

## **BAB, INC.**

### **I. PROCEDURES AND GUIDELINES GOVERNING INSIDER TRADING AND TIPPING**

#### **A. Purpose**

In order to comply with federal and state securities laws governing (a) trading in Company securities while in the possession of "material nonpublic information" concerning the Company, and (b) tipping or disclosing material nonpublic information to outsiders, and in order to prevent even the appearance of improper insider trading or tipping, the Company has adopted this policy for all of its directors, officers and employees, their family members, and specially designated outsiders who have access to the Company's material nonpublic information.

#### **B. Scope**

1. This policy covers all directors, officers and employees of the Company, their family members (collectively referred to as "Insiders"), and any outsiders whom the Insider Trading Compliance Officer may designate as Insiders because they have access to material nonpublic information concerning the Company.
2. The policy applies to any and all transactions in the Company's securities, including its common stock and options to purchase common stock, and any other type of securities that the Company may issue, such as preferred stock, convertible debentures, warrants and exchange-traded options or other derivative securities.
3. The policy will be delivered to all directors, officers, employees and designated outsiders upon its adoption by the Company, and to all new directors, officers, employees and designated outsiders at the start of their employment or relationship with the Company. Upon first receiving a copy of the policy or any revised versions, each Insider must sign an acknowledgment that he or she has received a copy and agrees to comply with the policy's terms. Section 16 Individuals and Key Employees, as defined below, may be required to certify compliance with the policy on an annual basis.

### **II. SECTION 16 INDIVIDUALS AND KEY EMPLOYEES**

#### **A. Section 16 Individuals**

The Company has designated those persons listed on Exhibit A attached hereto as the directors and officers who are subject to the reporting provisions and trading restrictions of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the underlying rules and regulations promulgated by the SEC. Section 16 Individuals must obtain prior approval of all trades in Company securities from the Insider Trading Compliance Committee in accordance with the procedures set forth in Section XI.C below. The Company will amend Exhibit A from time to time as necessary to reflect the addition, resignation or departure of Section 16 Individuals.

#### **B. Key Employees**

The Company has designated those persons listed on Exhibit B attached hereto as Key Employees who, because of their position with the Company and their access to material nonpublic information, must obtain the prior approval of all trades in Company securities from the Insider Trading Compliance Committee in accordance with the procedures set forth in Section XI.C below. The Company will amend Exhibit B from time to time as necessary to reflect the addition, resignation or departure of Key Employees.

### III. INSIDER TRADING COMPLIANCE OFFICER AND COMPLIANCE COMMITTEE

The Company has designated its Chief Financial Officer as its Insider Trading Compliance Officer (the "Compliance Officer"). The Insider Trading Compliance Committee (the "Compliance Committee") will consist of the Compliance Officer and Company's Legal Counsel, Rieck and Crotty, P.C. The Compliance Committee will review and either approve or prohibit all proposed trades by Section 16 Individuals and Key Employees in accordance with the procedures set forth in Section XI.C below.

In addition to the trading approval duties described in Section XI.C below, the duties of the Compliance Officer will include the following:

1. Administering this policy and monitoring and enforcing compliance with all policy provisions and procedures.
2. Responding to all inquiries relating to this policy and its procedures.
3. Designating and announcing special trading blackout periods during which no Insiders may trade in Company securities.
4. Providing copies of this policy and other appropriate materials to all current and new directors, officers and employees, and such other persons who the Compliance Officer determines have access to material nonpublic information concerning the Company.
5. Administering, monitoring and enforcing compliance with all federal and state insider trading laws and regulations, including without limitation Sections 10(b), 16, 20A and 21A of the Exchange Act and the rules and regulations promulgated thereunder, and Rule 144 under the Securities Act of 1933 (the "Securities Act"); and assisting in the preparation and filing of all required SEC reports relating to insider trading in Company securities, including without limitation Forms 3, 4, 5 and 144 and Schedules 13D and 13G.
6. Revising the policy as necessary to reflect changes in federal or state insider trading laws and regulations.
7. Maintaining as Company records originals or copies of all documents required by the provisions of this policy or the procedures set forth herein, and copies of all required SEC reports relating to insider trading, including without limitation Forms 3, 4, 5 and 144 and Schedules 13D and 13G.
8. Maintaining the accuracy of the list of Section 16 Individuals and Key Employees as attached on Exhibits A and B, and updating them periodically as necessary to reflect additions to or deletions from each category of individuals.

