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**BAB, Inc.****Project Type: 10-Q**

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**EDGAR Submission Proof****Created At: 10/11/2024 11:35:24 AM EDT**

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**Submission Information**

<b>Submission Type</b>	10-Q
<b>Return Copy?</b>	off
<b>Contact Name</b>	RDG Filings
<b>Contact Phone</b>	1-415-643-6080
<b>Exchange(s)</b>	NONE
<b>Confirmation of Paper Copy?</b>	off
<b>Filer CIK</b>	0001123596
<b>Filer CCC</b>	*****
<b>Emerging Growth Company</b>	False
<b>ex Transition Period</b>	False
<b>Reporting Period</b>	8/31/2024
<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

[Table of Contents](#)

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 August 31, 2024

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	BABB	OTCQB

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 every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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  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 October 11, 2024 BAB, Inc. had: 7,263,508 shares of Common Stock outstanding.

[Table of Contents](#)

TABLE OF CONTENTS

PART I	<a href="#">FINANCIAL INFORMATION</a>	<a href="#">3</a>
Item 1.	<a href="#">Financial Statements</a>	<a href="#">3</a>
Item 2	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">19</a>
Item 3	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">23</a>
Item 4	<a href="#">Controls and Procedures</a>	<a href="#">23</a>
PART II	<a href="#">OTHER INFORMATION</a>	<a href="#">24</a>
Item 1.	<a href="#">Legal Proceedings</a>	<a href="#">24</a>
Item 2	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">24</a>
Item 3	<a href="#">Defaults Upon Senior Securities</a>	<a href="#">24</a>
Item 4	<a href="#">Mine Safety Disclosures</a>	<a href="#">24</a>
Item 5	<a href="#">Other Information</a>	<a href="#">24</a>
Item 6	<a href="#">Exhibits</a>	<a href="#">25</a>
	<a href="#">SIGNATURE</a>	<a href="#">26</a>

[Table of Contents](#)

**PART I**

**ITEM 1. FINANCIAL STATEMENTS**

**BAB, Inc.  
 Consolidated Balance Sheets**

	August 31, 2024 (unaudited)	November 30, 2023 (audited)
<b>ASSETS</b>		
Current Assets		
Cash	\$ 1,930,770	\$ 1,888,728
Restricted cash	270,099	183,944
Receivables		
Trade accounts and notes receivable (net of allowance for doubtful accounts of \$48,102 in 2024 and \$28,873 in 2023)	81,877	71,681
Marketing fund contributions receivable from franchisees and stores	21,611	14,995
Lease receivable	5,956	5,900
Prepaid expenses and other current assets	94,999	96,544
Total Current Assets	<u>2,405,312</u>	<u>2,261,792</u>
Property, plant and equipment (net of accumulated depreciation of \$159,414 in both 2024 and 2023).		
Lease receivable	27,929	32,406
Trademarks	461,445	461,445
Goodwill	1,493,771	1,493,771
Definite lived intangible assets (net of accumulated amortization of \$141,483 in 2024 and \$138,541 in 2023)	13,403	16,345
Operating lease right of use	379,343	32,745
Total Noncurrent Assets	<u>2,375,891</u>	<u>2,036,712</u>
Total Assets	<u>\$ 4,781,203</u>	<u>\$ 4,298,504</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 41,613	\$ 3,042
Income tax payable	72,849	47,334
Accrued expenses and other current liabilities	275,229	325,880
Unexpended marketing fund contributions	241,075	201,824
Deferred franchise fee revenue	16,194	30,094
Current portion operating lease liability	45,936	39,818
Total Current Liabilities	<u>692,896</u>	<u>647,992</u>
Long-term Liabilities (net of current portion)		
Operating lease liability	346,817	-
Deferred franchise revenue	161,042	162,026
Deferred tax liability	287,278	309,293
Total Long-term Liabilities	<u>795,137</u>	<u>471,319</u>
Total Liabilities	<u>\$ 1,488,033</u>	<u>\$ 1,119,311</u>
Stockholders' Equity		
Preferred shares -\$.001 par value; 4,000,000 authorized; no shares outstanding as of August 31, 2024 and November 30, 2023	-	-
Preferred shares -\$.001 par value; 1,000,000 Series A authorized; no shares outstanding as of August 31, 2024 and November 30, 2023	-	-
Common stock -\$.001 par value; 15,000,000 shares authorized; 8,466,953 shares issued and 7,263,508 shares outstanding as of August 31, 2024 and November 30, 2023	13,508,257	13,508,257
Additional paid-in capital	987,034	987,034
Treasury stock	(222,781)	(222,781)
Accumulated deficit	(10,979,340)	(11,093,317)
Total Stockholders' Equity	<u>3,293,170</u>	<u>3,179,193</u>
Total Liabilities and Stockholders' Equity	<u>\$ 4,781,203</u>	<u>\$ 4,298,504</u>

SEE ACCOMPANYING NOTES

[Table of Contents](#)

**BAB, Inc.**  
**Consolidated Statements of Income**  
**For the Three and Nine Months ended August 31, 2024 and August 31, 2023**  
**(Unaudited)**

