EASTERN CO
Form DEF 14A
March 16, 2011
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14(a)-6(e) (2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under Section 240.14a-12

The Eastern Company
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No. :

(3) Filing Party:

(4) Date Filed:

THE EASTERN COMPANY
112 Bridge Street
P.O. Box 460
Naugatuck, CT 06770-0460

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
April 27, 2011

The Annual Meeting of shareholders of The Eastern Company ("Eastern" or the "Company") will be held on April 27, 2011 at 11:00 a.m., local time, at the office of the Company, 112 Bridge Street, Naugatuck, Connecticut 06770-0460, for the following purposes:

1. To elect two directors.
2. To vote on a nonbinding advisory vote to approve the compensation of the named executive officers.
3. To vote on a nonbinding advisory vote on the frequency of presenting future advisory votes to approve the compensation of the named executive officers.
4. To ratify the Audit Committee's recommendation and the Board of Directors' appointment of Fiondella, Milone & LaSaracina LLP as the independent registered public accounting firm to audit the consolidated financial statements of the Company and its subsidiaries for the fiscal year 2011.
5. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed February 25, 2011 as the record date for the determination of common shareholders entitled to notice of, and to vote at, the Annual Meeting or any adjournment thereof.

Your vote is very important. Whether or not you plan to attend the Annual Meeting, we urge you to sign, date and return the enclosed proxy card promptly in the postpaid return envelope that is provided or call the toll free number provided on the enclosed proxy card. If you attend the meeting and desire to vote in person, your proxy will not be used.

All shareholders are cordially invited to attend the meeting, and management looks forward to seeing you there.

By order of the Board of Directors,

Theresa P. Dews
Secretary

March 16, 2011

PROXY STATEMENT

of

THE EASTERN COMPANY

for the Annual Meeting of Shareholders
To Be Held on April 27, 2011

The Board of Directors of The Eastern Company ("Eastern" or the "Company") is furnishing this proxy statement in connection with its solicitation of proxies for use at the 2011 Annual Meeting of Shareholders and at any adjournment thereof. This proxy statement is first being furnished to shareholders on or about March 16, 2011.

GENERAL INFORMATION REGARDING VOTING AT THE ANNUAL MEETING

The Board of Directors of Eastern has fixed the close of business on February 25, 2011 as the record date for determining the shareholders entitled to notice of, and to vote at, the Annual Meeting. On the record date, there were 6,163,533 outstanding shares of Eastern common stock, no par value ("Common Shares"), with each Common Share entitled to one vote.

The presence, in person or by proxy, of holders of a majority of the voting power of the Common Shares entitled to vote at the Annual Meeting is necessary to constitute a quorum.

Shares represented by Eastern's proxy card will be voted at the Annual Meeting, either in accordance with the directions indicated on the proxy card, or, if no directions are indicated, in accordance with the recommendations of the Board of Directors contained in this Proxy Statement and on the form of proxy. If a proxy is signed and returned without specifying choices, the Common Shares represented thereby will be voted (1) FOR the proposal to elect Messrs. Everets and Leganza to the Board of Directors; (2) FOR the approval of the compensation of the named executive officers; (3) FOR the approval of the frequency of the advisory vote on the compensation of the named executive officers to be every three years; and (4) FOR the appointment of Fiondella, Milone & LaSaracina LLP as the independent registered public accounting firm. The Company is not aware of any matters other than those set forth herein which will be presented for action at the Annual Meeting. If other matters should be presented, the persons named in the proxy intend to vote such proxies in accordance with their best judgment.

A shareholder may revoke the appointment of a proxy by making a later appointment or by giving notice of revocation to The Eastern Company, 112 Bridge Street, P.O. Box 460, Naugatuck, CT 06770-0460. Attendance at the Annual Meeting does not in itself revoke the appointment of a proxy; however, it may be revoked by giving notice in open meeting. A revocation made during the Annual Meeting after the polls have been closed will not affect the previously taken vote.

Solicitation of Proxies

The cost of solicitation of proxies will be borne by the Company. This solicitation by mail to the Company's shareholders (including this proxy statement and the enclosed proxy) began on approximately March 16, 2011. In addition to this solicitation by mail, officers and regular employees of the Company and its subsidiaries may make solicitation by mail, telephone or personal interviews, and arrangements may be made with companies, brokerage firms, and others to forward proxy material to their principals. The Company will defray the expenses of such additional solicitations (the cost of which is not known at this time).

The proxy statement is also available on the Company's website at www.easterncompany.com.

Voting at the Annual Meeting

A plurality of the votes duly cast is required for the election of directors and the advisory vote on the frequency of an advisory vote on the compensation of the named executive officers. Each of the other matters to be acted upon at the Annual Meeting will be approved if the votes cast in favor of the matter exceed the votes cast opposing the matter.

Under Connecticut law, an abstaining vote or a broker "non-vote" is considered to be present for purposes of determining a quorum but is not deemed to be a vote cast. A broker "non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. As a result, abstentions and broker "non-votes" are not included in the tabulation of the voting results on the election of directors or the other matters to be acted on at the Annual Meeting, each of which requires the approval of a plurality or majority of the votes cast, and therefore do not have the effect of votes of opposition in such tabulations.

The Board of Directors recommends voting:

FOR the election of Messrs. Everets and Leganza as directors.

FOR the approval of the compensation of the named executive officers.

FOR the approval of the frequency of the advisory vote on the compensation of the named executive to be every three years.

FOR the appointment of Fiondella, Milone & LaSaracina LLP as the independent registered public accounting firm.

Item No. 1

ELECTION OF DIRECTORS

At the meeting, two directors will be elected to serve for a three-year term which expires in 2014 or until their successors are elected and qualified. Mr. John W. Everets and Mr. Leonard F. Leganza, current directors whose term expires in 2011, are the nominees for election at the meeting.

