

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 May 31, 2013

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 July 11, 2013 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 Sheet**

	May 31, 2013 (unaudited)	November 30, 2012
ASSETS		
Current Assets		
Cash	\$ 870,668	\$ 1,256,257
Restricted cash	371,204	376,837
Receivables		
Trade accounts and notes receivable (net of allowance for doubtful accounts of \$14,331 in 2013 and \$25,580 in 2012)	79,607	86,070
Marketing fund contributions receivable from franchisees and stores	13,507	16,385
Inventories	25,720	26,953
Prepaid expenses and other current assets	87,228	65,991
Total Current Assets	1,447,934	1,828,493
Property, plant and equipment (net of accumulated depreciation of \$141,357 in 2013 and \$139,293 in 2012)	8,708	10,773
Assets held for sale	3,783	3,783
Trademarks	446,222	445,022
Goodwill	1,493,771	1,493,771
Definite lived intangible assets (net of accumulated amortization of \$61,206 in 2013 and \$54,560 in 2012)	53,214	59,710
Deferred tax asset	248,000	248,000
Total Noncurrent Assets	2,253,698	2,261,059
Total Assets	\$ 3,701,632	\$ 4,089,552
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	\$ 29,070	\$ 29,070
Accounts payable	13,218	14,120
Accrued expenses and other current liabilities	398,145	328,288
Unexpended marketing fund contributions	384,965	393,477
Deferred franchise fee revenue	50,000	25,000
Deferred licensing revenue	20,833	45,833
Total Current Liabilities	896,231	835,788
Long-term debt (net of current portion)	95,762	95,762
Total Liabilities	991,993	931,550
Stockholders' Equity		
Preferred shares, 5,000,000 authorized, no shares outstanding		
Common stock (\$.001 par value; 15,000,000 shares authorized; 8,466,953 shares issued and 7,263,508 shares outstanding as of May 31, 2013 and November 30, 2012)	13,508,257	13,508,257
Additional paid-in capital	987,034	987,034
Treasury stock	(222,781)	(222,781)
Accumulated deficit	(11,562,871)	(11,114,508)
Total Stockholders' Equity	2,709,639	3,158,002
Total Liabilities and Stockholders' Equity	\$ 3,701,632	\$ 4,089,552

SEE ACCOMPANYING NOTES

BAB, Inc.
Consolidated Statements of Income
For the Three and Six Month Periods Ended May 31, 2013 and 2012
(Unaudited)

	3 months ended May 31,		6 months ended May 31,	
	2013	2012	2013	2012
REVENUES				
Royalty fees from franchised stores	\$ 467,525	\$ 489,081	\$ 887,444	\$ 932,002
Franchise fees	10,000	37,500	10,000	42,500
Licensing fees and other income	180,632	299,205	295,792	418,776
Total Revenues	<u>658,157</u>	<u>825,786</u>	<u>1,193,236</u>	<u>1,393,278</u>
OPERATING EXPENSES				
Selling, general and administrative expenses:				
Payroll and payroll-related expenses	329,802	327,896	708,440	696,147
Occupancy	42,594	46,252	84,157	65,760
Advertising and promotion	19,343	19,237	36,820	31,054
Professional service fees	20,445	33,493	81,228	93,715
Travel	15,912	14,449	32,927	28,466
Depreciation and amortization	4,367	4,782	8,711	9,566
Other	99,022	96,439	178,462	174,405
Total Operating Expenses	<u>531,485</u>	<u>542,548</u>	<u>1,130,745</u>	<u>1,099,113</u>
Income from operations	<u>126,672</u>	<u>283,238</u>	<u>62,491</u>	<u>294,165</u>
Interest income	248	668	555	1,374
Interest expense	(1,482)	(1,812)	(2,964)	(3,624)
Income before provision for income taxes	<u>125,438</u>	<u>282,094</u>	<u>60,082</u>	<u>291,915</u>
Provision for income taxes				
Current tax	-	15,000	-	15,000
Net Income	<u>\$ 125,438</u>	<u>\$ 267,094</u>	<u>\$ 60,082</u>	<u>\$ 276,915</u>
Earnings per share - Basic and Diluted	<u>0.02</u>	<u>0.04</u>	<u>0.01</u>	<u>0.04</u>
Weighted average shares outstanding - Basic	7,263,508	7,263,508	7,263,508	7,263,508
Effect of dilutive common stock	4,050	2,002	3,210	2,199
Weighted average shares outstanding - Diluted	<u>7,267,558</u>	<u>7,265,510</u>	<u>7,266,718</u>	<u>7,265,707</u>
Cash distributions declared per share	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.07</u>	<u>\$ 0.02</u>