The Compliance Officer may designate one or more individuals who may perform the Compliance Officer's duties or the duties of any other member of the Compliance Committee in the event that the Compliance Officer or other Committee member is unable or unavailable to perform such duties.

#### IV. DEFINITION OF "MATERIAL NONPUBLIC INFORMATION"

##### A. "Material" Information

Information about the Company is "material" if it would be expected to affect the investment or voting decisions of the reasonable shareholder or investor, or if the disclosure of the information would be expected to significantly alter the total mix of the information in the marketplace about the Company. In simple terms, material information is any type of information which could reasonably be expected to affect the price of Company securities. While it is not possible to identify all information that would be deemed "material," the following types of information ordinarily would be considered material:

Financial performance and significant changes in financial performance or liquidity. Company projections and strategic plans.

Potential mergers and acquisitions or sale of company assets or subsidiaries.

New major contracts, orders, suppliers or customers, or finance sources, or the loss thereof.

Major discoveries or significant changes or developments in products or product lines, pricing, research or technologies.

Significant changes or developments in supplies or inventory, including significant product defects, recalls or product returns.

Stock splits, public or private securities/debt offerings, or changes in Company dividend policies or amounts.

Significant changes in senior management, or significant labor disputes or negotiations.

Actual or threatened major litigation, or the resolution of such litigation.

##### B. "Nonpublic" Information:

Material information is "nonpublic" if it has not been widely disseminated to the public through major news wire services, national news services and financial news services. For the purposes of this policy, information will be considered public, i.e., no longer nonpublic", after the close of trading on the second final trading day following the Company's widespread public release of the information.

##### C. Consult the Compliance Officer for Guidance

Any Insiders who are unsure whether the information that they possess is material or nonpublic must consult the Compliance Officer for guidance before trading in any Company securities.

#### V. STATEMENT OF COMPANY POLICY AND PROCEDURES

##### A. Prohibited Activities

1. No Insider may trade in Company securities while possessing material nonpublic information concerning the Company.
2. No Insider may trade in Company securities outside of the applicable "trading windows" described in Section XI.C below, or during any special trading blackout periods designated by the Compliance Officer.
3. No Section 16 Individual or Key Employee listed on Exhibits A and B attached hereto may trade in Company securities unless the trade(s) have been approved by the Compliance Committee in accordance with the procedures set forth in Section XI.C below. Section 16 Individuals and Key Employees who wish to sell Company securities in order to liquidate their profits are strongly encouraged to sell their securities pursuant to a predetermined written plan adopted prior to each fiscal or calendar year, which is approved by the Compliance Committee, specifies the dates and amounts of securities to be sold, and cannot be modified during the year. To the extent possible, Section 16 Individuals and Key Employees should retain all records and documents that support their reasons for making each trade.
4. The Compliance Officer may not trade in Company securities unless the trade(s) have been approved by the other member of the Compliance Committee and the President in accordance with the procedures set forth in Section XI.C below.

