BAB, INC.
Form 10QSB
July 17, 2006

FORM 10-QSB

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, 2006

[ ] 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

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 _X_ No __

As of July 17, 2006, BAB, Inc. had : 7,222,932 shares of Common Stock outstanding.

TABLE OF CONTENTS

PART I

ITEM 1. FINANCIAL INFORMATION

BAB, Inc.
Condensed Consolidated Balance Sheet (Unaudited)
May 31, 2006

ASSETS	
Current Assets	
Cash	$ 1,658,904
Restricted cash	243,632
Receivables	
Trade accounts receivable (net of allowance for doubtful accounts of $43,854)	92,836
Marketing fund contributions receivable from franchisees and stores	21,568
Notes receivable (net of allowance for doubtful accounts of $8,576)	10,418
Inventories	45,936
Prepaid expenses and other current assets	83,288
Total Current Assets	2,156,582
Property, plant and equipment, (net of accumulated depreciation of $343,667)	123,881
Notes receivable (net of current portion)	6,792
Trademarks	763,667
Goodwill	3,542,772
Other (net of accumulated amortization of $297,908)	7,474
Total Noncurrent Assets	4,444,586
Total Assets	$ 6,601,168

LIABILITIES AND STOCKHOLDERS' EQUITY
Current
Liabilities

Current portion of long-term debt	$ 273,701
Accounts payable	29,459
Accrued expenses and other current liabilities	440,691
Unexpended marketing fund contributions	163,054
Dividends payable	144,459
Deferred franchise fee revenue	105,000
Deferred revenue	59,079
Total Current Liabilities	1,215,443
Long-term debt (net of current portion)	316,164
Deferred revenue (net of current portion)	62,649
Total Noncurrent Liabilities	378,813
Total Liabilities	1,594,256
Stockholders' Equity (Deficit)	
Common stock	13,508,817
Additional paid-in capital	876,398
Treasury stock	(222,781)
Accumulated deficit	(9,155,522)
Total Stockholders' Equity	5,006,912
Total Liabilities and Stockholders' Equity	$ 6,601,168

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

BAB, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	3 months ended		6 month
	May 31, 2006	May 31, 2005	May 31, 2006
REVENUES			
Net sales by Company-owned stores	$ 125,128	$ 399,690	$ 268,241
Royalty fees from franchised stores	590,198	581,216	1,123,971
Franchise fees	105,500	77,500	205,500
Licensing fees and other income	227,706	386,271	426,995
Total Revenues	1,048,532	1,444,677	2,024,707
OPERATING EXPENSES			
Food, beverage and paper costs	37,693	134,886	87,886
Store payroll and other operating expenses	115,635	336,548	260,993
Selling, general and administrative expenses:			

Payroll-related expenses	335,571	340,118	715,608
Occupancy	36,855	29,989	71,661
Advertising and promotion	28,636	42,054	59,625
Professional service fees	52,635	55,264	104,729
Travel expenses	28,160	27,723	46,164
Depreciation and amortization	16,876	21,203	34,568
Other	118,555	167,457	242,259
Total Operating Expenses	770,616	1,155,242	1,623,493
Income from operations	277,916	289,435	401,214
Interest income	12,059	1,822	12,708
Interest expense	(7,935)	(11,518)	(16,620)
Other income	1,185	--	1,585
Income before provision for income taxes	283,225	279,739	398,887
Provision for income taxes			
Current	--	--	--
Deferred	--	--	--
Net Income	$ 283,225	$ 279,739	$ 398,887
Net Income per share - Basic	$0.04	$0.04	$0.06
Net Income per share - Diluted	$0.04	$0.04	$0.05
Weighted average number of shares outstanding - Basic	7,222,526	7,166,191	7,222,186
Weighted average number of shares outstanding - Diluted	7,255,759	7,240,866	7,260,462
Cash dividends per share	$0.02	$0.02	$0.10

