BAB, INC.
Form 10-Q
July 12, 2011

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, 2011

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 (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 x No o

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 o 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 June 17, 2011, 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, 2011 (Unaudited)	November 30, 2010
ASSETS		
Current Assets		
Cash	$1,229,256	$1,242,937
Restricted cash	304,334	257,395
Receivables		
Trade accounts and notes receivable (net of allowance for doubtful accounts of $32,725 in 2011 and $26,787 in 2010)	114,029	130,252
Marketing fund contributions receivable from franchisees and stores	18,263	19,184
Inventories	31,863	34,105
Prepaid expenses and other current assets	78,738	89,993
Total Current Assets	1,776,483	1,773,866
Property, plant and equipment (net of accumulated depreciation of $597,271in 2011 and $592,851 in 2010)		
Assets held for sale	13,511	-
Trademarks	442,285	442,285
Goodwill	1,493,771	1,493,771
Definite lived intangible assets (net of accumulated amortization of $35,294in 2011 and $29,072 in 2010)	75,296	80,309
Deferred tax asset	248,000	248,000
Total Noncurrent Assets	2,284,445	2,296,724
Total Assets	$4,060,928	$4,070,590
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$26,494	$26,494
Accounts payable	31,839	36,949
Accrued expenses and other current liabilities	343,845	271,358
Unexpended marketing fund contributions	322,955	238,870
Deferred franchise fee revenue	136,500	100,000
Deferred licensing revenue	19,167	37,500
Total Current Liabilities	880,800	711,171
Long-term debt (net of current portion)	152,584	152,584
Total Liabilities	1,033,384	863,755
Stockholders' Equity		
	13,508,257	13,508,257

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, 2011 and November 30, 2010		
Additional paid-in capital	982,363	977,389
Treasury stock	(222,781)	(222,781)
Accumulated deficit	(11,240,295)	(11,056,030)
Total Stockholders' Equity	3,027,544	3,206,835
Total Liabilities and Stockholders' Equity	$4,060,928	$4,070,590

SEE ACCOMPANYING NOTES

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BAB, Inc.
Consolidated Statements of Operations
For the Quarters Ended May 31, 2011 and 2010
(Unaudited)

	3 months ended May 31, 2011	3 months ended May 31, 2010	6 months ended May 31, 2011	6 months ended May 31, 2010
REVENUES				
Royalty fees from franchised stores	$463,424	$449,936	$862,644	$857,551
Net sales by Company-owned stores	105,962	116,138	199,695	220,868
Franchise fees	60,000	-	144,300	25,000
Licensing fees and other income	163,383	143,715	305,742	253,951
Total Revenues	792,769	709,789	1,512,381	1,357,370
OPERATING EXPENSES				
Store food, beverage and paper costs	36,291	34,321	69,153	64,063
Store payroll and other operating expenses	65,605	68,194	132,851	152,006
Selling, general and administrative expenses:				
Payroll and payroll-related expenses	316,012	301,616	664,922	594,024
Occupancy	47,807	36,725	86,017	72,664
Advertising and promotion	18,900	17,912	35,857	34,262
Professional service fees	17,969	33,308	72,874	104,751
Travel	12,143	10,526	22,826	20,801
Depreciation and amortization	6,963	6,951	14,386	13,052
Other	125,853	88,682	232,377	168,591
Total Operating Expenses	647,543	598,235	1,331,263	1,224,214
Income from operations	145,226	111,554	181,118	133,156
Interest income	958	1,414	2,048	2,993
Interest expense	(2,127)	(2,427)	(4,254)	(4,854)
Income before provision for income taxes	144,057	110,541	178,912	131,295
Provision (benefit) for income taxes				
Current tax (benefit)	-	-	-	-
Deferred tax (benefit)	-	-	-	-
	-	-	-	-
Net Income	$144,057	$110,541	$178,912	$131,295
Net Income per share - Basic and Diluted	0.02	0.02	0.02	0.02
Weighted average shares outstanding - Basic	7,263,508	7,263,508	7,263,508	7,263,508
Effect of dilutive common stock	1,437	-	732	-
Weighted average shares outstanding - Diluted	7,264,945	7,263,508	7,264,240	7,263,508
Cash distributions declared per share	$0.01	$0.02	$0.05	$0.03

