



Filing Values

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Documents

10-Q	babs20161011_10q.htm	FORM 10-Q
EX-21.1	ex21-1.htm	Exhibit 21.1
EX-31.1	ex31-1.htm	Exhibit 31.1
EX-31.2	ex31-2.htm	Exhibit 31.2
EX-32.1	ex32-1.htm	Exhibit 32.1
EX-32.2	ex32-2.htm	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, 2016

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

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 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 checkmark whether the registrant is a large accelerated filer, accelerated filer, a non-accelerated filer, or a smaller reporting company. Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of October 12, 2016 BAB, Inc. had: 7,263,508 shares of Common Stock outstanding.

TABLE OF CONTENTS

PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements	3
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3	Quantitative and Qualitative Disclosures About Market Risk	14
Item 4	Controls and Procedures	14
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	14
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	15
Item 3	Defaults Upon Senior Securities	15
Item 4	Mine Safety Disclosures	15
Item 5	Other Information	15
Item 6	Exhibits	15
SIGNATURE		15

PART I

ITEM 1. FINANCIAL STATEMENTS

**BAB, Inc.
 Consolidated Balance Sheets**

	August 31, 2016 (unaudited)	November 30, 2015
ASSETS		
Current Assets		
Cash	\$ 817,776	\$ 837,382
Restricted cash	602,615	420,739
Receivables		
Trade accounts and notes receivable (net of allowance for doubtful accounts of \$29,123 in 2016 and \$33,077 in 2015)	63,458	75,079
Marketing fund contributions receivable from franchisees and stores	8,792	21,111
Inventories	23,280	26,824
Prepaid expenses and other current assets	91,181	83,796
Total Current Assets	<u>1,607,102</u>	<u>1,464,931</u>
Property, plant and equipment (net of accumulated depreciation of \$151,919 in 2016 and \$150,083 in 2015)		
Trademarks	455,182	455,182
Goodwill	1,493,771	1,493,771
Definite lived intangible assets (net of accumulated amortization of \$109,736 in 2016 and \$96,389 in 2015)	13,662	22,987
Deferred tax asset	248,000	248,000
Total Noncurrent Assets	<u>2,212,256</u>	<u>2,223,416</u>
Total Assets	<u>\$ 3,819,358</u>	<u>\$ 3,688,347</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	\$ 33,413	\$ 33,413
Accounts payable	13,709	13,055
Accrued expenses and other current liabilities	298,500	311,916
Unexpended marketing fund contributions	611,662	442,105
Deferred franchise fee revenue	60,000	105,000
Deferred licensing revenue	28,452	32,083
Total Current Liabilities	<u>1,045,736</u>	<u>937,572</u>
Stockholders' Equity		
Preferred shares -\$.001 par value; 4,000,000 authorized; no shares outstanding as of August 31, 2016 and November 30, 2015	-	-
Preferred shares -\$.001 par value; 1,000,000 Series A authorized; no outstanding as of August 31, 2016 and November 30, 2015	-	-
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, 2016 and November 30, 2015	13,508,257	13,508,257
Additional paid-in capital	987,034	987,034
Treasury stock	(222,781)	(222,781)
Accumulated deficit	(11,498,888)	(11,521,735)
Total Stockholders' Equity	<u>2,773,622</u>	<u>2,750,775</u>
Total Liabilities and Stockholders' Equity	<u>\$ 3,819,358</u>	<u>\$ 3,688,347</u>

SEE ACCOMPANYING NOTES

BAB, Inc.
Consolidated Statements of Income
For the Three and Nine Month Periods Ended August 31, 2016 and 2015
(Unaudited)