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

BAB, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	6 Months Ended	
	May 31, 2006	May 31, 2005
Operating activities		
Net income	$ 398,887	$ 382,722
Depreciation and amortization	34,568	42,402
Loss on sale of equipment	17,151	-
Provision for uncollectible accounts	-	24,000
Changes in:		
Trade accounts receivable	18,384	(3,023)
Restricted cash	(39,577)	68,503

Marketing fund contributions receivable	8,821	2,615
Inventories	19,319	(18,945)
Prepaid expenses and other	52,200	(5,013)
Accounts payable	(63,970)	(52,069)
Accrued liabilities	(66,587)	(152,447)
Unexpended marketing fund	4,141	(71,066)
Deferred franchise fee revenue	(117,501)	-
Other deferred revenue	(24,331)	76,502
Notes receivable	(3,806)	(14,201)
Net Cash Provided by Operating Activities	237,701	279,980
Investing activities		
Purchase of equipment	(6,940)	(1,540)
Proceeds from sale of equipment	5,000	-
Collection of notes receivable	54,035	39,565
Net Cash Provided by Investing Activities	52,094	38,025
Financing activities		
Repayment of borrowings	(121,266)	(114,761)
Proceeds from exercise of stock options	6,077	23,552
Payment of dividend	(722,226)	(572,982)
Net Cash Used In Financing Activities	(837,415)	(664,191)
Net Decrease in Cash	(547,620)	(346,186)
Cash, Beginning of Period	2,206,524	2,194,834
Cash, End of Period	$ 1,658,904	$ 1,848,648
Supplemental disclosure of cash flow information:		
Interest paid	10,134	16,638

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

BAB, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(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, muffin and coffee retail units under the Big Apple Bagels ("BAB"), My Favorite Muffin ("MFM") and Brewster's Coffee trade names. The Company additionally derives income from the sale of its trademark bagels, muffins and coffee through nontraditional channels of distribution, including license agreements and direct home delivery of specialty muffin gift baskets and coffee.

The Company has four wholly owned subsidiaries: BAB Systems, Inc. (Systems); BAB Operations, Inc. (Operations); Brewster's Franchise Corporation (BFC); and My Favorite Muffin Too, Inc. (MFM). Systems was incorporated on December 2, 1992, and was primarily established to franchise BAB specialty bagel retail stores. Operations was formed on August 30, 1995, primarily to operate Company-owned stores. There is currently one Company-owned store which serves as the franchise training facility. BFC was established on February 15, 1996 to franchise "Brewster's Coffee" concept coffee stores. MFM, a New Jersey corporation, was acquired on May 13, 1997. MFM franchises "MFM" concept muffin stores.

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/A for the year ended November 30, 2005 which was filed April 14, 2006. 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, 2006 are as follows:

Stores open:	
Company-owned	1
Franchisees	143
Licensed	4
Under development	3
Total	151

3. Earnings per Share

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

	3 months ended		6 months end	
	May 31, 2006	May 31, 2005	May 31, 2006	Ma

Numerator:				
Net income available to common shareholders	$ 283,225	$ 279,739	$ 398,887	$
Denominator:				
Weighted average outstanding shares Basic	7,222,526	7,166,191	7,222,186	
Earnings per Share - Basic	$0.04	$0.04	$0.06	
Effect of dilutive common stock	33,233	74,675	38,276	
Weighted average outstanding shares Diluted	7,255,759	7,240,866	7,260,462	
Earnings per share - Diluted	$0.04	$0.04	$0.05	

4. Long-Term Debt

On June 25, 2004, the Company entered into a Business Loan and Security Agreement ("Bank Agreement") with Associated Bank which provides for a term loan in the original amount of $723,700. The term loan under the Bank Agreement is secured by substantially all of the assets of the Company and is being repaid in monthly installments of $21,900, including interest at a rate of 5.5 percent per annum, with final payment due July 1, 2007.

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, 2006, 1,185,000 stock options were granted to directors, officers and employees, leaving 215,000 options available for grant. As of May 31, 2006, there were 915,869 stock options exercised and 50,582 stock options forfeited or expired under the Plan.

