

## Submission Information

<b>Submission Type</b>	10-Q
<b>Contact Name</b>	RDG Filings
<b>Contact Phone</b>	1-415-643-6080
<b>Exchange(s)</b>	NONE
<b>Filer CIK</b>	0001123596
<b>Filer CCC</b>	*****
<b>Reporting Period</b>	5/31/2018
<b>Smaller Reporting Company?</b>	True

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## Documents

<b>10-Q</b>	FORM 10-Q
<b>EX-21.1</b>	Exhibit 21.1
<b>EX-31.1</b>	Exhibit 31.1
<b>EX-31.2</b>	Exhibit 31.2
<b>EX-32.1</b>	Exhibit 32.1
<b>EX-32.2</b>	Exhibit 32.2

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

For the quarterly period ended May 31, 2018

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-31555

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

Delaware  
(State or other jurisdiction of incorporation or organization)

36-4389547  
(I.R.S. Employer Identification No.)

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

(Address of principal executive offices) (Zip Code)

Issuer's telephone number (847) 948-7520

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

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 check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 13, 2018 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 Sheets**

	May 31, 2018 (unaudited)	November 30, 2017
<b>ASSETS</b>		
Current Assets		
Cash	\$ 863,933	\$ 792,655
Restricted cash	600,105	693,425
Receivables		
Trade accounts and notes receivable (net of allowance for doubtful accounts of \$17,109 in 2018 and \$19,438 in 2017)	59,314	56,342
Marketing fund contributions receivable from franchisees and stores	13,060	12,635
Inventories	8,738	19,761
Prepaid expenses and other current assets	68,084	85,770
Total Current Assets	<u>1,613,234</u>	<u>1,660,588</u>
Property, plant and equipment (net of accumulated depreciation of \$154,662 in 2018 and \$154,762 in 2017)	1,504	5,515
Trademarks	459,637	459,637
Goodwill	1,493,771	1,493,771
Definite lived intangible assets (net of accumulated amortization of \$123,540 in 2018 and \$123,398 in 2017)	4,105	-
Deferred tax asset	248,000	248,000
Total Noncurrent Assets	<u>2,207,017</u>	<u>2,206,923</u>
Total Assets	<u>\$ 3,820,251</u>	<u>\$ 3,867,511</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 39,024	\$ 43,741
Accrued expenses and other current liabilities	228,216	243,397
Unexpended marketing fund contributions	613,340	706,856
Deferred franchise fee revenue	-	-
Deferred licensing revenue	23,834	18,155
Current and Total Liabilities	<u>904,414</u>	<u>1,012,149</u>
Stockholders' Equity		
Preferred shares -\$.001 par value; 4,000,000 authorized; no shares outstanding as of May 31, 2018 and November 30, 2017	-	-
Preferred shares -\$.001 par value; 1,000,000 Series A authorized; no shares outstanding as of May 31, 2018 and November 30, 2017	-	-
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, 2018 and November 30, 2017	13,508,257	13,508,257
Additional paid-in capital	987,034	987,034
Treasury stock	(222,781)	(222,781)
Accumulated deficit	(11,356,673)	(11,417,148)
Total Stockholders' Equity	<u>2,915,837</u>	<u>2,855,362</u>
Total Liabilities and Stockholders' Equity	<u>\$ 3,820,251</u>	<u>\$ 3,867,511</u>

SEE ACCOMPANYING NOTES

**BAB, Inc.**  
**Consolidated Statements of Income**  
**For the Three and Six Month Periods Ended May 31, 2018 and 2017**  
**(Unaudited)**

