BAB, INC.
Form 10QSB
October 10, 2008

FORM 10-QSB

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended: August 31, 2008

£ 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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 T No £

As of October 10, 2008, BAB, Inc. had: 7,263,508 shares of Common Stock outstanding.

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PART I

ITEM 1. FINANCIAL INFORMATION

BAB, Inc.
Condensed Consolidated Balance Sheet (Unaudited)
As of August 31, 2008

ASSETS	
Current Assets	
Cash	$ 1,204,642
Restricted cash	322,223
Receivables	
Trade accounts receivable (net of allowance for doubtful accounts of $5,320)	118,340
Marketing fund contributions receivable from franchisees and stores	17,298
Notes receivable (net of allowance for doubtful accounts of $2,463)	3,873
Inventories	46,198
Prepaid expenses and other current assets	110,612
Total Current Assets	1,823,186
Property, plant and equipment (net of accumulated depreciation of $546,945)	57,035
Trademarks	763,667
Goodwill	3,542,772
Definite lived intangible assets (net of accumulated amortization of $311,248)	70,183
Deferred tax asset	500,000
Total Noncurrent Assets	4,933,657
Total Assets	$ 6,756,843
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Current portion of long-term debt	$ 23,051
Accounts payable	28,505
Accrued expenses and other current liabilities	322,307
Unexpended marketing fund contributions	276,003
Deferred franchise fee revenue	110,000
Deferred licensing revenue	20,831
Total Current Liabilities	780,697
Long-term debt (net of current portion)	228,516
Total Noncurrent Liabilities	228,516
Total Liabilities	1,009,213
Stockholders' Equity	
Common stock ($.001 par value; 15,000,000 shares authorized; 8,466,953 shares issued, and 7,263,508 shares outstanding)	13,508,257
Additional paid-in capital	951,528
Treasury stock	(222,781)
Accumulated deficit	(8,489,374)
Total Stockholders' Equity	5,747,630
Total Liabilities and Stockholders' Equity	$ 6,756,843

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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BAB, Inc.
Condensed Consolidated Statements of Operations
For the Quarter and Year to Date Periods Ended August 31, 2008 and 2007
(Unaudited)

	3 Months Ended		9 Months Ended	
	August 31, 2008	August 31, 2007	August 31, 2008	August 31, 2007
REVENUES				
Royalty fees from franchised stores	$ 531,908	$ 557,467	$ 1,604,611	$ 1,656,363
Net sales by Company-owned store	136,056	124,408	389,896	357,770
Franchise fees	20,000	70,000	160,000	195,000
Licensing fees and other income	244,421	230,147	694,418	761,365
Total Revenues	932,385	982,022	2,848,925	2,970,498
OPERATING EXPENSES				
Store food, beverage and paper costs	44,046	41,120	128,836	113,069
Store payroll and other operating expenses	123,711	111,481	349,863	335,525
Selling, general and administrative expenses:				
Payroll and payroll-related expenses	331,031	338,338	1,064,664	1,079,812
Occupancy	38,038	35,552	108,808	108,781
Advertising and promotion	31,384	30,949	114,971	85,752
Professional service fees	60,924	40,986	169,176	153,109
Depreciation and amortization	9,209	8,432	27,793	35,227
Other	134,322	151,516	418,739	500,237
Total Operating Expenses	772,665	758,374	2,382,850	2,411,512
Income from operations	159,720	223,648	466,075	558,986
Interest income	5,607	16,618	25,522	51,337
Interest expense	(2,987)	(3,357)	(8,962)	(12,531)
Income before provision for income taxes	162,340	236,909	482,635	597,792
Provision (benefit) for income taxes				
Current tax (benefit)	-	-	-	-
Deferred tax (benefit)	-	-	-	-
	-	-	-	-
Net Income	$ 162,340	$ 236,909	$ 482,635	$ 597,792
Net Income per share - Basic	$ 0.02	$ 0.03	$ 0.07	$ 0.08
Net Income per share - Diluted	$ 0.02	$ 0.03	$ 0.07	$ 0.08
Weighted average shares outstanding - Basic	7,263,508	7,263,099	7,263,508	7,261,048
Weighted average shares outstanding - Diluted	7,271,548	7,282,574	7,272,847	7,278,535
Cash dividends paid per share	$ 0.02	$ 0.02	$ 0.08	$ 0.08

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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BAB, Inc.
Condensed Consolidated Statements of Cash Flows
For the Year to Date Periods Ended August 31, 2008 and 2007
(Unaudited)