Unless otherwise specified in your proxy, the persons with power of substitution named in the proxy card will vote your shares FOR the Company's nominees named below. If the nominees are unable or unwilling to accept nomination, the proxies will be voted for the election of such other person as may be recommended by the Board of Directors. The Board of Directors, however, has no reason to believe that the Company's nominees will be unavailable for election at the Annual Meeting. Approval of this resolution requires the affirmative vote of a plurality of the votes duly cast by the shares represented at the meeting which are entitled to vote on the matter.

The Board of Directors recommends a vote FOR the election of Mr. Everets and Mr. Leganza as directors.

Each director has furnished the biographical information set forth below with respect to his present principal occupation, business and other affiliations, and beneficial ownership of equity securities of the Company. Unless otherwise indicated, each director has been employed in the principal occupation or employment listed for at least the past five years.

Company Nominees for Election at the 2011 Annual Meeting
For a three-year term expiring in 2014

John W. Everets, age 64, has been Chairman and CEO of SBM Financial in Gardiner, Maine since June 2010. He previously was Chairman of Yorkshire Capital in Boston, Massachusetts from January 2006 through May 2010 and he was President and CEO of G.E. H.P.S.C. in Boston, Massachusetts from January 2004 through December 2005. Mr. Everets has been a Director of the Company since 1993 and serves on the Audit and Compensation Committees. Mr. Everets has also served on the Boards of M.F.I. Inc and Financial Security Assurance (FSA).

Mr. Everets' years of experience as Chairman of H.S.B.C., an asset lending company now part of General Electric, has qualified him as our independent financial expert. With that background, he serves as Chairman of the Company's Audit Committee.

Leonard F. Leganza, age 80, has been President and Chief Executive Officer of the Company since April 1997 and was appointed Chairman in December of 2006. Mr. Leganza also serves on the Board of Directors of the Republican-American newspaper.

Mr. Leganza has served as a Director of the Company for a total of 30 years, from 1980 through 2010. He is a Certified Public Accountant who practiced with the firm Ernst & Ernst (now Ernst & Young) for several years. He also served as a Director, Executive Vice President and Chief Financial Officer of Scovill, Inc., a NYSE company, for twenty years. In addition to his operations and financial experience, his several years of directorships in public and private companies and non-profit institutions have provided him with extensive knowledge of governance issues. He brings his broad wealth of experiences to the leadership of the Company. Mr. Leganza serves on the Executive Committee.

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Continuing Director (Term to Expire in 2013)

Charles W. Henry, age 61, is an attorney and partner with the law firm Henry & Federer, LLP (formerly Kernan & Henry, LLP) located in Southbury, Connecticut for many years. Mr. Henry has been a Director of the Company since 1989 and serves on the Audit, Compensation and Executive Committees.

Mr. Henry's independent legal expertise is valuable to the Company if and when matters of law or regulation arise in the normal course of the Company's businesses. His firm does not provide any services to the Company.

Continuing Directors (Terms to Expire in 2012)

David C. Robinson, age 68, has been a business consultant since August of 2006. He previously was employed as a Managing Director with the Sinclair-Robinson Group, an insurance agency, in Wallingford, Connecticut for the period from August 2004 through November 2005. Prior to that, he was President of The Robinson Company, a general insurance agency located in Waterbury, Connecticut. Mr. Robinson has been a Director of the Company since 1990 and currently serves on the Audit, Compensation and Executive Committees.

Mr. Robinson has extensive knowledge in the areas of pensions and other employee benefits. His background as an actuary and head of his own insurance agency, prior to its sale, provides the Company with many years of experience in the areas of employee benefits and risk management.

Donald S. Tuttle III, age 62, has been a business and investment consultant since May of 2008. He previously was employed by UBS Financial Services, Inc. in Middlebury, Connecticut as Vice President of Investments. Mr. Tuttle has been a Director of the Company since 1988 and serves on the Audit, Compensation and Executive Committees.

Mr. Tuttle is a descendent of Eben Tuttle, an original founder of the Company in 1858. Mr. Tuttle has a long relationship with the Company, its history and products. His previous career as a UBS financial advisor provides the Company with advice, if needed, with respect to the Company's needs in the marketplace for public companies.

Name	Common Stock Beneficially Owned as of February 25, 2011	Percentage Of Class
John W. Everets	58,387	0.9%
	71,109	1.2%

Charles W. Henry		
Leonard F. Leganza	127,110	2.1%
David C. Robinson	86,279	1.4%
Donald S. Tuttle III	86,825	1.4%

Item No. 2

ADVISORY VOTE ON THE COMPENSATION OF THE NAMED EXECUTIVES

The Board of Directors is presenting the following proposal, which is required pursuant to Section 14A of the Securities Exchange Act. It provides for you as a shareholder to either endorse or not endorse the Company's compensation program for the named executive officers by voting for or against the following resolution, which is commonly referred to as "say-on-pay".

RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.

While our Board of Directors intends to carefully consider the result of the shareholder vote on this proposal, the vote will be nonbinding and is only advisory in nature.

The Board of Directors recommends voting FOR approval of the compensation of our named executive officers as disclosed in the Compensation Discussion and Analysis and the compensation tables of this proxy statement. Proxies will be voted FOR approval of the proposal unless otherwise specified.

The Board of Directors recommends voting FOR approval of the compensation program of the named executive officers.

Item No. 3

ADVISORY VOTE ON THE FREQUENCY OF THE VOTE ON THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS

The Board of Directors is presenting the following proposal, which is required pursuant to Section 14A of the Securities Exchange Act, commonly known as a "say on pay" proposal. This proposal gives you as a shareholder the opportunity to inform the Board as to how often you wish the Company to include in our proxy statement a proposal such as the proposal in proxy Item No. 2. You can vote on the following resolution:

RESOLVED, that the shareholders wish the Company to include an advisory vote on the compensation of the Company's named executive officers pursuant to Section 14A of the Securities Exchange Act (select one):

1) every year
2) every two years;
3) every three years; or
4) abstain from vote.

