets that are not subject to amortization for impairment annually or more frequently if events or circumstances indicate that impairment is possible. The Company has elected to conduct its annual test during the first quarter. During the quarter ended February 28, 2019, management qualitatively assessed goodwill to determine whether testing was necessary. Factors that management considers in this assessment include macroeconomic conditions, industry and market considerations, overall financial performance (both current and projected), changes in management and strategy, and changes in the composition and carrying amounts of net assets. If this qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying value, a quantitative assessment is then performed. After determining that there were no significant changes to the Company’s operations and overall business environment since the first quarter, management determined that the carrying value of goodwill was not impaired at August 31, 2019, and further analysis was not considered necessary.

7. Lease Commitments

The Company rents its office under an operating lease which requires it to pay base rent, real estate taxes, insurance and general repairs and maintenance. A lease was signed in June of 2018, effective October 1, 2018, expiring on March 31, 2024 with an option to renew for a 5 year period. A six month rent abatement and tenant allowance was provided in the lease, with any unused portion to be applied to base rent. The unused portion was determined to be \$21,300. The renewal option has not been included in the measurement of the lease liability.

Monthly rent expense is recognized on a straight-line basis over the term of the lease. Rent expenses for the three months ended August 31, 2019 and 2018 were \$21,100 and \$22,200, respectively. Rent expense for the nine months ended August 31, 2019 and 2018 was \$61,600 and \$67,000, respectively. At August 31, 2019 the remaining lease term was 55 months. The operating lease is included in the balance sheet at the present value of the lease payments at a 5.25% discount rate. The discount rate was considered to be an estimate of the Company’s incremental borrowing rate.

Gross future minimum annual rental commitments as of August 31, 2019, are as follows:

Year Ending November 30:	Undiscounted Rent Payments
2019	\$ 27,263
2020	110,375
2021	113,024
2022	115,673
2023	118,322
Thereafter	40,176
Total Undiscounted Rent Payments	524,833
Present Value Discount	(51,403)
Present Value	<u>\$ 473,430</u>
Short-term lease liability	\$ 90,422
Long-term lease liability	383,008
Total Operating Lease Liability	<u>\$ 473,430</u>

8. Recent Accounting Pronouncements

Management does not believe that there are any recently issued and effective or not yet effective pronouncements as of August 31, 2019 that would have or are expected to have any significant effect on the Company’s financial position, cash flows or results of operations.

9. Stockholder’s Equity

On March 13, 2019 and June 5, 2019 the Board of Directors declared a \$0.01 per share quarterly cash distribution/dividend to shareholders of record as of March 29, 2019 and June 21, 2019 and paid April 18, 2019 and July 10, 2019, respectively.

On September 5, 2019, a \$0.01 quarterly cash distribution/dividend per share was declared to shareholders of record as of September 20, 2019 paid on October 08, 2019.

On May 6, 2013, the Board of Directors (“Board”) of BAB, Inc. authorized and declared a dividend distribution of one right for each outstanding share of the common stock of BAB, Inc. to stockholders of record at the close of business on May 13, 2013. Each right entitles the registered holder to purchase from the Company one one-thousandth of a share of the Series A Participating Preferred Stock of the Company at an exercise price of \$0.90 per one-thousandth of a Preferred Share, subject to adjustment. The complete terms of the Rights are set forth in a Preferred Shares Rights Agreement, dated May 6, 2013, between the Company and IST Shareholder Services, as rights agent.

The Board adopted the Rights Agreement to protect stockholders from coercive or otherwise unfair takeover tactics. In general terms, it works by imposing a significant penalty upon any person or group that acquires 15% (or 20% in the case of certain institutional investors who report their holdings on Schedule 13G) or more of the Common Shares without the approval of the Board. As a result, the overall effect of the Rights Agreement and the issuance of the Rights may be to render more difficult a merger, tender or exchange offer or other business combination involving the Company that is not approved by the Board. However, neither the Rights Agreement nor the Rights should interfere with any merger, tender or exchange offer or other business combination approved by the Board.

Full details about the Rights Plan are contained in a Form 8-K filed by the Company with the U.S. Securities and Exchange Commission on May 7, 2013.