	Three months ended August 31,		Nine months ended August 31,	
	2024	2023	2024	2023
<b>REVENUES</b>				
Royalty fees from franchised stores	\$ 519,299	\$ 515,970	\$ 1,492,463	\$ 1,453,511
Franchise Fees	9,298	11,306	28,759	22,707
Licensing fees and other income	49,869	63,889	209,969	199,883
Marketing fund revenue	293,469	345,486	859,516	870,543
Total Revenues	<u>871,935</u>	<u>936,651</u>	<u>2,590,707</u>	<u>2,546,644</u>
<b>OPERATING EXPENSES</b>				
Selling, general and administrative expenses:				
Payroll and payroll-related expenses	240,632	237,140	728,443	740,763
Occupancy	29,904	34,989	92,195	103,396
Advertising and promotion	707	2,933	1,469	10,638
Professional service fees	26,055	23,030	115,668	101,707
Travel	2,697	4,754	10,928	13,028
Employee benefit expenses	38,768	33,406	109,401	111,276
Depreciation and amortization	981	981	2,942	2,826
Marketing fund expenses	293,469	345,486	859,516	870,543
Other	33,798	35,128	156,791	153,174
Total Operating Expenses	<u>667,011</u>	<u>717,847</u>	<u>2,077,353</u>	<u>2,107,351</u>
<b>Income from operations</b>	<u>204,924</u>	<u>218,804</u>	<u>513,354</u>	<u>439,293</u>
Interest income	17,903	15,054	50,164	20,613
<b>Income before provision for income taxes</b>	<u>222,827</u>	<u>233,858</u>	<u>563,518</u>	<u>459,906</u>
Provision for income taxes				
Current tax expense	58,875	36,684	181,015	126,707
Deferred tax	3,625	29,416	(22,015)	3,593
Total Tax Provision	<u>62,500</u>	<u>66,100</u>	<u>159,000</u>	<u>130,300</u>
<b>Net Income</b>	<u>\$ 160,327</u>	<u>\$ 167,758</u>	<u>\$ 404,518</u>	<u>\$ 329,606</u>
Net Income per share - Basic and Diluted	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.06</u>	<u>\$ 0.05</u>
Weighted average shares outstanding - Basic and diluted	<u>7,263,508</u>	<u>7,263,508</u>	<u>7,263,508</u>	<u>7,263,508</u>
Cash distributions declared per share	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ 0.04</u>

SEE ACCOMPANYING NOTES

[Table of Contents](#)

**BAB, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Nine Months ended August 31, 2024 and August 31, 2023**  
**(Unaudited)**

	August 31, 2024	August 31, 2023
<b>Operating activities</b>		
Net Income	\$ 404,518	\$ 329,606
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	2,942	2,826
Deferred tax expense	(22,015)	3,593
Provision for uncollectible accounts, net of recoveries	19,229	-
Noncash lease expense	69,287	74,483
Changes in:		
Trade accounts receivable and notes receivable	(25,004)	1,495
Marketing fund contributions receivable	(6,616)	(4,300)
Prepaid expenses and other	1,545	60,672
Accounts payable	38,571	(1,731)
Accrued liabilities	(25,136)	(22,797)
Unexpended marketing fund contributions	39,251	49,785
Deferred revenue	(14,884)	19,537
Operating lease liability	(62,950)	(88,411)
Net Cash Provided by Operating Activities	<u>418,738</u>	<u>424,758</u>
<b>Investing Activities</b>		
Trademark Additions	-	(1,180)
Net Cash Used by Investing Activities	<u>-</u>	<u>(1,180)</u>
<b>Financing activities</b>		
Cash distributions/dividends	(290,541)	(290,540)
Net Cash Used In Financing Activities	<u>(290,541)</u>	<u>(290,540)</u>
Net (Decrease)/Increase in Cash and Restricted Cash	128,197	133,038
Cash and Restricted Cash - Beginning of Period	2,072,672	1,902,661
Cash and Restricted Cash - End of Period	<u>\$ 2,200,869</u>	<u>\$ 2,035,699</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ -	\$ -
Income taxes paid	\$ 155,500	\$ 52,500
<b>Non-cash operating activities:</b>		
Right-of-use operating asset obtained in exchange for operating lease liability	<u>\$ 401,430</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES

[Table of Contents](#)

**BAB, Inc.**  
**Notes to Unaudited Consolidated Financial Statements**  
**For the Three and Nine Months Ended August 31, 2024 and August 31, 2023**  
**(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 (“Brewster’s”) was established in 1996 and the coffee is sold in BAB and MFM locations. SweetDuet® (“SD”) frozen yogurt can be added as an additional brand in a BAB location. Operations was formed in 1995, primarily to operate Company-owned stores of which there are currently none. The assets of Jacobs Bros. Bagels (“Jacobs Bros.”) were acquired in 1999, and any branded wholesale business uses this trademark. Investments was incorporated in 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, MFM and SD trade names. At August 31, 2024, the Company had 64 franchise units and 4 licensed units in operation in 20 states. There are 4 units under development. The Company additionally derives income from the sale of its trademark bagels, muffins and coffee through nontraditional channels of distribution including under licensing agreements.

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. BAB units are primarily concentrated in the Midwest and Western United States. The MFM brand consists of units operating as “My Favorite Muffin Gourmet Muffin Bakery®” (“MFM Bakery”), featuring a large variety of freshly baked muffins and coffees and units operating as “My Favorite Muffin Your All-Day Bakery Café®” (“MFM Cafe”) featuring these products as well as a variety of specialty bagel sandwiches and related products. The SweetDuet® is a branded self-serve frozen yogurt that can be added as an additional brand in a BAB 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.

The Company has a minority interest in Athletes HQ Systems, Inc. (“AHQ”). AHQ franchises indoor baseball and softball practice and coaching facilities with knowledgeable instructors.

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, 2023 which was filed February 26, 2024. 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.

[Table of Contents](#)

## 2. Summary of Significant Accounting Policies

### **Unaudited Consolidated Financial Statements**

The accompanying unaudited Condensed Consolidated Financial Statements of BAB, Inc. have been prepared pursuant to generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information and the rules and regulations of the United States Securities and Exchange Commission (the "SEC") for Form 10-Q. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

### **Use of Estimates**

The preparation of the financial statements and accompanying notes are in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, demand deposits and treasury notes with banks and equity firms with original maturities of less than 90 days. The balance of bank accounts may, at times, exceed federally insured credit limits. The Company has not experienced any loss in such accounts and believes it is not subject to any significant credit risk related to cash at August 31, 2024.

### **Accounts Receivable and Notes Receivable**

The Company adopted FASB ASC Topic 326, Financial Instruments - Credit Losses, ("CECL") with an adoption date of December 1, 2023. As a result, the Company changed its accounting policy for allowance for credit losses and the policy pursuant to CECL is disclosed below.