For the purposes of this Item No. 3, which provides for an advisory vote on the compensation of our named executive officers every one, two, or three years, the Company will treat the option selected by the affirmative vote of a plurality of shares present and entitled to vote as the option approved by the shareholders.

While our Board of Directors intends to carefully consider the shareholder vote resulting from this proposal, the final vote will be nonbinding and is only advisory in nature.

The Board has adopted a policy that it will include an advisory vote on the compensation of the named executive officers similar to Item No. 2 every three years.

The Board of Directors recommends voting FOR choice number 3, which provides that shareholders will have an advisory vote every three years on the compensation of the Company's named executive officers.

Item No. 4

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The firm of Fiondella, Milone & LaSaracina LLP acts as our principal independent registered public accounting firm. The services of Fiondella, Milone & LaSaracina LLP for the fiscal year ended January 1, 2011 included an audit of the consolidated financial statements of the Company; assistance in connection with filing the Form 10-K annual report with the Securities and Exchange Commission; assistance on financial accounting and reporting matters; preparation of state and federal tax returns; audit of employee benefit plans; and meetings with the Audit Committee of the Board of Directors.

All audit services provided by Fiondella, Milone & LaSaracina LLP for 2010, which were similar to the audit service provided in prior years, were approved by the Audit Committee in advance of the work being performed.

The Audit Committee has recommended, and the Board of Directors has approved, continuing the services of Fiondella, Milone & LaSaracina LLP for the current fiscal year. Accordingly, the Board of Directors will recommend at the meeting that the shareholders approve the appointment of Fiondella, Milone & LaSaracina LLP to audit the consolidated financial statements of the Company for the current year.

The proposal to appoint Fiondella, Milone & LaSaracina LLP as the independent registered public accounting firm will be approved if, at the Annual Meeting at which a quorum is present, the votes cast in favor of the proposal exceed the votes cast opposing the proposal.

Representatives of Fiondella, Milone & LaSaracina LLP will be present at the Annual Meeting and will have an opportunity to make a statement if they desire to do so, as well as respond to questioning.

Audit Fees: Fiondella, Milone & LaSaracina LLP audit fees were $315,000 in 2010 and $290,000 in 2009. Audit fees include fees associated with the annual audit and the reviews of the Company's quarterly reports on Form 10-Q for the quarters ended April 3, 2010, July 3, 2010 and October 2, 2010.

Audit-Related Fees: Fiondella, Milone & LaSaracina LLP fees for audit related services were $50,111 in 2010 and $43,158 in 2009. Audit related services primarily include audits of the employee benefit plans of the Company.

Tax Fees: Fiondella, Milone & LaSaracina LLP tax fees paid in 2010 for preparation of the 2009 federal and state income tax returns were $20,639 and in 2009 fees paid for preparation of the 2008 federal and state income tax returns were $37,086.

All Other Fees: Fiondella, Milone & LaSaracina LLP did not provide any non-audit services in 2010 or 2009.

The Board of Directors recommends a vote FOR the appointment of Fiondella, Milone & LaSaracina LLP as the independent registered public accounting firm.

On June 10, 2009, the Audit Committee of the Board of Directors of the Company recommended and approved the dismissal of UHY LLP as the Company's independent registered public accounting firm, effective June 10, 2009. On June 10, 2009, the Board of Directors of the Company accepted the recommendation of the Audit Committee. The reports of UHY LLP on the Company's consolidated financial statements as of January 3, 2009 and December 29, 2007 and for each of the two fiscal years in the period ended January 3, 2009 did not contain any adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. During the fiscal years ended January 3, 2009 and December 29, 2007 and through the date of dismissal of UHY LLP, there were no disagreements between the Company and UHY LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of UHY LLP, would have caused UHY LLP to make reference to the subject matter of the disagreements in connection with its report. Moreover, none of the "reportable events" described in Item 304(a)(1)(v) of Regulation S-K of the Securities and Exchange Commission ("SEC") occurred during the fiscal years ended January 3, 2009 and December 29, 2007 or through the date of dismissal of UHY LLP. UHY LLP has furnished to the Company a copy of a letter addressed to the SEC which states that UHY LLP does not disagree with the above statements.

On June 10, 2009, the Audit Committee of the Board of Directors of the Company recommended and approved the appointment of Fiondella, Milone & LaSaracina LLP as the Company's independent registered public accounting firm, effective June 10, 2009. On June 10, 2009, the Board of Directors of the Company accepted the recommendation of the Audit Committee.

During the fiscal years ended January 3, 2009 and December 29, 2007 and through the date of the appointment of Fiondella, Milone & LaSaracina LLP, neither the Company nor anyone acting on its behalf consulted Fiondella, Milone & LaSaracina LLP regarding: (A) either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statement; or (B) any matter that was either the subject of a disagreement with UHY LLP on accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of UHY LLP, would have caused UHY LLP to make reference to the matter in connection with its report regarding the Company's consolidated financial statements, or a "reportable event" as described in Item 304(a)(1)(v) of Regulation S-K of the SEC.

AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that all audit committee members are financially literate and are independent under the current listing standards of the NYSE Amex. The Board has also determined that John W. Everets qualifies as an "audit committee financial expert" as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. The Board of Directors adopted a revised written charter for the Audit Committee on February 4, 2004. A copy of the Audit Committee's charter is also available on the Company's website at www.easterncompany.com.

Management has the primary responsibility for the financial statements and the reporting process, including the system of internal control. The independent registered public accounting firm is responsible for expressing an opinion on the conformity of those statements with generally accepted accounting principles. Within this framework, the Audit Committee has reviewed and discussed the audited financial statements included in the Annual Report on Form 10-K with the independent registered public accounting firm and management. In connection therewith, the Audit Committee reviewed with the independent registered public accounting firm their judgments as to the quality, not just the acceptability, of the Company's accounting principles; the reasonableness of significant judgments; the clarity of disclosures in the financial statements; and other related matters as required to be discussed under generally accepted auditing standards.