SEE ACCOMPANYING NOTES

BAB, Inc.
Consolidated Statements of Cash Flows
For the Six Month Periods Ended May 31, 2013 and 2012
(Unaudited)

	2013	2012
Operating activities		
Net income	\$ 60,082	\$ 276,915
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	8,711	9,566
Provision for uncollectible accounts, net of recoveries	(6,214)	(3,002)
Changes in:		
Trade accounts receivable and notes receivable	12,677	30,971
Restricted cash	5,633	(28,241)
Marketing fund contributions receivable	2,878	4,856
Inventories	1,233	(7,873)
Prepaid expenses and other	(21,237)	22,769
Accounts payable	(902)	(30,212)
Accrued liabilities	(2,778)	(53,465)
Unexpended marketing fund contributions	(8,512)	23,284
Deferred revenue	-	24,167
Net Cash Provided by Operating Activities	51,571	269,735
Investing activities		
Capitalization of trademark renewals	(1,350)	(150)
Net Cash Used In Investing Activities	(1,350)	(150)
Financing activities		
Dividends payable	72,635	72,635
Cash distributions/dividends	(508,445)	(290,540)
Net Cash Used In Financing Activities	(435,810)	(217,905)
Net Increase (Decrease) in Cash	(385,589)	51,680
Cash, Beginning of Period	1,256,257	1,236,125
Cash, End of Period	\$ 870,668	\$ 1,287,805
Supplemental disclosure of cash flow information:		
Interest paid	\$ -	\$ -
Income taxes paid	\$ 19,950	\$ 5,000

SEE ACCOMPANYING NOTES

BAB, Inc.
Notes to Unaudited Consolidated Financial Statements
For the Quarters and Year to Date Periods Ended May 31, 2013 and 2012
(Unaudited)

Note 1 - Nature of Operations

BAB, Inc (“the Company”) has two wholly owned subsidiaries: BAB Systems, Inc. (“Systems”) and BAB Operations, Inc. (“Operations”). Systems was incorporated on December 2, 1992, and was primarily established to franchise Big Apple Bagels® (“BAB”) specialty bagel retail stores. My Favorite Muffin Too, Inc., a New Jersey corporation, was acquired on May 13, 1997 and is included as a part of Systems. Brewster’s Franchise Corporations (“Brewster’s”) was established on February 15, 1996 and is also included as a part of Systems. Brewster’s® Coffee is sold in BAB and My Favorite Muffin® (“MFM”) locations as well as through license agreements. Operations was formed on August 30, 1995, primarily to operate Company-owned stores. There are currently no Company-owned stores. The assets of Jacobs Bros. Bagels® (“Jacobs Bros.”) were acquired on February 1, 1999, and any branded wholesale business uses this trademark.

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 May 31, 2013 the Company had 93 franchise units and 5 licensed units in operation in 24 states. 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, Kaleidoscoops, Green Beans Coffee, Sodexo and through direct home delivery of specialty muffin gift baskets and coffee. Also included in licensing fees and other income is Operation’s Sign Shop results. For franchise consistency and convenience, the Sign Shop provides the majority of signage to franchisees, including but not limited to, posters, menu panels, build charts, outside window stickers and counter signs.

On May 7, 2012 the Company issued a press release announcing the launch of its new franchise concept, SweetDuet Frozen Yogurt & Gourmet Muffins® (“SweetDuet”). The first SweetDuet will be opening this year in Kalamazoo MI to a current BAB franchisee. The first franchise agreement was signed subsequent to May 31, 2013, on June 3, 2013. While BAB will be offering franchises in all 50 states, its initial development focus is targeted for the Midwest, specifically Illinois, Michigan, Wisconsin and Ohio. As part of its introductory development plan, BAB will be donating 10% of the initial franchise fee from its first 50 SweetDuet units to the Cystic Fibrosis Foundation, of which BAB is a corporate sponsor. SweetDuet, as its name implies, is a fusion concept, pairing self-serve frozen yogurt with BAB’s exclusive line of My Favorite Muffin gourmet muffins, broadening the shop’s offering and therefore differentiating itself from the numerous frozen yogurt outlets already populating the market. SweetDuet shops will also include BAB’s Brewster’s Coffee and a streamlined breakfast menu. The SweetDuet concept will be included as part of Systems franchise operating and financial information.