	Three months ended May 31,		Six months ended May 31,	
	2018	2017	2018	2017
<b>REVENUES</b>				
Royalty fees from franchised stores	\$ 425,435	\$ 447,982	\$ 810,486	\$ 848,243
Franchise fees	1,500	40,000	1,500	40,000
Licensing fees and other income	133,536	119,895	248,952	212,355
<b>Total Revenues</b>	<u>560,471</u>	<u>607,877</u>	<u>1,060,938</u>	<u>1,100,598</u>
<b>OPERATING EXPENSES</b>				
Selling, general and administrative expenses:				
Payroll and payroll-related expenses	230,331	261,907	437,693	508,984
Occupancy	43,052	43,934	82,891	89,795
Advertising and promotion	1,179	4,442	2,172	11,712
Professional service fees	16,210	27,253	77,519	77,574
Travel	8,148	10,150	17,223	18,876
Employee benefit expense	30,555	40,874	58,026	80,253
Depreciation and amortization	288	5,170	440	10,378
Other	53,181	78,166	91,641	114,361
<b>Total Operating Expenses</b>	<u>382,944</u>	<u>471,896</u>	<u>767,605</u>	<u>911,933</u>
<b>Income from operations</b>	<u>177,527</u>	<u>135,981</u>	<u>293,333</u>	<u>188,665</u>
Interest income	23	31	47	63
<b>Income before provision for income taxes</b>	<u>177,550</u>	<u>136,012</u>	<u>293,380</u>	<u>188,728</u>
Provision for income taxes				
Current tax	-	-	15,000	-
<b>Net Income</b>	<u>\$ 177,550</u>	<u>\$ 136,012</u>	<u>\$ 278,380</u>	<u>\$ 188,728</u>
Earnings per share - Basic and Diluted	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.03</u>
Weighted average shares outstanding - Basic and Diluted	7,263,508	7,263,508	7,263,508	7,263,508
Cash distributions declared per share	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.03</u>

SEE ACCOMPANYING NOTES

**BAB, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Six Months Ended May 31, 2018 and 2017**  
**(Unaudited)**

	For the six months ended:	
	May 31, 2018	May 31, 2017
<b>Operating activities</b>		
Net Income	\$ 278,380	\$ 188,728
Adjustments to reconcile net income to cash flows (used in)/provided by operating activities:		
Depreciation and amortization	440	10,378
Provision for uncollectible accounts, net of recoveries	(2,328)	(3,063)
Proceeds from sale of property and equipment	4,516	-
Changes in:		
Trade accounts receivable and notes receivable	(644)	3,711
Restricted cash	93,320	(33,496)
Marketing fund contributions receivable	(425)	1,878
Inventories	10,219	(10,611)
Prepaid expenses and other	17,686	1,777
Accounts payable	(4,717)	10,077
Accrued liabilities	(15,181)	(71,641)
Unexpended marketing fund contributions	(93,516)	32,123
Deferred revenue	5,679	(56,786)
Net Cash Provided by Operating Activities	<u>293,429</u>	<u>73,075</u>
<b>Investing activities</b>		
Purchase of equipment	-	(4,915)
Capitalization of trademark renewals	(4,246)	(4,455)
Net Cash Used In Investing Activities	<u>(4,246)</u>	<u>(9,370)</u>
<b>Financing activities</b>		
Cash distributions/dividends	(217,905)	(217,906)
Net Cash Used In Financing Activities	<u>(217,905)</u>	<u>(217,906)</u>
Net Increase (Decrease) in Cash	71,278	(154,201)
Cash, Beginning of Period	792,655	907,116
Cash, End of Period	<u>\$ 863,933</u>	<u>\$ 752,915</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ 2,000</u>	<u>\$ 15,801</u>

SEE ACCOMPANYING NOTES

**BAB, Inc.**  
**Notes to Unaudited Consolidated Financial Statements**  
**For the Three and Six Month Periods Ended May 31, 2018 and 2017**

(Unaudited)

**Note 1. Nature of Operations**

BAB, Inc. ("the Company") has three wholly owned subsidiaries: BAB Systems, Inc. ("Systems"), BAB Operations, Inc. ("Operations") and BAB Investments, Inc. ("Investments"). Systems was incorporated on December 2, 1992, and was primarily established to franchise Big Apple Bagels® ("BAB") specialty bagel retail stores. My Favorite Muffin® ("MFM"), was acquired in 1997 and is included as a part of Systems. Brewster's® Coffee ("Brewster's") was established in 1996 and the coffee is sold in BAB and MFM locations as well as through license agreements. SweetDuet ("SD") frozen yogurt can be added as an additional brand in a BAB or MFM location. Operations was formed on August 30, 1995, primarily to operate Company-owned stores of which there are currently none. The assets of Jacobs Bros. Bagels® ("Jacobs Bros.") were acquired on February 1, 1999, and any branded wholesale business uses this trademark. Investments was incorporated September 9, 2009 to be used for the purpose of acquisitions. To date, there have been no acquisitions.