SEE ACCOMPANYING NOTES

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BAB, Inc.
Consolidated Statements of Cash Flows
For the Quarters Ended May 31, 2011 and 2010
(Unaudited)

	2011	2010
Operating activities		
Net income	$178,912	$131,295
Depreciation and amortization	14,386	13,052
Provision for uncollectible accounts, net of recoveries	9,480	(11,604)
Share-based compensation	4,974	4,974
Changes in:		
Trade accounts receivable and notes receivable	6,743	(5,690)
Restricted cash	(46,939)	(1,572)
Marketing fund contributions receivable	921	(2,269)
Inventories	2,242	5,149
Prepaid expenses and other	11,255	31,694
Accounts payable	(5,110)	13,884
Accrued liabilities	72,487	3,850
Unexpended marketing fund contributions	84,085	18,878
Deferred revenue	18,167	30,167
Net Cash Provided by Operating Activities	351,603	231,808
Investing activities		
Purchase of equipment	(898)	(21,237)
Capitalization of trademark renewals	(1,209)	(1,410)
Net Cash Used In Investing Activities	(2,107)	(22,647)
Financing activities		
Cash distributions/dividends	(363,177)	(145,270)
Net Cash Used In Financing Activities	(363,177)	(145,270)
Net (Decrease)/Increase in Cash	(13,681)	63,891
Cash, Beginning of Period	1,242,937	1,072,526
Cash, End of Period	$1,229,256	$1,136,417
Supplemental disclosure of cash flow information:		
Interest paid	$-	$-
Income taxes paid	$13,655	$-

SEE ACCOMPANYING NOTES

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BAB, Inc.
Notes to Unaudited Consolidated Financial Statements
Quarter and Year to Date Periods Ended May 31, 2011 and 2010
(Unaudited)

Note 1 - Nature of Operations

BAB, Inc has four wholly owned subsidiaries: BAB Systems, Inc. (“Systems”); BAB Operations, Inc. (“Operations”); Brewster’s Franchise Corporation (“BFC”) and My Favorite Muffin Too, Inc. Systems was incorporated on December 2, 1992, and was primarily established to franchise Big Apple Bagel (“BAB”) specialty bagel retail stores. Operations was formed on August 30, 1995, primarily to operate Company-owned stores, including one which currently serves as the franchise training facility. BFC was established on February 15, 1996 to franchise “Brewster’s Coffee” concept coffee stores. My Favorite Muffin Too, Inc., a New Jersey corporation, was acquired on May 13, 1997. My Favorite Muffin Too, Inc. franchises My Favorite Muffin (“MFM”) concept muffin stores which are included as part of the Systems franchise operating and financial information. The assets of Jacobs Bros. Bagels (“Jacobs Bros.”) were acquired on February 1, 1999. All 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 operates franchises and licenses bagel and muffin retail units under the BAB and MFM trade names. At May 31, 2011, the Company had 98 franchise units, 7 licensed units and one Company-owned store in operation in 25 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 Mrs. Fields Famous Brands (Mrs. Fields), Kohr Bros. Frozen Custard, Braeda Cafe, Kaleidoscoops, Green Beans Coffee, Sodexo and through direct home delivery of specialty muffin gift baskets and coffee.

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, 2010 which was filed February 24, 2011. 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, 2011 are as follows:

Stores open:

Company-owned	1
Franchisees	98
Licensed	7
Under development	5
Total	111

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3. (Loss)/Earnings per Share

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

	3 months ended May 31, 2011	2010	6 months ended May 31, 2011	2010
Numerator:				
Net income available to common shareholders	$144,057	$110,541	$178,912	$131,295
Denominator:				
Weighted average outstanding shares - basic	7,263,508	7,263,508	7,263,508	7,263,508
Earnings per Share - Basic	0.02	0.02	0.02	0.02
Effect of dilutive common stock	1,437	-	732	-
Weighted average outstanding shares	7,264,945	7,263,508	7,264,240	7,263,508
Earnings per Share - Diluted	0.02	0.02	0.02	0.02

360,400 and 368,373 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, 2011and 2010, respectively, because their inclusion would have been anti-dilutive.