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, 2012 which was filed February 22, 2013. In the opinion of the Company’s management, the condensed consolidated financial statements for the unaudited interim periods presented include all adjustments, including normal recurring adjustments, necessary to fairly present the results of such interim periods 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. Locations Open and Under Development

Locations which are open or under development at May 31, 2013 are as follows:

Locations open:

Franchisees	93
Licensed	5
Under development	4
Total	<u>102</u>

3. Earnings per Share

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

	For the 3 months ended May 31,		For the 6 months ended May 31,	
	2013	2012	2013	2012
Numerator:				
Net income available to common shareholders	\$ 125,438	\$ 267,094	\$ 60,082	\$ 276,915
Denominator:				
Weighted average outstanding shares				
Basic	<u>7,263,508</u>	<u>7,263,508</u>	<u>7,263,508</u>	<u>7,263,508</u>
Earnings per Share - Basic	<u>\$0.02</u>	<u>\$0.04</u>	<u>\$0.01</u>	<u>\$0.04</u>
Effect of dilutive common stock	4,050	2,002	3,210	2,199
Weighted average outstanding shares				
Diluted	<u>7,267,558</u>	<u>7,265,510</u>	<u>7,266,718</u>	<u>7,265,707</u>
Earnings per share - Diluted	<u>\$0.02</u>	<u>\$0.04</u>	<u>\$0.01</u>	<u>\$0.04</u>

The Company excluded 350,400 potential shares attributable to outstanding stock options from the calculation of diluted earnings per share for the three and six months ended May 31, 2013 and 2012 because their inclusion would have been anti-dilutive.

4. Long-Term Debt

The total debt balance of \$125,000 represents a note payable to a former shareholder that requires an annual payment of \$35,000, including interest at 4.75%, due October 1 and running through 2016.

5. Stock Options

In May 2001, the Company approved a Long-Term Incentive and Stock Option Plan (Plan). The Plan reserves 1,400,000 shares of common stock for grant. As of February 28, 2013, 1,400,000 stock options were granted to directors, officers and employees. As of May 31, 2013, there were 1,031,627 stock options exercised or forfeited under the Plan.

	<u>May 31, 2013</u>	<u>May 31, 2012</u>
	<u>Options</u>	<u>Options</u>
Options Outstanding at beginning of period	368,373	368,373
Granted	0	0
Forfeited	0	0
Exercised	0	0
Options Outstanding at end of period	<u>368,373</u>	<u>368,373</u>

All compensation cost arising from share-based payment arrangements in payroll-related expenses was expensed as of November 30, 2011.

The Company uses historical volatility of common stock over a period equal to the expected life of the options to estimate their fair value. The dividend yield assumption is based on the Company's history and expectation of future dividend payouts on the common stock. The risk-free interest rate is based on the implied yield available on U.S. treasury zero-coupon issues with an equivalent remaining term. The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. To value option grants and other awards for actual and pro forma 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 10 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 May 31, 2013:

Options Outstanding				Options Exercisable		
Outstanding at 5/31/13	Wghtd. Avg. Remaining Life	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value	Exercisable at 5/31/13	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value
368,373	2.80	\$ 1.16	\$ -	368,373	\$ 1.16	\$ -

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 \$0.81 as of the last business day of the period ended May 31, 2013. No options were exercised during the six month period ended May 31, 2013.

6. Goodwill and Other Intangible Assets

Accounting Standard Codification ("ASC") 350 (formerly SFAS No. 142) "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 that is not subject to amortization for impairment annually or more frequently if events or circumstances indicate that impairment is possible. Goodwill was tested at the end of the first quarter, February 28, 2013 and it was found that the carrying value of goodwill and intangible assets were not impaired.

The impairment test performed February 28, 2013 was based on a discounted cash flow model using management's business plan projected for expected cash flows. Based on the computation it was determined that no impairment has occurred. An impairment test was performed at February 29, 2012 and based on the computation using discounted cash flows, it was also determined that no impairment occurred.