In addition, the Audit Committee has discussed with the independent registered public accounting firm the auditors' independence from management and the Company, including the matters in the written disclosures required by the Public Company Accounting Oversight Board and the Independence Standards Board, and considered the compatibility of nonaudit services with the auditors' independence.

The Audit Committee also discussed with the Company's independent registered public accounting firm the overall scope and plan for their audit, their evaluation of the Company's internal controls and the overall quality of the Company's financial reporting. The Audit Committee meets with and without management present and held five meetings during fiscal year 2010.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended January 1, 2011 for filing with the Securities and Exchange Commission. The Audit Committee has recommended and the Board of Directors has approved, subject to shareholder ratification, the selection of Fiondella, Milone & LaSaracina LLP as the Company's independent registered public accounting firm for the current fiscal year.

Audit Committee:

John W. Everets, Chairman
Charles W. Henry
David C. Robinson
Donald S. Tuttle III

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL SHAREHOLDERS

The following table sets forth information, as of February 25, 2011 (unless a different date is specified in the notes to the table), with respect to (a) each person known by the Board of Directors of the Company to be the beneficial owner of more than 5% of the Company's outstanding Common Shares, (b) each current director of the Company, (c) each of the Named Officers (as hereinafter defined) and (d) all directors and executive officers of the Company as a group:

Shareholder	Amount and nature of beneficial ownership (a)	Percent of class (b)
NSB Advisors LLC (c) 200 Westage Business Center Drive , Suite 228 Fishkill, NY 12524	2,337,169	37.9%
Utility Service Holding Co., Inc. (USHC) (d) P.O. Box 120 Warthen, GA 31094	369,853	6.0%
Dimensional Fund Advisors LP (e) Palisades West, Building One 6300 Bee Cave Road Austin, TX 78746	303,984	4.9%
John W. Everets	58,387	0.9%
Charles W. Henry	71,109	1.2%
Leonard F. Leganza	127,110	2.1%
David C. Robinson	86,279	1.4%
John L. Sullivan III (f)	35,411	0.6%
Donald S. Tuttle III	86,825	1.4%
All directors and executive officers as a group (6 persons)(g)	465,121	7.5%

(a) The Securities and Exchange Commission has defined "beneficial owner" of a security to include any person who has or shares voting power or investment power with respect to any such security or who has the right to acquire beneficial ownership of any such security within 60 days. Unless otherwise indicated, (i) the amounts owned reflect direct beneficial ownership, and (ii) the person indicated has sole voting and investment power.

Amounts shown include the number of Common Shares subject to outstanding options under the Company's stock option plans that are exercisable within 60 days.

Reported shareholdings include, in certain cases, shares owned by or in trust for a director or nominee, and in which all beneficial interest has been disclaimed by the director or the nominee.

(b) The percentages shown for the directors and executive officers are calculated on the basis that outstanding shares include Common Shares subject to outstanding options under the Company's stock option plans that are exercisable by the directors and officers within 60 days.

(c) Reported shareholdings per a Schedule 13G filed with the SEC on January 10, 2011. NSB Advisors LLC is a registered investment advisor and is no longer an affiliate of Brown Advisory Services, LLC, (a registered broker-dealer), Brown Investment Advisory & Trust Company (a bank), and Brown Advisory, LLC (a registered investment advisor)) as stated in a Schedule 13G/A filed with the SEC on January 11, 2011. Although NSB Advisors LLC has sole dispositive power of the 2,337,169 shares, it does not have or share voting power over the shares.

(d) Utility Service Holding Co., Inc. (UHSC), per a Schedule 13G filed on February 24, 2011 is deemed to have beneficial ownership 369,853 Common Shares.

(e) Dimensional Fund Advisors LP ("Dimensional"), a registered investment advisor, is deemed to have beneficial ownership of 303,984 Common Shares per a Schedule 13G/A filed as of February 11, 2011. However, because Dimensional has shared voting and dispositive power over such shares, it disclaims beneficial ownership of the shares.

(f) Mr. Sullivan is a Named Executive Officer of the Company. See "Executive Compensation – Summary Compensation Table" for information regarding Mr. Sullivan's age and business experience.

(g) Directors and Named Executive Officers have sole voting and investment power as to 465,121 shares (7.5% of the outstanding stock). Included are stock options for 4,000 shares deemed exercised solely for purposes of showing beneficial ownership by such group.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and officers, and persons who beneficially own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and with the NYSE Amex. Directors, officers and greater-than-10% beneficial owners are required by SEC regulations to furnish the Company with copies of all Section 16(a) reports that they file. Based solely on its review of copies of such reports filed with the SEC since January 2010, or written representations from certain reporting persons that no such reports were required for those persons, the Company believes that all persons subject to the reporting requirements of Section 16(a) have filed the required reports on a timely basis.

THE BOARD OF DIRECTORS AND COMMITTEES

The Board of Directors of the Company is currently composed of five members, four of whom are independent as defined in the listing standards of the NYSE Amex. The fifth director, the principal executive officer, is both Chairman and Chief Executive Officer. For seventeen years prior to becoming principal executive officer in 1997, the Chairman served as an independent director and chairman of the Company's Executive Committee and Audit Committee.

The current structure of the Board allows it to perform its duties effectively and efficiently considering the relatively small size of the Company. All directors are members of all committees, except that the principal executive officer is not a member of the audit or compensation committees and one director is not a member of the executive committee. Each director is chairman of a committee related to his expertise. Due to the small size of the Board, the Board does not have a lead independent director.

Because of the Company's diversified manufacturing and marketing activities, risk oversight responsibilities are focused generally on the Board's overall assessment of broad and general business and economic conditions in the market sectors in which the Company operates. With Board oversight, extensive Sarbanes-Oxley compliance testing of internal controls substantiates the credibility of the Company's financial reporting and operating controls.

The Board is provided with detailed and timely financial and operating communications, including the nature of significant capital projects as well as other important business matters indicating business trends and economic projections that might affect the Company's businesses.