	Three months ended August 31,		Nine months ended August 31,	
	2016	2015	2016	2015
REVENUES				
Royalty fees from franchised stores	\$ 441,949	\$ 440,960	\$ 1,298,562	\$ 1,278,715
Franchise fees	60,000	50,000	78,000	80,000
Licensing fees and other income	114,181	118,351	384,885	310,746
Total Revenues	616,130	609,311	1,761,447	1,669,461
OPERATING EXPENSES				
Selling, general and administrative expenses:				
Payroll and payroll-related expenses	248,233	267,100	768,300	829,291
Occupancy	43,599	44,054	131,337	129,520
Advertising and promotion	10,485	13,598	32,077	40,945
Professional service fees	36,844	29,145	108,376	106,652
Travel	9,196	12,292	26,532	33,643
Employee benefit expense	38,869	39,715	116,224	114,038
Depreciation and amortization	5,167	4,176	15,183	12,703
Legal settlement	-	-	-	243,046
Other	58,186	71,986	176,629	158,450
Total Operating Expenses	450,579	482,066	1,374,658	1,668,288
Income from operations	165,551	127,245	386,789	1,173
Interest income	90	306	423	1,478
Interest expense	(396)	(776)	(1,190)	(2,327)
Income before provision for income taxes	165,245	126,775	386,022	324
Provision for income taxes				
Current tax benefit/(expense)	-	8,500	-	8,500
Net Income	\$ 165,245	\$ 135,275	\$ 386,022	\$ 8,824
Earnings per share - Basic and Diluted	<u>0.02</u>	<u>0.02</u>	<u>0.05</u>	<u>0.00</u>
Weighted average shares outstanding - Basic	7,263,508	7,263,508	7,263,508	7,263,508
Effect of dilutive common stock	-	-	-	-
Weighted average shares outstanding - Diluted	7,263,508	7,263,508	7,263,508	7,263,508
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, 2016 and 2015
(Unaudited)

	For the nine months ended August 31,	
	2016	2015
Operating activities		
Net income	\$ 386,022	\$ 8,824
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	15,183	12,703
Provision for uncollectible accounts, net of recoveries	(3,954)	(7,278)
Changes in:		
Trade accounts receivable and notes receivable	15,574	50,267
Restricted cash	(181,876)	61,118
Marketing fund contributions receivable	12,319	(5,690)
Inventories	3,544	981
Prepaid expenses and other	(7,385)	(11,934)
Accounts payable	654	10,181
Accrued liabilities	(13,416)	(39)
Unexpended marketing fund contributions	169,557	175,619
Deferred revenue	(48,631)	(16,250)
Net Cash Provided by Operating Activities	<u>347,591</u>	<u>278,502</u>
Investing activities		
Capitalization of trademark renewals	(4,022)	(3,203)
Net Cash Used In Investing Activities	<u>(4,022)</u>	<u>(3,203)</u>
Financing activities		
Cash distributions/dividends	(363,175)	(290,540)
Net Cash Used In Financing Activities	<u>(363,175)</u>	<u>(290,540)</u>
Net Decrease in Cash	(19,606)	(15,241)
Cash, Beginning of Period	837,382	709,555
Cash, End of Period	<u>\$ 817,776</u>	<u>\$ 694,314</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ 8,171</u>	<u>\$ 9,447</u>

SEE ACCOMPANYING NOTES

BAB, Inc.
Notes to Unaudited Consolidated Financial Statements
For the Three and Nine Month Periods Ended August 31, 2016 and 2015

(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® Coffee ("Brewster's") was established in 1996 and the coffee is sold in BAB and MFM locations as well as through license agreements. SweetDuet® ("SD") frozen yogurt can be added as an additional brand in a BAB or MFM location. Operations was formed on August 30, 1995, primarily to operate Company-owned stores of which there are currently none. The assets of Jacobs Bros. Bagels® ("Jacobs Bros.") were acquired on February 1, 1999, and any branded wholesale business uses this trademark. Investments was incorporated September 9, 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 and MFM and SD trade names. At August 31, 2016, the Company had 86 franchise units and 3 licensed units in operation in 23 states and one international location. The Company additionally derives income from the sale of its trademark bagels, muffins and coffee through nontraditional channels of distribution including under licensing agreements with Kohr Bros. Frozen Custard and Green Beans Coffee. Also, included in licensing fees and other income is Operations Sign Shop results. For franchise consistency and convenience, the Sign Shop provides the majority of signage to franchisees, including but not limited to, menu panels, build charts, interior and exterior signage and point of purchase materials.