7. Recent Accounting Pronouncements

Management does not believe that there are any recently issued and effective, or not yet effective, pronouncements as of May 31, 2013 that would have, or are expected to have, any significant effect on the Company's consolidated financial position, cash flows or results of operations.

8. Equity

There was a cash distribution/dividend payable included in accrued expenses for May 31, 2013 in the amount of \$72,635 declared May 17, 2013 and payable July 2, 2013. There was no distribution/dividend payable accrued at November 30, 2012.

On May 7, 2013 BAB Inc. adopted a Preferred Shares Rights Agreement ("Rights Plan") and declared a dividend distribution of one right (equivalent to one one-thousandth of a preferred share), for each outstanding share of common stock. The Rights Plan is intended to protect BAB and its stockholders from efforts to obtain control of BAB that the Board of Directors determines are not in the best interest of BAB and its stockholders. BAB issued one Right for each current share of stock outstanding at the close of business on May 13, 2013. The rights will not be exercisable unless a person or group acquires 15% (20% institutional investors) or more of BAB's common stock.

9. Contingency

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.

On July 8, 2013, a judgment was entered in the Circuit Court of Cook County in the amount of \$84,000 against BAB Operations, Inc ("Operations"), a wholly owned subsidiary of the Company, and in favor of a former landlord of Operations, Alecta Real Estate USA, LLC. Operations, the subsidiary which owned Company stores, had been a tenant operating a Big Apple Bagels store in Glenview, Illinois from 1999 to 2001 when it sold the store and assigned the lease to a franchisee. The store was sold and the lease was assigned three more times over the next 10 years. In 2011, the final owner of the store closed it and defaulted on the lease. Operations, which no longer owns any Company stores, was sued for a continuing guaranty in connection with the original assignment of the lease in 2001. Operations contended that it bore no liability because of language in one of the subsequent assignments releasing it from any further liability.

The Company and its trial counsel feel strongly that the Court's ruling was in error and contrary to applicable Illinois precedent. The Company intends to vigorously pursue an appeal and anticipates a favorable result based on prior favorable rulings in similar cases.

No amounts have been accrued for any potential losses in this matter.

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 Company-owned store results; 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 93 franchised and 5 licensed units at May 31, 2013. Units in operation at May 31, 2012 included 99 franchised and 6 licensed units. System-wide revenues for the six months ended May 31, 2013 were \$18.1 million as compared to May 31, 2012 which were \$19.1 million.

The Company's revenues are derived primarily from the ongoing royalties paid to the Company by its franchisees and receipt of initial franchise fees. Additionally, the Company derives revenue from the sale of licensed products (My Favorite Muffin mix, Big Apple Bagels cream cheese and Brewster's coffee), and through licensing and nontraditional channels of distribution (Kohr Bros., Braeda Café, Kaleidoscoops, Green Beans Coffee and Sodexo). 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, build charts, 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. 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, scoop and bake muffin batter and par baked bagels from a third-party commercial bakery, to the franchised and licensed units.

As of May 31, 2013, the Company employed 14 full-time and 5 part-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 May 31, 2013 versus Three Months Ended May 31, 2012

For the three months ended May 31, 2013 and 2012, the Company reported a net income of \$125,000 and \$267,000, respectively. Total revenue of \$658,000 decreased \$168,000, or 20.3%, for the three months ended May 31, 2013, as compared to total revenue of \$826,000 for the three months ended May 31, 2012.

Royalty fee revenue of \$468,000, for the quarter ended May 31, 2013, decreased \$21,000, or 4.3%, from the \$489,000 for quarter ended May 31, 2012. The Company had six fewer franchise locations at May 31, 2013 compared to May 31, 2012.

There were two store transfers totaling \$10,000 in franchise fee revenue during the quarter ended May 31, 2013 versus \$38,000 in revenue for one store opening and three transfers for the quarter ended May 31, 2012.