5. No Insider may "tip" or disclose material nonpublic information concerning the Company to any outside person (including family members, analysts, individual investors, and members of the investment community and news media), unless required as part of that Insider's regular duties for the Company and authorized by the Compliance Officer and/or the Investor Relations Committee. In any instance in which such information is disclosed to outsiders, the Company will take such steps as are necessary to preserve the confidentiality of the information, including requiring the outsider to agree in writing to comply with the terms of this policy and/or to sign a confidentiality agreement. All inquiries from outsiders regarding material nonpublic information about the Company must be forwarded to the Compliance Officer and/or the Investor Relations Committee.
6. No Insider may give trading advice of any kind about the Company to anyone while possessing material nonpublic information about the Company, except that Insiders should advise others not to trade if doing so might violate the law or this policy. The Company strongly discourages all Insiders from giving trading advice concerning the Company to third payees even when the Insiders do not possess material nonpublic information about the Company.
7. No Insider may trade in any interest or position relating to the future price of Company securities, such as a put, call or short sale.
8. No Insider may (a) trade in the securities of any other public company while possessing material nonpublic information concerning that company, (b) "tip" or disclose material nonpublic information concerning any other public company to anyone, or (c) give trading advice of any kind to anyone concerning any other public company while possessing material nonpublic information about that company.

#### B. Trading Windows and Blackout Periods

1. Trading Window for Section 16 Individuals and Key Employees. After obtaining trading approval from the Compliance Committee in accordance with the procedures set forth in Section V. C below, Section 16 individuals and Key Employees listed on Exhibits A and B attached hereto may trade in Company securities only during the period beginning at the close of trading on the second full trading day following the Company's widespread public release of quarterly or year-end earnings, and ending at the close of trading on the fifteenth day of the second month of the fiscal quarter in which the earnings are released.
2. Trading Windows for All Other Insiders. All other Insiders who are not Section 16 Individuals or Key Employees may trade in Company securities only during the period beginning at the close of trading on the second full trading day following the Company's widespread public release of quarterly or year-end earnings and ending at the close of trading on the last day of the second month of the fiscal quarter in which the earnings are released.
3. No Trading During Trading Windows While in the Possession of Material Nonpublic Information. No Insiders possessing material nonpublic information concerning the Company may trade in Company securities even during applicable trading windows. Persons possessing such information may trade during a trading window only after the close of trading on the second full trading day following the Company's widespread public release of the information.
4. No Trading During Blackout Periods. No Insiders may trade in Company securities outside of the applicable trading windows or during any special blackout periods that the Compliance Officer may designate. No Insiders may disclose to any outside third party that a special blackout period has been designated.
5. Exceptions for Hardship Cases. The Compliance Officer may, on a case-by-case basis, authorize trading in Company securities outside of the applicable trading windows (but not during special blackout periods) due to financial hardship or other hardships, but only in accordance with the procedures set forth in Section VI.C.2 below.

## C. Procedures for Approving Trades by Section 16 Individuals, Key Employees and Hardship Cases

- I. Section 16 Individual/Key Employee Trades. No Section 16 Individual or Key Employee may trade in Company securities until:
  - a. the person trading has notified the Compliance Officer in writing of the amount and nature of the proposed trade(s);
  - a. the person trading has certified to the Compliance Officer in writing no earlier than two business days prior to the proposed trade(s) that (i) he or she is not in possession of material nonpublic information concerning the Company and (ii) the proposed trade(s) do not violate the trading restrictions of Section 16 of the Exchange Act or Rule 144 of the Securities Act; and
  - b. the Compliance Committee has approved the trade(s), and the Compliance Officer has certified the Committee's approval in writing.
2. Hardship Trades. The Compliance Officer may, on a case-by-case basis, authorize trading in Company securities outside of the applicable trading windows due to financial hardship or other hardships only after:
  - a. the person trading has notified the Compliance Officer in writing of the circumstances of the hardship and the amount and nature of the proposed trade(s);
  - b. the person trading has certified to the Compliance Officer in writing no earlier than two business days prior to the proposed trade(s) that he or she is not in possession of material nonpublic information concerning the Company; and
  - c. The Compliance Committee has approved the trade(s) and the Compliance Officer has certified the Committee's approval in writing. Only the Compliance Officer's approval is necessary for hardship trades by Insiders who are not Section 16 Individuals or Key Employees.
3. No Obligation to Approve Trades. The existence of the foregoing approval procedures does not in any way obligate the Compliance Officer or Compliance Committee to approve any trades requested by Section 16 Individuals, Key Employees or hardship applicants. The Compliance Officer or Compliance Committee may reject any trading requests at their sole reasonable discretion.