	6 months ended	
	May 31, 2006	May 31, 2005
	Options	Options
Options Outstanding at beginning of period	163,034	258,486
Granted	75,000	75,000
Forfeited	(5,499)	(500)
Exercised	(13,986)	(179,452)
Options Outstanding at end of period	218,549	153,534

The Company uses the intrinsic method, as allowed by SFAS 123, "Accounting for Stock-Based Compensation," to account for stock options granted to employees and directors. No compensation expense is recognized for stock options because the exercise price of the options is at least equal to the market price of the underlying stock on the grant date. The pro forma impact of utilizing the fair value method to account for stock-based employee compensation, on an annual basis is presented in Note 6 of the Company's audited financial statements presented in the 10-KSB/A filed April 14, 2006.

For those companies that do not elect to change their method of accounting for stock-based employee compensation, SFAS Statement No. 148 requires increased disclosure of the pro forma impact of applying the fair value method to the reported operating results. The increased disclosure requirements apply to the Company's interim and annual financial statements. Had employee compensation expense for the Company's Plan been recorded in the financial statements, consistent with provisions of SFAS 123, net income would have been reduced by $11,000 for the 3 months ended May 31, 2006, $22,000 for the 6 months ended May 31, 2006, $7,000 for the 3 months ended May 31, 2005, and $13,000 for the 6 months ended May 31, 2005 based on the Black-Scholes option-pricing model.

The following table illustrates the effect on net income and earnings per share:

	3 months ended		6
	May 31, 2006	May 31, 2005	May 31,
Pro forma impact of fair value method			
Reported net income	$283,225	$279,739	$39
Less: Fair value impact of employee stock compensation	$ (11,206)	$ (7,300)	$ (2
Pro forma net income	$272,019	$272,439	$37
Earnings per common share			
Basic - as reported	$0.04	$0.04	
Diluted - as reported	$0.04	$0.04	
Basic - pro forma	$0.04	$0.04	
Diluted - pro forma	$0.04	$0.04	
Weighted average Black Scholes fair value assumptions			
Risk free interest rate	4.39%	3.71%	
Expected life	10.0 yrs	6.0 yrs	10.
Expected volatility	1.23	1.53	
Expected dividend yield	7.00%	5.00%	

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 28, 2006, and it indicated no impairment of goodwill.

Net intangible assets with definitive lives, representing master lease origination fees with an original cost of $95,000, totaled $7,000, net of accumulated amortization expense of $88,000, as of May 31, 2006.

Amortization expense of intangible assets with definitive lives for the six months ended May 31, 2006 was $5,000. The estimated amortization expense on these intangible assets is $9,200 in 2006 and $2,900 in 2007.

7. Commitments and Contingencies

None

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 and 143 franchised and 4 licensed units at

May 31, 2006. Units in operation at May 31, 2005 included 3 Company-owned stores and 151 franchised and 4 licensed units. System-wide revenues in the six months ended May 31, 2006 were $23 million as compared to May 31, 2005 which were $24 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 (Chartwell, Kohr Bros. and Mrs. Fields Famous Brands).

At May 31, 2006, the Company had 18 employees, including 1 part-time employee, at the Corporate level to oversee operations of the franchise, licensed and Company-owned store operations, as compared to 24 employees at May 31, 2005.

Results of Operations

Three months Ended May 31, 2006 versus Three Months Ended May 31, 2005.

For the three months ended May 31, 2006, the Company reported net income of $283,000 versus net income of $280,000 for the same period in 2005. Total revenue decreased $396,000, for the three months ended May 31, 2006, as compared to the three months ended May 31, 2005, primarily due to a decrease in Company-owned store sales of $275,000 and a decrease in licensing fees and other income of $159,000.

Royalty fee revenue of $590,000, for the quarter ended May 31, 2006, increased $9,000, or 1.5%, from the quarter ended May 31, 2005. The $9,000 increase is positive in that we had fewer franchise stores open than in the quarter ended May 31, 2005.