Licensing fee and other income of \$181,000, for the quarter ended May 31, 2013, decreased \$118,000, from \$299,000 for the quarter ended May 31, 2012. Licensing fees and other income include income from settlements and terminations of franchise agreements (settlements) and for the quarter ended May 31, 2013, settlements decreased \$127,000 due to the fact in the same period in 2012 we received a \$171,000 payment for the buyout of the Franchise Agreement from the Minot, ND franchisee so the franchisee could pursue its other business interests associated with the local energy boom. In that acceptance by the Company of the voluntary buyout is unique, no such transaction occurred nor was such income earned in the quarter ended May 31, 2013. The \$127,000 decrease in settlement income in 2013 was offset by an increase of \$8,000 for Sign Shop revenue in the second quarter 2013 compared to the same period 2012.

Total operating expenses of \$531,000 decreased \$12,000, or 2.2%, for the quarter ended May 31, 2013, from \$543,000 for the same period 2012. The decrease in total operating expenses in 2013 as compared to same period 2012 was primarily due to a decrease of \$13,000 for legal fees.

The above expenses for May 31, 2013 include \$31,000 of expenses relating to the development of our SweetDuet franchise concept versus none in the same period of 2012.

Interest income was less than \$1,000 for both quarters ended May 31, 2013 and 2012.

Interest expense was \$1,000 for quarter ended May 31, 2013 compared to \$2,000 for the same period 2012.

Earnings per share, as reported for basic and diluted outstanding shares for the second quarter ended May 31, 2013 and 2012 was \$0.02 and \$0.04, respectively.

Six Months Ended May 31, 2013 versus Six Months Ended May 31, 2012

For the six months ended May 31, 2013 and 2012, the Company reported net income of \$60,000 and \$277,000, respectively. Total revenue of \$1,193,000 decreased \$201,000, or 14.4%, for the six months ended May 31, 2013, as compared to total revenue of \$1,393,000 for the six months ended May 31, 2012.

Royalty fee revenue of \$887,000, for the six months ended May 31, 2013, decreased \$45,000, or 4.8%, from the \$932,000 for the six months ended May 31, 2012. The Company had six fewer franchise locations at May 31, 2013 compared to May 31, 2012.

There were two store transfers totaling \$10,000 in franchise fee revenue during the six months ended May 31, 2013 versus \$43,000 in revenue for one store opening and four transfers for the six months ended May 31, 2012.

Licensing fee and other income of \$296,000, for the six months ended May 31, 2013, decreased \$123,000, from \$419,000 for the six months ended May 31, 2012. Licensing fees and other income include income from settlements and terminations of franchise agreements (settlements) and for the six months ended May 31, 2013, settlements decreased \$127,000 due to the fact in the same period in 2012 we received a \$171,000 payment for the buyout of the Franchise Agreement from the Minot, ND franchisee so the franchisee could pursue its other business interests associated with the local energy boom. In that acceptance by the Company of the voluntary buyout is unique, no such transaction occurred nor was such income earned in the six months ended May 31, 2013. Nontraditional revenue decreased \$7,000 for the six months of 2013 compared to 2012, offset by an increase of \$10,000 for Sign Shop revenue in 2013 compared to the same period 2012.

Total operating expenses of \$1,131,000 increased \$32,000, or 2.9%, for the six months ended May 31, 2013, from \$1,099,000 for the same period 2012. The increase in total operating expenses in 2013 as compared to same period 2012 was primarily due to an increase of \$18,000 for occupancy expense in comparison to same period in 2012 which was primarily due to a construction credit received in 2012 and \$12,000 in payroll and payroll related expenses. During the later part of May 2013 one full-time employee was eliminated and executive management took a voluntary pay cut in order to help offset development costs regarding the launch of its SweetDuet concept. In addition, Sign Shop cost of sales increased \$11,000 in 2013 compared to 2012. There were offsetting reductions to operating expenses, business taxes and bank charges which decreased expenses by \$9,000.

The above expenses for the six months ended May 31, 2013 included \$68,000 of expenses relating to the development of the SweetDuet franchise concept versus \$16,000 for the same period 2012.

Interest income was a \$1,000 for the six months ended May 31, 2013 and 2012.

Interest expense for the six months ended May 31, 2013 and 2012 was \$3,000 and \$4,000, respectively.

Earnings per share, as reported for basic and diluted outstanding shares for the six months ended May 31, 2013 and 2012 was \$0.01 and \$0.04, respectively.

Liquidity and Capital Resources

At May 31, 2013, the Company had working capital of \$552,000 and unrestricted cash of \$871,000. At November 30, 2012 the Company had working capital of \$993,000 and unrestricted cash of \$1,256,000.