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. Licensed BAB units serve the Company's frozen bagel and related products baked daily. BAB units are primarily concentrated in the Midwest and Western United States. The MFM brand consists of units operating as "My Favorite Muffin®," featuring a large variety of freshly baked muffins, coffees and related products, and units operating as "My Favorite Muffin and Bagel Cafe®," featuring these products as well as a variety of specialty bagel sandwiches and related products. The SweetDuet Frozen Yogurt & Gourmet Muffins® brand is a fusion concept, pairing self-serve frozen yogurt with MFM's exclusive line of My Favorite Muffin gourmet muffins. SD frozen yogurt can be added as an additional brand in a BAB or MFM 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, 2015 which was filed February 24, 2016. 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. Units Open and Under Development

Units which are open or under development at August 31, 2016 are as follows:

Stores open:

Franchisee-owned stores	86
Licensed Units	3
	<u>89</u>
Unopened stores with Franchise Agreements	2
	<u>91</u>
Total operating units and units with Franchise Agreements	<u>91</u>

3. Earnings per Share

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

	For the three months ended August 31,		For the nine months ended August 31,	
	2016	2015	2016	2015
Numerator:				
Net income available to common shareholders	\$ 165,245	\$ 135,275	\$ 386,022	\$ 8,824
Denominator:				
Weighted average outstanding shares				
Basic	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>\$ 0.00</u>
Effect of dilutive common stock				
Weighted average outstanding shares	-	-	-	-
Diluted	7,263,508	7,263,508	7,263,508	7,263,508
Earnings per share - Diluted	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.05</u>	<u>\$ 0.00</u>

The Company excluded 175,000 potential shares attributable to outstanding stock options from the calculation of diluted earnings per share, for the three and nine months ended August 31, 2016, because their inclusion would have been anti-dilutive. For the three and nine months ended August 31, 2015, the Company excluded 237,500 potential shares attributable to outstanding stock options from the calculation.

4. Long-Term Debt

On September 6, 2002, the Company signed a note payable requiring annual installments of \$35,000, including interest at a rate of 4.75% per annum, for a term of 15 years, in the original amount of \$386,000. The Company purchased and retired 1,380,040 shares of BAB, Inc. common stock from a former stockholder. The balance of the note payable as of August 31, 2016, \$33,413, is all current debt. The final payment is due October 1, 2016.

5. Stock Options

In May 2001, the Company approved a Long-Term Incentive and Stock Option Plan (“Plan”). The Plan reserved and has issued 1,400,000 shares of common stock for grant. As of August 31, 2016, there were 1,225,000 stock options exercised or forfeited under the Plan.

	For the nine months ended August 31,	
	2016	2015
Options outstanding at beginning of year	237,500	314,400
Granted	-	-
Forfeited or expired	(62,500)	(76,900)
Exercised	-	-
Outstanding at end of period	175,000	237,500

To value option grants and other awards for stock-based compensation, the Company uses the Black-Scholes option valuation model. When the measurement date is certain, the fair value of each option grant is estimated on the date of grant and is based on the assumptions used for the expected stock price volatility, expected term, risk-free interest rates and future dividend payments.

The Company’s stock option terms expire in ten years and vary in vesting from immediate to a vesting period of five years.

The following table summarizes the stock options outstanding and exercisable at August 31, 2016:

Options Outstanding				Options Exercisable			
Outstanding at 8/31/16	Wgtd. Avg. Remaining Life	Wgtd. Avg. Exercise Price	Aggregate Intrinsic Value	Exercisable at 8/31/16	Wgtd. Avg. Exercise Price	Aggregate Intrinsic Value	
175,000	0.25	\$ 1.29	\$ -	175,000	\$ 1.29	\$ -	

There is no computation for the aggregate intrinsic value in the table above because the outstanding options weighted average exercise price was greater than the Company’s closing stock price of \$0.72 as of the last business day of the period ended August 31, 2016. There were 62,500 unexercised options that expired and no options exercised during the nine month period ended August 31, 2016.

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. The Company follows this guidance.

The Company tests goodwill and trademarks that are not subject to amortization for impairment annually or more frequently if events or circumstances indicate that impairment is possible. Goodwill and trademarks were tested at the end of the first quarter, February 29, 2016 and it was found that the carrying value of the intangible assets were not impaired.

With respect to goodwill and trademarks, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value is less than its carrying value. If, based on that assessment, the Company believes it is more likely than not that the fair value is less than its carrying value, a two-step impairment test is performed. Based on the computation it was determined that no impairment has occurred. There were no factors noted at August 31, 2016 that would require additional testing.

