

BAB, INC.
Form 10-Q
October 15, 2013
FORM 10-Q

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended August 31, 2013

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

[] For the transition period from _____ to _____

Commission file number: 0-31555

BAB, Inc.

(Name of small business issuer in its charter)

Delaware 36-4389547
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015

(Address of principal executive offices) (Zip Code)

Issuer's telephone number (847) 948-7520

Indicate by checkmark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by checkmark whether the registrant is a large accelerated filer, accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

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

As of October 10, 2013 BAB, Inc. had: 7,263,508 shares of Common Stock outstanding.

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PART I**ITEM 1. FINANCIAL STATEMENTS****BAB, Inc.****Consolidated Balance Sheet**

	August 31, 2013 (unaudited)	November 30, 2012
ASSETS		
Current Assets		
Cash	\$808,902	\$1,256,257
Restricted cash	369,757	376,837
Receivables		
Trade accounts and notes receivable (net of allowance for doubtful accounts of \$13,324 in 2013 and \$25,580 in 2012)	122,953	86,070
Marketing fund contributions receivable from franchisees and stores	10,955	16,385
Inventories	28,510	26,953
Prepaid expenses and other current assets	83,499	65,991
Total Current Assets	1,424,576	1,828,493
Property, plant and equipment (net of accumulated depreciation of \$142,399 in 2013 and \$139,293 in 2012)	7,667	10,773
Assets held for sale	3,783	3,783
Trademarks	446,822	445,022
Goodwill	1,493,771	1,493,771
Definite lived intangible assets (net of accumulated amortization of \$64,532 in 2013 and \$54,560 in 2012)	49,888	59,710
Deferred tax asset	248,000	248,000
Total Noncurrent Assets	2,249,931	2,261,059
Total Assets	\$3,674,507	\$4,089,552
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	\$29,070	\$29,070
Accounts payable	26,402	14,120
Accrued expenses and other current liabilities	281,076	328,288
Unexpended marketing fund contributions	380,966	393,477
Deferred franchise fee revenue	35,000	25,000
Deferred licensing revenue	8,333	45,833

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Total Current Liabilities	760,847	835,788
Long-term debt (net of current portion)	95,762	95,762
Total Liabilities	856,609	931,550
Stockholders' Equity		
Preferred shares, 5,000,000 authorized, no shares outstanding		
Common stock (\$.001 par value; 15,000,000 shares authorized; 8,466,953 shares issued and 7,263,508 shares outstanding as of August 31, 2013 and November 30, 2012)	13,508,257	13,508,257
Additional paid-in capital	987,034	987,034
Treasury stock	(222,781)	(222,781)
Accumulated deficit	(11,454,612)	(11,114,508)
Total Stockholders' Equity	2,817,898	3,158,002
Total Liabilities and Stockholders' Equity	\$3,674,507	\$4,089,552

SEE ACCOMPANYING NOTES

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

	3 months ended August 31,		9 months ended August 31,	
	2013	2012	2013	2012
REVENUES				
Royalty fees from franchised stores	\$446,603	\$463,113	\$1,334,047	\$1,395,115
Franchise fees	35,000	5,000	45,000	47,500
Licensing fees and other income	135,143	118,826	430,935	537,602
Total Revenues	616,746	586,939	1,809,982	1,980,217
OPERATING EXPENSES				
Selling, general and administrative expenses:				
Payroll and payroll-related expenses	283,826	329,803	992,266	1,025,950
Occupancy	41,716	48,458	125,873	114,218
Advertising and promotion	13,309	17,696	50,129	48,750
Professional service fees	37,482	31,769	127,093	128,225
Travel	9,440	13,854	42,367	42,320
Depreciation and amortization	4,367	4,713	13,078	14,279
Other	99,281	76,381	269,360	248,045
Total Operating Expenses	489,421	522,674	1,620,166	1,621,787
Income from operations	127,325	64,265	189,816	358,430
Interest income	213	770	768	2,144
Interest expense	(1,483)	(1,812)	(4,447)	(5,436)
Income before provision for income taxes	126,055	63,223	186,137	355,138
Provision for income taxes				
Current tax	17,795	-	17,795	15,000
Net Income	\$108,260	\$63,223	\$168,342	\$340,138
Earnings per share - Basic and Diluted	\$0.01	\$0.01	\$0.02	\$0.05
Weighted average shares outstanding - Basic	7,263,508	7,263,508	7,263,508	7,263,508
Effect of dilutive common stock	6,172	2,426	4,372	2,278
Weighted average shares outstanding - Diluted	7,269,680	7,265,934	7,267,880	7,265,786
Cash distributions declared per share	\$-	\$0.01	\$0.07	\$0.03

