BAB, INC.
Form 10-Q
July 09, 2009

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: May 31, 2009

o 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 issuer (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 o

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 o Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company x

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

As of July 2, 2009, BAB, Inc. had: 7,263,508 shares of Common Stock outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

BAB, Inc.
Condensed Consolidated Balance Sheet

	May 31, 2009 (Unaudited)	November 30, 2008
ASSETS		
Current Assets		
Cash	$ 1,045,953	$ 1,207,108
Restricted cash	237,616	293,994
Receivables		
Trade accounts and notes receivable (net of allowance for doubtful accounts of $9,080 in 2009 and $3,841 in 2008)	90,572	104,153
Marketing fund contributions receivable from franchisees and stores	12,712	13,245
Inventories	41,766	51,331
Prepaid expenses and other current assets	106,847	145,953
Total Current Assets	1,535,466	1,815,784
Property, plant and equipment (net of accumulated depreciation of $568,170in 2009 and $554,111 in 2008)	33,921	47,980
Trademarks	426,667	763,667
Goodwill	1,493,771	3,542,772
Definite lived intangible assets (net of accumulated amortization of $318,329 in 2009 and $313,560 in 2008)	80,872	86,324
Deferred tax asset	500,000	500,000
Total Noncurrent Assets	2,535,231	4,940,743
Total Assets	$ 4,070,697	$ 6,756,527
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 24,145	$ 24,145
Accounts payable	23,984	49,353
Accrued expenses and other current liabilities	349,359	313,329
Unexpended marketing fund contributions	197,582	254,493
Deferred franchise fee revenue	75,000	125,000
Deferred licensing revenue	15,998	36,996
Total Current Liabilities	686,068	803,316
Long-term debt (net of current portion)	204,371	204,371
Total Liabilities	890,439	1,007,687
Stockholders' Equity		
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, 2009 and November 30, 2008	13,508,257	13,508,257
Additional paid-in capital	962,467	957,264

Treasury stock	(222,781)	(222,781)
Accumulated deficit	(11,067,685)	(8,493,900)
Total Stockholders' Equity	3,180,258	5,748,840
Total Liabilities and Stockholders' Equity	$4,070,697	$6,756,527

SEE ACCOMPANYING NOTES

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BAB, Inc.
Condensed Consolidated Statements of Operations
For the Quarters Ended May 31, 2009 and 2008
(Unaudited)

	3 Months Ended May 31,		6 Months Ended May 31,	
REVENUES	2009	2008	2009	2008
Royalty fees from franchised stores	$484,037	$558,487	$926,672	$1,072,703
Net sales by Company-owned stores	118,103	137,655	226,532	253,841
Franchise fees	5,000	35,000	50,000	140,000
Licensing fees and other income	190,055	213,951	371,861	449,997
Total Revenues	797,195	945,093	1,575,065	1,916,541
OPERATING EXPENSES				
Store food, beverage and paper costs	35,872	45,110	69,252	84,791
Store payroll and other operating expenses	109,958	107,528	224,923	226,152
Selling, general and administrative expenses:				
Payroll and payroll-related expenses	312,503	342,307	676,743	733,634
Occupancy	38,860	35,347	73,361	70,769
Advertising and promotion	21,500	53,678	37,469	83,586
Professional service fees	31,105	23,571	88,885	108,253
Depreciation and amortization	9,556	9,937	18,828	18,584
Impairment of goodwill and other intangibles	-	-	2,399,057	-
Other	128,121	154,938	272,113	284,417
Total Operating Expenses	687,475	772,416	3,860,631	1,610,186
Income/(Loss) from operations	109,720	172,677	(2,285,566)	306,355
Interest income	4,446	7,425	7,748	19,915
Interest expense	(2,714)	(2,987)	(5,427)	(5,975)
Income/(Loss) before provision for income taxes	111,452	177,115	(2,283,245)	320,295
Provision (benefit) for income taxes				
Current tax (benefit)	-	-	-	-
Deferred tax (benefit)	-	-	-	-
	-	-	-	-
Net Income/(Loss)	$111,452	$177,115	$(2,283,245)	$320,295
Net Income/(Loss) per share - Basic	$0.02	$0.02	$(0.31)	$0.04
Net Income/(Loss) per share - Diluted	$0.02	$0.02	$(0.31)	$0.04
Weighted average shares outstanding - Basic	7,263,508	7,263,508	7,263,508	7,263,508
Weighted average shares outstanding - Diluted	7,263,508	7,273,305	7,263,508	7,273,579
Cash dividends declared per share	$0.02	$0.02	$0.04	$0.06