On June 18, 2014 an amendment to the Preferred Shares Rights Agreement was filed appointing American Stock Transfer & Trust Company, LLC as successor to Illinois Stock Transfer Company. All original rights and provisions remain unchanged. On August 18, 2015 an amendment was filed to the Preferred Shares Rights Agreement changing the final expiration date to mean the fifth anniversary of the date of the original agreement. All other original rights and provisions remain the same. On May 22, 2017 an amendment was filed extending the final expiration date to mean the seventh anniversary date of the original agreement. All other original rights and provisions remain the same. On February 22, 2019 an amendment was filed extending the final expiration date to mean the ninth anniversary date of the original agreement. All other original rights and provisions remain the same.

10. Income Taxes

The components of the Company’s current (benefit)/provision for income taxes are as follows:

	August 31, 2019	August 31, 2018
Current	\$ (33,000)	\$ 15,000
Deferred	48,000	-
Total	<u>\$ 15,000</u>	<u>\$ 15,000</u>

The decrease in the deferred tax asset was due to a change in the expected use of NOLs that will be expiring in 2019 through 2029. There was also a decrease in our federal and state tax liabilities due to a decrease in our expected future tax expense.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, including statements regarding the development of the Company's business, the markets for the Company's products, anticipated capital expenditures, and the effects of completed and proposed acquisitions, and other statements contained herein regarding matters that are not historical facts, are forward-looking statements as is within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Because such statements include risks and uncertainties, actual results could differ materially from those expressed or implied by such forward-looking statements as set forth in this report, the Company's Annual Report on Form 10-K and other reports that the Company files with the Securities and Exchange Commission. Certain risks and uncertainties are wholly or partially outside the control of the Company and its management, including its ability to attract new franchisees; the continued success of current franchisees; the effects of competition on franchisees and consumer acceptance of the Company's products in new and existing markets; fluctuation in development and operating costs; brand awareness; availability and terms of capital; adverse publicity; acceptance of new product offerings; availability of locations and terms of sites for store development; food, labor and employee benefit costs; changes in government regulation (including increases in the minimum wage); regional economic and weather conditions; the hiring, training, and retention of skilled corporate and restaurant management; and the integration and assimilation of acquired concepts. Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revision to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

General

There are 73 franchised and 6 licensed units at August 31, 2019 compared to 79 franchised and 4 licensed units at August 31, 2018. System-wide revenues for the nine months ended August 31, 2019 were \$24.9 million as compared to August 31, 2018 which were \$25.2 million.

The Company's revenues are derived primarily from the ongoing royalties paid to the Company by its franchisees and receipt of initial franchise fees. Additionally, the Company derives revenue from the sale of licensed products (My Favorite Muffin mix, Big Apple Bagels cream cheese and Brewster's coffee), and through nontraditional channels of distribution through a licensing agreement with Green Beans Coffee.

Royalty fees represent a 5% fee on net retail and wholesale sales of franchised units. Royalty revenues are recognized on an accrual basis using actual franchise receipts. Generally, franchisees report and remit royalties on a weekly basis. The majority of month-end receipts are recorded on an accrual basis based on actual numbers from reports received from franchisees shortly after the month-end. Estimates are utilized in certain instances where actual numbers have not been received and such estimates are based on the average of the last 10 weeks' actual reported sales.

There are two items involving revenue recognition of contracts that require us to make subjective judgments: the determination of which performance obligations are distinct within the context of the overall contract and the estimated stand alone selling price of each obligation. In instances where our contract includes significant customization or modification services, the customization and modification services are generally combined and recorded as one distinct performance obligation.

The Company earns licensing fees from the sale of BAB branded products, which includes coffee, cream cheese, muffin mix and frozen bagels from a third-party commercial bakery, to the franchised and licensed units.

As of August 31, 2019, the Company employed 13 full-time employees at the Corporate office. The employees are responsible for corporate management and oversight, accounting, advertising and franchising. None of the Company's employees are subject to any collective bargaining agreements and management considers its relations with its employees to be good.

Results of Operations

Three Months Ended August 31, 2019 versus Three Months Ended August 31, 2018

For the three months ended August 31, 2019 and 2018, the Company reported net income of \$149,000 and \$173,000, respectively. Total revenue of \$793,000 increased \$237,000, or 42.6%, for the three months ended August 31, 2019, as compared to total revenue of \$556,000 for the three months ended August 31, 2018. Marketing revenue of \$253,000 is included per adoption of ASC 606. In addition, royalty revenue increased by \$4,000, offset by a decrease of \$15,000 for franchise fees and a \$5,000 decrease in licensing fees and other income. Adoption of ASC606 increased net income for August 31, 2019 by \$2,000, from \$147,000 to \$149,000.

