FORM 10-Q

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

|  |  |
| --- | --- |
| [X] | QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934   For the quarterly period ended February 28, 2017 |
| [ ] | 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 | 36-4389547 |
| (State or other jurisdiction of incorporation or organization) | (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 X  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 X   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 checkif a smaller reporting company) Smaller reporting company X

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

As of April 13, 2017 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**

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SEE ACCOMPANYING NOTES

**BAB, Inc.**

**Consolidated Statements of Income**

**For the Three Months Ended February 28, 2017 and February 29, 2016**

**(Unaudited)**

****

SEE ACCOMPANYING NOTES

**BAB, Inc.**

**Consolidated Statements of Cash Flows**

**For the Three Months Ended February 28, 2017 and February 29, 2016**

**(Unaudited)**

****

 SEE ACCOMPANYING NOTES

**BAB, Inc.**

**Notes to Unaudited Consolidated Financial Statements**

**For the Three Months Ended February 28, 2017 and February 29, 2016**

**(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 or MFM 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 and MFM trade names. At February 28, 2017,

the Company had 84 franchise units and 2 licensed units in operation in 23 states and one international location. There are 2 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 licensing agreements with 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® 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, 2016 which was filed February 23, 2017.  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 February 28, 2017 are as follows: ****

**3. Earnings per Share**

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



For the three months ended February 29, 2016, the Company excluded 175,000 potential shares attributable to outstanding stock options from the calculation.

**4.  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. All remaining options expired on November 23, 2016 and there were no options outstanding as of February 28, 2017. As of February 29, 2016, there were 1,225,000 stock options exercised or forfeited under the Plan. All options outstanding were either forfeited or expired during the year ended November 30, 2016.



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 $0.56 as of the last business day of the period ended February 29, 2016.

**5. 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 and has elected to early adopt ASU 2017-04 “Intangibles – Goodwill and Other” (Topic 350) for the quarter ended February 28, 2017.

The Company tests goodwill that is not subject to amortization for impairment annually or more frequently if events or circumstances indicate that impairment is possible.

The Company has consistently conducted its annual test during the first quarter.

During the quarter, management qualitatively assessed goodwill to determine whether testing is 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. Based on a qualitative evaluation, management determined that the carrying value of goodwill was not impaired at February 28, 2017, and a quantitative assessment was not considered necessary.

The impairment test performed November 30, 2016 was based on a fair market value calculation using a discounted cash flow model that incorporated management’s business plan projection for expected future cash flows. Based on the computation it was determined that no impairment had occurred. There have been no material changes in the first quarter of 2017 and it is believed that the cash flow projections are in line with current year income and expenses.

**6. Recent and Adopted Accounting Pronouncements**

In January 2017, the FASB issued ASU 2017-04, Intangibles- Goodwill and Other (Topic 350), which is intended to simplify the test for goodwill impairment. To simplify the subsequent measurement of goodwill, the standard eliminates Step 2 from the goodwill impairment test. Instead, an entity will perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in this ASU are effective for the annual reporting periods beginning after December 15, 2019, including the interim periods within that reporting period. The Company has elected to early adopt this guidance in the quarter ended February 28, 2017.

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 fiscal years 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 financial position, cash flows or results of operations.

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases, requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The Company will adopt ASU 2016-02 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 financial position, cash flows or results of operations.

In March 2016, the Financial Accounting Standards Board issued ASU 2016-04, Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. The amendments in the ASU are designed to provide guidance and eliminate diversity in the accounting for derecognition of prepaid stored-value product liabilities. Typically, a prepaid stored-value product liability is to be derecognized when it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. This is when the likelihood of the product holder exercising its remaining rights becomes remote. This estimate shall be updated at the end of each period. The amendments in this ASU are effective for the annual reporting periods beginning after December 15, 2017, including the interim periods within that reporting period. Early adoption is permitted. The Company is still evaluating the impact the guidance will have on the Company’s financial position, cash flows or results of operations.

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.

**7. Stockholder’s Equity**

The Board of Directors declared a cash distribution/dividend on March 3, June 6 and September 6, 2016 of $0.01 per share, paid April 13, July 11, and October 12, 2016, respectively. On December 5, 2016, a $0.01 quarterly and a $0.01 special cash distribution/dividend per share was declared and paid on January 9, 2017.

On March 15, 2017, the Board of Directors declared a $0.01 quarterly cash distribution/dividend to shareholders of record as of March 31, 2017, payable April 20, 2017.

**8. Contingencies**

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 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.

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| **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 franchisee**s** 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 wag**e);** 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 84 franchised and 2 licensed units at February 28, 2017 compared to 84 franchised and 3 licensed units at February 29, 2016.  System-wide revenues for the three months ended February 28, 2017 were $8.1 million as compared to February 29, 2016 which were $8.3 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 (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 a licensing fee 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 February 28, 2017, the Company employed 15 full-time employees and 1 part-time employee 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 February 28, 2017 versus Three Months Ended February 29, 2016**

For the three months ended February 28, 2017, the Company reported net income of $53,000. For the three months ended February 29, 2016, the Company reported net income of $89,000. Total revenue was $493,000, a decrease of $88,000, or 15.1%, for the three months ended February 28, 2017, as compared to total revenue of $581,000 for the three months ended February 29, 2016.

Royalty fee revenue of $400,000, for the quarter ended February 28, 2017, decreased $7,000, or 1.7%, from the $407,000 for quarter ended February 29, 2016. The decrease in royalty revenue was primarily due to one additional day in the 2016 quarter.