	9 Months Ended	
	August 31, 2008	August 31, 2007
Operating activities		
Net income	$ 482,635	$ 597,792
Depreciation and amortization	27,793	35,227
Provision for uncollectible accounts, net of recoveries	(1,777)	(6,076)
Share-based compensation	19,490	25,820
Changes in:		
Trade accounts receivable	(14,031)	(3,511)
Restricted cash	(50,253)	(38,415)
Marketing fund contributions receivable	19,458	14,637
Notes receivable	3,875	9,191
Inventories	(2,252)	(7,616)
Prepaid expenses and other	18,963	(17,013)
Accounts payable	(11,966)	(18,549)
Accrued liabilities	(49,150)	(91,300)
Unexpended marketing fund contributions	22,387	20,804
Deferred revenue	(150,812)	(99,002)
Net Cash Provided by Operating Activities	314,360	421,989
Investing activities		
Purchase of equipment	(990)	(3,636)
Capitalization of trademark renewals	(37,939)	-
Net Cash Used In Investing Activities	(38,929)	(3,636)
Financing activities		
Repayment of borrowings	-	(170,735)
Proceeds from exercise of stock options	-	20,477
Payment of dividends	(581,081)	(581,048)
Net Cash Used In Financing Activities	(581,081)	(731,306)
Net Increase (Decrease) in Cash	(305,650)	(312,953)
Cash, Beginning of Period	1,510,292	1,792,666
Cash, End of Period	$ 1,204,642	$ 1,479,713
Supplemental disclosure of cash flow information:		
Interest paid	$ -	$ 3,460
Income taxes paid	$ -	$ -

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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BAB, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Quarter and Year to Date Periods Ended August 31, 2008 and August 31, 2007

(Unaudited)

Note 1 - Nature of Operations

BAB, Inc. (the "Company") was incorporated under the laws of the State of Delaware on July 12, 2000. The Company currently operates, franchises and licenses bagel and muffin retail units under the Big Apple Bagels ("BAB"), My Favorite Muffin ("MFM") and Brewster's Coffee trade names. At August 31, 2008, the Company had 122 units in operation in 26 states, including 3 International units in United Arab Emirates. 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 Mrs. Fields Famous Brands (Mrs. Fields), Kohr Bros. Frozen Custard and through direct home delivery of specialty muffin gift baskets and coffee.

The BAB brand franchised and Company-owned stores feature daily baked bagels, flavored cream cheeses, premium coffees, gourmet bagel sandwiches and other related products. Licensed BAB units serve the Company's par-baked 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. MFM units are primarily in the Middle Atlantic States. Although the Company doesn't actively market Brewster's stand-alone franchises, Brewster's coffee products are sold in the Company-owned store and most franchised units. In addition, the Company’s franchised and Company-owned stores derive income from wholesale of Jacobs Bros. Bagels, also registered as a trademark of the Company.

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-KSB for the year ended November 30, 2007 which was filed February 27, 2008. 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. Stores Open and Under Development

Stores which are open or under development at August 31, 2008 are as follows:

Stores open:	
Company-owned	1
Franchisees	118

Licensed	3
Under development	5
Total	127

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3. Earnings per Share

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

	3 months ended		9 months ended	
	August 31, 2008	August 31, 2007	August 31, 2008	August 31, 2007
Numerator:				
Net income available to common shareholders	$ 162,340	$ 236,909	$ 482,635	$ 597,792
Denominator:				
Weighted average outstanding shares - Basic	7,263,508	7,263,099	7,263,508	7,261,048
Earnings per Share - Basic	$ 0.02	$ 0.03	$ 0.07	$ 0.08
Effect of dilutive common stock	8,040	19,475	9,339	17,487
Weighted average outstanding shares - Diluted	7,271,548	7,282,574	7,272,847	7,278,535
Earnings per share - Diluted	$ 0.02	$ 0.03	$ 0.07	$ 0.08

The following shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

	3 months ended		9 months ended	
	August 31, 2008	August 31, 2007	August 31, 2008	August 31, 2007
Shares excluded from calculation of diluted EPS	352,900	267,500	327,500	267,500

4. Long-Term Debt

The current total debt balance of $251,567 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 August 31, 2008, 1,400,000 stock options were granted to directors, officers and employees. As of August 31, 2008, there were 1,007,627 stock options exercised or forfeited under the Plan.