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 and SD trade names. At May 31, 2018, the Company had 80 franchise units and 3 licensed units in operation in 23 states and the United Arab Emirates. The Company additionally derives income from the sale of its trademark bagels, muffins and coffee through nontraditional channels of distribution including under a licensing agreement with Green Beans Coffee. Also, included in licensing fees and other income is Operations Sign Shop results. For franchise consistency and convenience, the Sign Shop provided the majority of signage to franchisees, including but not limited to, menu panels, build charts, interior and exterior signage and point of purchase materials. Beginning December 2017, a majority of franchise signage and point of sale materials is being outsourced to a printer that will be able to provide consistency and convenience to the franchisees. Outsourcing signage will not have a material effect on revenues or net income.

The BAB franchised brand consists of units operating as "Big Apple Bagels," featuring daily baked bagels, flavored cream cheeses, premium coffees, gourmet bagel sandwiches and other related products. Licensed BAB units serve the Company's 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. The SweetDuet Frozen Yogurt & Gourmet Muffins® brand is a fusion concept, pairing self-serve frozen yogurt with MFM's exclusive line of My Favorite Muffin gourmet muffins. SD frozen yogurt can be added as an additional brand in a BAB or MFM location. Although the Company doesn't actively market Brewster's stand-alone franchises, Brewster's coffee products are sold in most franchised units.

The Company is leveraging on the natural synergy of distributing muffin products in existing BAB units and, alternatively, bagel products and Brewster's Coffee in existing MFM units. The Company expects to continue to realize efficiencies in servicing the combined base of BAB and MFM franchisees.

### Note 1. Nature of Operations (continue)

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, 2017 which was filed February 26, 2018. In the opinion of the Company's management, the condensed consolidated financial statements for the unaudited interim period presented include all adjustments, including normal recurring adjustments, necessary to fairly present the results of such interim period 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 May 31, 2018 are as follows:

Stores open:	
Franchisee-owned stores	80
Licensed Units	3
	<u>83</u>
Unopened stores with Franchise Agreements	2
	<u>85</u>

### 3. Earnings per Share

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

	For the three months ended May 31,		For the six months ended May 31,	
	2018	2017	2018	2017
<b>Numerator:</b>				
Net income available to common shareholders	\$ 177,550	\$ 136,012	\$ 278,380	\$ 188,728
<b>Denominator:</b>				
Weighted average outstanding shares				
Basic and diluted	<u>7,263,508</u>	<u>7,263,508</u>	<u>7,263,508</u>	<u>7,263,508</u>
<b>Earnings per Share - Basic and Diluted</b>	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.03</u>

There were no dilutive securities in the three months or six months ended May 31, 2018 or 2017.



#### 4. Goodwill and Other Intangible Assets

Accounting Standard Codification (“ASC”) 350 “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. The Company has elected to conduct its annual test during the first quarter. During the quarter ended February 28, 2018, management qualitatively assessed goodwill to determine whether testing was necessary. Factors that management considers in this assessment include macroeconomic conditions, industry and market considerations, overall financial performance (both current and projected), changes in management and strategy, and changes in the composition and carrying amounts of net assets. If this qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying value, a quantitative assessment is then performed. Based on a qualitative evaluation, management determined that the carrying value of goodwill was not impaired at May 31, 2018, and a quantitative assessment was not considered necessary.

#### 5. Recent Accounting Pronouncements

Revenue from Contracts with Customers, ASU 2014-09 establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. The revenue standard’s core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. The standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Entities will generally be required to make more estimates and use more judgment than under current guidance, which will be highlighted for users through increased disclosure requirements.

The standard requires that the transaction price received from customers be allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation is then recognized as the performance obligations are satisfied. We have evaluated franchise fees and have determined that under the new standard the franchise fee is not separate and distinct from the overall franchise right. Franchise fees received will be recorded as deferred revenue and recognized as revenue over the term of each respective franchise agreement, typically 10 years. The Company is still evaluating the financial impact that this change will have on our financial statements.