The subject of Board "diversity" has not been approached in any formal manner. The Board currently does not have any policy focused on diversity. Should circumstances change and the number of persons on the Board be expanded, diversity would be considered.

Directors were selected to serve based on their individual professional and business background and skills as they might relate especially to activities beyond the "core" businesses of the Company. Those skills include Finance, Legal, Employee Benefits and Governance matters.

The Board of Directors of the Company is committed to sound corporate governance practices. The Board of Directors believes that its corporate governance practices enhance the Company's ability to achieve its goals and to govern the Company with the highest standards of integrity.

The Company's Board of Directors has three standing committees: an Executive Committee, an Audit Committee and a Compensation Committee. During 2010, the Board of Directors had seven (7) meetings. During 2010, each Director attended 100 percent of those meetings and the meetings of committees on which he served.

Executive Committee. The Executive Committee, acting with the full authority of the Board of Directors, approves minutes, monthly operating reports, capital expenditures, banking matters, and other issues requiring immediate attention. During 2010, the Executive Committee held no meetings.

Audit Committee. The Audit Committee advises the Board of Directors and provides oversight on matters relating to the Company's financial reporting process, accounting functions and internal controls, and the qualifications, independence, appointment, retention, compensation and performance of the Company's independent registered public accounting firm. The Audit Committee also provides oversight with respect to the legal compliance and ethics programs established by management and the Board of Directors. The Company's Code of Business Conduct and Ethics, as adopted by the Board of Directors on February 4, 2004, is available on the Company's website at www.easterncompany.com. During 2010, the Audit Committee held five (5) meetings.

Compensation Committee. The Compensation Committee is responsible for establishing basic management compensation, incentive plan goals, and all related matters, as well as determining stock option grants to employees. The Board of Directors adopted the Company's Compensation Committee Charter on December 13, 2006, and it is available on the Company's website at www.easterncompany.com. During 2010, the Compensation Committee held three (3) meetings.

The Company does not have a standing nominating committee. Rather, due to the small size of the Company's Board of Directors, the independent members of the Board of Directors consider director nominees. As defined by the rules and regulations of the NYSE Amex, the independent members of the Board of Directors of the Company include all of the members of the Board of Directors other than the chairman, president and chief executive officer of the Company. These independent directors select and nominate individuals for election to the Board of Directors. A copy of the charter describing the nominations process for directors is available on the Company’s website at www.easterncompany.com.

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Each member of the Board of Directors must have the ability to apply good business judgment and must be able to exercise his or her duties of loyalty and care. Candidates for the position of director must exhibit proven leadership capabilities and high integrity, exercise high level responsibilities within their chosen careers, and have an ability to quickly grasp complex principles of business and finance. In general, candidates will be preferred to the extent they hold an established executive level position in business, finance, law, education, research, government or civic activities. When current members of the Board of Directors are considered for nomination for reelection, their prior contributions to the Board of Directors, their performance and their meeting attendance records are taken into account.

The independent members of the Board of Directors will consider director nominees who are identified either by the directors, by the shareholders, or through some other source. The independent members of the Board of Directors may also utilize the services of a third party search firm to assist them in the identification or evaluation of director candidates, as they deem necessary or appropriate.

Shareholders wishing to submit the names of qualified candidates for possible nomination to the Board of Directors may make such a submission by sending to the Board of Directors (in care of the Secretary of the Company) the information described in the Company's Bylaws. This information generally must be submitted not more than 90 days nor less than 60 days prior to the first anniversary of the preceding year's annual meeting.

The independent members of the Board of Directors will make a preliminary assessment of each proposed nominee based upon his or her resume and biographical information, the individual's willingness to serve as a director, and other background information. This information is evaluated against the criteria described above and the specific needs of the Company at the time. Based upon a preliminary assessment of the candidate(s), those who appear best suited to meet the needs of the Company may be invited to participate in a series of interviews, which are used as a further means of evaluating potential candidates. On the basis of information learned during this process, the independent members of the Board of Directors will determine which nominee(s) they will recommend for election to the Board of Directors. The independent members of the Board of Directors use the same process for evaluating all nominees, regardless of the original source of the nomination.

DIRECTOR COMPENSATION IN FISCAL 2010

Name (1)	Fees Earned or Paid in Cash ($) (2)	Stock Awards ($)	Option Awards Occupancy	43,599		44,054		131,337		129,520
Advertising and promotion			10,485		13,598		32,077		40,945	
Professional service fees			36,844		29,145		108,376		106,652	
Travel			9,196		12,292		26,532		33,643	
Employee benefit expense			38,869		39,715		116,224		114,038	
Depreciation and amortization			5,167		4,176		15,183		12,703	
Legal settlement			-		-		-		243,046	
Other			58,186		71,986		176,629		158,450	
Total Operating Expenses			450,579		482,066		1,374,658		1,668,288	
Income from operations			165,551		127,245		386,789		1,173	
Interest income			90		306		423		1,478	
Interest expense			(396)		(776)		(1,190)		(2,327)	
Income before provision for income taxes			165,245		126,775		386,022		324	
Provision for income taxes										
Current tax benefit/(expense)			-		8,500		-		8,500	
Net Income		$	165,245	$	135,275	$	386,022	$	8,824	
Earnings per share - Basic and Diluted		$	0.02	$	0.02	$	0.05	$	0.00	
Weighted average shares outstanding - Basic			7,263,508		7,263,508		7,263,508		7,263,508	
Effect of dilutive common stock			-		-		-		-	
Weighted average shares outstanding - Diluted			7,263,508		7,263,508		7,263,508		7,263,508	
		$	0.01	$	0.01	$	0.05	$	0.04	

Cash distributions
declared per share

SEE ACCOMPANYING NOTES

4

BAB, Inc.