SEE ACCOMPANYING NOTES

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BAB, Inc.
Condensed Consolidated Statements of Cash Flows
For the Quarters Ended May 31, 2009 and 2008
(Unaudited)

	2009	2008
Operating activities		
Net income/(loss)	$(2,283,245)	$320,295
Depreciation and amortization	18,828	18,584
Goodwill and intangible impairment	2,399,057	-
Provision for uncollectible accounts, net of recoveries	7,486	(2,362)
Share-based compensation	5,203	13,754
Changes in:		
Trade accounts receivable and notes receivable	6,096	16,214
Restricted cash	56,378	(32,987)
Marketing fund contributions receivable	533	21,766
Inventories	9,565	(1,133)
Prepaid expenses and other	39,106	33,562
Accounts payable	(25,369)	(18,407)
Accrued liabilities	(36,605)	(55,621)
Unexpended marketing fund contributions	(56,911)	3,402
Deferred revenue	(70,998)	(111,837)
Net Cash Provided by Operating Activities	69,124	205,230
Investing activities		
Purchase of equipment	-	(990)
Capitalization of trademark renewals	(12,374)	(11,359)
Net Cash Used In Investing Activities	(12,374)	(12,349)
Financing activities		
Payment of dividends	(217,905)	(435,811)
Net Cash Used In Financing Activities	(217,905)	(435,811)
Net Decrease in Cash	(161,155)	(242,930)
Cash, Beginning of Period	1,207,108	1,510,292
Cash, End of Period	$1,045,953	$1,267,362
Supplemental disclosure of cash flow information:		
Interest paid	$-	$-
Income taxes paid	$-	$-

SEE ACCOMPANYING NOTES

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BAB, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
Quarter and Year to Date Periods Ended May 31, 2009 and 2008
(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 May 31, 2009, the Company had 107 franchised units in operation in 26 states, including 2 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 Your All Day Bakery Cafe," featuring these products as well as a variety of specialty bagel sandwiches and related products. 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.

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, 2008 which was filed February 20, 2009. 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 May 31, 2009 are as follows:

Stores open:

Company-owned	1
Franchisees	107
Licensed	3
Under development	3
Total	114

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3. (Loss)/Earnings per Share

The following table sets forth the computation of basic and diluted earnings/ (loss) per share:

	3 months ended May 31, 2009	3 months ended May 31, 2008	6 months ended May 31, 2009	6 months ended May 31, 2008
Numerator:				
Net income/(loss) available to common shareholders	$111,452	$177,115	$(2,283,245)	$320,295
Denominator:				
Weighted average outstanding shares				
Basic	7,263,508	7,263,508	7,263,508	7,263,508
Earnings/loss per Share - Basic	$0.02	$0.02	$(0.31)	$0.04
Effect of dilutive common stock	-	9,797	-	10,071
Weighted average outstanding shares				
Diluted	7,263,508	7,273,305	7,263,508	7,273,579
Earnings/loss per share - Diluted	$0.02	$0.02	$(0.31)	$0.04

369,373 potential shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share for the three and six months ended May 31, 2009 because their inclusion would have been anti-dilutive.

4. Long-Term Debt

The total debt balance of $228,516 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 May 31, 2009, 1,400,000 stock options were granted to directors, officers and employees. As of May 31, 2009, there were 1,030,627 stock options exercised or forfeited under the Plan.

	6 Months Ended May 31, 2009 Options	6 Months Ended May 31, 2008 Options
Options Outstanding at beginning of period	369,373	392,373
Granted	0	0
Forfeited	0	0
Exercised	0	0
Options Outstanding at end of period	369,373	392,373

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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 $5,000 for the six months ended May 31, 2009 and $14,000 for the six months ended May 31, 2008.

