BAB, INC.
Form 10-Q
July 12, 2010

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, 2010

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

For the transition period from ________________ to _________________

Commission file number: 0-31555

BAB, Inc.
(Name of small business issuer in its charter)

Delaware	36-4389547
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices) (Zip Code)

Issuer's telephone number (847) 948-7520

Indicate by checkmark whether the 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 23, 2010, 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, 2010 (Unaudited)	November 30, 2009
ASSETS		
Current Assets		
Cash	$1,136,417	$1,072,526
Restricted cash	213,320	211,748
Receivables		
Trade accounts and notes receivable (net of allowance for doubtful accounts of $9,607 in 2010 and $8,712 in 2009)	120,640	103,346
Marketing fund contributions receivable from franchisees and stores	16,478	14,209
Inventories	32,797	37,946
Prepaid expenses and other current assets	74,287	105,981
Total Current Assets	1,593,939	1,545,756
Property, plant and equipment (net of accumulated depreciation of $583,116 in 2010 and $575,407 in 2009)	41,362	27,834
Trademarks	435,860	434,960
Goodwill	1,493,771	1,493,771
Definite lived intangible assets (net of accumulated amortization of $116,160 in 2010 and $113,494 in 2009)	74,961	79,794
Deferred tax asset	248,000	248,000
Total Noncurrent Assets	2,293,954	2,284,359
Total Assets	$3,887,893	$3,830,115
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$25,292	$25,292
Accounts payable	50,859	36,975
Accrued expenses and other current liabilities	344,562	268,077
Unexpended marketing fund contributions	192,089	173,211
Deferred franchise fee revenue	76,000	30,000
Deferred licensing revenue	23,750	39,583
Total Current Liabilities	712,552	573,138
Long-term debt (net of current portion)	179,078	179,078
Total Liabilities	891,630	752,216
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, 2010 and November 30, 2009		
Additional paid-in capital	972,415	967,441
Treasury stock	(222,781)	(222,781)
Accumulated deficit	(11,261,628)	(11,175,018)
Total Stockholders' Equity	2,996,263	3,077,899
Total Liabilities and Stockholders' Equity	$3,887,893	$3,830,115

SEE ACCOMPANYING NOTES

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BAB, Inc.
Consolidated Statements of Operations
For the Quarters Ended May 31, 2010 and 2009
(Unaudited)

	3 months ended May 31, 2010	3 months ended May 31, 2009	6 months ended May 31, 2010	6 months ended May 31, 2009
REVENUES				
Royalty fees from franchised stores	$449,936	$484,037	$857,551	$926,672
Net sales by Company-owned stores	116,138	118,103	220,868	226,532
Franchise fees	-	5,000	25,000	50,000
Licensing fees and other income	143,715	190,055	253,951	371,861
Total Revenues	709,789	797,195	1,357,370	1,575,065
OPERATING EXPENSES				
Store food, beverage and paper costs	34,321	35,872	64,063	69,252
Store payroll and other operating expenses	68,194	109,958	152,006	224,923
Selling, general and administrative expenses:				
Payroll and payroll-related expenses	301,616	312,503	594,024	676,743
Occupancy	36,725	38,860	72,664	73,361
Advertising and promotion	17,912	21,500	34,262	37,469
Professional service fees	33,308	31,105	104,751	88,885
Depreciation and amortization	6,951	9,556	13,052	18,828
Impairment of goodwill and other intangibles	-	-	-	2,399,057
Other	99,208	128,121	189,392	272,113
Total Operating Expenses	598,235	687,475	1,224,214	3,860,631
Income/(Loss) from operations	111,554	109,720	133,156	(2,285,566)
Interest income	1,414	4,446	2,993	7,748
Interest expense	(2,427)	(2,714)	(4,854)	(5,427)
Income/(Loss) before provision for income taxes	110,541	111,452	131,295	(2,283,245)
Provision (benefit) for income taxes				
Current tax (benefit)	-	-	-	-
Deferred tax (benefit)	-	-	-	-
	-	-	-	-
Net Income/(Loss)	$110,541	$111,452	$131,295	$(2,283,245)
Net Income/(Loss) per share - Basic and Diluted	0.02	0.02	0.02	(0.31)
Weighted average shares outstanding - Basic and Diluted	7,263,508	7,263,508	7,263,508	7,263,508
Cash distributions declared per share	$0.02	$0.02	$0.03	$0.04