There were no fees for transfers or store opening in the first quarter of 2017 as compared to 3 transfers in the same period 2016.

Licensing fee and other income of $92,000, for the quarter ended February 28, 2017, decreased $67,000, or 42.1% from $159,000 for the quarter ended February 29, 2016. The decrease in licensing fees and other income was primarily due to a one time nontraditional vendor rebate payment in 2016 of $40,000 and a decrease in 2017 of $4,000 in nontraditional revenue compared to 2016. There was a decrease of $15,000 for settlement and other income and a decrease in Sign Shop revenue of $7,000 in 2017 as compared to the same period in 2016.

Total operating expenses of $440,000, for the quarter ended February 28, 2017 decreased $52,000, or 10.6% from $492,000 for the quarter ended February 29, 2016. Changes in operating expenses from the first quarter 2017 to same period 2016 were primarily due to a decrease in payroll and payroll related expenses of $30,000, a decrease in advertising and promotion expense of $3,000, a decrease in employee benefit expense of $5,000, a decrease in Sign Shop cost of goods of $12,000 and a decrease in general operating expenses of $2,000.

Interest expense and interest income netted to less than a $1,000 in the quarters ended February 28, 2017 and February 29, 2016.

There was no income tax expense or benefit recorded for the three months ended February 28, 2017 or February 29, 2016.

**Earnings per share, as reported for basic and diluted outstanding shares for the first quarters ended February 28, 2017 and February 29, 2016 was $0.01 per share.**

**Liquidity and Capital Resources**

At February 28, 2017, the Company had working capital of $465,000 and unrestricted cash of $674,000. At November 30, 2016 the Company had working capital of $557,000 and unrestricted cash of $907,000.

During the three months ended February 28, 2017, the Company had net income of $53,000 and operating activities used cash of $83,000. The principal adjustments to reconcile the net income to cash provided in operating activities for the three months ending February 28, 2017 were depreciation and amortization of $5,000 less a provision for uncollectible accounts of $1,000. In addition, changes in operating assets and liabilities decreased cash by $139,000. During the three month period ending February 29, 2016, the Company had net income of $89,000 and operating activities provided cash of $110,000. The principal adjustments to reconcile net income to cash provided by operating activities for the three months ending February 29, 2016 were depreciation and amortization of $5,000 less a provision for uncollectible accounts of $1,000. In addition changes in operating assets and liabilities increased cash by $17,000.

The Company used $5,000 and $4,000 for investing activities for the three months ended February 28, 2017 and February 29, 2019, respectively.

The Company used $145,000 and $218,000 for cash distribution/dividend payments during the three months ended February 28, 2017 and February 29, 2016, respectively.

On March 15, 2017, the Board of Directors declared a $0.01 quarterly cash distribution/dividend to shareholders of record as of March 31, 2017, payable April 20, 2017. 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 calendar 2017 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, 2017, as the classification or combination is dependent upon the Company’s earnings and profits for tax purposes for calendar 2017.

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 and Adopted Accounting Pronouncements**

In January 2017, the FASB issued ASU 2017-04, Intangibles- Goodwill and Other (Topic 350), which is intended to simplify the test for goodwill impairment. To simplify the subsequent measurement of goodwill, the standard eliminates Step 2 from the goodwill impairment test. Instead, an entity will perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in this ASU are effective for the annual reporting periods beginning after December 15, 2019, including the interim periods within that reporting period. The Company has elected to early adopt this guidance in the quarter ended February 28, 2017.

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 fiscal years 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 financial position, cash flows or results of operations.

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases, requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The Company will adopt ASU 2016-02 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 financial position, cash flows or results of operations.

In March 2016, the Financial Accounting Standards Board issued ASU 2016-04, Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. The amendments in the ASU are designed to provide guidance and eliminate diversity in the accounting for derecognition of prepaid stored-value product liabilities. Typically, a prepaid stored-value product liability is to be derecognized when it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. This is when the likelihood of the product holder exercising its remaining rights becomes remote. This estimate shall be updated at the end of each period. The amendments in this ASU are effective for the annual reporting periods beginning after December 15, 2017, including the interim periods within that reporting period. Early adoption is permitted. The Company is still evaluating the impact the guidance will have on the Company’s financial position, cash flows or results of operations.

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 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, 2016, filed with the Securities and Exchange Commission on February 23, 2017.  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 months ended February 28, 2017.

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| **ITEM 3.** | **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** |

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

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| **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 February 28, 2017 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 2017 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. We know of no pending or threatened proceeding or claim to which we are or will be a party.

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

None.

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| **ITEM 3.** | **DEFAULTS UPON SENIOR SECURITIES** |

None.

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| **ITEM 4.** | **MINE SAFETY DISCLOSURES** |

Not applicable

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| **ITEM 5.** | **OTHER INFORMATION** |

None.

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| **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:April 13, 2017 | /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 | |
|  | |  | |

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:
   1. 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;
   2. 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;
   3. 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
   4. 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):
   1. 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
   2. 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:April 13, 2017 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 andhave:
   1. 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;
   2. 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;
   3. 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
   4. 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):
   1. 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
   2. 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: April 13, 2017 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 February 28, 2017, 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:  April 13, 2017                                                            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 February 28, 2017, 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:  April 13, 2017 By:   /s/ Geraldine Conn

Geraldine Conn, Chief Financial Officer