## D. Employee Benefit Plans

1. Employee Stock Purchase Plans. The trading prohibitions and restrictions set forth in this policy do not apply to periodic contributions by the Company or employees to employee benefit plans (e.g., pension or 401K plans) which are used to purchase Company securities pursuant to the employees' advance instructions. However, no officers or employees may alter their instructions regarding the purchase or sale of Company securities in such plans while in the possession of material nonpublic information.
2. Stock Option Plans. The trading prohibitions and restrictions of this policy apply to all sales of securities acquired through the exercise of stock options granted by the Company, but not to the acquisition of securities through such exercises.

## **E. PRIORITY OF STATUTORY OR REGULATORY TRADING RESTRICTIONS**

The trading prohibitions and restrictions set forth in this policy will be superseded by any greater prohibitions or restrictions prescribed by federal or state securities laws and regulations, e.g. short-swing trading by Section 16 Individuals or restrictions on the sale of securities subject to Rule 144 under the Securities Act of 1933. Any Insider who is uncertain whether other prohibitions or restrictions apply should ask the Compliance Officer.

## **VI. POTENTIAL CIVIL, CRIMINAL AND DISCIPLINARY SANCTIONS**

### **A. Civil and Criminal Penalties**

The consequences of prohibited insider trading or tipping can be severe. Persons violating insider trading or tipping rules may be required to disgorge the profit made or the loss avoided by the trading pay the loss suffered by the person who purchased securities from or sold securities to the insider tippee, pay civil penalties up to three times the profit made or loss avoided, pay a criminal penalty of up to \$1 million, and serve all term of up to ten years. The Company and/or the supervisors of the person violating the rules may also be required to pay major civil or criminal penalties.

### **B. Company Discipline**

Violation of this policy or federal or state insider trading or tipping laws by any director, officer or employee, or their family members, may subject the director to dismissal and the officer or employee to disciplinary action by the Company up to and including termination for cause.

### **C. Reporting of Violations**

Any Insider who violates this policy or any federal or state laws governing insider trading or tipping, or knows of any such violation by any other Insiders, must report the violation immediately to the Compliance Officer. Upon learning of any such violation, the Compliance Officer, in consultation with the other Compliance Committee member and the Company's Legal Counsel, will determine whether the Company should release any material nonpublic information, or whether the Company should report the violation to the SEC or other appropriate governmental authority.

## **VII. INQUIRIES**

Please direct all inquiries regarding any of the provisions or procedures of this policy to the Compliance Officer.

## **RECEIPT AND ACKNOWLEDGMENT**

The undersigned hereby acknowledges that I have received and read a copy of the "Procedures and Guidelines Covering Insider Trading and Tipping" and agree to comply with its terms. I understand that violation of insider trading or tipping laws or regulations may subject me to severe civil and/or criminal penalties, and that violation of the terms of the above-titled policy may subject me to discipline by the Company up to and including termination for cause.

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Signature

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Date

## EXHIBITB

Key Employees:

APPLICATION AND APPROVAL FOR TRADING BY SECTION 16 INDIVIDUALS AND KEY EMPLOYEES

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Proposed Trade Date: \_\_\_\_\_

Type of Security to be Traded: \_\_\_\_\_

Type of Trade (Purchase/Sale): \_\_\_\_\_

Number of Shares to be Traded: \_\_\_\_\_

CERTIFICATION

**The undersigned hereby certifies that I am not in possession of any "material nonpublic information" concerning the Company (as defined in the Company's "Procedures and Governing Insider Trading and Tipping") and (ii) to the best of my knowledge, the proposed trade(s) listed above do not violate the trading restrictions of Section 16 of the Securities Exchange Act of 1934 or Rule 144 under the Securities Act of 1933. I understand that if I trade while possessing such information or in violation of such trading restrictions, I may be subject to severe civil and/or criminal penalties, and may be subject to discipline by the Company up to and including termination for cause.**