The CECL reserve methodology requires companies to measure expected credit losses on financial instruments based on the total estimated amount to be collected over the lifetime of the instrument. Under the CECL model, reserves may be established against financial asset balances even if the risk of loss is remote or has not yet manifested itself. The Company records specific reserves against account balances of franchisees deemed at-risk when a potential loss is likely or imminent as a result of prolonged payment delinquency (greater than 90 days past due) and where notable credit deterioration has become evident. For financial assets that are not currently deemed at-risk, an allowance is recorded based on expected loss rates derived pursuant to the Company's CECL methodology that assesses four components - historical losses, current conditions, reasonable and supportable forecasts, and a reversion to history, if applicable.



[Table of Contents](#)

**2. Summary of Significant Accounting Policies (Continued)**

**Accounts Receivable and Notes Receivable (Continued)**

The Company considers its portfolio segments to be the following:

*Accounts Receivable (Franchise-Related):* Most of the Company's short-term receivables due from franchisees are derived from royalty, advertising and other franchise-related fees.

*Notes Receivable:* Notes receivable balances primarily relate to the conversion of (1) certain past due franchisee accounts receivable or (2) early franchise termination fees, to notes receivable. These notes are usually not collateralized. A significant portion of these notes have specific reserves recorded against them amounting to \$48,102 as of August 31, 2024.

*Leases Receivable:* Leases receivable consist of a single equipment lease receivable at August 31, 2024. The Company purchased equipment and leased the equipment to a franchisee. The equipment lease is collateralized by the equipment. The outstanding balance of the lease receivable is estimated to equate to the fair value of the equipment collateralizing the lease contracts, and is stated net of the unamortized interest income of \$879 at August 31, 2024.

*Accounts Receivables (Vendor Related):* Receivables due from vendors and distributors consist of royalty receivables related to the sale of certain food products to franchisees through the Company's network of suppliers and distributors and are included as part of Accounts Receivable.

Receivable balances by portfolio segment as of August 31, 2024 and November 30, 2023 are as follows:

	August 31, 2024	November 30, 2023
Accounts Receivable (Franchise Related)	\$ 75,236	\$ 55,781
Accounts Receivable (Vendor Related)	24,115	28,895
Notes Receivable	52,239	30,873
Lease Receivable, Net of Unamortized Interest	33,885	38,306
	<u>185,475</u>	<u>153,855</u>
Less: Allowance for Credit Losses	(48,102)	(28,873)
Total Receivables	<u>137,373</u>	<u>124,982</u>
Less: Current Portion	(109,444)	(92,576)
Long-Term Receivables	<u>\$ 27,929</u>	<u>\$ 32,406</u>

The Company's internal credit quality indicators for all portfolio segments primarily consider delinquency. Current and collateralized lease receivables have an internal risk rating of Grade I. The Company does not currently have any uncollateralized lease receivables. Past due lease receivables would be assigned an internal risk rating of Grade II-IV, depending on significance of delinquency. For uncollateralized notes receivable, the Company also considers the status of the franchisee note holder and the term of the note. Notes receivable from current franchisees are considered to have an elevated risk of credit loss based on their common origination from past due franchise accounts receivable but have some indication of collectability given ongoing operations (Internal Grade II). Notes receivable due from payers who no longer have an operating franchise are considered to have a high likelihood of credit loss (Internal Grade III). That likelihood increases if the note is outstanding for longer than one year (Internal Grade IV). At August 31, 2024, all notes receivable were due from former franchisees and had an original term over one year.

[Table of Contents](#)

**2. Summary of Significant Accounting Policies**

**Accounts Receivable and Notes Receivable (Continued)**

Changes in the allowance for credit losses during the nine months ended August 31, 2024 were as follows:

	Accounts Receivable (Franchise Related)	Accounts Receivable (Vendor Related)	Notes Receivable	Lease Receivable, Net	Total
Balance at November 30, 2023	\$ -	\$ -	\$ 28,873	\$ -	\$ 28,873
Adjustments to Allowance for Adoption of ASU 2016-13	-	-	-	-	-
Write-offs	-	-	-	-	-
Recoveries	-	-	(3,820)	-	(3,820)
Provision for Credit Losses	-	-	23,049	-	23,049
Balance at August 31, 2024	\$ -	\$ -	\$ 48,102	\$ -	\$ 48,102

The Company considers a receivable past due 31 days after the payment due date. The delinquency status of receivables (other than accounts receivable) at August 31, 2024 was as follows:

	Current	0-30 days Past Due	30-60 days Past Due	60-90 days past due	Over 90 days past due	Total
Notes Receivable	\$ 41,366	\$ -	\$ -	\$ -	\$ 10,873	\$ 52,239
Lease Receivable, Net of Unamortized Interest	33,885	-	-	-	-	33,885
	\$ 75,251	\$ -	\$ -	\$ -	\$ 10,873	\$ 86,124

The fiscal year of origination of the Company's gross notes receivable and lease receivables by risk rating are as follows:

Risk rating	2024	2023	2022	2021	2020	Prior	Total
Internal Grade I	\$ -	\$ -	\$ 33,885	\$ -	\$ -	\$ -	\$ 33,885
Internal Grade II	-	-	-	-	-	-	-
Internal Grade III	22,941	18,425	-	-	-	-	41,366
Internal Grade IV	-	-	-	-	-	10,873	10,873
Notes and Lease Receivables, Net of Unamortized Interest	\$ 22,941	\$ 18,425	\$ 33,885	\$ -	\$ -	\$ 10,873	\$ 86,124

[Table of Contents](#)

## 2. Summary of Significant Accounting Policies (Continued)

### **Lease Receivable**

The Company leases restaurant equipment to a certain franchisee under a sales-type lease agreement. Under the terms of the agreement, title to the equipment passes to the customer once all lease payments have been made and a reasonable buy-out fee is paid. The Company retains title or a security interest in the equipment until such time. The sales and cost of sales are recognized at the inception of the lease. The profit or loss on the issuance of the lease is recorded in the period of commencement. The investment in sales-type leases consists of the sum of the minimum lease payments receivable less unearned interest income and, if applicable, estimated executory cost. Minimum lease payments are part of the lease agreement between the Company (as the lessor) and the franchisee (as the lessee). The discount rate implicit in the lease is used to calculate the present value of minimum lease payments. The minimum lease payments consist of the gross lease payments net of executory costs, if any. Unearned interest income is amortized to income over the lease term to produce a constant periodic rate of return on net investment in the lease. While revenue is recognized at the inception of the lease, the cash flow from the sales-type lease occurs over the course of the lease, which results in interest income and reduction of receivables.