As of May 31, 2009, there was approximately $25,000 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 2.5 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 May 31, 2009:

Options Outstanding				Options Exercisable		
Outstanding at 5/31/2009	Wghtd. Avg. Remaining Life	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value	Exercisable at 5/31/2009	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value
369,373	6.79	$ 1.12	$ -	189,373	$ 1.00	$ -

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 $.41 as of the last business day of the period ended May 31, 2009. No options were exercised during the quarter ended May 31, 2009.

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

Following the guidelines contained in SFAS No. 142, the corporation tests goodwill and intangible assets that are not subject to amortization for impairment annually or more frequently if events or circumstances indicate that impairment is possible. Goodwill and intangible assets were tested at the end of the first fiscal quarter, February 28, 2009 and it was found that the carrying value of the goodwill and intangible assets were impaired.

An impairment test was performed at February 28, 2009 based on a discounted cash flow model using management's business plans projected for expected future cash flows. Based on the computation of the discounted cash flows, it was determined that the fair value of goodwill and intangible assets exceed their carrying value by $2,399,000.

A charge of $2,399,000 was recorded against goodwill and other intangibles at February 28, 2009. Management does not believe that any further impairment exists at May 31, 2009.

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7. Segment Information

The following table presents segment information for the six months ended May 31, 2009 and 2008:

	Net Revenues		Operating Income (Loss)	
	6 Months Ended May 31,		6 Months Ended May 31,	
	2009	2008	2009	2008
Company Store Operations	374,115	$412,582	$(95,957)	$(74,222)
Franchise Operations and Licensing Fees	1,200,950	1,503,959	657,951	845,145
	$1,575,065	$1,916,541	$561,994	$770,923
Corporate Expenses, including impairment			(2,847,560)	(464,568)
Interest Income, Net of Interest Expense			2,321	13,940
Net (Loss)/Income			$(2,283,245)	$320,295

Total segment assets changed for the six months ended May 31, 2009 as compared to November 30, 2008. This change represented impairment of intangible assets of $2,399,057. Trademarks and goodwill are $1,920,438 at May 31, 2009 compared to $4,306,439 at November 30, 2008. Other changes in segment assets were not significant.

8. Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, which replaces FASB Statement No. 141. SFAS No. 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 No. 141R is effective for fiscal years beginning after December 15, 2008 (Company's Fiscal 2010). The Company does not believe adoption of SFAS No. 141R will have a material effect on the Company's current consolidated financial statements, but would impact any future business combinations entered into after adoption of the pronouncement.

In December 2007, the FASB issued SFAS No. 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 No. 160 is effective for fiscal years beginning after December 15, 2008 (Company's Fiscal 2010). The Company does not believe adoption of SFAS No. 160 will have a material effect on the Company's consolidated financial statements.

In May 2008 the FASB issued 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 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 No. 162 will have a material effect on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events. SFAS No. 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009 and shall be applied prospectively.

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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-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.

General

The Company has 1 Company-owned store, 107 franchised and 3 licensed units at May 31, 2009. Units in operation at May 31, 2008 included 1 Company-owned store, 122 franchised and 3 licensed units. System-wide revenues for the three months ended May 31, 2009 were $19.2 million as compared to May 31, 2008 which were $22.3 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 May 31, 2009 and 19 at May 31, 2008.

Results of Operations

Three Months Ended May 31, 2009 versus Three Months Ended May 31, 2008

For the three months ended May 31, 2009, the Company reported net income of $111,000 versus net income of $177,000 for the same period in 2008. Total revenue of $797,000 decreased $148,000, or 15.7%, for the three months ended May 31, 2009, as compared to total revenue of $945,000 for the three months ended May 31, 2008.

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Royalty fee revenue of $484,000, for the quarter ended May 31, 2009, decreased $74,000, or 13.3%, from the $558,000 for quarter ended May 31, 2008. The Company had 107 franchise locations at May 31, 2009 as compared to 122 locations at May 31, 2008. The current general economic downturn has negatively impacted our franchise network resulting in reduced royalty revenue.