SEE ACCOMPANYING NOTES

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

	2013	2012
Operating activities		
Net income	\$ 168,342	\$ 340,138
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	13,078	14,279
Provision for uncollectible accounts, net of recoveries	(7,975)	(3,555)
Changes in:		
Trade accounts receivable and notes receivable	(28,908)	20,574
Restricted cash	7,080	(45,313)
Marketing fund contributions receivable	5,430	3,311
Inventories	(1,557)	(7,045)
Prepaid expenses and other	(17,508)	13,935
Accounts payable	12,282	(30,382)
Accrued liabilities	(47,212)	(9,663)
Unexpended marketing fund contributions	(12,511)	41,045
Deferred revenue	(27,500)	32,917
Net Cash Provided by Operating Activities	63,041	370,241
Investing activities		
Capitalization of trademark renewals	(1,950)	(4,481)
Net Cash Used In Investing Activities	(1,950)	(4,481)
Financing activities		
Cash distributions/dividends	(508,446)	(363,175)
Net Cash Used In Financing Activities	(508,446)	(363,175)
Net Increase (Decrease) in Cash	(447,355)	2,585
Cash, Beginning of Period	1,256,257	1,236,125
Cash, End of Period	\$ 808,902	\$ 1,238,710
Supplemental disclosure of cash flow information:		
Interest paid	\$-	\$-
Income taxes paid	\$ 26,000	\$ 5,200

SEE ACCOMPANYING NOTES

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BAB, Inc.

Notes to Unaudited Consolidated Financial Statements

For the Three and Nine Month Periods Ended August 31, 2013 and 2012

(Unaudited)

Note 1 - Nature of Operations

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

The Company was incorporated under the laws of the State of Delaware on July 12, 2000. The Company currently franchises and licenses bagel and muffin retail units under the BAB and MFM trade names. At August 31, 2013 the Company had 95 franchise units and 5 licensed units 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 Kohr Bros. Frozen Custard, Kaleidoscoops, Green Beans Coffee, Sodexo and through direct home delivery of specialty muffin gift baskets and coffee. Also included in licensing fees and other income is Operation’s Sign Shop results. For franchise consistency and convenience, the Sign Shop provides the majority of signage to franchisees, including but not limited to, posters, menu panels, build charts, outside window stickers and counter signs.

On August 22, 2013 the first SweetDuet Frozen Yogurt & Gourmet Muffins® (“SweetDuet”) opened in Kalamazoo, MI. It is owned by a current BAB franchisee. A second location opened in Portage, MI on September 25, 2013 to another BAB franchisee. While BAB will be offering franchises in all 50 states, its initial development focus is targeted for the Midwest, specifically Illinois, Michigan, Wisconsin and Ohio. As part of its introductory development plan, BAB will be donating 10% of the initial franchise fee from its first 50 SweetDuet units to the Cystic Fibrosis Foundation, of which BAB is a corporate sponsor. SweetDuet, as its name implies, is a fusion concept, pairing self-serve frozen yogurt with BAB’s exclusive line of My Favorite Muffin gourmet muffins, broadening the shop’s offering and therefore differentiating itself from the numerous frozen yogurt outlets already populating the market. SweetDuet shops will also include BAB’s Brewster’s Coffee and a streamlined breakfast menu. The SweetDuet concept will be included as part of Systems franchise operating and financial information.

The accompanying condensed consolidated financial statements are unaudited. These financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted pursuant to such SEC rules and regulations; nevertheless, the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements and the notes hereto should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended November 30, 2012 which was filed February 22, 2013. In the opinion of the Company's management, the condensed consolidated financial statements for the unaudited interim periods presented include all adjustments, including normal recurring adjustments, necessary to fairly present the results of such interim periods and the financial position as of the end of said period. The results of operations for the interim period are not necessarily indicative of the results for the full year.