SEE ACCOMPANYING NOTES

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BAB, Inc.
Consolidated Statements of Cash Flows
For the Quarters Ended May 31, 2010 and 2009
(Unaudited)

	2010	2009
Operating activities		
Net income/(loss)	$131,295	$(2,283,245)
Depreciation and amortization	13,052	18,828
Goodwill and intangible impairment	-	2,399,057
Provision for uncollectible accounts, net of recoveries	(11,604)	7,486
Share-based compensation	4,974	5,203
Changes in:		
Trade accounts receivable and notes receivable	(5,690)	6,096
Restricted cash	(1,572)	56,378
Marketing fund contributions receivable	(2,269)	533
Inventories	5,149	9,565
Prepaid expenses and other	31,694	39,106
Accounts payable	13,884	(25,369)
Accrued liabilities	3,850	(36,605)
Unexpended marketing fund contributions	18,878	(56,911)
Deferred revenue	30,167	(70,998)
Net Cash Provided by Operating Activities	231,808	69,124
Investing activities		
Purchase of equipment	(21,237)	-
Capitalization of trademark renewals	(1,410)	(12,374)
Net Cash Used In Investing Activities	(22,647)	(12,374)
Financing activities		
Cash distributions/dividends	(145,270)	(217,905)
Net Cash Used In Financing Activities	(145,270)	(217,905)
Net Increase/Decrease in Cash	63,891	(161,155)
Cash, Beginning of Period	1,072,526	1,207,108
Cash, End of Period	$1,136,417	$1,045,953
Supplemental disclosure of cash flow information:		
Interest paid	$-	$-
Income taxes paid	$-	$-

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BAB, Inc.
Notes to Unaudited Consolidated Financial Statements
Quarter and Year to Date Periods Ended May 31, 2010 and 2009
(Unaudited)

Note 1 - Nature of Operations

BAB, Inc. (the "Company") was incorporated under the laws of the State of Delaware on July 12, 2000. The Company currently operates franchises and licenses bagel and muffin retail units under the Big Apple Bagels ("BAB") and My Favorite Muffin ("MFM") trade names. At May 31 2010, the Company had 104 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 Mrs. Fields Famous Brands (Mrs. Fields), Kohr Bros. Frozen Custard and through direct home delivery of specialty muffin gift baskets and coffee.

The BAB brand franchised and Company-owned stores feature daily baked bagels, flavored cream cheeses, premium coffees, gourmet bagel sandwiches and other related products. Licensed BAB units serve the Company's par-baked frozen bagel and related products baked daily. BAB units are primarily concentrated in the Midwest and Western United States. The MFM brand consists of units operating as "My Favorite Muffin," featuring a large variety of freshly baked muffins, coffees and related products, and units operating as "My Favorite Muffin and Bagel Cafe," featuring these products as well as a variety of specialty bagel sandwiches and related products. MFM units are primarily in the Middle Atlantic States. Although the Company doesn't actively market Brewster's stand-alone franchises, Brewster's coffee products are sold in the Company-owned store and most franchised units.

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, 2009 which was filed February 23, 2010. 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, 2010 are as follows:

Stores open:

Company-owned	1
Franchisees	99
Licensed	4
Under development	3
Total	107

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3. (Loss)/Earnings per Share

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

	3 months ended May 31, 2010	3 months ended May 31, 2009	6 months ended May 31, 2010	6 months ended May 31, 2009
Numerator:				
Net (loss)/income available to common shareholders	$ 110,541	$ 111,452	$ 131,295	$ (2,283,245)
Denominator:				
Weighted average outstanding shares Basic and diluted	7,263,508	7,263,508	7,263,508	7,263,508
Earnings/(Loss) per Share - Basic and Diluted	0.02	0.02	0.02	(0.31)

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, 2010 because their inclusion would have been anti-dilutive.