### **Property, Plant and Equipment**

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 3 to 7 years for property and equipment and 10 years, or term of lease if less, for leasehold improvements. Maintenance and repairs are charged to expense as incurred. Expenditures that materially extend the useful lives of assets are capitalized.

### **Other Assets**

Other assets include a minority investment in AHQ Systems, Inc. The shares were issued to BAB, Inc. as compensation for consulting services and are valued at \$2,250. The value of the investment is immaterial and has not been adjusted to fair market value.

### **Advertising and Promotion Costs**

The Company expenses advertising and promotion costs as incurred. All advertising and promotion costs were related to the Company's franchise operations.

### **Lease Liabilities**

The company accounts for leases under ASC 842. Lease arrangements are determined at the inception of the contract. Operating leases are included in operating lease right-of-use ("ROU") assets and other current and long-term operating lease liabilities on the consolidated balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities on the consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most leases do not provide an implicit rate, we use an incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

[Table of Contents](#)

## 2. Summary of Significant Accounting Policies (continued)

### Recent Accounting Pronouncements

In December 2023, the FASB issued ASU 2023-09, "Improvements to Income Tax Disclosures" which is intended to simplify various aspects related to accounting for income taxes. ASU 2023-09 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The amendments in ASU 2023-09 are effective for public business entities for fiscal years beginning after December 15, 2024, including interim periods therein. Early adoption of the standard is permitted, including adoption in interim or annual periods for which financial statements have not yet been issued. The Company will adopt ASU 2023-09 for fiscal year ending November 30, 2026.

Management does not believe that there are any recently issued and effective or not yet effective accounting pronouncements as of August 31, 2024 that would have or are expected to have any significant effect on the Company's financial position, cash flows or income statement.

### Statement of Cash Flows

The chart below shows the cash and restricted cash within the consolidated statements of cash flows as of August 31, 2024 and 2023 were as follows:

	August 31, 2024	August 31, 2023
Cash and cash equivalents	\$ 1,930,770	\$ 1,713,798
Restricted cash	270,099	321,901
Total cash and restricted cash	<u>\$ 2,200,869</u>	<u>\$ 2,035,699</u>

## 3. Revenue Recognition

### Franchise and related revenue

The Company sells individual franchises. The franchise agreements typically require the franchisee to pay an initial, non-refundable fee prior to opening the respective location(s), and continuing royalty fees on a weekly basis based upon a percentage of franchisee net sales. The initial term of franchise agreements are typically 10 years. Subject to the Company's approval, a franchisee may generally renew the franchise agreement upon its expiration. If approved, a franchisee may transfer a franchise agreement to a new or existing franchisee, at which point a transfer fee is typically paid by the current owner which then terminates that franchise agreement. A franchise agreement is signed with the new franchisee with no franchise fee required. If a contract is terminated prior to its term, it is a breach of contract and a penalty is assessed based on a formula reviewed and approved by management. Revenue generated from a contract breach is termed settlement income by the Company and included in licensing fees and other income.

[Table of Contents](#)

### **3. Revenue Recognition**

#### **Franchise and related revenue (continued)**

Under the terms of our franchise agreements, the Company typically promises to provide franchise rights, pre-opening services such as blueprints, operational materials, planning and functional training courses, and ongoing services, such as management of the marketing fund. The Company considers certain pre-opening activities and the franchise rights and related ongoing services to represent two separate performance obligations. The franchise fee revenue has been allocated to the two separate performance obligations using a residual approach. The Company has estimated the value of performance obligations related to certain pre-opening activities deemed to be distinct based on cost plus an applicable margin, and assigned the remaining amount of the initial franchise fee to the franchise rights and ongoing services. Revenue allocated to preopening activities is recognized when (or as) these services are performed. Revenue allocated to franchise rights and ongoing services is deferred until the store opens, and recognized on a straight-line basis over the duration of the agreement, as this ensures that revenue recognition aligns with the customer's access to the franchise right.

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

Royalty revenue is recognized during the respective franchise agreement based on the royalties earned each period as the underlying franchise store sales occur.

There are two items involving revenue recognition of contracts that require us to make subjective judgments: the determination of which performance obligations are distinct within the context of the overall contract and the estimated stand-alone selling price of each obligation. In instances where our contract includes significant customization or modification services, the customization and modification services are generally combined and recorded as one distinct performance obligation.

#### **Gift Card Breakage Revenue**

The Company sells gift cards to its customers in its retail stores and through its Corporate office. The Company's gift cards do not have an expiration date and are not redeemable for cash except where required by law. Revenue from gift cards is recognized upon redemption in exchange for product and reported within franchisee store revenue and the royalty and marketing fees are paid and shown in the Condensed Consolidated Statements of Income. Until redemption, outstanding customer balances are recorded as a liability. An obligation is recorded at the time of sale of the gift card and it is included in accrued expenses on the Company's Condensed Consolidated Balance Sheets.

The liability is reduced when the gift cards are redeemed by a franchise. Although there are no expiration dates for our gift cards, based on our analysis of historical gift card redemption patterns, we can reasonably estimate the amount of gift cards for which redemption is remote, which is referred to as "breakage." The Company recognizes gift card breakage proportional to actual gift card redemptions on a quarterly basis and the corresponding revenue is included in licensing fees and other revenue. Significant judgments and estimates are required in determining the breakage rate and will be reassessed each quarter.