2. Units Open and Under Development

Units which are open or under development at August 31, 2013 are as follows:

Locations open:

Franchisees	95
Licensed	5
Under development	5
Total	105

3. Earnings per Share

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

	For the 3 months ended August 31,		For the 9 months ended August 31,	
	2013	2012	2013	2012
Numerator:				
Net income available to common shareholders	\$ 108,260	\$ 63,223	\$ 168,342	\$ 340,138
Denominator:				
Weighted average outstanding shares				
Basic	7,263,508	7,263,508	7,263,508	7,263,508
Earnings per Share - Basic	\$0.01	\$0.01	\$0.02	\$0.05
Effect of dilutive common stock	6,172	2,426	4,372	2,278
Weighted average outstanding shares				
Diluted	7,269,680	7,265,934	7,267,880	7,265,786
Earnings per share - Diluted	\$0.01	\$0.01	\$0.02	\$0.05

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

4. Long-Term Debt

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

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5. Stock Options

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

	August 31, 2013	August 31, 2013
	Options	Options
Options Outstanding at beginning of period	368,373	368,373
Granted	0	0
Forfeited	0	0
Exercised	0	0
Options Outstanding at end of period	368,373	368,373

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

The Company uses historical volatility of common stock over a period equal to the expected life of the options to estimate their fair value. The dividend yield assumption is based on the Company's history and expectation of future dividend payouts on the common stock. The risk-free interest rate is based on the implied yield available on U.S. treasury zero-coupon issues with an equivalent remaining term. The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. To value option grants and other awards for actual and pro forma stock-based compensation, the Company uses the Black-Scholes option valuation model. When the measurement date is certain, the fair value of each option grant is estimated on the date of grant and is based on the assumptions used for the expected stock price volatility, expected term, risk-free interest rates and future dividend payments.

The Company's stock option terms expire in 10 years and vary in vesting from immediate to a vesting period of five years.

The following table summarizes the stock options outstanding and exercisable at August 31, 2013:

Options Outstanding

Options Exercisable

Outstanding at 8/31/13	Wghtd. Avg. Remaining Life	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value	Exercisable at 8/31/13	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value
368,373	2.55	\$ 1.16	\$ -	368,373	\$ 1.16	\$ -

There is no computation for the aggregate intrinsic value in the table above because the outstanding options weighted average exercise price was greater than the Company's closing stock price of \$0.80 as of the last business day of the period ended August 31, 2013. No options were exercised during the nine month period ended August 31, 2013.

6. Goodwill and Other Intangible Assets

Accounting Standard Codification ("ASC") 350 (formerly SFAS No. 142) "Goodwill and Other Intangible Assets" requires that assets with indefinite lives no longer be amortized, but instead be subject to annual impairment tests. The Company follows this guidance.

The Company tests goodwill that is not subject to amortization for impairment annually or more frequently if events or circumstances indicate that impairment is possible. Goodwill was tested at the end of the first quarter, February 28, 2013 and it was found that the carrying value of goodwill and intangible assets were not impaired.

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

7. Recent Accounting Pronouncements

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

8. Equity

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

9. Contingency

We are subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of such proceedings or claims cannot be predicted with certainty, management does not believe that the outcome of any of such proceedings or claims will have a material effect on our financial

position. Except as stated below, we know of no pending or threatened proceeding or claim to which we are or will be a party.

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

On August 15, 2013, an additional judgment of \$70,030 was entered in the Circuit Court of Cook County for this same matter for plaintiff’s attorney’s fees bringing the total judgment to \$154,030. In September 2013 the Company filed an appeal.

The Company and its trial and appellate counsel believe that we will prevail on appeal and that it is only reasonably possible that the Court’s ruling will be upheld as it is contrary to applicable Illinois precedent. The Company believes there will be zero damages assessed based on prior favorable rulings in similar cases; accordingly, no amounts have been accrued for any potential losses in this matter.

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

Certain statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, including statements regarding the development of the Company's business, the markets for the Company's products, anticipated capital expenditures, and the effects of completed and proposed acquisitions, and other statements contained herein regarding matters that are not historical facts, are forward-looking statements as is within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Because such statements include risks and uncertainties, actual results could differ materially from those expressed or implied by such forward-looking statements as set forth in this report, the Company's Annual Report on Form 10-K and other reports that the Company files with the Securities and Exchange Commission. Certain risks and uncertainties are wholly or partially outside the control of the Company and its management, including its ability to attract new franchisees; the continued success of current franchisees; the effects of competition on franchisees and Company-owned store results; consumer acceptance of the Company's products in new and existing markets; fluctuation in development and operating costs; brand awareness; availability and terms of capital; adverse publicity; acceptance of new product offerings; availability of locations and terms of sites for store development; food, labor and employee benefit costs; changes in government regulation (including increases in the minimum wage); regional economic and weather conditions; the hiring, training, and retention of skilled corporate and restaurant management; and the integration and assimilation of acquired concepts. Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revision to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

General

There are 95 franchised and 5 licensed units at August 31, 2013. Units in operation at August 31, 2012 included 97 franchised and 6 licensed units. System-wide revenues for the nine months ended August 31, 2013 were \$27.2 million as compared to August 31, 2012 which were \$28.5 million.