4. Long-Term Debt

The total debt balance of $204,370 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, 2010, 1,400,000 stock options were granted to directors, officers and employees. As of May 31, 2010, there were 1,031,627 stock options exercised or forfeited under the Plan.

	6 Months Ended May 31, 2010 Options	6 Months Ended May 31, 2009 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, 2010 and 2009.

As of May 31, 2010, there was approximately $15,000 of total unrecognized compensation cost related to non-vested stock option compensation arrangements granted under the incentive plan. That cost is to be recognized over a weighted average period of approximately 1.5 years.

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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, 2010:

Options Outstanding				Options Exercisable		
Outstanding at 5/31/2010	Wghtd. Avg. Remaining Life	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value	Exercisable at 5/31/2010	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value
368,373	5.80	$ 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 $.42 as of the last business day of the period ended May 31, 2010. No options were exercised during the quarter ended May 31, 2010.

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 corporation tests goodwill and intangible assets that are not subject to amortization for impairment annually or more frequently if events or circumstances indicate that impairment is possible. Goodwill and intangible assets were tested at the end of the first fiscal quarter, February 28, 2010 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 2010 to indicate that an impairment test was necessary.

An impairment test was performed at February 28, 2010 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, 2010 and 2009:

	Net Revenues 6 Months Ended May 31		Operating Income (Loss) 6 Months Ended May 31	
	2010	2009	2010	2009
Company Store Operations	263,306	$374,115	$(73,321)	$(95,957)
Franchise Operations and Licensing Fees	1,094,064	1,200,950	649,047	657,951
	$1,357,370	$1,575,065	$575,726	$561,994
Corporate Expenses, including impairment			(442,570)	(2,847,560)
Interest Income, Net of Interest Expense			(1,861)	2,321
Net (Loss)/Income			$131,295	$(2,283,245)

Total segment assets were substantially unchanged for the six months ended May 31, 2010 as compared to November 30, 2009.

8. Recent Accounting Pronouncements

In August 2009, the FASB issued ASU 2009-05 to provide guidance on measuring the fair value of liabilities under ASC 820, Fair Value Measurements and Disclosures. ASU 2009-05 became effective for us during the quarter ended February 28, 2010. ASU 2009-05 provides guidance regarding valuation for liabilities which trade as an asset in an active market. The adoption of this guidance did not have an impact on our 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, 2010 that would have or are expected to have any significant effect on the Company’s consolidated financial position, cash flows or results of operations.

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.

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General

The Company has 1 Company-owned store, 99 franchised and 4 licensed units at May 31, 2010. Units in operation at May 31, 2009 included 1 Company-owned store, 107 franchised and 3 licensed units. System-wide revenues for the six months ended May 31, 2010 were $17.7 million as compared to May 31, 2009 which were $19.2 million.

The Company's revenues are derived primarily from ongoing royalties paid to the Company by its franchisees, from the operation of the Company-owned store, receipt of franchise fees and from receipt of licensing fees.

Royalty fees from franchised stores represent a fee of 5% 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 last 10 weeks' average.

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.

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

As of May 31, 2010, the Company employed 25 persons, consisting of 10 working in the Company-owned store, of which 9 are part-time employees. The remaining 15 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.

The Company's revenues are derived primarily from ongoing royalties paid to the Company by its franchisees, from the operation of Company-owned stores and receipt of franchise fees. Additionally, the Company derives revenue from the sale of licensed products (My Favorite Muffin mix, Big Apple Bagels cream cheese and Brewster's coffee), and through licensing agreements (Kohr Bros. and Mrs. Fields Famous Brands).

Results of Operations

Three Months Ended May 31, 2010 versus Three Months Ended May 31, 2009

For the three months ended May 31, 2010 and 2009, the Company reported net income of $111,000. Total revenue of $710,000 decreased $87,000, or 10.9%, for the three months ended May 31, 2010, as compared to total revenue of $797,000 for the three months ended May 31, 2009.