	9 Months Ended	
	August 31, 2008 Options	August 31, 2007 Options
Options Outstanding at beginning of period	392,373	432,949
Granted	0	0
Forfeited	0	0

Exercised	0	(40,167)
Options Outstanding at end of period	392,373	392,782

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Effective December 1, 2006, the Company adopted the provisions of FASB Statement No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”) using the modified prospective transition method. Under this method, prior periods are not revised for comparative purposes and the Company recognizes compensation cost using a fair-value based method for all share-based payments granted after November 30, 2006, plus any awards granted to employees up through November 30, 2006 that remain unvested at that time. The Company recorded compensation cost arising from share-based payment arrangements in payroll-related expenses on the Condensed Consolidated Statement of Operations for the Company’s stock option plan of approximately $19,000 for the nine months ended August 31, 2008 and $26,000 for the nine months ended August 31, 2007.

As of August 31, 2008, there was approximately $36,000 of total unrecognized compensation cost related to non-vested stock option compensation arrangements granted under the incentive plan. That cost is to be recognized over a weighted average period of approximately 3.25 years.

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 August 31, 2008:

Options Outstanding				Options Exercisable		
Outstanding at 8/31/08	Wghtd. Avg. Remaining Life	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value	Exercisable at 8/31/08	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value
392,373	7.54	$ 1.12	$ -	173,206	$ 0.96	$ -

The aggregate intrinsic value in the table above is before income taxes, based on the Company’s closing stock price of $.90 as of the last business day of the period ended August 31, 2008. No options were exercised during the quarter ended August 31, 2008.

6. Goodwill and Other Intangible Assets

In accordance with SFAS No. 142, goodwill and indefinite-lived intangible assets are tested for impairment upon adoption of the standard and annually thereafter. SFAS No. 142 requires that goodwill be tested for impairment using a two-step process. The first step is to identify a potential impairment and the second step measures the amount of the impairment loss, if any. Goodwill is deemed to be impaired if the carrying amount of a reporting unit's net assets exceeds its estimated fair value. SFAS No. 142 requires that indefinite-lived intangible assets be tested for impairment using a one-step process, which consists of a comparison of the fair value to the carrying value of the intangible asset. Intangible assets are deemed to be impaired if the net book value exceeds the estimated fair value. The Company completed its annual goodwill impairment assessment during the first quarter ended February 29, 2008, and it indicated no impairment of goodwill.

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7. Segment Information

The following table presents segment information for the nine months ended August 31, 2008 and 2007:

	Net Revenues 9 Months Ended		Operating Income (Loss) 9 Months Ended	
	August 31, 2008	August 31, 2007	August 31, 2008	August 31, 2007
Company Store Operations	619,056	$ 663,944	$ (112,390)	$ (112,254)
Franchise Operations and Licensing Fees	2,229,869	2,306,554	1,245,797	1,335,141
	$ 2,848,925	$ 2,970,498	$ 1,133,407	$ 1,222,887
Corporate Expenses			(667,332)	(663,901)
Interest Income, Net of Interest Expense			16,560	38,806
Net Income			$ 482,635	$ 597,792

There has not been a substantial change in total assets of either segment since November 30, 2007.

8. Recent Accounting Pronouncements

In July 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. FIN No. 48 clarifies the accounting and reporting for uncertainties in income tax law. FIN No. 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Effective December 1, 2007, the Company adopted FIN 48. The Company files a consolidated U.S. income tax return and tax returns in various state jurisdictions. Review of the Company’s possible tax uncertainties as of August 31, 2008 did not result in any positions requiring disclosure. Should the Company need to record interest and/or penalties related to uncertain tax positions or other tax authority assessments, it would classify such expenses as part of the income tax provision. The Company has not changed any of its tax policies or adopted any new tax positions during the quarter ended August 31, 2008 and believes it has filed appropriate tax returns in all jurisdictions for which it has nexus. This review included the Company’s net deferred income tax asset of $500,000, which management believes will be realized over future profitable years.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. Where applicable, SFAS No. 157 simplifies and codifies related guidance within GAAP and does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Effective December 1, 2007, the Company adopted SFAS 157. Adoption of SFAS No. 157 had no material impact on the Company’s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”). SFAS 159 allows entities to measure at fair value many financial instruments and certain other assets and liabilities that are not otherwise required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Effective December 1, 2007, the Company adopted SFAS 159. Adoption of SFAS No. 159 had no material impact on the Company’s consolidated financial statements.

In December 2007, the FASB issued SFAS 141R, Business Combinations, which replaces FASB Statement No. 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008 (Company's Fiscal 2010). The Company does not believe adoption of SFAS 141R will have a material effect on the Company's current consolidated financial statements, but would impact any future business combinations after the adoption of the pronouncement.