We have evaluated the impact of our franchise contributions to and subsequent expenditures from our marketing fund. We act as an agent in regard to these franchisee contributions and expenditures and as such we do not currently include them in our Consolidated Statements of Income. We have determined we are the principal in these arrangements and under the new standard we will include them as revenue and expense items. The Company is still evaluating the specific effect of this change. We believe it will have a material impact on our gross amount of reported revenues and expenses but we do not expect a significant impact on our net income. The Company will adopt ASU 2014-09 for fiscal year ending November 30, 2019.

## 5. Recent Accounting Pronouncements (continued)

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases, requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The Company is planning on early adoption of this standard at the commencement of the new lease beginning October 1, 2018. The Company will classify the new office lease as an operating lease. The adoption of ASU No. 2016-02 is expected to increase the Company's total assets and liabilities by approximately \$500,000 based on a discounted calculation of the future lease payments, as of October 1, 2018. A discount rate of 4% is used for the present value calculation of the future lease payments. The Company expects the impact on the results of its operations to equal the amortization of the asset, net of the present value discount, on a straight line basis over the lease term.

In March 2016, the Financial Accounting Standards Board issued ASU 2016-04, Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. The amendments in the ASU are designed to provide guidance and eliminate diversity in the accounting for derecognition of prepaid stored-value product liabilities. Typically, a prepaid stored-value product liability is to be derecognized when it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. This is when the likelihood of the product holder exercising its remaining rights becomes remote. This estimate shall be updated at the end of each reporting period. The amendments in this ASU are effective for the annual reporting periods beginning after December 15, 2017, including the interim periods within that reporting period. Early adoption is permitted. The Company does not believe that adoption of this guidance will have a material impact on the Company's 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, 2018 that would have or are expected to have any significant effect on the Company's financial position, cash flows or results of operations.

## 6. Stockholder's Equity

The Board of Directors declared a cash distribution/dividend on March 15, June 7 and September 7, 2017 of \$0.01 per share, paid April 20, July 13, and October 13, 2017, respectively. On December 5, 2017, a \$0.01 quarterly and a \$0.01 special cash distribution/dividend per share was declared and paid on January 12, 2018. March 7, 2018, the Board of Directors declared a \$0.01 quarterly cash distribution/dividend to shareholders of record as of March 27, 2018, paid April 13, 2018.

On June 4, 2018 the Board of Directors declared a \$0.01 quarterly cash dividend to shareholders of record as of June 19, 2018, payable July 6, 2018.

On May 6, 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, Inc. and its stockholders from efforts to obtain control of BAB, Inc. that the Board of Directors determines are not in the best interest of BAB, Inc. and its stockholders. BAB, Inc. 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, Inc.'s common stock ("trigger event"). Should a trigger event occur, each right entitles the registered holder to purchase from the Company one one-thousandth of a share of the Series A Participating Preferred Stock of the Company at an exercise price of \$0.90 per one-thousandth of a Preferred Share, subject to adjustment. The Rights will expire in three years from the date of declaration.

On June 18, 2014 an amendment to the Preferred Shares Rights Agreement was filed appointing American Stock Transfer & Trust Company, LLC as successor to Illinois Stock Transfer Company. All original rights and provisions remain unchanged. On August 18, 2015 an amendment was filed to the Preferred Shares Rights Agreement changing the final expiration date to mean the fifth anniversary of the date of the original agreement. All other original rights and provisions remain the same. On May 22, 2017 an amendment was filed extending the final expiration date to mean the seventh anniversary date of the original agreement. All other original rights and provisions remain the same.

## 7. Subsequent Event

On June 13, 2018 a lease was signed between BAB Systems, Inc. and TR Deerfield Office LLC. The lease is for sixty-six (66) months commencing on October 1, 2018 and continuing through March 31, 2024. The Company will reduce the current square footage from 7,144 square feet to 5,298 square feet.