[Table of Contents](#)

**3. Revenue Recognition (continued)**

**Nontraditional and rebate revenue**

As part of the Company’s franchise agreements, the franchisee purchases products and supplies from designated vendors. The Company may receive various fees and rebates from the vendors and distributors on product purchases by franchisees. In addition, the Company may collect various initial fees, and those fees are classified as deferred revenue in the balance sheet and straight lined over the life of the contract as deferred revenue in the balance sheet. The Company does not possess control of the products prior to their transfer to the franchisee and products are delivered to franchisees directly from the vendor or their distributors. The Company recognizes the rebates as franchisees purchase products and supplies from vendors or distributors and recognizes the initial fees over the contract life and the fees are reported as licensing fees and other income in the Condensed Consolidated Statements of Income.

**Marketing Fund**

Franchise agreements require the franchisee to pay continuing marketing fees on a weekly basis, based on a percentage of franchisee sales. Marketing fees are not paid on franchise wholesale sales. The balance sheet includes marketing fund cash, which is the restricted cash, accounts receivable and unexpended marketing fund contributions. Although the marketing fees are not separate performance obligations distinct from the underlying franchise right, the Company acts as the principal as it is primarily responsible for the fulfillment and control of the marketing services. As a result, the Company records marketing fees in revenues and related marketing fund expenditures in expenses in the Condensed Consolidated Statement of Income. The Company historically presented the net activities of the marketing fund within the balance sheet in the Condensed Consolidated Balance Sheet. While this reclassification impacts the gross amount of reported revenue and expenses the amounts will be offsetting, and there is no impact on net income.

**Disaggregation of Revenue**

The following table presents disaggregation of revenue from contracts with customers for the three months and nine months ended August 31, 2024 and 2023:

	For three months ended August 31, 2024	For three months ended August 31, 2023	For nine months ended August 31, 2024	For nine months ended August 31, 2023
<b>Revenue recognized at a point in time</b>				
Sign Shop revenue	\$ -	\$ 100	\$ 1,379	\$ 2,278
Settlement revenue	-	-	26,610	12,500
Total revenue at a point in time	-	100	27,989	14,778
<b>Revenue recognized over time</b>				
Royalty revenue	519,300	515,970	1,492,463	1,453,511
Franchise fees	9,298	11,306	28,759	22,707
License fees	5,978	3,378	17,934	12,967
Gift card revenue	533	1,172	3,692	3,273
Nontraditional revenue	43,357	59,239	160,354	168,865
Marketing fund revenue	293,469	345,486	859,516	870,543
Total revenue over time	871,935	936,551	2,562,718	2,531,866
Grand total	<u>\$ 871,935</u>	<u>\$ 936,651</u>	<u>\$ 2,590,707</u>	<u>\$ 2,546,644</u>

[Table of Contents](#)

**3. Revenue Recognition (continued)**

**Contract balances**

The balance of contract liabilities includes franchise fees, license fees and vendor payments that have ongoing contract rights and the fees are being straight lined over the contract life. Contract liabilities also include marketing fund balances and gift card liability balances.

	August 31, 2024	November 30, 2023
<b>Liabilities</b>		
Contract liabilities - current	\$ 527,983	\$ 458,162
Contract liabilities - long-term	161,042	162,026
<b>Total Contract Liabilities</b>	<b>\$ 689,025</b>	<b>\$ 620,188</b>

	August 31, 2024	November 30, 2023
Contracts at beginning of period	\$ 620,188	\$ 692,360
Revenue Recognized during period	(1,039,857)	(1,685,740)
Additions during period	1,108,694	1,613,568
Contracts at end of period	<b>\$ 689,025</b>	<b>\$ 620,188</b>

Transaction price allocated to remaining performance obligations (franchise agreements and license fee agreement) for the year ended November 30:

	2024	\$ 4,058 (a)
	2025	\$ 32,602
	2026	\$ 25,780
	2027	\$ 19,133
	2028	\$ 18,600
	Thereafter	\$ 77,063
	<b>Total</b>	<b>\$ 177,236</b>

(a) represents the estimate for the remainder of 2024

[Table of Contents](#)

**4. Units Open and Under Development**

Units which are open or under development at August 31, 2024 and 2023 are as follows:

	August 31, 2024	August 31, 2023
<b>Stores open:</b>		
Franchisee-owned stores	64	66
Licensed Units	4	3
	<u>68</u>	<u>69</u>
<b>Unopened stores with Franchise Agreements</b>		
	<u>4</u>	<u>5</u>
<b>Total operating units and units with Franchise Agreements</b>	<u><u>72</u></u>	<u><u>74</u></u>

**5. Earnings per Share**

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

	For the three months ended:		For the nine months ended:	
	August 31, 2024	August 31, 2023	August 31, 2024	August 31, 2023
<b>Numerator:</b>				
Net income available to common shareholders	\$ 160,327	\$ 167,758	\$ 404,518	\$ 329,606
<b>Denominator:</b>				
Weighted average outstanding shares				
Basic and diluted common stock	7,263,508	7,263,508	7,263,508	7,263,508
Earnings per Share - Basic	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.06</u>	<u>\$ 0.05</u>

**6. 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.

Following the guidelines contained in ASC 350, the Company tests goodwill and intangible assets that are not subject to amortization for impairment annually or more frequently if events or circumstances indicate that impairment is possible. The Company has elected to conduct its annual test during the first quarter. During the quarter ended February 29, 2024 and February 28, 2023, 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 review of the First Quarter goodwill assessment during the current quarter, management does not believe that an impairment exists at August 31, 2024.