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In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin 51, which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008 (Company’s Fiscal 2010). The Company does not believe adoption of SFAS 160 will have a material effect on the Company’s consolidated financial statements.

In May 2008 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles. This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This statement is effective 60 days following the SEC’s approval of the Public Company Accounting Oversite Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not believe adoption of SFAS 162 will have a material effect on the Company’s consolidated financial statements.

9. Subsequent Event

On September 10, 2008, the Company declared a $0.02 per share cash dividend payable October 6, 2008 to shareholders of record at the close of business on September 22, 2008.

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-KSB 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.

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General

The Company has 1 Company-owned store, 118 franchised and 3 licensed units at August 31, 2008. Units in operation at August 31, 2007 included 1 Company-owned store, 128 franchised and 2 licensed units. System-wide revenues for the nine months ended August 31, 2008 were $33.3 million as compared to August 31, 2007 which were $34.4 million.

The Company's revenues are derived primarily from ongoing royalties paid to the Company by its franchisees, from the operation of Company-owned stores and receipt of 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 agreements (Kohr Bros. and Mrs. Fields Famous Brands).

The Company had 18 employees at the Corporate level to oversee operations of the franchise, licensed and Company-owned store operations at August 31, 2008 as compared to 17 employees at August 31, 2007.

Results of Operations

Three Months Ended August 31, 2008 versus Three Months Ended August 31, 2007

For the three months ended August 31, 2008, the Company reported net income of $162,000 versus net income of $237,000 for the same period in 2007. Total revenue of $932,000 decreased $50,000, for the three months ended August 31, 2008, as compared to total revenue of $982,000 for the three months ended August 31, 2007.

Royalty fee revenue of $532,000, for the quarter ended August 31, 2008, decreased $25,000 from the quarter ended August 31, 2007. The Company had 118 franchise locations at August 31, 2008 as compared to 128 locations at August 31, 2007.

Franchise fee revenue of $20,000, for the quarter ended August 31, 2008, decreased $50,000 from the quarter ended August 31, 2007. One store opened during the quarter ended August 31, 2008, versus two store locations in the same quarter of 2007.

Licensing fee and other income of $244,000, for the quarter ended August 31, 2008, increased $14,000 from the quarter ended August 31, 2007. In the 3rd quarter 2008, terminated franchisee fee revenue was $45,000, offset by a decrease in Sign Shop revenue of $17,000 and nontraditional revenue of $14,000.

Company-owned store sales of $136,000, for the quarter ended August 31, 2008, increased $12,000 from the quarter ended August 31, 2007.

Total operating expenses of $773,000, increased $15,000, for the quarter ended August 31, 2008, versus $758,000 in 2007. Legal expenses increased $35,000, offset by a decrease in Sign Shop expenses of $14,000 for 3rd quarter 2008 and corporate payroll related expenses of $7,000 compared to same period 2007.

Interest income of $6,000 decreased $11,000, for the quarter ended August 31, 2008, over the same period in 2007, due to lower interest rates and cash balances in 2008.

Interest expense for the 3rd quarter 2008 and 2007 was $3,000.

Net Income per share, as reported for basic and diluted outstanding shares for three months ended August 31, 2008 was $0.02 versus $0.03 for the three months ended August 31, 2007.

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Nine Months Ended August 31, 2008 versus Nine Months Ended August 31, 2007

For the nine months ended August 31, 2008, the Company reported net income of $483,000 versus net income of $598,000 for the same period in 2007. Total revenue of $2,849,000 decreased $121,000, for the nine months ended August 31, 2008, as compared to total revenue of $2,970,000 for the nine months ended August 31, 2007.

Royalty fee revenue of $1,605,000, for the nine months ended August 31, 2008, decreased $51,000 from the nine months ended August 31, 2007. The Company had 118 franchise locations at August 31, 2008 as compared to 128 locations at August 31, 2007.

Franchise fee revenue of $160,000, for the nine months ended August 31, 2008, decreased $35,000 from the nine months ended August 31, 2007. There were 7 new store openings, (which included a Big Apple Bagels Xpress and 2 satellite stores which are at reduced franchise fees) and 9 transfers during the nine months ended August 31, 2008, versus 5 new store openings and 14 transfers in the same period of 2007.

Licensing fee and other income of $694,000, for the nine months ended August 31, 2008, decreased $67,000 from the nine months ended August 31, 2007. In 2008, Sign Shop revenue decreased $77,000 primarily due to 2007 sales being higher than normal as a result of work done for franchisees in conjunction with programs initiated at the 2006 franchise convention. Nontraditional income decreased $14,000 in 2008 due to fewer franchised store locations as compared to the same period in 2007. Other income in Systems was higher in 2008 by $25,000 because of terminated franchise contracts.