## 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 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 80 franchised and 3 licensed units at May 31, 2018 compared to 85 franchised and 3 licensed units at May 31, 2017. System-wide revenues for the six months ended May 31, 2018 were \$16.5 million as compared to May 31, 2017 which were \$17.2 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, Big Apple Bagels frozen bagels and Brewster's coffee), and through nontraditional channels of distribution (Green Beans Coffee). Also, included in licensing fees and other income is Operations Sign Shop results. For franchise consistency and convenience, the Sign Shop provided the majority of signage to franchisees, including but not limited to, menu panels, build charts, interior and exterior signage and point of purchase materials. Beginning December 2017, a majority of franchise signage and point of sale materials is being outsourced to a printer that will be able to provide consistency and convenience to the franchisees. Outsourcing signage will not have a material effect on revenues or net income.

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 or upon the signing of a Master Franchise Agreement. 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 licensing fees from the sale of BAB branded products, which includes coffee, cream cheese, muffin mix and frozen bagels from a third-party commercial bakery, to the franchised and licensed units.

As of May 31, 2018, the Company employed 13 full-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 May 31, 2018 versus Three Months Ended May 31, 2017

For the three months ended May 31, 2018 and 2017, the Company reported net income of \$178,000 and \$136,000, respectively. Total revenue of \$560,000 decreased \$48,000, or 7.9%, for the three months ended May 31, 2018, as compared to total revenue of \$608,000 for the three months ended May 31, 2017.

Royalty fee revenue of \$425,000, for the quarter ended May 31, 2018, decreased \$23,000, or 5.1%, from the \$448,000 for quarter ended May 31, 2017.

Franchise fee revenues of \$1,500, for the quarter ended May 31, 2018, decreased \$38,500 from \$40,000 for the quarter ended May 31, 2017. There was one transfer for the three months ended May 31, 2018 versus two store openings in the quarter ended May 31, 2017.

Licensing fee and other income of \$134,000, for the quarter ended May 31, 2018, increased \$14,000, or 11.7% from \$120,000 for the quarter ended May 31, 2017. The increase was primarily due to an increase in settlement income of \$56,000 offset by a decrease due to a timing difference in license fees of \$10,000, a decrease in Sign Shop revenue of \$19,000 and a decrease in nontraditional revenue of \$13,000 in 2018 versus same period 2017.

Total operating expenses of \$383,000, for the quarter ended May 31, 2018 decreased \$89,000, or 18.9% from \$472,000 for the quarter ended May 31, 2017. The 2018 decrease was primarily due to a decrease in payroll and payroll tax expense of \$32,000, franchise development expense of \$14,000, franchise compliance expense of \$8,000, employee benefit expense of \$10,000, legal expenses of \$9,000, accounting expenses of \$2,000, depreciation and amortization expense of \$5,000, advertising expense of \$3,000, Sign Shop cost of goods of \$7,000, general expenses of \$2,000 and travel expense of \$2,000. The decreased expenses were offset by an increase in business taxes of \$5,000 in three months ended May 31, 2018 versus same period 2017.

There was no interest expense and interest income was less than a \$1,000 in the quarters ended May 31, 2018 and same period 2017.

Earnings per share, as reported for basic and diluted outstanding shares for the quarter ended May 31, 2018 and 2017 was \$0.02.

### **Six Months Ended May 31, 2018 versus Six Months Ended May 31, 2017**

For the six months ended May 31, 2018 and 2017, the Company reported net income of \$278,000 and \$189,000, respectively. Total revenue of \$1,061,000 decreased \$40,000, or 3.6%, for the six months ended May 31, 2018, as compared to total revenue of \$1,101,000 for the six months ended May 31, 2017.

Royalty fee revenue of \$810,000, for the six months ended May 31, 2018, decreased \$38,000, or 4.5%, from the \$848,000 for the six months ended May 31, 2017. Royalty revenues decreased primarily because of 2018 harsher winter and fewer locations compared to prior year same period 2017.

Franchise fee revenues of \$1,500, for the six months ended May 31, 2018, decreased \$38,500 from \$40,000 for the period ended May 31, 2017. There was one transfer for the six months ended May 31, 2018 versus two store openings in the six months ended May 31, 2017.