The Company's revenues are derived primarily from the ongoing royalties paid to the Company by its franchisees and receipt of initial franchise fees. Additionally, the Company derives revenue from the sale of licensed products (My Favorite Muffin mix, Big Apple Bagels cream cheese and Brewster's coffee), and through licensing and nontraditional channels of distribution (Kohr Bros., Kaleidoscoops, Green Beans Coffee and Sodexo). Also included in licensing fees and other income is Operation's Sign Shop revenue. The Sign Shop provides the majority of signage, which includes but is not limited to, posters, menu panels, build charts, outside window stickers and counter signs to franchisees to provide consistency and convenience.

Royalty fees represent a 5% fee on net retail and wholesale sales of franchised units. Royalty revenues are recognized on an accrual basis using actual franchise receipts. Generally, franchisees report and remit royalties on a weekly basis. The majority of month-end receipts are recorded on an accrual basis based on actual numbers from reports received from franchisees shortly after the month-end. Estimates are utilized in certain instances where actual numbers have not been received and such estimates are based on the average of the last 10 weeks' actual reported sales.

The Company recognizes franchise fee revenue upon the opening of a franchise store. Direct costs associated with the franchise sale are deferred until the franchise fee revenue is recognized. These costs include site approval, construction approval, commissions, blueprints and training costs.

The Company earns a licensing fee from the sale of BAB branded products, which includes coffee, cream cheese, muffin mix, scoop and bake muffin batter and par baked bagels from a third-party commercial bakery, to the franchised and licensed units.

As of August 31, 2013, the Company employed 14 full-time and 2 part-time employees at the Corporate office. The employees are responsible for corporate management and oversight, accounting, advertising and franchising. None of the Company's employees are subject to any collective bargaining agreements and management considers its relations with its employees to be good.

Results of Operations

Three Months Ended August 31, 2013 versus Three Months Ended August 31, 2012

For the three months ended August 31, 2013 and 2012, the Company reported net income of \$108,000 and \$63,000, respectively. Total revenue of \$617,000 increased \$30,000, or 5.1%, for the three months ended August 31, 2013, as compared to total revenue of \$587,000 for the three months ended August 31, 2012.

Royalty fee revenue of \$447,000, for the quarter ended August 31, 2013, decreased \$16,000, or 3.5%, from the \$463,000 for quarter ended August 31, 2012. The Company had fewer franchise locations at August 31, 2013 compared to August 31, 2012.

Franchise fee revenues of \$35,000, for the quarter ended August 31, 2013, increased \$30,000 as compared to the same quarter 2012. There were 2 store openings and 2 transfers for quarter ended August 31, 2013, compared to no store openings and 2 transfers in the same period 2012.

Licensing fee and other income of \$135,000, for the quarter ended August 31, 2013, increased \$16,000, or 13.4% from \$119,000 for the quarter ended August 31, 2012. Sign Shop revenue increased \$20,000 for the quarter ended August 31, 2013 compared to same period in 2012, offset by a decrease of \$4,000 in settlement fees for the quarter ended August 31, 2013 compared to the same period in 2012.

Total operating expenses of \$489,000 decreased \$34,000, or 6.5%, for the quarter ended August 31, 2013, from \$523,000 for the same period 2012. The decrease in total operating expenses in 2013 as compared to same period

2012 was primarily due to a decrease in payroll expenses of \$46,000, which included a reduction in executive payroll and increased Marketing Fund allocations, a decrease in occupancy expense of \$6,000, due to increased Marketing Fund allocations, a reduction in advertising expenses of \$5,000 and less travel expenses of \$5,000, with other general operating expenses decreasing \$15,000. This was offset by increased franchise expenses of \$21,000, including \$13,000 spent on opening the Company's first SweetDuet franchise and an increase of \$20,000 in Sign Shop cost of goods.

Total expenses for the three months ended August 31, 2013 include \$20,000 for the development of the SweetDuet franchise concept versus \$13,000 in the same period of 2012.