Company-owned store sales of $390,000, for the nine months ended August 31, 2008, increased $32,000 from the nine months ended August 31, 2007.

Total operating expenses of $2,383,000 decreased $29,000 for the nine months ended August 31, 2008, versus $2,412,000 in 2007. Sign Shop expenses decreased $59,000, accounting fees decreased $21,000 and corporate payroll related expenses decreased $15,000, offset by an increase in advertising of $29,000 and legal fees of $35,000 in 2008 as compared to same period 2007.

Interest income of $26,000 decreased $25,000, for the nine months ended August 31, 2008, over the same period in 2007, due to of lower interest rates and cash balances in 2008.

Interest expense of $9,000 in 2008 decreased $4,000 due to lower outstanding debt.

Net Income per share, for the nine months ended August 31, 2008, was $0.07 on a basic and fully diluted basis versus $0.08 on a basic and fully diluted basis for the nine months ended August 31, 2007.

Liquidity and Capital Resources

The net cash provided by operating activities totaled $314,000 for the nine months ended August 31, 2008, versus cash provided by operating activities of $422,000 for the same period in 2007. Cash provided by operating activities principally represents net income of $483,000, plus depreciation and amortization of $28,000 and share-based compensation of $19,000, less a reduction in the provision for uncollectible accounts of $2,000, plus changes in Marketing Fund contributions receivable of $19,000, notes receivable of $4,000, prepaid expenses and other assets of $19,000 and unexpended Marketing Fund contributions of $22,000, less changes in trade accounts receivable of $14,000, restricted cash of $50,000, inventories of $2,000, accounts payable of $12,000, accrued liabilities of $49,000, and deferred revenue of $151,000. Operating activities in 2007 provided $422,000, represented by net income of $598,000, plus depreciation and amortization of $35,000 and share-based compensation of $26,000, less a reduction in the provision for uncollectible accounts of $6,000, plus Marketing Fund contributions receivable of $15,000, notes receivable of $9,000 and unexpended Marketing Fund contributions of $21,000, less trade accounts receivable of $4,000, restricted cash of $38,000, inventories of $8,000, prepaid expenses of $17,000, accounts payable of $19,000, accrued liabilities of $91,000 and deferred revenue of $99,000.

Financing activities used $581,000 during the nine months ended August 31, 2008 for the payment of cash dividends. In fiscal 2007 for this same period, financing activities used $731,000 due to repayment of notes payable of $171,000 and payment of cash dividends of $581,000, offset by proceeds from the exercise of stock options in the amount of $21,000.

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Dividend Policy

It is the Company's intent that future dividends will be considered after reviewing returns to shareholders, profitability expectations and financing needs and will be declared at the discretion of the Board of Directors. Although there can be no assurances the Company will be able to pay future dividends, it is the Company's intent going forward to continue to declare and pay cash dividends on a quarterly basis.

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

The Company has no financial covenants on any of its outstanding debt.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS 141R, Business Combinations, which replaces FASB Statement No. 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008 (Company's Fiscal 2010). The Company does not believe adoption of SFAS 141R will have a material effect on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin 51, which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008 (Company's Fiscal 2010). The Company does not believe adoption of SFAS 160 will have a material effect on the Company's consolidated financial statements.

In May 2008 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles. This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversite Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not believe adoption of SFAS 162 will have a material effect on the Company's consolidated financial statements.

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 the following areas: revenue recognition, long-lived assets, concentrations of credit risks, valuation allowance and deferred taxes. Details regarding the Company's use of these policies and the related estimates are described in the Company's Annual Report on Form 10-KSB for the fiscal year ended November 30, 2007, filed with the Securities and Exchange Commission on February 27, 2008. 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 nine months ended August 31, 2008.

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ITEM 3. CONTROLS AND PROCEDURES

Disclosure controls

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as amended) as of August 31, 2008. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Internal control over financial reporting

The Chief Executive Officer and the Chief Financial Officer confirm that there was no change in the Company's internal control over financial reporting during the quarter ended August 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Compliance with Section 404 of Sarbanes-Oxley Act

In order to achieve compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (the "Act") by November 30, 2008, the Company has begun the system and process documentation and evaluation needed to comply with Section 404.

PART II

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See index to exhibits

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SIGNATURE

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

BAB, Inc.

Dated: October 10, 2008

/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