Consolidated Statements of Cash Flows

For the Nine Months Ended August 31, 2016 and 2015

(Unaudited)

	For the nine months ended August 31,	
	2016	2015
Operating activities		
Net income	$386,022	$8,824
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	15,183	12,703
Provision for uncollectible accounts, net of recoveries	(3,954)	(7,278)
Changes in:		
Trade accounts receivable and notes receivable	15,574	50,267
Restricted cash	(181,876)	61,118
Marketing fund contributions receivable	12,319	(5,690)
Inventories	3,544	981
Prepaid expenses and other	(7,385)	(11,934)
Accounts payable	654	10,181
Accrued liabilities	(13,416)	(39)
Unexpended marketing fund contributions	169,557	175,619
Deferred revenue	(48,631)	(16,250)
Net Cash Provided by Operating Activities	347,591	278,502
Investing activities		
Capitalization of trademark renewals	(4,022)	(3,203)
Net Cash Used In Investing Activities	(4,022)	(3,203)
Financing activities		
Cash distributions/dividends	(363,175)	(290,540)
Net Cash Used In Financing Activities	(363,175)	(290,540)
Net Decrease in Cash	(19,606)	(15,241)
Cash, Beginning of Period	837,382	709,555
Cash, End of Period	$817,776	$694,314
Supplemental disclosure of cash flow information:		
Interest paid	$-	$-
Income taxes paid	$8,171	$9,447

SEE ACCOMPANYING NOTES

BAB, Inc.

Notes to Unaudited Consolidated Financial Statements

For the Three and Nine Month Periods Ended August 31, 2016 and 2015

(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 August 31, 2016, the Company had 86 franchise units and 3 licensed units in operation in 23 states and one international location. The Company additionally derives income from the sale of its trademark bagels, muffins and coffee through nontraditional channels of distribution including under licensing agreements with Kohr Bros. Frozen Custard and Green Beans Coffee. Also, included in licensing fees and other income is Operations Sign Shop results. For franchise consistency and convenience, the Sign Shop provides the majority of signage to franchisees, including but not limited to, menu panels, build charts, interior and exterior signage and point of purchase materials.

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.

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, 2015 which was filed February 24, 2016. 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 August 31, 2016 are as follows:

Stores open:	
Franchisee-owned stores	86
Licensed Units	3
	89
Unopened stores with Franchise Agreements	2
Total operating units and units with Franchise Agreements	91

3. Earnings per Share

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

	For the three months ended August 31,		For the nine months ended August 31,	
	2016	2015	2016	2015
Numerator:				
Net income available to common shareholders	$165,245	$135,275	$386,022	$8,824
Denominator:				
Weighted average outstanding shares				
Basic	7,263,508	7,263,508	7,263,508	7,263,508
Earnings per Share - Basic	$0.02	$0.02	$0.05	$0.00
Effect of dilutive common stock	-	-	-	-
Weighted average outstanding shares				
Diluted	7,263,508	7,263,508	7,263,508	7,263,508
Earnings per share - Diluted	$0.02	$0.02	$0.05	$0.00

The Company excluded 175,000 potential shares attributable to outstanding stock options from the calculation of diluted earnings per share, for the three and nine months ended August 31, 2016, because their inclusion would have been anti-dilutive. For the three and nine months ended August 31, 2015, the Company excluded 237,500 potential shares attributable to outstanding stock options from the calculation.

4. Long-Term Debt

On September 6, 2002, the Company signed a note payable requiring annual installments of $35,000, including interest at a rate of 4.75% per annum, for a term of 15 years, in the original amount of $386,000. The Company purchased and retired 1,380,040 shares of BAB, Inc. common stock from a former stockholder. The balance of the note payable as of August 31, 2016, $33,413, is all current debt. The final payment is due October 1, 2016.

5. Stock Options

In May 2001, the Company approved a Long-Term Incentive and Stock Option Plan ("Plan"). The Plan reserved and has issued 1,400,000 shares of common stock for grant. As of August 31, 2016, there were 1,225,000 stock options exercised or forfeited under the Plan.

	For the nine months ended August 31,	
	2016	2015
Options outstanding at beginning of year	237,500	314,400
Granted	-	-
Forfeited or expired	(62,500)	(76,900)
Exercised	-	-
Outstanding at end of period	175,000	237,500

To value option grants and other awards for stock-based compensation, the Company uses the Black-Scholes option valuation model. When the measurement date is certain, the fair value of each option grant is estimated on the date of grant and is based on the assumptions used for the expected stock price volatility, expected term, risk-free interest rates and future dividend payments.

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

The following table summarizes the stock options outstanding and exercisable at August 31, 2016:

Options Outstanding				Options Exercisable		
Outstanding at 8/31/16	Wghtd. Avg. Remaining Life	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value	Exercisable at 8/31/16	Wghtd. Avg. Exercise Price	Aggregate Intrinsic Value
175,000	0.25	$ 1.29	$ -	175,000	$ 1.29	$ -

There is no computation for the aggregate intrinsic value in the table above because the outstanding options weighted average exercise price was greater than the Company's closing stock price of $0.72 as of the last business day of the period ended August 31, 2016. There were 62,500 unexercised options that expired and no options exercised during the nine month period ended August 31, 2016.

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. The Company follows this guidance.

The Company tests goodwill and trademarks that are not subject to amortization for impairment annually or more frequently if events or circumstances indicate that impairment is possible. Goodwill and trademarks were tested at the end of the first quarter, February 29, 2016 and it was found that the carrying value of the intangible assets were not impaired.

With respect to goodwill and trademarks, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value is less than its carrying value. If, based on that assessment, the Company believes it is more likely than not that the fair value is less than its carrying value, a two-step impairment test is performed. Based on the computation it was determined that no impairment has occurred. There were no factors noted at August 31, 2016 that would require additional testing.

7. 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 ASU is effective for the Company, for annual periods beginning after December 15, 2017. The Company will adopt ASU 2014-09 for fiscal year ending November 30, 2019 and the Company is evaluating the impact that adoption of this guidance might have on the Company's consolidated financial position, cash flows or results of operations.