Interest income was less than \$1,000 for the three months ended August 31, 2013 and 2012.

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

Income taxes of \$18,000 are recorded for the quarter ended August 31, 2013 versus none for the previous year same quarter. The income taxes relate to state income taxes for states which limit the use of net operating loss carryforwards.

Earnings per share, as reported for basic and diluted outstanding shares for the second quarter ended August 31, 2013 and 2012 was \$0.01.

Nine Months Ended August 31, 2013 versus Nine Months Ended August 31, 2012

For the nine months ended August 31, 2013 and 2012, the Company reported net income of \$168,000 and \$340,000, respectively. Total revenue of \$1,810,000 decreased \$170,000, or 8.6%, for the nine months ended August 31, 2013, as compared to total revenue of \$1,980,000 for the nine months ended August 31, 2012.

Royalty fee revenue of \$1,334,000, for the nine months ended August 31, 2013, decreased \$61,000, or 4.4%, from the \$1,395,000 for the nine months ended August 31, 2012. The Company had fewer franchise locations at August 31, 2013 compared to August 31, 2012.

There were 2 store openings and 4 transfers in 2013, versus 1 store opening and 5 transfers in 2012.

Licensing fee and other income of \$431,000, for the nine months ended August 31, 2013, decreased \$107,000, or 19.9% from \$538,000 for the nine months ended August 31, 2012. Licensing fee and other income includes income from settlements and terminations of franchise agreements (settlements). For the nine months ended August 31, 2013, settlements decreased \$123,000 due to the fact in the same period in 2012 we received a \$171,000 payment for the buyout of the Franchise Agreement from the Minot, ND franchisee so the franchisee could pursue its other business interests associated with the local energy boom. In that acceptance by the Company of the voluntary buyout is unique, no such transaction occurred nor was such income earned in the nine months ended August 31, 2013. Nontraditional revenue decreased \$13,000 for the nine months of 2013 compared to 2012, offset by an increase of \$30,000 for Sign Shop revenue in 2013 compared to the same period 2012.

Total operating expenses of \$1,620,000 were essentially the same for the nine months ended August 31, 2013 and 2012. Payroll expenses decreased \$34,000 for the nine months ended August 31, 2013, primarily due to increased Marketing Fund allocation due to increased marketing personnel. The bad debt provision decreased \$4,000, as the reserve for notes receivable decreased in 2013, and general office expenses decreased \$18,000, offset by an increase in Sign Shop cost of goods of \$31,000 for the nine months ended August 31, 2013. Franchise development increased \$14,000 for the nine months ended August 31, 2013 related to the 2 store openings, and occupancy expense increased by \$11,000 as compared to August 31, 2012.

Effective June 1, 2013 executive management took a pay cut in order to help offset development costs regarding the launch of its SweetDuet concept. The total operating expenses for the nine months ended August 31, 2013 includes \$56,000 for development of the SweetDuet franchise concept versus \$29,000 for the same period 2012.

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Interest income of \$1,000 for the nine months ended August 31, 2013, decreased \$1,000 from the \$2,000 interest income for the same period 2012.

Interest expense of \$4,000 decreased \$1,000 for the nine months ended August 31, 2013 from \$5,000 for the same period 2012.

Income tax expense for the nine months ended August 31, 2013 and 2012 was \$18,000 and \$15,000, respectively.

Earnings per share, as reported for basic and diluted outstanding shares for the nine months ended August 31, 2013 and 2012 was \$0.02 and \$0.05, respectively.

Liquidity and Capital Resources

At August 31, 2013, the Company had working capital of \$664,000 and unrestricted cash of \$809,000. At November 30, 2012 the Company had working capital of \$993,000 and unrestricted cash of \$1,256,000.

During the nine months ended August 31, 2013, the Company had net income of \$168,000 and operating activities provided cash of \$63,000. The principal adjustments to reconcile net income to cash used in operating activities were depreciation and amortization of \$13,000, less provision for uncollectible accounts of \$8,000. In addition, changes in operating assets and liabilities decreased cash by \$110,000. During August 31, 2012, the Company had net income of \$340,000 and operating activities provided cash of \$370,000. The principal adjustments to reconcile net income to cash provided by operating activities for the nine months ending August 31, 2012 were depreciation and amortization of \$14,000 less the provision for uncollectible accounts of \$4,000. In addition changes in operating assets and liabilities increased cash by \$20,000.