Royalty fee revenue of \$436,000, for the quarter ended August 31, 2019, increased \$4,000, or 0.9%, from the \$432,000 for quarter ended August 31, 2018.

Franchise fee revenues of \$3,000, for the quarter ended August 31, 2019, decreased \$15,000, or 83.3%, from the \$18,000 for the quarter ended August 31, 2018. There was one transfer and no new store openings in 2019 and the \$3,000 franchise fee revenue in 2019 was due to adoption of ASC606 versus three transfers and an area development fee in 2018.

Licensing fee and other income of \$101,000, for the quarter ended August 31, 2019, decreased \$5,000, or 4.7% from \$106,000 for the quarter ended August 31, 2018. License fees and settlement income decreased \$10,000, license fee revenue decreased \$9,000 and a decrease of \$1,000 for Sign Shop revenue in 2019 versus 2018, offset by an increase in gift card breakage revenue of \$1,000 and an increase in nontraditional revenue of \$14,000. The increase in gift card breakage revenue and \$2,000 of the decrease in license fee revenue resulted from adoption of ASC 606 in fiscal 2019. The gift card breakage revenue would have been zero and the license fee revenue would have been \$8,000 instead of \$6,000 in the third quarter of 2019 without the adoption.

Total operating expenses of \$639,000, for the quarter ended August 31, 2019 increased \$256,000, or 66.8% from \$383,000 for the quarter ended August 31, 2018. The increase was primarily due to 2019 adoption of ASC 606 which includes marketing expenses of \$253,000. Marketing revenue and marketing expenses offset each other. There was an increase of \$19,000 in advertising expense and an increase in professional fees of \$3,000, offset by a decrease in occupancy of \$6,000, a decrease in Sign Shop cost of goods expense of \$4,000, a decrease in repair and maintenance of \$3,000, a decrease in travel of \$1,000, a decrease in franchise expenses of \$2,000 and a decrease in general expenses of \$5,000 for the 3 months ended August 31, 2019 compared to 2018.

There was an income tax expense of \$5,000 in 2019 and none in 2018.

Earnings per share, as reported for basic and diluted outstanding shares for the quarters ended August 31, 2019 and 2018 was \$0.02.

Nine Months Ended August 31, 2019 versus Nine Months Ended August 31, 2018

For the nine months ended August 31, 2019 and 2018, the Company reported net income of \$374,000 and \$451,000, respectively. Total revenue of \$2,280,000 increased \$663,000, or 41.0%, for the nine months ended August 31, 2019, as compared to total revenue of \$1,617,000 for the nine months ended August 31, 2018. Marketing revenues of \$738,000 are included in revenue for 2019 per adoption of ASC 606. Franchise fees revenue for 2019 was the same as 2018.

Royalty fee revenue of \$1,229,000, for the nine months ended August 31, 2019, decreased \$13,000, or 1.0%, from the \$1,242,000 for the nine months ended August 31, 2018. Royalty revenue decreased \$13,000 and there was a \$62,000 decrease in licensing fees and other income. Adoption of ASC 606 decreased net income for August 31, 2019 by \$30,000 from \$404,000 to \$374,000. Royalty revenues decreased primarily because of fewer locations in 2019 compared to prior year same period 2018.

Franchise fee revenues of \$20,000, for the nine months ended August 31, 2019 was the same for the period ended August 31, 2018. There were three transfers for the nine months ended August 31, 2019 and \$10,000 of franchise fee revenue recognized in fiscal 2019 versus four transfers and an area development in the nine months ended August 31, 2018.

Licensing fee and other income of \$293,000, for the nine months ended August 31, 2019 decreased \$62,000, or 17.5%, from \$355,000 for the nine months ended August 31, 2018. The decrease was primarily due to a decrease in settlement income of \$60,000, a decrease of \$22,000 for gift card revenue, a decrease in Sign Shop revenue of \$3,000 and a decrease in license fees of \$3,000, offset by an increase in nontraditional revenue of \$26,000 for the nine months ended 2019 versus same period 2018. The adoption of ASC 606 resulted in decreased gift card revenue of \$29,000 and a decrease in license fee revenue of \$11,000 for the nine months ended August 31, 2019 compared to same period 2018.