On February 25, 2016, the FASB issued ASU 2016-02, a leasing standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company intends to adopt ASU 2016-02 for fiscal year ending November 30, 2020 and the Company is evaluating the impact that adoption of this guidance might have on the Company's consolidated financial position, cash flows and results and operations.

Management does not believe that there are any other recently issued and effective or not yet effective pronouncements as of August 31, 2016 that would have or are expected to have any significant effect on the Company's financial position, cash flows or results of operations.

8. Stockholder's Equity

On September 6, 2016 the Board of Directors declared a $0.01 cash dividend/distribution to shareholders of record as of September 23, 2016, payable October 12, 2016.

On June 6, 2016 the Board of Directors declared a $0.01 cash dividend/distribution to shareholders of record as of June 24, 2016, paid July 11, 2016.

On March 3, 2016 the Board of Directors declared a $0.01 cash distribution/dividend to shareholders of record as of March 23, 2016, paid on April 13, 2016.

The Board of Directors declared a cash distribution/dividend on December 3, 2015 of $0.03 which consisted of a $0.01 quarterly and a $0.02 special cash distribution/dividend per share paid on January 6, 2016.

9. Contingencies and Settlements

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

The Company had previously reported that on July 8, 2013, a judgment was entered in the Circuit Court of Cook County against BAB Operations, Inc. (“Operations”), a wholly owned subsidiary of BAB, Inc., and in favor of a former landlord of Operations, Alecta Real Estate USA, LLC. In September 2013 the Company filed an appeal. On March 23, 2015 the Appellate Court ruled in favor of the plaintiff and against Operations, affirming the trial court’s judgment. The legal settlement was accrued in the first quarter 2015 and payment was made in the second quarter 2015 and it included the judgment, attorney’s fees and interest.

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 86 franchised and 3 licensed units at August 31, 2016 compared to 81 franchised and 5 licensed units at August 31, 2015. System-wide revenues for the nine months ended August 31, 2016 were $26.4 million as compared to August 31, 2015 which were $26.0 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 (Kohr Bros. and Green Beans Coffee). Also included in licensing fees and other income is Operation’s Sign Shop revenue. The Sign Shop provides the majority of signage, which includes but is not limited to, posters, menu panels, outside window stickers and counter signs to franchisees to provide consistency and convenience.

Royalty fees represent a 5% fee on net retail and wholesale sales of franchised units. Royalty revenues are recognized on an accrual basis using actual franchise receipts. Generally, franchisees report and remit royalties on a weekly basis.

The majority of month-end receipts are recorded on an accrual basis based on actual numbers from reports received from franchisees shortly after the month-end. Estimates are utilized in certain instances where actual numbers have not been received and such estimates are based on the average of the last 10 weeks' actual reported sales.

The Company recognizes franchise fee revenue upon the opening of a franchise store 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 August 31, 2016, the Company employed 14 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 August 31, 2016 versus Three Months Ended August 31, 2015

For the three months ended August 31, 2016 and 2015, the Company reported net income of $165,000 and $135,000, respectively. Total revenue of $616,000 increased $7,000, or 1.1%, for the three months ended August 31, 2016, as compared to total revenue of $609,000 for the three months ended August 31, 2015.

Royalty fee revenue of $442,000, for the quarter ended August 31, 2016, increased $1,000, or 0.2%, from the $441,000 for quarter ended August 31, 2015. There were more locations in 2016 versus same period in 2015.

Franchise fee revenues of $60,000, for the quarter ended August 31, 2016, increased $10,000, or 20.0% from the $50,000 for quarter ended August 31, 2015. The revenue consists of two new store openings and two transfers for the three months ending August 31, 2016 compared to two store openings and no transfers in the same period 2015.

Licensing fee and other income of $114,000, for the quarter ended August 31, 2016, decreased $4,000, or 3.4% from $118,000 for the quarter ended August 31, 2015. The decrease in licensing fees and other income was primarily due to a decrease in settlement income of $16,000 and a $1,000 decrease in Sign Shop revenue, offset by an increase of $13,000 in nontraditional revenue.

Total operating expenses of $451,000, for the quarter ended August 31, 2016 decreased $31,000, or 6.4% from $482,000 for the quarter ended August 31, 2015. The 2016 decrease was primarily due to decreases in payroll expense of $19,000, SEC and annual meeting expense of $6,000, advertising and promotion expense of $4,000, travel expenses of $3,000, Sign Shop cost of goods sold of $3,000, and a decrease in general expenses of $4,000, offset by an $8,000 increase in legal fees

Interest income for the three months ended August 31, 2016 and 2015 was less than $1,000. Interest expense was less than $1,000 for the three months ended August 31, 2016 compared to $1,000 for the same period 2015.

There was no tax expense or benefit for the three months ended August 31, 2016 versus a $9,000 tax benefit in the same period 2015.

Earnings per share, as reported for basic and diluted outstanding shares for the third quarter ended August 31, 2016 and 2015 was $0.02.

Nine Months Ended August 31, 2016 versus Nine Months Ended August 31, 2015

For the nine months ended August 31, 2016 and 2015, the Company reported net income of $386,000 and $9,000, respectively. Total revenue of $1,761,000 increased $92,000, or 5.5%, for the nine months ended August 31, 2016, as compared to total revenue of $1,669,000 for the nine months ended August 31, 2015.

Royalty fee revenue of $1,298,000, for the nine months ended August 31, 2016, increased $20,000, or 1.6%, from the $1,278,000 for the nine months ended August 31, 2015. Royalty revenues increased because of more locations in 2016 versus the same period in 2015.

Franchise fee revenues of $78,000, for the nine months ended August 31, 2016, decreased $2,000, or 2.5% from the $80,000 for the nine months ended August 31, 2015. The revenue consists of two new store openings and six transfers for the nine months ended August 31, 2016 compared to three store openings, which included one BAB Express store, and three stores transferred in 2015.