4. Long-Term Debt

The total debt balance of $179,078 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, 2011, 1,400,000 stock options were granted to directors, officers and employees. As of May 31, 2011, there were 1,031,627 stock options exercised or forfeited under the Plan.

	6 Months Ended May 31, 2011 Options	May 31, 2010 Options
Options Outstanding at beginning of period	368,373	369,373
Granted	0	0
Forfeited	0	0
Exercised	0	0
Options Outstanding at end of period	368,373	369,373

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, 2011 and 2010.

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As of May 31, 2011, there was approximately $5,000 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 the balance of this fiscal year.

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, 2011:

Options Outstanding				Options Exercisable		
Outstanding at 5/31/2011	Wghtd. Avg. Remaining Life	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value	Exercisable at 5/31/2011	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value
368,373	4.80	$1.16	$-	188,373	$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 $.65 as of the last business day of the period ended May 31, 2011. No options were exercised during the quarter ended May 31, 2011.

6. Goodwill and Other Intangible Assets

In accordance with ASC 350, goodwill and indefinite-lived intangible assets are tested for impairment upon adoption of the standard and annually thereafter. ASC 350 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. ASC 350 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 ASC 350, the Company 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 fiscal quarter, February 28, 2011 and it was found that the carrying value of the goodwill and intangible assets was not impaired. No events or circumstances occurred in the second quarter of 2011 to indicate that an impairment test was necessary.

The impairment test performed at February 28, 2011 was 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 did not exceed their carrying value.

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7. Segment Information

The following table presents segment information for the six months ended May 31, 2011 and 2010:

	Net Revenues 6 Months Ended May 31		Operating Income 6 Months Ended May 31	
	2011	2010	2011	2010
Company Store Operations	274,211	$263,306	$(69,227)	$(73,321)
Franchise Operations and Licensing Fees	1,238,170	1,094,064	643,423	649,047
	$1,512,381	$1,357,370	$574,196	$575,726
Corporate Expenses			(393,078)	(442,570)
Interest Income, Net of Interest Expense			(2,206)	(1,861)
Net Income			$178,912	$131,295

Total segment assets were substantially unchanged for the six months ended May 31, 2011 as compared to November 30, 2010.

8. Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosure." This guidance requires new disclosures for fair value measurements and provides clarification for existing disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for gross presentation of activity in level 3 which is effective for annual periods beginning after December 15, 2010, and for interim periods in those years. The adoption of this guidance did not have any impact on the Company's consolidated financial position, cash flows or results of operations.

Management does not believe that there are any other recently issued and effective or not yet effective pronouncements as of May 31, 2011 that would have or are expected to have any significant effect on the Company's consolidated financial position, cash flows or results of operations.

9. Equity

Included in accrued expenses and other liabilities is a distribution/dividend payable in the amount of $72,635 declared May 23, 2011 payable July 6, 2011.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, including statements regarding the development of the Company's business, the markets for the Company's products, anticipated capital expenditures, and the effects of completed and proposed acquisitions, and other statements contained herein regarding matters that are not historical facts, are forward-looking statements as is within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Because such statements include risks and uncertainties, actual results could differ materially from those expressed or implied by such forward-looking statements as set forth in this report, the Company's Annual Report on Form 10-K and other reports that the Company files with the Securities and Exchange Commission. Certain risks and uncertainties are wholly or partially outside the control of the Company and its management, including its ability to attract new franchisees; the continued success of current franchisees; the effects of competition on 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, 98 franchised and 7 licensed units at May 31, 2011. Units in operation at May 31, 2010 included 1 Company-owned store, 99 franchised and 4 licensed units. System-wide revenues for the six months ended May 31, 2011 were $17.9 million as compared to May 31, 2010 which were $17.7 million.