Total operating expenses of \$1,891,000 increased \$740,000, or 64.3%, for the nine months ended August 31, 2019, from \$1,151,000 for the same period 2018. The increase was primarily due to 2019 adoption of ASC 606 including marketing expenses of \$738,000. Marketing revenue and marketing expenses offset each other. There was an increase of \$14,000 in payroll and payroll tax expense, an increase in advertising expense of \$39,000, an increase in employee benefit expense of \$16,000, an increase in business insurance of \$6,000 and an increase of \$8,000 in professional fees, offset by a decrease in occupancy expense of \$38,000, a decrease in uncollectible accounts of \$12,000, a decrease in Sign Shop cost of goods sold of \$13,000, a decrease in repair and maintenance of \$4,000, and a decrease in franchise expenses of \$3,000 and general expenses of \$12,000 nine months ended August 31, 2019 compared to 2018.

There was an income tax expense of \$15,000 for the nine months ended August 2019 and 2018.

Earnings per share, as reported for basic and diluted outstanding shares for the nine months ended August 31, 2019 and 2018 were \$0.05 and \$0.06 per share, respectively.

Liquidity and Capital Resources

At August 31, 2019, the Company had working capital of \$822,000 and unrestricted cash of 1,032,000. At November 30, 2018 the Company had working capital of \$756,000 and unrestricted cash of \$1,065,000.

During the nine months ended August 31, 2019, the Company had net income of \$374,000 and operating activities provided cash of \$277,000. The principal adjustments to reconcile net income to cash provided in operating activities for the nine months ending August 31, 2019 was noncash lease expense of \$52,000, depreciation and amortization of \$1,000, a deferred tax expense of \$48,000 and a decrease in the provision for uncollectible accounts of \$15,000. In addition, changes in operating assets and liabilities decreased cash by \$184,000. During the nine months ended August 31, 2018, the Company had net income of \$451,000 and operating activities provided cash of \$327,000. The principal adjustments to reconcile the net income to cash provided in operating activities for the nine months ending August 31, 2018 was depreciation and amortization expense of \$1,000, less a provision for uncollectible accounts of \$3,000. In addition, changes in operating assets and liabilities decreased cash by \$121,000.

The Company's investing activities were \$6,000 and \$2,000, respectively for the nine months ended August 31, 2019 and 2018.

The Company used \$363,000 and \$291,000 for cash distribution/dividend payments during the nine month periods ended August 31, 2019 and 2018.

On September 5, 2019, the Board of Directors declared a \$0.01 per share quarterly cash distribution/dividend to shareholders of record as of September 20, 2019, paid October 08, 2019.

Cash Distribution and Dividend Policy

It is the Company's intent that future cash distributions/dividends will be considered after reviewing profitability expectations and financing needs and will be declared at the discretion of the Board of Directors. There can be no assurance that the Company will generate sufficient earnings to pay out cash distributions/dividends. The Company will continue to analyze its ability to pay cash distributions/dividends on a quarterly basis.

Determination of whether distributions are considered a cash distribution, cash dividend or combination of the two will not be made until after December 31, 2019, as the classification or combination is dependent upon the Company's earnings and profits for tax purposes for its fiscal year ending November 30, 2019.

The Company believes execution of this policy will not have any material adverse effect on its ability to fund current operations or future capital investments.

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers, ASU 2014-09 (Topic 606) establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. The standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Entities will generally be required to make more estimates and use more judgment than under current guidance, which will be highlighted for users through increased disclosure requirements.

The standard requires that the transaction price received from customers be allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation is then recognized as the performance obligations are satisfied. We have evaluated franchise fees and have determined that under the new standard the franchise fee is not separate and distinct from the overall franchise right. Franchise fees received will be recorded as deferred revenue and recognized as revenue over the term of each respective franchise agreement, typically 10 years. The Company has adopted this standard effective December 1, 2019. See note 3 for the impact of adoption on the Company's financial position, cash flows or results of operations.

We have evaluated the impact of our franchise contributions to and subsequent expenditures from our marketing fund. We have determined we are the principal in these arrangements and under the new standard we have included them as revenue and expense items. The Company has adopted this standard effective December 1, 2019. See note 3 for the impact of adoption on the Company's financial position, cash flows and results of operations.

In March 2016, the FASB issued ASU 2016-04, *Recognition of Breakage for Certain Prepaid Stored-Value Products*. The new guidance creates an exception under ASC 405-20, *Liabilities-Extinguishments of Liabilities*, to derecognize financial liabilities related to certain prepaid stored-value products using a revenue-like breakage model. In general, these liabilities may be extinguished proportionately in earnings as redemptions occur, or when redemption is remote if issuers are not entitled to the unredeemed stored value. The Company adopted this guidance effective December 1, 2018 in connection with its adoption of Topic 606, utilizing the modified retrospective method. Refer to Note 3 for further disclosure of the impact of the new guidance.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force), (“ASU 2016-18”). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this new guidance on December 1, 2018 using a retrospective transition method, and restated the cash flow statement for the prior period presented.