Franchise fee revenue of $5,000, for the quarter ended May 31, 2009, decreased $30,000, or 85.7%, from $35,000 for the quarter ended May 31, 2008. One store transferred during the quarter ended May 31, 2009, versus two stores opening, which included a satellite and a BAB Xpress with franchise fees of $5,000 each, and five transferring in the same quarter of 2008.

Licensing fee and other income of $190,000, for the quarter ended May 31, 2009, decreased $24,000, or 11.2%, from $214,000 for the quarter ended May 31, 2008. The general economic downturn is responsible for the decreased franchise network which in turn is responsible for the $33,000 decrease in nontraditional revenue in 2009 compared to 2008. There was also a $15,000 decrease in Sign Shop revenue, offset by $25,000 revenue for a defaulted franchise agreement in 2009.

Company-owned store sales of $118,000, for the quarter ended May 31, 2009, decreased $20,000, or 14.5%, from $138,000 for the quarter ended May 31, 2008.

Total operating expenses of $687,000 decreased $85,000, or 11.0%, for the quarter ended May 31, 2009, from $772,000 in 2008. The $85,000 decrease in total operating expenses was primarily due to a decrease in payroll expenses of $30,000 due to one less employee, advertising and promotional expenses decrease of $32,000 and other SG&A decrease of $19,000, which included a decrease in annual meeting expenses, Sign Shop cost of goods sold of $6,000 and supplies of $3,000 in 2009 compared to 2008.

Interest income of $4,000 decreased $3,000, or 42.9% for the quarter ended May 31, 2009, from $7,000 for the same period in 2008, due to lower cash balances and interest rates in 2009.

Interest expense for the first quarters 2009 and 2008 was $3,000.

Net income per share, as reported for basic and diluted outstanding shares for three months ended May 31, 2009 and May 31, 2008 was $0.02 per share.

Six Months Ended May 31, 2009 versus Six Months Ended May 31, 2008

For the six months ended May 31, 2009, the Company reported a net loss of $2,283,000 versus net income of $320,000 for the same period in 2008. This loss was due to an impairment charge for goodwill and other intangibles in the first quarter of 2009 for $2,399,000 (See Note 6). Total revenue of $1,575,000 decreased $342,000, or 17.8%, for the six months ended May 31, 2009, as compared to total revenue of $1,917,000 for the six months ended May 31, 2008.

Royalty fee revenue of $927,000, for the six months ended May 31, 2009, decreased $146,000, or 13.6%, from the $1,073,000 for six months ended May 31, 2008. The Company had 107 franchise locations at May 31, 2009 as compared to 122 locations at May 31, 2008. The current general economic downturn has negatively impacted our franchise network resulting in reduced royalty revenue.

Franchise fee revenue of $50,000, for the six months ended May 31, 2009, decreased $90,000, or 64.3%, from $140,000 for the six months ended May 31, 2008. Two stores opened and one transferred during the six months ended May 31, 2009, versus six stores opening, including one BAB Xpress and one satellite, and nine transferring in the same period of 2008.

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Licensing fee and other income of $372,000, for the six months ended May 31, 2009, decreased $78,000, or 17.3%, from $450,000 for the six months ended May 31, 2008. The general economic downturn is responsible for the decreased franchise network which in turn is responsible for the $67,000 decrease in nontraditional revenue in 2009 compared to 2008. Sign Shop revenue decreased $10,000.

Company-owned store sales of $227,000, for the six months ended May 31, 2009, decreased $27,000, or 10.6%, from $254,000 for the same period of 2008.

Total operating expenses of $3,861,000 included a noncash impairment charge of $2,399,000 recorded in the first quarter 2009 (See Note 6). Operating expenses excluding the noncash impairment charge were $1,462,000, which decreased $148,000, or 9.2%, for the six months ended May 31, 2009, from $1,610,000 in 2008. The $148,000 decrease in 2009 total operating expenses excluding the impairment charge was primarily due to payroll expenses decreasing $57,000, due to decreased employee awards and one less employee, advertising and promotional expense decreasing $46,000, legal and accounting expenses decreasing $19,000, and other SG&A decreasing $17,000 which included a decrease of $8,000 for annual meeting expense, a decrease of $6,000 for business tax accrual and a decrease of $5,000 for supplies, offset by an increase in Sign Shop cost of goods sold of $4,000 in 2009 compared to 2008.