During the six months ended May 31, 2013, the Company had net income of \$60,000 and operating activities provided cash of \$52,000. The principal adjustments to reconcile net income to cash used in operating activities were depreciation and amortization of \$9,000, less provision for uncollectible accounts of \$6,000. In addition, changes in operating assets and liabilities decreased cash by \$11,000. During May 31, 2012, the Company had net income of \$277,000 and operating activities provided cash of \$270,000. The principal adjustments to reconcile net income to cash provided by operating activities for the six months ending May 31, 2012 were depreciation and amortization of \$10,000 less the provision for uncollectible accounts of \$3,000. In addition changes in operating assets and liabilities decreased cash by \$14,000.

For the six months ended May 31, 2013 the Company used \$1,000 for investing activities and \$150 for the six months ended May 31, 2012.

The Company used \$436,000 and \$218,000 for cash distribution/dividend payments and offsetting dividend payable during the six month period ended May 31, 2013 and 2012, respectively.

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 distribution declared in 2013 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, 2013, as the classification or combination is dependent upon the Company's earnings and profits for tax purposes for its fiscal year ending November 30, 2013.

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

Management does not believe that there are any recently issued and effective, or not yet effective, pronouncements as of May 31, 2013 that would have, or are expected to have, any significant effect on the Company's consolidated 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, 2012, filed with the Securities and Exchange Commission on February 22, 2013. 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 six months ended May 31, 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 May 31, 2013 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 six months of fiscal year 2013 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.

On July 8, 2013, a judgment was entered in the Circuit Court of Cook County in the amount of \$84,000 against BAB Operations, Inc (“Operations”), a wholly owned subsidiary of the Company, and in favor of a former landlord of Operations, Alecta Real Estate USA, LLC. Operations, the subsidiary which owned Company stores, had been a tenant operating a Big Apple Bagels store in Glenview, Illinois from 1999 to 2001 when it sold the store and assigned the lease to a franchisee. The store was sold and the lease was assigned three more times over the next 10 years. In 2011, the final owner of the store closed it and defaulted on the lease. Operations, which no longer owns any Company stores, was sued for a continuing guaranty in connection with the original assignment of the lease in 2001. Operations contended that it bore no liability because of language in one of the subsequent assignments releasing it from any further liability.

The Company and its trial counsel feel strongly that the Court’s ruling was in error and contrary to applicable Illinois precedent. The Company intends to vigorously pursue an appeal and anticipates a favorable result based on prior favorable rulings in similar cases.

No amounts have been accrued for any potential losses in this matter.

ITEM 2. UNREGISTERED SALES OF EQUITY 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: July 12, 2013

/s/ Jeffrey M. Gorden
Jeffrey M. Gorden
Chief Financial Officer

INDEX TO EXHIBITS

(a) EXHIBITS

The following exhibits are filed herewith.

INDEX NUMBER	DESCRIPTION
21.1	List of Subsidiaries of the Company
31.1	Section 302 of the Sarbanes-Oxley Act of 2002 Certification of Chief Executive Officer
31.2	Section 302 of the Sarbanes-Oxley Act of 2002 Certification of Chief Financial Officer
32.1	Section 906 of the Sarbanes-Oxley Act of 2002 Certification of Chief Executive Officer
32.2	Section 906 of the Sarbanes-Oxley Act of 2002 Certification of Chief Financial Officer

Exhibit 21.1

SUBSIDIARIES OF BAB, INC.

BAB Systems, Inc., an Illinois corporation

BAB Operations, Inc., an Illinois corporation

Brewster's Franchise Corporation, an Illinois corporation

My Favorite Muffin Too, Inc., a New Jersey corporation

BAB Investments, Inc., an Illinois corporation

**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: July 12, 2013

by /s/ Michael W. Evans

Michael W. Evans, Chief Executive Officer

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

I, Jeffrey M. Gorden, 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: July 12, 2013

By: /s/ Jeffrey M. Gorden

Jeffrey M. Gorden, 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 May 31, 2013, 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: July 12, 2013

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 May 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey M. Gorden, 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: July 12, 2013

By: /s/ Jeffrey M. Gorden

Jeffrey M. Gorden, Chief Financial Officer