Management does not believe that there are any other recently issued and effective or not yet effective pronouncements that would have or are expected to have any significant effect on the Company’s financial position, cash flows or results of operations.

Critical Accounting Policies

The Company has identified other significant accounting policies that, as a result of the judgments, uncertainties, uniqueness and complexities of the underlying accounting standards and operations involved could result in material changes to its financial condition or results of operations under different conditions or using different assumptions. The Company’s most critical accounting policies are related to revenue recognition, valuation of long-lived and intangible assets, deferred tax assets and the related valuation allowance. Details regarding the Company’s use of these policies and the related estimates are described in the Company’s Annual Report on Form 10-K for the fiscal year ended November 30, 2018, filed with the Securities and Exchange Commission on February 25, 2019.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

BAB, Inc. has no interest, currency or derivative market risk.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of both our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report. Based on such evaluation, both our Chief Executive Officer and Chief Financial Officer have concluded that, as of August 31, 2019 our disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by us 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 (ii) to ensure that information required to be disclosed by us in the reports that we submit under the Exchange Act is accumulated and communicated to our management, including our executive and financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) during the three months of fiscal year 2019 to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Compliance with Section 404 of Sarbanes-Oxley Act

The Company is in compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (the “Act”).

PART II

ITEM 1. LEGAL PROCEEDINGS

We may be subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of such proceedings or claims cannot be predicted with certainty, management does not believe that the outcome of any of such proceedings or claims will have a material effect on our financial position. We know of no pending or threatened proceeding or claim to which we are or will be a party.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) EXHIBITS

The following exhibits are filed herewith.

INDEX NUMBER	DESCRIPTION
3.1	Articles of Incorporation (See Form 10-KSB for year ended November 30, 2006 filed February 28, 2007)
3.2	Bylaws of the Company (See Form 10-KSB for year ended November 30, 2006 filed February 28, 2007)
4.1	Preferred Shares Rights Agreement (See Form 8-K filed May 7, 2013)
4.2	Preferred Shares Rights Agreement Amendment No. 1 (See Form 8-K filed June 18, 2014)
4.3	Preferred Shares Rights Agreement Amendment No. 2 (See Form 8-K filed August 18, 2015)
4.4	Preferred Shares Rights Agreement Amendment No. 3 (See Form 8-K filed May 22, 2017)
4.5	Preferred Shares Rights Agreement Amendment No. 4 (See Form 8-K filed February 25, 2019)
21.1	List of Subsidiaries of the Company
31.1, 31.2	Section 302 of the Sarbanes-Oxley Act of 2002
32.1, 32.2	Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BAB, Inc.

Dated: October 11, 2019

/s/ Geraldine Conn
Geraldine Conn
Chief Financial Officer

Exhibit 21.1

BAB Systems, Inc., an Illinois corporation

BAB Operations, Inc., an Illinois corporation

BAB Investments, Inc., an Illinois corporation

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14 (a) OR RULE 15d-14 (a) OF THE SECURITIES EXCHANGE ACT OF 1934.

I, Michael W. Evans, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of BAB, Inc.
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a -15(e) and 15d -15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d -15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 11, 2019

by /s/ Michael W. Evans

Michael W. Evans, Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14 (a) OR RULE 15d-14 (a) OF THE SECURITIES EXCHANGE ACT OF 1934.

I, Geraldine Conn, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of BAB, Inc.
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a -15(e) and 15d -15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d -15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 11, 2019

By: /s/ Geraldine Conn

Geraldine Conn, Chief Financial Officer

Exhibit 32.1

BAB, Inc.
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the BAB, Inc. (the "Company") Quarterly Report on Form 10-Q for the period ended August 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael W. Evans, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition, results of operations, and cash flows of the Company.

Date: October 11, 2019

By: /s/ Michael W. Evans

Michael W. Evans, Chief Executive Officer

Exhibit 32.2

BAB, Inc.
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the BAB, Inc. (the "Company") Quarterly Report on Form 10-Q for the period ended August 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Geraldine Conn, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition, results of operations, and cash flows of the Company.

Date: October 11, 2019

By: /s/ Geraldine Conn

Geraldine Conn, Chief Financial Officer