Licensing fee and other income of \$249,000, for the six months ended May 31, 2018, increased \$37,000, or 17.5%, from \$212,000 for the six months ended May 31, 2017. The increase was primarily due to an increase in settlement income of \$94,000, offset by a decrease in Sign Shop revenue of \$29,000 and a decrease in nontraditional revenue of \$28,000 in 2018 for the six months ended 2018 versus same period 2017.

Total operating expenses of \$768,000 decreased \$144,000, or 15.8%, for the six months ended May 31, 2018, from \$912,000 for the same period 2017. The decrease was primarily due to a decrease in payroll and payroll related expenses of \$71,000, a decrease in advertising expenses of \$10,000, a decrease in employee benefit expenses of \$22,000, a decrease in depreciation and amortization expense of \$10,000, a decrease of \$7,000 in occupancy, a decrease in travel of \$2,000, a decrease in franchise development of \$16,000 and a decrease in Other selling \$6,000 in 2018 versus the same period 2017.

There was no interest expense and interest income was less than a \$1,000 in the six months ended May 31, 2018 and same period 2017.

There was an income tax expense of \$15,000 recorded for the six months ended May 31, 2018 versus none recorded in 2017 for the same period.

Earnings per share, as reported for basic and diluted outstanding shares for the six months ended May 31, 2018 and 2017 were \$0.04 and \$0.03 per share, respectively.

### **Liquidity and Capital Resources**

At May 31, 2018, the Company had working capital of \$709,000 and unrestricted cash of \$864,000. At November 30, 2017 the Company had working capital of \$648,000 and unrestricted cash of \$793,000.

During the six months ended May 31, 2018, the Company had net income of \$278,000 and operating activities provided cash of \$293,000. The principal adjustments to reconcile the net loss to cash provided in operating activities for the six months ending May 31, 2018 were depreciation and amortization of less than a thousand and provision for uncollectible accounts of \$2,000. In addition, changes in operating assets and liabilities decreased cash by \$12,000. During May 31, 2017, the Company had net income of \$189,000 and operating activities provided cash of \$73,000. The principal adjustments to reconcile the net loss to cash provided in operating activities for the six months ending May 31, 2017 were depreciation and amortization of \$10,000 less a provision for uncollectible accounts of \$3,000. In addition changes in operating assets and liabilities decreased cash by \$123,000.

The Company used \$4,000 and \$9,000 for investing activities for the six months ended May 31, 2018 and 2017, respectively.

The Company used \$218,000 for cash distribution/dividend payments during the six month period ended May 31, 2018 and 2017.

On June 1, 2018, the Board of Directors declared a \$0.01 quarterly cash distribution/dividend to shareholders of record as of June 19, 2018, payable July 6, 2018. 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.

#### **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 distributions declared in 2018 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, 2018, as the classification or combination is dependent upon the Company's earnings and profits for tax purposes for its fiscal year ending November 30, 2018.

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 and Adopted Accounting Pronouncements**

Revenue from Contracts with Customers, ASU 2014-09 establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. The standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Entities will generally be required to make more estimates and use more judgment than under current guidance, which will be highlighted for users through increased disclosure requirements.

The standard requires that the transaction price received from customers be allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation is then recognized as the performance obligations are satisfied. We have evaluated franchise fees and have determined that under the new standard the franchise fee is not separate and distinct from the overall franchise right. Franchise fees received will be recorded as deferred revenue and recognized as revenue over the term of each respective franchise agreement, typically 10 years. The Company is still evaluating the financial impact that this change will have on our financial statements.

### Recent and Adopted Accounting Pronouncements (Continued)

We have evaluated the impact of our franchise contributions to and subsequent expenditures from our marketing fund. We act as an agent in regard to these franchisee contributions and expenditures and as such we do not currently include them in our Consolidated Statements of Income. We have determined we are the principal in these arrangements and under the new standard we will include them as revenue and expense items. The Company is still evaluating the specific effect of this change. We believe it will have a material impact on our gross amount of reported revenues and expenses but we do not expect a significant impact on our net income. The Company will adopt ASU 2014-09 for fiscal year ending November 30, 2019.