Royalty fee revenue of $450,000, for the quarter ended May 31, 2010, decreased $34,000, or 7.0%, from the $484,000 for quarter ended May 31, 2009. The Company had 99 franchise locations at May 31, 2010 as compared to 107 locations at May 31, 2009. The decrease in stores and the general economic downturn has negatively impacted our franchise network and resulting royalty revenue.

There was no franchise fee revenue for quarter ended May 31, 2010 versus franchise fee revenue of $5,000 due to a store transfer for the quarter ended May 31, 2009.

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Licensing fee and other income of $144,000, for the quarter ended May 31, 2010, decreased $46,000, or 24.2%, from $190,000 for the quarter ended May 31, 2009. Rent revenue decreased $41,000 due to the termination of the Lincoln, NE sublease on December 31, 2009, Sign Shop revenues decreased $2,000 and license fee revenue decreased $8,000, offset by an increase of $5,000 in default/early termination fee revenue in 2010 compared to 2009.

Company-owned store sales of $116,000, for the quarter ended May 31, 2010, decreased $2,000, or 1.7%, from $118,000 for the quarter ended May 31, 2009.

Total operating expenses of $598,000 decreased $89,000, or 13.0%, for the quarter ended May 31, 2010, from $687,000 in 2009. The $89,000 decrease in total operating expenses was primarily due to a $38,000 decrease in rent expense for Lincoln, NE (the lease terminated December 31, 2009), a $14,000 decrease in bad debt expense due to recovery from one customer in 2010, a $10,000 decrease in payroll expense due to one less employee, a $6,000 decrease in Company-owned store expense, which includes cost of goods sold, a $10,000 decrease in travel expense, a $5,000 decrease in Sign Shop expense which is part of SG&A and a $4,000 decrease in advertising and promotional expense in 2010 compared to 2009.

Interest income of $1,000 decreased $3,000, or 75.0% for the quarter ended May 31, 2010, from $4,000 for the same period in 2009. Lower interest rates and a change in investment instruments in 2010 resulted in the lower interest income. As opposed to using an outside investment sweep account, funds are now held in the bank account and earnings on the balances are used to offset bank fees. Bank fees were approximately $1,000 less for 2010 second quarter compared to same period prior year.

Interest expense of $2,000 decreased $1,000, or 33.3% for the quarter ended May 31, 2010, from $3,000 for the same period in 2009.

Net income per share, as reported for basic and diluted outstanding shares for three months ended May 31, 2010 and May 31, 2009 was $0.02 per share.

Six Months Ended May 31, 2010 versus Six Months Ended May 31, 2009

For the six months ended May 31, 2010, the Company reported a net income of $131,000 versus a net loss of $2,283,000 for the same period in 2009. The prior year loss was due to an impairment charge for goodwill and other intangibles in the first quarter 2009 of $2,399,000. Total revenue of $1,357,000 decreased $218,000, or 13.8%, for the six months ended May 31, 2010, as compared to total revenue of $1,575,000 for the six months ended May 31, 2009.

Royalty fee revenue of $857,000, for the six months ended May 31, 2010, decreased $70,000, or 7.6%, from the $927,000 for the six months ended May 31, 2009. The Company had 99 franchise locations at May 31, 2010 as compared to 107 locations at May 31, 2009. The decrease in stores and the general economic downturn have negatively impacted our franchise network and resulting royalty revenue.

Franchise fee revenue of $25,000, for the six months ended May 31, 2010, decreased $25,000, or 50.0%, from $50,000 for the six months ended May 31, 2009. One store opened during the six months ended May 31, 2010, versus two stores opening and one transferring in the same period of 2009.

Licensing fee and other income of $254,000, for the six months ended May 31, 2010, decreased $118,000, or 31.7%, from $372,000 for the six months ended May 31, 2009. Rent revenue decreased $80,000 due to the termination of the Lincoln, NE sublease on December 31, 2009, Sign Shop revenue decreased $25,000 and licensing fee revenue decreased $22,000 primarily due to less stores and the general economic downturn, offset by a $9,000 default/early termination fee revenue increase in 2010 compared to 2009.