[Table of Contents](#)

**7. Lease Receivable**

The Company leases restaurant equipment to a certain franchisee under a sales-type lease agreement. The lease agreement does not contain any non-lease components. The lease term is for a period of seven years, beginning June 1, 2022 and ending June 1, 2029. The lease requires weekly payments of \$121 for a total 365 payments, and a final optional buy-out payment of \$4,800, which management believes estimates residual value. At August 31, 2024, management does not believe the unguaranteed residual asset value of \$4,800 to be impaired.

During the nine months ending August 31, 2024, the Company recorded interest income from the lease receivable of \$292.

The sales lease is included in the balance sheet at the current value of the lease payments at a 1.25% discount rate, which reflects the rate implicit in the lease agreement.

Future minimum lease payments receivable as of August 31, 2024 are as follows:

	Undiscounted Rent Payments
Year Ending November 30:	
2024	1,571
2025	6,283
2026	6,404
2027	6,283
2028	6,283
thereafter	7,940
Total Undiscounted Lease Payments	34,764
Unamortized interest income	(879)
Lease receivable, net	\$ 33,885
Short-term lease receivable	\$ 5,956
Long-term lease receivable	27,929
Total lease receivable	\$ 33,885

[Table of Contents](#)

**8. Lease Commitments**

The Company rents its office under an operating lease which requires it to pay base rent, real estate taxes, insurance and general repairs and maintenance. The lease effective during the quarter was signed in June of 2018, effective October 1, 2018, expiring on March 31, 2024. On February 15, 2024, a lease amendment was signed, effective April 1, 2024 for a 6-year period, expiring March 31, 2030, with an option to renew for a 5-year period. The amendment continues to require the Company to pay base rent, real estate taxes, insurance and general repairs and maintenance. The amendment includes a ten-month rent abatement over the lease term, specifically defined in the agreement, and tenant allowance in the amount of \$158,940. The tenant allowance is to be applied evenly to the 62 months that were not abated. The renewal option has not been included in the measurement of the lease liability.

Monthly rent expense is recognized on a straight-line basis over the term of the lease. At August 31, 2024 the remaining lease term was 67 months. The lease amendment is reflected in the balance of the Lease Liability on the balance sheet at the present value of the lease payments using an 8.50% discount rate. The discount rate was considered to be an estimate of the Company's incremental borrowing rate.

Gross future minimum annual rental commitments as of August 31, 2024 are as follows:

	Undiscounted Rent Payments
Year Ending November 30:	
2024	\$ 22,773
2025	77,737
2026	80,837
2027	84,024
2028	96,163
Thereafter	136,725
Total Undiscounted Rent Payments	\$ 498,259
Present Value Discount	(105,506)
Present Value	\$ 392,753
Short-term lease liability	\$ 45,936
Long-term lease liability	346,817
Total Operating Lease Liability	\$ 392,753

**9. Income Taxes**

For the three months ended August 31, 2024, the Company recorded current and deferred tax expense of \$62,500 for an effective tax rate of 28.3% compared to \$66,100 of current and deferred tax expense for the three months ended August 31, 2023 for an effective tax rate of 28.3%.

For the nine months ended August 31, 2024, the Company recorded current and deferred tax expense of \$159,000 for an effective tax rate of 28.2% compared to \$130,300 of current and deferred tax expense for the nine months ended August 31, 2023 for an effective tax rate of 28.3%.

[Table of Contents](#)

## **10. Stockholder's Equity**

On September 6, 2024 the Board of Directors ("Board") declared a \$0.01 quarterly cash distribution, payable on October 11, 2024 to shareholders of record as of September 23, 2024. On June 06, 2024 the Board declared a \$0.01 quarterly cash distribution, paid on July 12, 2024 to shareholders of record as of June 24, 2024. On March 6, 2024 the Board declared a \$0.01 quarterly cash distribution, paid on April 12, 2024 to shareholders of record as of March 21, 2024. On December 11, 2023 the Board declared a \$0.02 cash distribution/dividend per share, \$0.01 quarterly and \$0.01 special to stockholders of record as of December 27, 2023, paid January 16, 2024.

On September 12, 2023 the Board declared a \$0.01 distribution/dividend per share to stockholders of record as of September 28, 2023, paid October 18, 2023. On June 6, 2023 the Board declared a \$0.01 distribution/dividend per share to stockholders of record as of June 22, 2023, paid on July 11, 2023. On March 13, 2023 the Board declared a \$0.01 distribution/dividend per share to stockholders of record as of March 30, 2023, paid on April 19, 2023. On December 07, 2022 the Board declared a \$0.02 cash distribution/dividend per share, \$0.01 quarterly and \$0.01 special, to stockholders of record as of December 22, 2022, paid January 11, 2023.

On May 6, 2013, the Board authorized and declared a dividend distribution of one right for each outstanding share of the common stock of the Company to stockholders of record at the close of business on May 13, 2013. 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 complete terms of the Rights are set forth in a Preferred Shares Rights Agreement, dated May 6, 2013, between the Company and IST Shareholder Services, as rights agent.

The Board adopted the Rights Agreement to protect stockholders from coercive or otherwise unfair takeover tactics. In general terms, it works by imposing a significant penalty upon any person or group, other than exempt person as defined in the agreement, that acquires 15% (or 20% in the case of certain institutional investors who report their holdings on Schedule 13G) or more of the Common Shares without the approval of the Board. As a result, the overall effect of the Rights Agreement and the issuance of the Rights may be to render more difficult a merger, tender or exchange offer or other business combination involving the Company that is not approved by the Board. However, neither the Rights Agreement nor the Rights should interfere with any merger, tender or exchange offer or other business combination approved by the Board.

Full details about the Rights Plan are contained in a Form 8-K filed by the Company with the U.S. Securities and Exchange Commission on May 7, 2013.

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. On February 22, 2019 an amendment was filed extending the final expiration date to mean the ninth anniversary date of the original agreement. All other original rights and provisions remain the same. On March 4, 2021 an amendment was filed extending the final expiration date to mean the eleventh anniversary date of the original agreement. All other original rights and provisions remain the same. On April 4, 2023 an amendment was filed extending the final expiration date to mean the fourteenth anniversary date of the original agreement. All other original rights and provisions remain the same.