Franchise fee revenue of $106,000, for the quarter ended May 31, 2006, increased $28,000 from the quarter ended May 31, 2005. The $106,000 includes three store openings and five transfers versus two store openings, two defaults on Preliminary Agreements, and two transfers for the quarter ended May 31, 2005.

Licensing fee and other income of $228,000, for the quarter ended May 31, 2006, decreased $159,000 from the quarter ended May 31, 2005. In 2005 the Company earned and received a $90,000 trademark infringement fee. In addition, Sign Shop revenue decreased $44,000 in 2006. In 2005, the Sign Shop received considerable revenue from work received as a result of the Company's convention in late 2004.

Company-owned store sales of $125,000, for the quarter ended May 31, 2006, decreased $275,000 from the quarter ended May 31, 2005. This decrease is due to the fact the Company had one Company-owned store, versus three Company-owned stores for the quarter ending May 31, 2005.

Total operating expenses of $771,000, were 74% of total revenues, for the quarter ended May 31, 2006, versus $1,155,000, or 80%, in 2005. Expenses declined because there was only one Company-owned store operating in quarter ended May 31, 2006, versus three in the quarter ended May 31, 2005, and because of continued tight cost controls.

Interest income increased approximately $10,000 for the current quarter over the same period in 2005 as a result of the Company's decision to invest excess cash in higher yield investments.

Interest expense of $8,000 decreased $4,000 due to a lower outstanding debt balance.

Net Income per share, as reported for basic and diluted outstanding shares, for the three months ended May 31, 2006, is $0.04 versus $0.04 for May 31, 2005.

Six Months Ended May 31, 2006 versus Six Months Ended May 31, 2005

For the six months ended May 31, 2006, the Company reported net income of $399,000 versus net income of $383,000 for the same period in 2005. Total revenue decreased $624,000, for the six months ended May 31, 2006, as compared to the six months ended May 31, 2005, primarily due to a decrease in Company-owned store sales of $477,000, and a decrease in licensing fees and other income of $247,000, offset by an increase in franchise fee revenue of $98,000.

Royalty fee revenue of $1,124,000, for the six months ended May 31, 2006, increased $2,000 from the six months ended May 31, 2005. The $2,000 increase is positive in that we had fewer franchise stores open than in the period ended May 31, 2005, indicating higher sales volume.

Franchise fee revenue of $206,000, for the six months ended May 31, 2006, increased by $98,000 from the same period in 2005. There were seven new franchise store openings in 2006, as compared to only two new franchise store openings in 2005.

Licensing fee and other income of $427,000, for the first six months ended May 31, 2006, decreased $247,000 from the same period in 2005 because the Company earned and received a $90,000 trademark infringement fee in May, 2005, and Sign Shop revenue decreased $97,000 in 2006. In 2005, the Sign Shop received considerable revenue from work received as a result of the Company's convention in late 2004.

Company-owned store sales of $268,000, for the six months ended May 31, 2006, decreased $477,000 as a result of one Company-owned store in 2006, versus three Company-owned stores in 2005.

Total operating expenses of $1,623,000, were 80% of total revenues for the six months ended May 31, 2006 versus $2,246,000, or 85%, in 2005. Expenses declined because there was only one Company-owned store operating for a majority of the six months ended May 31, 2006, versus three in the six months ended May 31, 2005, and because of continued tight cost controls.

Interest income increased $8,000 for the six months ended May 31, 2006 over the same period in 2005 as a result of the Company's decision to invest excess cash in higher yield investments.

Interest expense of $17,000 decreased $7,000 due to a lower outstanding debt balance.

Net Income per share, for the six months ended May 31, 2006, was $0.06 basic and $0.05 fully diluted versus income per share of $0.05 on both a basic and fully diluted basis at May 31, 2005.