7. Recent Accounting Pronouncements

Revenue from Contracts with Customers, ASU 2014-09 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 ASU is effective for the Company, for annual periods beginning after December 15, 2017. The Company will adopt ASU 2014-09 for fiscal year ending November 30, 2019 and the Company is evaluating the impact that adoption of this guidance might have on the Company's consolidated financial position, cash flows or results of operations.

On February 25, 2016, the FASB issued ASU 2016-02, a leasing standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company intends to adopt ASU 2016-02 for fiscal year ending November 30, 2020 and the Company is evaluating the impact that adoption of this guidance might have on the Company's consolidated financial position, cash flows and results and operations.

Management does not believe that there are any other recently issued and effective or not yet effective pronouncements as of August 31, 2016 that would have or are expected to have any significant effect on the Company's financial position, cash flows or results of operations.

8. Stockholder's Equity

On September 6, 2016 the Board of Directors declared a \$0.01 cash dividend/distribution to shareholders of record as of September 23, 2016, payable October 12, 2016.

On June 6, 2016 the Board of Directors declared a \$0.01 cash dividend/distribution to shareholders of record as of June 24, 2016, paid July 11, 2016.

On March 3, 2016 the Board of Directors declared a \$0.01 cash distribution/dividend to shareholders of record as of March 23, 2016, paid on April 13, 2016.

The Board of Directors declared a cash distribution/dividend on December 3, 2015 of \$0.03 which consisted of a \$0.01 quarterly and a \$0.02 special cash distribution/dividend per share paid on January 6, 2016.

9. Contingencies and Settlements

We are 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. Except as stated below, we know of no pending or threatened proceeding or claim to which we are or will be a party.

The Company had previously reported that on July 8, 2013, a judgment was entered in the Circuit Court of Cook County against BAB Operations, Inc. ("Operations"), a wholly owned subsidiary of BAB, Inc., and in favor of a former landlord of Operations, Alecta Real Estate USA, LLC. In September 2013 the Company filed an appeal. On March 23, 2015 the Appellate Court ruled in favor of the plaintiff and against Operations, affirming the trial court's judgment. The legal settlement was accrued in the first quarter 2015 and payment was made in the second quarter 2015 and it included the judgment, attorney's fees and interest.

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 86 franchised and 3 licensed units at August 31, 2016 compared to 81 franchised and 5 licensed units at August 31, 2015. System-wide revenues for the nine months ended August 31, 2016 were \$26.4 million as compared to August 31, 2015 which were \$26.0 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, Big Apple Bagels frozen bagels and Brewster's coffee), and through nontraditional channels of distribution (Kohr Bros. and Green Beans Coffee). Also included in licensing fees and other income is Operation's Sign Shop revenue. The Sign Shop provides the majority of signage, which includes but is not limited to, posters, menu panels, outside window stickers and counter signs to franchisees to provide consistency and convenience.

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.

The Company recognizes franchise fee revenue upon the opening of a franchise store or upon the signing of a Master Franchise Agreement. Direct costs associated with the franchise sale are deferred until the franchise fee revenue is recognized. These costs include site approval, construction approval, commissions, blueprints and training costs.

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, 2016, the Company employed 14 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, 2016 versus Three Months Ended August 31, 2015

For the three months ended August 31, 2016 and 2015, the Company reported net income of \$165,000 and \$135,000, respectively. Total revenue of \$616,000 increased \$7,000, or 1.1%, for the three months ended August 31, 2016, as compared to total revenue of \$609,000 for the three months ended August 31, 2015.

Royalty fee revenue of \$442,000, for the quarter ended August 31, 2016, increased \$1,000, or 0.2%, from the \$441,000 for quarter ended August 31, 2015. There were more locations in 2016 versus same period in 2015.

Franchise fee revenues of \$60,000, for the quarter ended August 31, 2016, increased \$10,000, or 20.0% from the \$50,000 for quarter ended August 31, 2015. The revenue consists of two new store openings and two transfers for the three months ending August 31, 2016 compared to two store openings and no transfers in the same period 2015.

Licensing fee and other income of \$114,000, for the quarter ended August 31, 2016, decreased \$4,000, or 3.4% from \$118,000 for the quarter ended August 31, 2015. The decrease in licensing fees and other income was primarily due to a decrease in settlement income of \$16,000 and a \$1,000 decrease in Sign Shop revenue, offset by an increase of \$13,000 in nontraditional revenue.