[Table of Contents](#)

**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 64 franchised and 4 licensed units at August 31, 2024 compared to 66 franchised and 3 licensed units at August 31, 2023. System-wide revenues for the nine months ended August 31, 2024 were \$30.9 million and August 31, 2023 was \$30.2 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, and Brewster's coffee), and through nontraditional channels of distribution.

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.

There are two items involving revenue recognition of contracts that require us to make subjective judgments: the determination of which performance obligations are distinct within the context of the overall contract and the estimated stand-alone selling price of each obligation. In instances where our contract includes significant customization or modification services, the customization and modification services are generally combined and recorded as one distinct performance obligation.

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 August 31, 2024, the Company employed 11 full-time employees and one part-time employee 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.

[Table of Contents](#)

**Results of Operations**

**Three Months Ended August 31, 2024 versus Three Months Ended August 31, 2023**

For the three months ended August 31, 2024 and August 31, 2023, the Company reported net income of \$160,000 and \$168,000, respectively. Total revenue of \$872,000 decreased \$65,000, or 6.9%, for the three months ended August 31, 2024, as compared to total revenue of \$937,000 for the three months ended August 31, 2023.

Royalty fee revenue of \$519,000, for the quarter ended August 31, 2024, increased \$3,000, or 0.6%, from the \$516,000 for quarter ended August 31, 2023.

Franchise fee revenue was \$9,000, for the quarter ended August 31, 2024, a decrease of \$2,000, or 18.2%, from \$11,000 for August 31, 2023. In the third quarter of 2024 and 2023 there was one store transferred in both years and normal monthly amortization. In 2023 a closed location franchise revenue remaining was recognized. Licensing fee and other income of \$50,000, for the quarter ended August 31, 2024, decreased \$14,000 or 21.9% from \$64,000 for same quarter 2023.

Marketing Fund revenues of \$294,000, for the quarter ended August 31, 2024, decreased \$52,000, or 15.0% from \$346,000 for the quarter ended August 31, 2023. Revenue decreased for the Marketing Fund for August 31, 2024 versus same period 2023 due to timing of marketing campaigns.

Total operating expenses of \$667,000, for the quarter ended August 31, 2024, decreased \$50,000, or 7.0% from \$718,000 for the quarter ended August 31, 2023. Marketing Funds decreased \$52,000 due to a decrease in spending in the quarter, occupancy expense decreased \$5,000 because a new lease was signed with a better costs structure and travel expense decreased \$2,000, offset by increase in professional fees of \$3,000 and employee benefit expense increased \$6,000 in the 3 months ending August 31, 2024 compared to same period 2023.

For the three months ended August 31, 2024 the provision for income tax was \$62,000, compared to \$66,000 for the three months ending August 31, 2023.

Earnings per share, as reported for basic and diluted outstanding shares, was \$0.02 for the quarter ended August 31, 2024 and 2023.

**Nine Months Ended August 31, 2024 versus Nine Months Ended August 31, 2023**

For the nine months ended August 31, 2024 and August 31, 2023, the Company reported net income of \$405,000 and \$330,000, respectively. Total revenue of \$2,591,000 increased \$43,000, or 1.7%, for the nine months ended August 31, 2024, as compared to total revenue of \$2,547,000 for the nine months ended August 31, 2023.

Royalty fee revenue of \$1,492,000, for the nine months ended August 31, 2024, increased \$38,000, or 2.6%, from the \$1,454,000 for nine months ended August 31, 2023. Some factors contributing to the increased sales, was the usage of online ordering and delivery services in their areas.

Franchise fee revenues of \$29,000, for the nine months ended August 31, 2024, increased \$6,000, or 26.1%, from the \$23,000 for the nine months ended August 31, 2023. For the nine months ended August 31, 2024, in addition to the normal franchise fee amortization, the Company recorded revenue for one store opening and two store transfers compared to two transfers and one closed store's franchise fees in the same period 2023.

Licensing fee and other income of \$210,000 for the nine months ended August 31, 2024, increased \$10,000 or 5.0% from \$200,000 for same period 2023. For the nine months ended August 31, 2024 there was a \$14,000 increase in settlement income, a \$5,000 increase in licensing fees, offset by a \$9,000 decrease in nontraditional revenue in 2024 compared to same period 2023.

[Table of Contents](#)

**Results of Operations (continued)**

Marketing Fund revenues of \$860,000, for the nine months ended August 31, 2024, decreased \$11,000 or 1.3% from \$871,000 for same period 2023.

Total operating expenses of \$2,077,000, for the nine months ended August 31, 2024, decreased \$32,000, or 1.5% from \$2,107,000 for the same period 2023. The decrease was primarily due to payroll decreased \$13,000, occupancy decreased \$12,000 because a new lease was signed and rent expense is less under the new lease, Marketing Fund expenses decreased \$11,000, advertising and promotion expense decreased \$10,000 and both depreciation and travel decreased by \$2,000 in the nine months of 2024 compared to same period 2023. This was offset by an increase of \$14,000 in professional fees which included an increase of \$4,000 in accounting and \$10,000 in legal and a \$4,000 increase in other general expenses which included an increase of \$19,000 in bad debt provision for reserve of a note receivable and \$6,000 of franchise related expenses, offset by a decrease in insurance of \$12,000, and a net decrease in maintenance, office supplies, general corporate expense, and outside services of \$9,000

For the nine months ended August 31, 2024 and 2023 the provision for income tax was \$159,000 and \$130,000, respectively.

Earnings per share, as reported for basic and diluted outstanding shares for the nine months ended August 31, 2024 and 2023 were \$0.06 and \$0.05, respectively.

**Liquidity and Capital Resources**

At August 31, 2024, the Company had working capital of \$1,712,000 and unrestricted cash of \$1,931,000. At August 31, 2023 the Company had working capital of \$1,477,000 and unrestricted cash of \$1,714,000.