Licensing fee and other income of $385,000, for the nine months ended August 31, 2016, increased $74,000, or 23.8%, from $311,000 for the nine months ended August 31, 2015. The $74,000 increase in 2016 was primarily due to increases in nontraditional revenue of $61,000, Sign Shop revenue of $8,000 and an increase of $5,000 for settlement fees in nine months of 2016 compared to the same period 2015.

Total operating expenses of $1,375,000 decreased $293,000, or 17.6%, for the nine months ended August 31, 2016, from $1,668,000 for the same period 2015. The decrease in total operating expenses in 2016 as compared to same period 2015 was primarily due to a 2015 expense of $243,000 for a legal settlement where there was no such expense in 2016. In addition for the nine months ended August 31, 2016 payroll related expenses decreased $61,000, primarily due to fewer employees and no Christmas bonus in fiscal 2016 versus a Christmas bonuses of $24,000 in 2015. In addition in 2016 there was a decrease in advertising and promotion of $9,000 and a decrease in travel of $7,000, offset by an increase of $12,000 for Sign Shop cost of goods sold, an increase of $10,000 for general operation expenses, $2,000 for depreciation and amortization and $2,000 for employee benefit expense.

Interest income for both the nine months ended August 31, 2016 and 2015 was under $1,000. Interest expense for the nine months ended August 31, 2016 and 2015 was $1,000 and $2,000, respectively.

There was no income tax expense or benefit recorded for the nine months ended August 31, 2016 and a $9,000 income tax benefit for the same period 2015.

Earnings per share, as reported for basic and diluted outstanding shares for the nine months ended August 31, 2016 was $0.05 per share compared to $0.00 per share for the nine months ended August 31, 2015.

Liquidity and Capital Resources

At August 31, 2016, the Company had working capital of $561,000 and unrestricted cash of $818,000. At November 30, 2015 the Company had working capital of $527,000 and unrestricted cash of $837,000.

During the nine months ended August 31, 2016, the Company had net income of $386,000 and operating activities provided cash of $348,000. The principal adjustments to reconcile the net income to cash provided in operating activities for the nine months ending August 31, 2016 were depreciation and amortization of $15,000 less a provision for uncollectible accounts of $4,000. In addition, changes in operating assets and liabilities decreased cash by $50,000. During August 31, 2015, the Company had a net income of $9,000 and operating activities provided cash of $279,000. The principal adjustments to reconcile net income to cash provided by operating activities for the nine months ending August 31, 2015 were depreciation and amortization of $13,000 less a provision for uncollectible accounts of $7,000. In addition changes in operating assets and liabilities increased cash by $264,000.

The Company used $4,000 and $3,000 for investing activities for the nine months ended August 31, 2016 and 2015, respectively.

The Company used $363,000 and $291,000 for cash distribution/dividend payments during the nine month period ended August 31, 2016 and 2015, respectively.

On September 6, 2016, the Board of Directors authorized a $0.01 per share cash distribution/dividend to shareholders of record as of September 23, 2016, payable October 12, 2016. Although there can be no assurances that the Company will be able to pay cash distributions/dividends in the future, it is the Company's intent that future cash distributions/dividends will be considered based on profitability expectations and financing needs and will be declared at the discretion of the Board of Directors. It is the Company's intent going forward to declare and pay cash distributions/dividends on a quarterly basis if warranted.

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

The Company has no financial covenants on its outstanding debt.

Cash Distribution and Dividend Policy

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

The Company believes that for tax purposes the cash distributions declared in 2016 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, 2016, as the classification or combination is dependent upon the Company's earnings and profits for tax purposes for its fiscal year ending November 30, 2016.

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

Recent Accounting Pronouncements

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 ASU is effective for the Company, for annual periods beginning after December 15, 2017. The Company will adopt ASU 2014-09 for fiscal year ending November 30, 2019 and the Company is evaluating the impact that adoption of this guidance might have on the Company's consolidated financial position, cash flows or results of operations.

On February 25, 2016, the FASB issued ASU 2016-02, a leasing standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company intends to adopt ASU 2016-02 for fiscal year ending November 30, 2020 and the Company is evaluating the impact that adoption of this guidance might have on the Company’s consolidated financial position, cash flows and results and operations.

Management does not believe that there are any other recently issued and effective or not yet effective pronouncements as of August 31, 2016 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, 2015, filed with the Securities and Exchange Commission on February 24, 2016. 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 nine months ended August 31, 2016.

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, 2016 our disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) to ensure that information required to be disclosed by us in the reports that we submit under the Exchange Act is accumulated and communicated to our management, including our executive and financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) during the nine months of fiscal year 2016 to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Compliance with Section 404 of Sarbanes-Oxley Act

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

The Company had previously reported that on July 8, 2013, a judgment was entered in the Circuit Court of Cook County against BAB Operations, Inc. (“Operations”), a wholly owned subsidiary of BAB, Inc., and in favor of a former landlord of Operations, Alecta Real Estate USA, LLC. In September 2013 the Company filed an appeal. On March 23, 2015 the Appellate Court ruled in favor of the plaintiff and against Operations, affirming the trial court’s judgment. The legal settlement was accrued in the first quarter 2015 and payment was made in the second quarter 2015 and it included the judgment, attorney’s fees and interest.

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: October 13, 2016 /s/ Geraldine Conn
Geraldine Conn
Chief Financial Officer

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INDEX TO EXHIBITS

(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)
3.2	Bylaws of the Company (See Form 10-KSB for year ended November 30, 2006)
4.1	Preferred Shares Rights Agreement (See Form 8-K filed May 6, 2013)
10.1	Long-Term Debt (Stock Redemption Agreement) (See Form 10-K for year ended November 30, 2015 filed February 24, 2016)
10.2	Long-Term Incentive and Stock Option Plan (See Form 10-K for year ended November 30, 2015 filed February 24, 2016)
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**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation
** XBRL	information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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