Total operating expenses of \$451,000, for the quarter ended August 31, 2016 decreased \$31,000, or 6.4% from \$482,000 for the quarter ended August 31, 2015. The 2016 decrease was primarily due to decreases in payroll expense of \$19,000, SEC and annual meeting expense of \$6,000, advertising and promotion expense of \$4,000, travel expenses of \$3,000, Sign Shop cost of goods sold of \$3,000, and a decrease in general expenses of \$4,000, offset by an \$8,000 increase in legal fees

Interest income for the three months ended August 31, 2016 and 2015 was less than \$1,000. Interest expense was less than \$1,000 for the three months ended August 31, 2016 compared to \$1,000 for the same period 2015.

There was no tax expense or benefit for the three months ended August 31, 2016 versus a \$9,000 tax benefit in the same period 2015.

Earnings per share, as reported for basic and diluted outstanding shares for the third quarter ended August 31, 2016 and 2015 was \$0.02.

Nine Months Ended August 31, 2016 versus Nine Months Ended August 31, 2015

For the nine months ended August 31, 2016 and 2015, the Company reported net income of \$386,000 and \$9,000, respectively. Total revenue of \$1,761,000 increased \$92,000, or 5.5%, for the nine months ended August 31, 2016, as compared to total revenue of \$1,669,000 for the nine months ended August 31, 2015.

Royalty fee revenue of \$1,298,000, for the nine months ended August 31, 2016, increased \$20,000, or 1.6%, from the \$1,278,000 for the nine months ended August 31, 2015. Royalty revenues increased because of more locations in 2016 versus the same period in 2015.

Franchise fee revenues of \$78,000, for the nine months ended August 31, 2016, decreased \$2,000, or 2.5% from the \$80,000 for the nine months ended August 31, 2015. The revenue consists of two new store openings and six transfers for the nine months ended August 31, 2016 compared to three store openings, which included one BAB Express store, and three stores transferred in 2015.

Licensing fee and other income of \$385,000, for the nine months ended August 31, 2016, increased \$74,000, or 23.8%, from \$311,000 for the nine months ended August 31, 2015. The \$74,000 increase in 2016 was primarily due to increases in nontraditional revenue of \$61,000, Sign Shop revenue of \$8,000 and an increase of \$5,000 for settlement fees in nine months of 2016 compared to the same period 2015.

Total operating expenses of \$1,375,000 decreased \$293,000, or 17.6%, for the nine months ended August 31, 2016, from \$1,668,000 for the same period 2015. The decrease in total operating expenses in 2016 as compared to same period 2015 was primarily due to a 2015 expense of \$243,000 for a legal settlement where there was no such expense in 2016. In addition for the nine months ended August 31, 2016 payroll related expenses decreased \$61,000, primarily due to fewer employees and no Christmas bonus in fiscal 2016 versus a Christmas bonuses of \$24,000 in 2015. In addition in 2016 there was a decrease in advertising and promotion of \$9,000 and a decrease in travel of \$7,000, offset by an increase of \$12,000 for Sign Shop cost of goods sold, an increase of \$10,000 for general operation expenses, \$2,000 for depreciation and amortization and \$2,000 for employee benefit expense.

Interest income for both the nine months ended August 31, 2016 and 2015 was under \$1,000. Interest expense for the nine months ended August 31, 2016 and 2015 was \$1,000 and \$2,000, respectively.

There was no income tax expense or benefit recorded for the nine months ended August 31, 2016 and a \$9,000 income tax benefit for the same period 2015.

Earnings per share, as reported for basic and diluted outstanding shares for the nine months ended August 31, 2016 was \$0.05 per share compared to \$0.00 per share for the nine months ended August 31, 2015.

Liquidity and Capital Resources

At August 31, 2016, the Company had working capital of \$561,000 and unrestricted cash of \$818,000. At November 30, 2015 the Company had working capital of \$527,000 and unrestricted cash of \$837,000.

During the nine months ended August 31, 2016, the Company had net income of \$386,000 and operating activities provided cash of \$348,000. The principal adjustments to reconcile the net income to cash provided in operating activities for the nine months ending August 31, 2016 were depreciation and amortization of \$15,000 less a provision for uncollectible accounts of \$4,000. In addition, changes in operating assets and liabilities decreased cash by \$50,000. During August 31, 2015, the Company had a net income of \$9,000 and operating activities provided cash of \$279,000. The principal adjustments to reconcile net income to cash provided by operating activities for the nine months ending August 31, 2015 were depreciation and amortization of \$13,000 less a provision for uncollectible accounts of \$7,000. In addition changes in operating assets and liabilities increased cash by \$264,000.