The Company's revenues are derived primarily from the ongoing royalties paid to the Company by its franchisees, from the operation of the Company-owned store 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 agreements (Kohr Bros., Braeda Café, Kaleidoscoops, Green Beans Coffee, Sodexo and Mrs. Fields). 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 and the Company-owned store to provide consistency and convenience.

Royalty fees from franchised stores 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, 2011, the Company employed 23 persons, consisting of 8 working in the Company-owned store, of which 7 are part-time employees, and 13 full-time and 2 part-time employees located at the Corporate office. The employees at the Corporate office 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.

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Results of Operations

Three Months Ended May 31, 2011 versus Three Months Ended May 31, 2010

For the three months ended May 31, 2011 and 2010, the Company reported net income of $144,000 and $111,000, respectively. Total revenue of $793,000 increased $83,000, or 11.7%, for the three months ended May 31, 2011, as compared to total revenue of $710,000 for the three months ended May 31, 2010.

Royalty fee revenue of $463,000, for the quarter ended May 31, 2011, increased $13,000, or 2.9%, from the $450,000 for quarter ended May 31, 2010. The Company had 98 franchise locations at May 31, 2011 as compared to 99 locations at May 31, 2010. The slight increase in royalty revenue is primarily due to the slowly improving economy.

Franchise fee revenue for the three months ended May 31, 2011 was $60,000 versus none in the same three month period last year. Two stores opened and two transferred in the current quarter.

Licensing fee and other income of $163,000, for the quarter ended May 31, 2011, increased $19,000, or 13.2%, from $144,000 for the quarter ended May 31, 2010. Sign Shop revenues increased $20,000 and license fee revenue increased $18,000, offset by a decrease of $18,000 in default/settlement fee revenue in 2011 compared to 2010.

Company-owned store sales of $106,000, for the quarter ended May 31, 2011, decreased $10,000, or 8.6%, from $116,000 for the quarter ended May 31, 2010.

Total operating expenses of $648,000 increased $50,000, or 8.3%, for the quarter ended May 31, 2011, from $598,000 in 2010. The $50,000 increase in total operating expenses in the three months ending May 31, 2011 as compared to same period 2010 was primarily due to a $14,000 increase in bad debt expense, a $14,000 increase in payroll expense primarily due to a change in Marketing Fund allocations, an $11,000 increase in occupancy expense due to the renewal of the Corporate lease, an increase of $20,000 for Sign Shop cost of sales and an increase in franchise development and supplies of $4,000. The expenses were offset by a $15,000 decrease in legal fees for franchising and Corporate activity.

Interest income of $1,000 for May 31, 2011 remained the same as prior year same period.

Interest expense of $2,000 for May 31, 2011 remained the same as prior year same period.

Net income per share, as reported for basic and diluted outstanding shares for three months ended May 31, 2011 and May 31, 2010 was $0.02 per share.

Six Months Ended May 31, 2011 versus Six Months Ended May 31, 2010

For the six months ended May 31, 2011, the Company reported net income of $179,000 versus $131,000 for the same period in 2010. Total revenue of $1,512,000 increased $155,000, or 11.4%, for the six months ended May 31, 2011, as compared to total revenue of $1,357,000 for the six months ended May 31, 2010.

Royalty fee revenue of $863,000, for the six months ended May 31, 2011, increased $5,000, or 0.6%, from $858,000 for the six months ended May 31, 2010. The Company had 98 franchise locations at May 31, 2011 as compared to 99 locations at May 31, 2010. Franchise sales increased slightly due to the slightly improving economy.

Franchise fee revenue of $144,000, for the six months ended May 31, 2011, increased $119,000 from $25,000 for the six months ended May 31, 2010. Five stores opened and five transferred during the six months ended May 31, 2011, versus just one store opening in the same period of 2010.

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Licensing fee and other income of $306,000, for the six months ended May 31, 2011, increased $52,000, or 20.5%, from $254,000 for the six months ended May 31, 2010. Sign Shop revenue increased $37,000 and license revenue increased $21,000.