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

REVIEW AND DECISION

The undersigned hereby certifies that the Insider Trading Compliance Committee has reviewed the foregoing application and \_\_\_ APPROVES \_\_\_ PROHIBITS the proposed trade(s).

Insider Trading Compliance Officer (or Designee):

Signature: \_\_\_\_\_

Date: \_\_\_\_\_



APPLICATION AND APPROVAL FOR TRADING BY SECTION 16  
INDIVIDUALS AND KEY EMPLOYEES IN HARDSHIP SITUATIONS

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Proposed Trade Date: \_\_\_\_\_

Type of Security to be Traded: \_\_\_\_\_

Type of Trade (Purchase/Sale): Reason(s) for Trading:

\_\_\_\_\_

\_\_\_\_\_

CERTIFICATION

The undersigned hereby certifies that I am not in possession of any "material nonpublic information" concerning the Company (as defined in the Company's "Procedures and Governing Insider Trading and Tipping") and (ii) to the best of my knowledge, the proposed trade(s) listed above do not violate the trading restrictions of Section 16 of the Securities Exchange Act of 1934 or Rule 144 under the Securities Act of 1933. I understand that if I trade while possessing such information or in violation of such trading restrictions, I may be subject to severe civil and/or criminal penalties, and may be subject to discipline by the Company up to and including termination for cause.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

REVIEW AND DECISION

The undersigned hereby certifies that the Insider Trading Compliance Committee has reviewed the foregoing application and \_\_\_ APPROVES \_\_\_ PROHIBITS the proposed trade(s).

Insider Trading Compliance Officer (or Designee):

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## STATEMENT OF POLICY AND PROCEDURES FOR PERIODIC REPORTING

### I. Policy Statement:

It is the policy of the Company and its management to treat shareholders and potential investors, with respect to their investment or potential investment in the Company, as we would wish to be treated with respect to our own investments or potential investments. In particular, it is the policy of the Company and its management to endeavor to provide an objective shareholder or potential investor, as part of the Company's required periodic reporting, all material information that he or she reasonably would require in order to evaluate their investment or potential investment in the Company.

### II. Guidelines for Policy Implementation

- A. In order to implement the Company's policy regarding periodic reporting, the Company has adopted the following guidelines. The Company will endeavor to follow the policy in good faith.
- B. These guidelines apply to all periodic reporting to which SEC Regulation S-K applies, including but not limited to periodic reporting on Forms 10-K and 10-Q.
- C. Under the requirements of Item 303 of Regulation S-K, the Company will include within the required "Management Discussion and Analysis" ("MD & A") section of its periodic reports a discussion of unknown trends and uncertainties," in a separate subsection entitled Known Risks, Trends and Uncertainties."
- D. The separate subsection of the Company's annual reports on Form 10-K addressing known trends and uncertainties shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating conditions, as described more fully in Item 303(a), Instr. 3, SEC Reg. S-K.
- E. The separate subsection of the Company's quarterly or other periodic reports (including reports on Form 10-Q) addressing known trends and uncertainties shall discuss any material changes in the Company's financial condition from the end of the preceding fiscal year and will identify any significant elements of the Company's income or loss from continuing operations that do not arise from or that are not representative of the Company's regular business, as described more fully in Item 303Co}, Instr. 4, SEC Reg. S-K.
- F. Known risks, trends, and uncertainties will be discussed in the Company's periodic reports unless a material effect on the Company's financial condition or results is not reasonably likely to occur as a result of the risk trend or uncertainty. The information will be disclosed if awareness of the information is relevant to an informed understanding of the Company's future prospects.
- G. Statements of optimism in the Company's periodic returns generally should be accompanied by precautionary disclosure of any known barriers that might prevent the optimistic expectations from being realized.
- H. If the decision is made not to disclose any information, the reasons for non-disclosure will be documented.