The Company used \$4,000 and \$3,000 for investing activities for the nine months ended August 31, 2016 and 2015, respectively.

The Company used \$363,000 and \$291,000 for cash distribution/dividend payments during the nine month period ended August 31, 2016 and 2015, respectively.

On September 6, 2016, the Board of Directors authorized a \$0.01 per share cash distribution/dividend to shareholders of record as of September 23, 2016, payable October 12, 2016. Although there can be no assurances that the Company will be able to pay cash distributions/dividends in the future, it is the Company's intent that future cash distributions/dividends will be considered based on profitability expectations and financing needs and will be declared at the discretion of the Board of Directors. It is the Company's intent going forward to declare and pay cash distributions/dividends on a quarterly basis if warranted.

The Company believes execution of its cash distribution/dividend policy will not have any material adverse effects on its cash or its ability to fund current operations or future capital investments.

The Company has no financial covenants on its outstanding debt.

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. Due to the general economic downturn and its impact on the Company, 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.

The Company believes that for tax purposes the cash distributions declared in 2016 may be treated as a return of capital to stockholders depending on each stockholder's basis or it may be treated as a dividend or a combination of the two. Determination of whether it is a cash distribution, cash dividend or combination of the two will not be made until after December 31, 2016, as the classification or combination is dependent upon the Company's earnings and profits for tax purposes for its fiscal year ending November 30, 2016.

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.

Recent Accounting Pronouncements

Revenue from Contracts with Customers, ASU 2014-09 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 ASU is effective for the Company, for annual periods beginning after December 15, 2017. The Company will adopt ASU 2014-09 for fiscal year ending November 30, 2019 and the Company is evaluating the impact that adoption of this guidance might have on the Company's consolidated financial position, cash flows or results of operations.

On February 25, 2016, the FASB issued ASU 2016-02, a leasing standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company intends to adopt ASU 2016-02 for fiscal year ending November 30, 2020 and the Company is evaluating the impact that adoption of this guidance might have on the Company's consolidated financial position, cash flows and results and operations.

Management does not believe that there are any other recently issued and effective or not yet effective pronouncements as of August 31, 2016 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 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, 2015, filed with the Securities and Exchange Commission on February 24, 2016. There have been no material changes to the Company's critical accounting policies that impact the Company's financial condition, results of operations or cash flows for the three or nine months ended August 31, 2016.

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, 2016 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 nine months of fiscal year 2016 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 are 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. Except as stated below, we know of no pending or threatened proceeding or claim to which we are or will be a party.

The Company had previously reported that on July 8, 2013, a judgment was entered in the Circuit Court of Cook County against BAB Operations, Inc. ("Operations"), a wholly owned subsidiary of BAB, Inc., and in favor of a former landlord of Operations, Alecta Real Estate USA, LLC. In September 2013 the Company filed an appeal. On March 23, 2015 the Appellate Court ruled in favor of the plaintiff and against Operations, affirming the trial court's judgment. The legal settlement was accrued in the first quarter 2015 and payment was made in the second quarter 2015 and it included the judgment, attorney's fees and interest.

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

See index to exhibits

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 13, 2016

/s/ Geraldine Conn
Geraldine Conn
Chief Financial Officer

INDEX TO 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)
3.2	Bylaws of the Company (See Form 10-KSB for year ended November 30, 2006)
4.1	Preferred Shares Rights Agreement (See Form 8-K filed May 6, 2013)
10.1	Long-Term Debt (Stock Redemption Agreement) (See Form 10-K for year ended November 30, 2015 filed February 24, 2016)
10.2	Long-Term Incentive and Stock Option Plan (See Form 10-K for year ended November 30, 2015 filed February 24, 2016)
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
** XBRL	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.

Exhibit 21.1

SUBSIDIARIES OF BAB, INC.

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 13, 2016

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 13, 2016

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, 2016, 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 13, 2016

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, 2016, 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 13, 2016

By: /s/ Geraldine Conn
Geraldine Conn, Chief Financial Officer