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases, requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The Company is planning on early adoption of this standard at the commencement of the new lease beginning October 1, 2018. The Company will classify the new office lease as an operating lease. The adoption of ASU No. 2016-02 is expected to increase the Company's total assets and liabilities by approximately \$500,000 based on a discounted calculation of the future lease payments, as of October 1, 2018. A discount rate of 4% is used for the present value calculation of the future lease payments. The Company expects the impact on the results of its operations to equal the amortization of the asset, net of the present value discount, on a straight line basis over the lease term.

In March 2016, the Financial Accounting Standards Board issued ASU 2016-04, Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. The amendments in the ASU are designed to provide guidance and eliminate diversity in the accounting for derecognition of prepaid stored-value product liabilities. Typically, a prepaid stored-value product liability is to be derecognized when it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. This is when the likelihood of the product holder exercising its remaining rights becomes remote. This estimate shall be updated at the end of each reporting period. The amendments in this ASU are effective for the annual reporting periods beginning after December 15, 2017, including the interim periods within that reporting period. Early adoption is permitted. The Company does not believe that adoption of this guidance will have a material impact on the Company's 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 February 28, 2018 that would have or are expected to have any significant effect on the Company's 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, 2017, filed with the Securities and Exchange Commission on February 26, 2018. 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 three or six months ended May 31, 2018.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 May 31, 2018 our disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) to ensure that information required to be disclosed by us in the reports that we submit under the Exchange Act is accumulated and communicated to our management, including our executive and financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) during the six months of fiscal year 2018 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. We know of no pending or threatened proceeding or claim to which we are or will be a party.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES 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

**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 13, 2018

/s/ Geraldine Conn  
Geraldine Conn  
Chief Financial Officer

## INDEX TO EXHIBITS

### (a) EXHIBITS

The following exhibits are filed herewith.

INDEX NUMBER	DESCRIPTION
3.1	<a href="#">Articles of Incorporation (See Form 10-KSB for year ended November 30, 2006)</a>
3.2	<a href="#">Bylaws of the Company (See Form 10-KSB for year ended November 30, 2006)</a>
4.1	<a href="#">Preferred Shares Rights Agreement (See Form 8-K filed May 6, 2013, and Amended June 18, 2014, August 18, 2015 and May 22, 2017)</a>
10.2	<a href="#">Long-Term Incentive and Stock Option Plan (See Form 10-K for year ended November 30, 2015 filed February 24, 2016)</a>
21.1	<a href="#">List of Subsidiaries of the Company</a>
31.1	<a href="#">Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2	<a href="#">Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS	XBRL Instance Document, filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document, filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document, filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document, filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document, filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document, filed herewith

Exhibit 21.1

**SUBSIDIARIES OF BAB, INC.**

BAB Systems, Inc., an Illinois corporation

BAB Operations, Inc., an Illinois corporation

BAB Investments, Inc., an Illinois corporation

Exhibit 31.1

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14 (a) OR RULE 15d-14 (a) OF THE SECURITIES EXCHANGE ACT OF 1934.**

I, Michael W. Evans, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of BAB, Inc.
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a -15(e) and 15d -15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d -15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 13, 2018

By: /s/ Michael W. Evans  
Michael W. Evans, Chief Executive Officer

Exhibit 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14 (a) OR RULE 15d-14 (a) OF THE SECURITIES EXCHANGE ACT OF 1934.**

I, Geraldine Conn, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of BAB, Inc.
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a -15(e) and 15d -15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d -15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 13, 2018

By: /s/ Geraldine Conn  
Geraldine Conn, Chief Financial Officer

Exhibit 32.1

BAB, Inc.  
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the BAB, Inc. (the "Company") Quarterly Report on Form 10-Q for the period ended May 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael W. Evans, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition, results of operations, and cash flows of the Company.

Date: July 13, 2018

By: /s/ Michael W. Evans  
Michael W. Evans, Chief Executive Officer

Exhibit 32.2

BAB, Inc.  
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the BAB, Inc. (the "Company") Quarterly Report on Form 10-Q for the period ended May 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Geraldine Conn, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition, results of operations, and cash flows of the Company.

Date: July 13, 2018

By: /s/ Geraldine Conn  
Geraldine Conn, Chief Financial Officer