### III. Procedures for Policy Implementation

- A. In order to ensure compliance with this Company policy, a committee comprised of the following individuals shall be responsible to ensure that the MD & A section of the Company's periodic returns includes disclosure of "known trends and uncertainties": Company Compliance Officer and Legal Counsel, Rieck and Crotty, P.C
- B. This committee will undertake to inquire of senior management and other operating personnel, and undertake to review Board minutes and other senior management reports, to determine the existence of any known trends and uncertainties, and to ensure the disclosure of:

- I. "any known trends and uncertainties that will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations," as provided in Item 303(a)(3)(ii) of SEC Reg. S-K.
  2. "any known trends or known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in [the Company's] liquidity increasing or decreasing in any material way, as provided in Item 303(a)(1) of SEC Reg. S-K.
  3. "any known trends, favorable or unfavorable in [the Company's] capital resources," as provided in Item 303(a)(2)(ii) of SEC Reg. S-K.
- C. The committee will review draft proposed language of the MD & A section of periodic returns, to ensure inclusion in the MD & A of all identified trends and uncertainties, except as otherwise noted in Section H.F. above.
- D. The committee also will undertake to review the disclosure statements of other companies in the industry, in order to ensure that the Company's disclosure addresses industry trends discussed in other companies' disclosure statements, if appropriate.
- E. In addition to the committee described in the preceding paragraphs, the MD & A section of periodic reports also will be reviewed by the following persons prior to submission to the SEC, in order to ensure compliance with this policy: Michael Murtaugh; the Company's outside auditor; the Company's Board of Directors, to the extent each of the persons has not already reviewed the MD & A as a member of the Committee.
- F. In order to facilitate the foregoing review, and in recognition of the SEC's timing requirements for filing periodic reporting documents, the draft disclosure documents will be prepared and circulated for comment at least 10 days before the filing due date.

#### IV. Substance of Disclosure

- A. While the extent of known risks and uncertainties that the Company will disclose cannot be defined with precision, the types of known risks and uncertainties that the Company will disclose may include the following types of information:
1. Known changes in key customer's requirements, or other customer relationships;
  2. Known uncertainties concerning future liquidity or credit, or the ability to meet loan covenants;
  3. Anticipated declines in net sales, revenue, or income (such as reduction of prices of the Company's product, erosion of market share, or non-renewal of a material contract);
  4. Anticipated significant economic events or other transactions (such as anticipated increases in labor or materials expenses);
  5. Uncertainties regarding any subsidiary's earnings and the likely negative impact on the Company's overall results;
  6. Uncertainties surrounding potential environmental clean-up costs arising from the Company's designation as a "potentially responsible person" under the federal environmental laws;
  7. The impact that a recently issued accounting standard will have on a registrant's financial position or results of operations when the registrant actually adopts the standard in the future;
  8. Recognition that reduced profits during the late stages of an existing material contract;
  9. Impact of restructuring charges, such as consolidation or relocation of operations;

10. Anticipated expiration of any known government contract and the known uncertainties regarding renewal;
11. Inventory obsolescence;
12. Anticipated future impact of known regulatory or legislative charges;
13. Known uncertainties surrounding planned new product development or release, or surrounding product returns; and
14. Known capital expenditures required to support a new, publicly announced product or line of business.

#### V. Priority of Statutory or Regulatory Requirements

The guidelines and procedures described in this policy will be superseded by any greater disclosure requirements specified by federal or state securities laws and regulations.

#### VI. Inquiries

All inquiries regarding the provisions or procedures of this policy shall be addressed to the chairman of the Committee responsible for compliance with this policy.