Liquidity and Capital Resources

The net cash provided by operating activities totaled $242,000 for the six months ended May 31, 2006, versus cash provided from operating activities of $280,000 for the same period in 2005. Cash provided by operating activities principally represents net income of $399,000, plus depreciation and amortization of $35,000, a loss on disposal of equipment of $17,000, a decrease to Marketing Fund contributions receivable of $9,000, an $18,000 decrease in accounts receivable, a reduction in inventories of $19,000 a reduction in prepaid assets of $52,000, and an increase in unexpended Marketing Fund contributions of $4,000. Uses of funds from operations were due to a $40,000 increase in restricted cash, a reduction in payables of $64,000, a reduction in accrued professional fees and other accrued liabilities of $67,000, a decrease in deferred franchise fee revenue of $118,000, a $24,000 decrease in other deferred revenue, and a $4,000 issuance of notes receivable.

Cash provided from investing activities during the six months ended May 31, of 2006 totaled $48,000, and was provided by collection of notes receivable of $54,000 and proceeds from sale of equipment of $5,000, offset by purchases of equipment of $7,000. Cash provided from investing activities during 2005 totaled $38,000, and was provided from collection of notes receivable equal to $40,000, offset by purchases of equipment for $2,000.

Financing activities used $837,000 during the first six months of 2006, due to the repayment of notes payable of $121,000 and the payment of cash dividends $722,000, offset by proceeds from the exercise of stock options in the amount of $6,000. In fiscal 2005 for this same period, financing activities used $664,000 due to repayment of notes payable of $115,000 and payment of cash dividends of $573,000, offset by proceeds from the exercise of stock options in the amount of $24,000.

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. It is the Company's intent going forward 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 2003, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." This Statement, which is effective for years ending after December 15, 2003 amends SFAS No. 123, "Accounting for Stock-Based Compensation," and provides alternative methods of transition for a voluntary change to the fair value-based methods of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 regardless of the accounting method used to account for stock-based compensation. The Company has chosen to continue to account for stock-based compensation of employees using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. The effects of the enhanced disclosure provisions as defined by SFAS 148 are included in Note 5 of this report.

In December 2004, FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets-an amendment to APB Opinion No. 29." This Statement amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. Provisions of this Statement are effective for fiscal periods beginning after June 15, 2005. Adoption of SFAS No. 153 has not had a material impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issues SFAS No. 123(R), "Share-Based Payment." SFAS No. 123(R) establishes accounting standards for transactions in which a company exchanges its equity instruments for goods or services. In particular, this Statement will require companies to record compensation expense for all share-based payments, such as employee stock options, at fair market value. This Statement is effective as of the beginning of the first annual reporting period that begins after December 15, 2005 (the Company's period beginning December 1, 2006). Adoption of SFAS No. 123(R) is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, - a replacement of APB Opinion No. 20 and FASB Statement No. 3." This Statement replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (the Company's period beginning December 1, 2006). Early adoption is permitted for accounting changes and correction of errors made in fiscal years beginning after the date this Statement is issued. Adoption of SFAS No. 154 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Management has considered all other recently issued accounting pronouncements and does not believe that the adoption of such pronouncements will have a material impact on the Company's 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/A for the fiscal year ended November 30, 2005, filed with the Securities and Exchange Commission on April 14, 2006. 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, 2006.

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 May 31, 2006. 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 May 31, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

The following matters were voted upon at the registrant's annual meeting of shareholders held May 25, 2006. Each of the proposals passed.

1. Election of directors

	For	Withheld
Michael W. Evans	6,773,904	222,814
Michael K. Murtaugh	6,594,489	402,229

Steven G. Feldman	6,798,238	198,480
James A. Lentz	6,797,774	198,944

2. Appointment of Altschuler, Melvoin and Glasser, LLP as independent auditors for the fiscal year ended November 30, 2006

For	6,777,313
Against	28,353
Abstain	190,962
Non-Vote	90

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) See index to exhibits

(b) REPORTS ON FORM 8-K

5/25/06 On May 25, 2006, the Board of Directors of BAB, Inc. authorized a $0.02 per share quarterly cash dividend. The dividend is payable July 5, 2006 to stockholders of record as of June 14, 2006.

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 17, 2006

/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