Company-owned store sales of $200,000, for the six months ended May 31, 2011, decreased $21,000, or 9.5%, from $221,000 for the same period of 2010.

Total operating expenses of $1,331,000 increased $107,000 or 37.3%, for the six months ended May 31, 2011 from $1,224,000 in 2010. The $107,000 increase in total operating expenses was primarily due to an increase in payroll and payroll taxes of $71,000 due to employee bonuses and a change in Marketing Fund allocations, an increase in occupancy expense of $13,000 due to renewal of the Corporate lease and increase in SG&A of $63,000 which includes an increase in Sign Shop cost of sales of $33,000, an increase in bad debt of $21,000 and a $10,000 change in expenses allocated to the Marketing Fund. The increases in operating expenses were offset by $32,000 in lower professional fees due to reduced legal fees for both franchise operations and Corporate activity and a reduction of $14,000 due to the termination of the Lincoln, NE property lease (terminated December 31, 2009).

Interest income of $2,000 decreased $1,000, for the six months ended May 31, 2010, from $3,000 for the same period in 2010. Lower interest rates resulted in the lower interest income.

Interest expense for the six months ended May 31, 2011 was $4,000 versus $5,000 in 2010. This was due to a lower principal balance in 2011.

Net income per share, as reported for basic and diluted outstanding shares for the six months ended May 31, 2011 and 2010 was $0.02.

Liquidity and Capital Resources

The net cash provided by operating activities totaled $352,000 for the six months ended May 31, 2011, versus cash provided by operating activities of $232,000 for the same period in 2010. Cash provided by operating activities principally represents net income of $179,000, increased by depreciation and amortization of $14,000, provision for uncollectible accounts of $9,000, share-based compensation of $5,000, trade accounts and notes receivable of $7,000, Marketing Fund contributions receivable of $1,000, inventories of $2,000, prepaid expenses and other assets of $11,000, accrued liabilities of $72,000, unexpended Marketing Fund contributions of $84,000 and deferred revenue of $18,000, and decreased by restricted cash of $47,000 and accounts payable of $5,000. Operating activities in 2010 provided cash of $232,000, represented by net income of $131,000, increased by depreciation and amortization of $13,000, share-based compensation of $5,000, inventories of $5,000, prepaid expenses and other assets of $32,000, accounts payable of $14,000, accrued liabilities of $4,000, unexpended Marketing Fund contributions of $19,000 and deferred revenue of $30,000, and decreased by the provision for uncollectible accounts of $12,000, trade accounts and notes receivable of $6,000, restricted cash of $2,000 and Marketing Fund contributions receivable of $2,000.

Cash used in investing activities during the six months ended May 31, 2011 totaled $2,000. Cash used during 2010 totaled $23,000 for equipment purchases of $21,000 and trademark renewal expenditures of $2,000.

Financing activities used $363,000 for the six months ended May 31, 2011, for payment of cash distributions. Financing activities for 2010 used $145,000 also for the payment of cash dividends.

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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.

Included in accrued expenses and other liabilities is a distribution/dividend payable in the amount of $72,635 declared May 23, 2011, payable July 6, 2011.

The Company believes that for tax purposes the cash distribution declared in 2011 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 determined until after December 31, 2011, as the classification or combination is dependent upon the Company's earnings and profits for tax purposes for its fiscal year ending November 30, 2011.

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 January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosure." This guidance requires new disclosures for fair value measurements and provides clarification for existing disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for gross presentation of activity in level 3 which is effective for annual periods beginning after December 15, 2010, and for interim periods in those years. The adoption of this guidance did not have any impact on the Company's consolidated financial position, cash flows or results of operations.

Management does not believe that there are any other recently issued and effective or not yet effective pronouncements as of May 31, 2011 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 the following areas: 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, 2010, filed with the Securities and Exchange Commission on February 24, 2011. 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, 2011.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

BAB, Inc. has no significant 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, 2011 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 2011 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").

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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. OTHER INFORMATION

None.

ITEM 5. 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, 2011	/s/ Jeffrey M. Gorden
	Jeffrey M. Gorden
	Chief Financial Officer

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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