For the nine months ended August 31, 2013 the Company used \$2,000 for investing activities versus \$4,000 for the nine months ended August 31, 2012.

The Company used \$508,000 and \$363,000 for cash distribution/dividend payments during the nine month period ended August 31, 2013 and 2012, respectively.

Although there can be no assurances that the Company will be able to pay cash distributions/dividends in the future, it is the Company's intent that future cash distributions/dividends will be considered based on profitability expectations and financing needs and will be declared at the discretion of the Board of Directors. It is the Company's intent going forward to declare and pay cash distributions/dividends on a quarterly basis if warranted.

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

The Company has no financial covenants on its outstanding debt.

Cash Distribution and Dividend Policy

It is the Company's intent that future cash distributions/dividends will be considered after reviewing profitability expectations and financing needs and will be declared at the discretion of the Board of Directors. Due to the general economic downturn and its impact on the Company, there can be no assurance that the Company will generate sufficient earnings to pay out cash distributions/dividends. The Company will continue to analyze its ability to pay cash distributions/dividends on a quarterly basis.

The Company believes that for tax purposes the cash distribution declared in 2013 may be treated as a return of capital to stockholders depending on each stockholder's basis or it may be treated as a dividend or a combination of the two. Determination of whether it is a cash distribution, cash dividend or combination of the two will not be made until after December 31, 2013, as the classification or combination is dependent upon the Company's earnings and profits for tax purposes for its fiscal year ending November 30, 2013.

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

Recent Accounting Pronouncements

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

Critical Accounting Policies

The Company has identified significant accounting policies that, as a result of the judgments, uncertainties, uniqueness and complexities of the underlying accounting standards and operations involved could result in material changes to its financial condition or results of operations under different conditions or using different assumptions. The Company's most critical accounting policies are related to revenue recognition, valuation of long-lived and intangible assets, deferred tax assets and the related valuation allowance. Details regarding the Company's use of these policies and the related estimates are described in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2012, filed with the Securities and Exchange Commission on February 22, 2013. There have been no material changes to the Company's critical accounting policies that impact the Company's financial condition, results of operations or cash flows for the nine months ended August 31, 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of both our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the

Securities and Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report. Based on such evaluation, both our Chief Executive Officer and Chief Financial Officer have concluded that, as of August 31, 2013 our disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) to ensure that information required to be disclosed by us in the reports that we submit under the Exchange Act is accumulated and communicated to our management, including our executive and financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) during the nine months of fiscal year 2013 to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Compliance with Section 404 of Sarbanes-Oxley Act

The Company is in compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (the “Act”).

PART II

ITEM 1. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of such proceedings or claims cannot be predicted with certainty, management does not believe that the outcome of any of such proceedings or claims will have a material effect on our financial position. Except as stated below, we know of no pending or threatened proceeding or claim to which we are or will be a party.

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

On August 15, 2013, an additional judgment of \$70,030 was entered in the Circuit Court of Cook County for this same matter for plaintiff’s attorney’s fees bringing the total judgment to \$154,030. In September 2013 the Company filed an appeal.

The Company and its trial and appellate counsel believe that we will prevail on appeal and that it is only reasonably possible that the Court’s ruling will be upheld as it is contrary to applicable Illinois precedent. The Company believes there will be zero damages assessed based on prior favorable rulings in similar cases; accordingly, no amounts have been accrued for any potential losses in this matter.

ITEM 2. UNREGISTERED SALES OF EQUITY AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See index to exhibits

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SIGNATURE

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

BAB, Inc.

Dated: October 15, 2013 /s/ Jeffrey M. Gorden
Jeffrey M. Gorden
Chief Financial Officer

INDEX TO EXHIBITS

(a) EXHIBITS

The following exhibits are filed herewith.

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

101.INS* XBRL Instance
101.SCH* XBRL Taxonomy Extension Schema
101.CAL* XBRL Taxonomy Extension Calculation
101.DEF* XBRL Taxonomy Extension Definition
101.LAB* XBRL Taxonomy Extension Labels
101.PRE* XBRL Taxonomy Extension Presentation

* XBRL
Information
is furnished
and not
filed or a
part of a
registration
statement
or
prospectus
for
purposes of
sections 11
or 12 of the
Securities
Act of
1933, as
amended, is
deemed not
filed for
purposes of
section 18
of the
Securities
Exchange
Act of
1934, as
amended,
and
otherwise is
not subject
to liability
under these
sections.