During the nine months ended August 31, 2024, the Company had net income of \$405,000 and operating activities provided cash of \$419,000. The principal adjustments to reconcile the net income to cash provided by operating activities for the nine months ending August 31, 2024 was depreciation and amortization of \$3,000, provision for uncollectible accounts of \$19,000 and noncash lease expense of 69,000, less deferred tax reduction of \$22,000. In addition, changes in operating assets and liabilities decreased cash by \$55,000. During the nine months ended August 31, 2023 the Company had net income of \$330,000 and operating activities provided cash of \$425,000. The principal adjustments to reconcile the net income to cash provided by operating activities for the nine months ending August 31, 2023 was depreciation and amortization of \$3,000, and noncash lease expense of \$74,000, and deferred tax expense of \$4,000. In addition, changes in operating assets and liabilities increased cash by \$14,000.

The Company had no investing activities for the nine months ended August 31, 2024 and used \$1,000 for investing activities in the nine months of 2023.

Cash distributions/dividends used \$291,000 in financing activities for the nine months ending August 31, 2024 and 2023.

**Cash Distribution and Dividend Policy**

It is the Company's intent that future cash distributions/dividend payments will be considered after reviewing profitability expectations and financing needs and will be declared at the discretion of the Board of Directors. The Company will continue to analyze its ability to pay cash distributions/dividends on a quarterly basis. For 2024, a \$0.02 cash distribution was declared for the first quarter and a \$0.01 cash distribution has been declared for the second, third and fourth quarters.

Determination of whether distributions are considered a cash distribution, cash dividend or combination of the two will not be made until after December 31, 2024, as the classification or combination is dependent upon the Company's earnings and profits for tax purposes for its fiscal year ending November 30, 2024.

[Table of Contents](#)

**Adopted Accounting Policies**

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard's main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope, including trade receivables. The amendments in this update broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The guidance in ASU 2016-13 is effective for public companies for fiscal years and for interim periods with those fiscal years beginning after December 15, 2022. The Company adopted ASU 2016-13 in the first quarter of fiscal 2024 and there was no material financial change. Enhanced disclosures are found in the Summary of Significant Accounting Policies.

**Recent Accounting Pronouncements**

In December 2023, the FASB issued ASU 2023-09, "Improvements to Income Tax Disclosures" which is intended to simplify various aspects related to accounting for income taxes. ASU 2023-09 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The amendments in ASU 2023-09 are effective for public business entities for fiscal years beginning after December 15, 2024, including interim periods therein. Early adoption of the standard is permitted, including adoption in interim or annual periods for which financial statements have not yet been issued. The Company will adopt ASU 2023-09 for fiscal year ending November 30, 2026.

Management does not believe that there are any recently issued and effective or not yet effective accounting pronouncements as of August 31, 2024 that would have or are expected to have any significant effect on the Company's financial position, cash flows or income statement.

**Critical Accounting Policies**

The Company has identified other 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, 2023, filed with the Securities and Exchange Commission on February 26, 2024.

[Table of Contents](#)

### **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 August 31, 2024 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 three months ending August 31, 2024 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”).



[Table of Contents](#)

**PART II**

**ITEM 1. LEGAL PROCEEDINGS**

We may be 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**

There was no adoption, modification or termination of any Rule 10b5-1 or non-Rule 10b5-1 plans by any Directors or Officers of the Company in the quarter ended August 31, 2024.

[Table of Contents](#)

(a) EXHIBITS

The following exhibits are filed herewith.

**INDEX NUMBER DESCRIPTION**

- [3.1](#) Articles of Incorporation (See Form 10-KSB for year ended November 30, 2006 filed February 28, 2007)
- [3.2](#) Bylaws of the Company (See Form 10-KSB for year ended November 30, 2006 filed February 28, 2007)
- [4.1](#) Preferred Shares Rights Agreement (See Form 8-K filed May 7, 2013)
- [4.2](#) Preferred Shares Rights Agreement Amendment No. 1 (See Form 8-K filed June 18, 2014)
- [4.3](#) Preferred Shares Rights Agreement Amendment No. 2 (See Form 8-K filed August 18, 2015)
- [4.4](#) Preferred Shares Rights Agreement Amendment No. 3 (See Form 8-K filed May 22, 2017)
- [4.5](#) Preferred Shares Rights Agreement Amendment No. 4 (See Form 8-K filed February 25, 2019)
- [4.6](#) Preferred Shares Rights Agreement Amendment No. 5 (See Form 8-K filed March 8, 2021)
- [4.7](#) Preferred Shares Rights Agreement Amendment No. 6 (See Form 8-K filed April 4, 2023)
- [21.1](#) List of Subsidiaries of the Company
- [31.1](#), [31.2](#) Section 302 of the Sarbanes-Oxley Act of 2002
- [32.1](#), [32.2](#) Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
- 101.SCH Inline XBRL Taxonomy Extension Schema
- 101.CAL Inline XBRL Taxonomy Extension Calculation
- 101.DEF Inline XBRL Taxonomy Extension Definition
- 101.LAB Inline XBRL Taxonomy Extension Labels
- 101.PRE Inline XBRL Taxonomy Extension Presentation
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

[Table of Contents](#)

SIGNATURE

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

BAB, Inc.

Dated: October 11, 2024

/s/ Geraldine Conn  
Geraldine Conn  
Chief Financial Officer

Filer: BAB, Inc.  
Project Type: 10-Q  
Description: Form 10-Q for quarter ended 08-31-24

Document Type: EX-21.1  
Document Version: 5  
Project ID: 107529

Sequence: 1  
Created By: Nick Fuller  
Created At: 10/11/2024 11:35:24 AM  
EDT

Exhibit 21.1

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: October 11, 2024

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: October 11, 2024

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 August 31, 2024, 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: October 11, 2024

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 August 31, 2024, 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: October 11, 2024

By: /s/ Geraldine Conn

Geraldine Conn, Chief Financial Officer