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Company-owned store sales of $221,000, for the six months ended May 31, 2010, decreased $5,000, or 2.2%, from $226,000 for the same period of 2009.

Total operating expenses of $1,224,000 decreased $238,000 or 16.3%, for the six months ended May 31, 2010 from $1,462,000 excluding the impairment charge of $2,399,000, in 2009. The $238,000 decrease in total operating expenses was primarily due to an $83,000 decrease in payroll expense, due to decreased employee awards and one less employee, a $68,000 decrease in rent expense for Lincoln, NE, (the lease terminated December 31, 2009), an $18,000 decrease in travel expense due to more in-house pre-visit analysis in 2010, a $25,000 decrease in Sign Shop expense which is part of SG&A, a $19,000 decrease in bad debt expense primarily due to recovery of 2009 bad debt in 2010, a $11,000 decrease in Company-owned store expense, which includes cost of goods sold, and a $17,000 decrease in franchise development expense, offset by a $16,000 increase in legal and accounting expense primarily due to higher legal fees for franchise related contract issues in 2010 compared to 2009.

Interest income of $3,000 decreased $5,000, or 62.5% for the six months ended May 31, 2010, from $8,000 for the same period in 2009. Lower interest rates and a change in investment instruments in 2010 resulted in the lower interest income. As opposed to using an outside investment sweep account, funds are now held in the bank account and earnings on the balances are used to offset bank fees. Bank fees were approximately $1,000 less for the six months ended May 31, 2010, versus the same period 2009.

Interest expense for the six months ended May 31, 2010 and 2009 was $5,000.

Net income per share, as reported for basic and diluted outstanding shares for six months ended May 31, 2010 was $0.02 compared to net loss per share of $0.31 for May 31, 2009.

Liquidity and Capital Resources

The net cash provided by operating activities totaled $232,000 for the six months ended May 31, 2010, versus cash provided by operating activities of $69,000 for the same period in 2009. Cash provided by operating activities principally represents net income of $131,000, plus depreciation and amortization of $13,000, share-based compensation of $5,000 less the provision for uncollectible accounts of $12,000, plus 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, less changes in trade accounts and notes receivable of $6,000, restricted cash of $2,000 and Marketing Fund contributions receivable of $2,000. Operating activities in 2009 provided cash of $69,000, represented by a net loss of $2,283,000, plus depreciation and amortization of $19,000, goodwill and intangible impairment of $2,399,000, share-based compensation of $5,000 and provision for uncollectible accounts of $7,000, plus changes in accounts and notes receivable of $6,000, restricted cash of $56,000, Marketing Fund contributions receivable of $1,000, inventories of $10,000 and prepaid expenses and other assets of $39,000, less changes in accounts payable of $25,000, accrued liabilities of $37,000, unexpended Marketing Fund contributions of $57,000 and deferred revenue of $71,000.

Cash used in investing activities during the six months ended May 31, 2010 totaled $23,000. Equipment was purchased for $21,000 and trademark renewal expenditures were $2,000. Cash used during 2009 totaled $12,000 for trademark renewal expenditures.

Financing activities used $145,000 for the six months ended May 31, 2010 for payment of cash distributions. Financing activities for 2009 was $218,000 for the payment of cash dividends.

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.

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The Company believes that for tax purposes the cash distribution declared in 2010 may be treated as a return of capital to shareholders depending on each shareholder'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, 2010, as the classification or combination is dependent upon the Company's earnings and profit for tax purposes for its fiscal year ending November 30, 2010.

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 August 2009, the FASB issued ASU 2009-05 to provide guidance on measuring the fair value of liabilities under ASC 820, Fair Value Measurements and Disclosures. ASU 2009-05 became effective for us during the quarter ended February 28, 2010. ASU 2009-05 provides guidance regarding valuation for liabilities which trade as an asset in an active market. The adoption of this guidance did not have an impact on our 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, 2010 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, 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, 2009, filed with the Securities and Exchange Commission on February 23, 2010. 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, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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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, 2010 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.

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 2010 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. 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, 2010

/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