Interest income of $8,000 decreased $12,000, or 60.0% for the six months ended May 31, 2009, from $20,000 for the same period in 2008, due to lower cash balances and interest rates in 2009.

Interest expense of $5,000 decreased $1,000, or 16.7% for the six months ended May 31, 2009, $6,000 for the same period 2008.

Net loss per share, as reported for outstanding shares for six months ended May 31, 2009 was ($0.31) versus net income per share for basic and diluted of $0.04 for the six months ended May 31, 2008.

Liquidity and Capital Resources

The net cash provided by operating activities totaled $69,000 for the six months ended May 31, 2009, versus cash provided by operating activities of $205,000 for the same period in 2008. Cash provided by operating activities principally represents a net loss of $2,283,000, plus depreciation and amortization of $19,000, goodwill and intangible impairment of $2,399,000, share-based compensation of $5,000 and the provision for uncollectible accounts of $7,000, plus changes in trade accounts and notes receivable of $6,000, restricted cash of $56,000, Marketing Fund contributions receivable of $1,000, inventories of $10,000, prepaid expenses and other assets of $39,000, less changes in unexpended Marketing Fund contributions of $57,000, deferred revenue of $71,000, accrued liabilities of $37,000 and accounts payable of $25,000. Operating activities in 2008 provided $205,000, represented by net income of $320,000, plus depreciation and amortization of $19,000 and share-based compensation of $14,000, less a reduction in the provision for uncollectible accounts of $2,000, plus changes in trade and notes receivable of $16,000, Marketing Fund contributions receivable of $22,000, prepaid expenses of $34,000 and unexpended Marketing Fund contributions of $3,000, less changes in restricted cash of $33,000, inventories of $1,000, accounts payable of $18,000, accrued liabilities of $56,000 and deferred revenue of $112,000.

Cash used in investing activities during the six months ended May 31, 2009 totaled $12,000 for trademark renewal expenditures. Cash used during 2008 totaled $12,000 and included the purchase of equipment of $1,000 and trademark renewal expenditures of $11,000.

Financing activities used $218,000 and $436,000 during the six months ended May 31, 2009 and 2008, respectively for the payment of cash dividends.

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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. 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 future dividends. The Company will continue to analyze its ability to pay 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 No. 141R, Business Combinations, which replaces FASB Statement No. 141. SFAS No. 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 No. 141R is effective for fiscal years beginning after December 15, 2008 (Company's Fiscal 2010). The Company does not believe adoption of SFAS No. 141R will have a material effect on the Company's current consolidated financial statements, but would impact any future business combinations entered into after adoption of the pronouncement.

In December 2007, the FASB issued SFAS No. 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 No. 160 is effective for fiscal years beginning after December 15, 2008 (Company's Fiscal 2010). The Company does not believe adoption of SFAS No. 160 will have a material effect on the Company's consolidated financial statements.

In May 2008 the FASB issued 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 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 No. 162 will have a material effect on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events. SFAS No. 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009 and shall be applied prospectively.

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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, 2008, filed with the Securities and Exchange Commission on February 20, 2009. 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, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that as of the six months ended May 31, 2009 our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act report is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding disclosure.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable assurance regarding management's control objectives. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Management's Quarterly Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and the Chief Financial Officer, management and other personnel, 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.

Our evaluation of internal control over financial reporting includes using the COSO framework, an integrated framework for the evaluation of internal controls issued by the Committee of Sponsoring Organizations of the Treadway Commission, to identify the risks and control objectives related to the evaluation of our control environment.

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Based on our evaluation under the framework described above, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective over financial reporting as of May 31, 2009.

Additionally, there were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the evaluation date. We have not identified any significant deficiencies or material weaknesses in our internal controls, and therefore there were no corrective actions taken.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation requirements by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permits the Company to provide only management's report in this quarterly report.

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

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: July 09, 2009

/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