

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

CLANCY SYSTEMS INTERNATIONAL INC /CO/

Form 10QSB

April 13, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2005

OR

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

For the transition period from to

Commission file number: 33-4882-D

CLANCY SYSTEMS INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

Colorado	84-1027964
(State or other jurisdiction of	(IRS Employer
incorporation or organization)	Identification Number)

2250 S. Oneida #308, Denver, Colorado 80224
(Address of principal executive offices and Zip Code)

(303) 753-0197
(Registrant's telephone number)

N/A
(Former name, former address and former fiscal year, if
changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15 (d) of the Securities Exchange
Act of 1934 during the preceding 12 months (or for such shorter period that
the registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past 90 days:
Yes ☒ No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the issuer's classes of common stock, as
of March 25, 2006 is 382,617,938 shares, \$.0001 par value.

Transitional Small Business Disclosure Format: Yes No ☒

Indicate by check mark whether the Registrant is a shell company
(as defined in Rule 12b-2 of the Exchange Act).
Yes No ☒

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

CLANCY SYSTEMS INTERNATIONAL, INC. INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
Consolidated Balance Sheets - September 30, 2005 and December 31, 2005 (unaudited)	2 and 3
Consolidated Statement of Income - For the Three Months Ended December 31, 2004 and 2005 (unaudited)	4
Consolidated Statement of Stockholders' Equity - For the Three Months December 31, 2005 (unaudited)	5
Consolidated Statement of Cash Flows - For the Three Months Ended December 31, 2004 and 2005 (unaudited)	6
Notes to Unaudited Consolidated Financial Statements	8
Management's Discussion and Analysis of Financial Condition and Results of Operations	10
PART II. OTHER INFORMATION	16
Item 1. Legal Proceedings	16
Item 3. Controls and Procedures	17
Item 6. Exhibits and Reports on Form 8-K	17

-1-

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2005

ASSETS

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

	September 30, 2005	December 31, 2005 (Unaudited)
Current assets:	-----	-----
Cash and cash equivalents	\$ 533,485	\$ 553,893
Accounts receivable, net of allowance for doubtful accounts	508,810	492,710
Income tax refund receivable	-	14,505
Inventories	137,562	147,156
Prepaid expenses	84,717	64,198
	-----	-----
Total current assets	1,264,574	1,272,462
	-----	-----
Furniture and equipment, at cost:		
Office furniture and equipment	267,021	267,021
Computers and equipment		
under service contracts	2,501,874	2,536,204
Leasehold improvements	98,936	98,936
Vehicles, including vehicles		
under capital leases	150,171	150,171
	-----	-----
	3,018,002	3,052,332
Less accumulated depreciation	(1,979,528)	(2,065,217)
	-----	-----
Net furniture and equipment	1,038,474	987,115
	-----	-----
Other assets:		
Deferred tax asset	80,600	66,000
Investment in marketable securities	503,970	588,212
Deposits and other	33,969	22,450
Goodwill	404,547	404,547
Software development costs, net of accumulated amortization	218,068	217,867
	-----	-----
Total other assets	1,241,154	1,299,076
	-----	-----
	\$ 3,544,202	\$ 3,558,653
	=====	=====

See accompanying notes to consolidated financial statements.

-2-

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2005

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2005	December 31, 2005 (Unaudited)
	-----	-----
Current liabilities:		

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

Accounts payable	\$ 55,842	\$ 113,212
Accrued expenses	441,140	394,830
Accounts payable, related party	1,530	-
Income taxes payable	117,827	25,074
Current portion of long-term debt	6,419	-
Current portion of obligations under capital leases	10,950	10,950
Deferred revenue	112,402	105,400
	-----	-----
Total current liabilities	746,110	649,466
Long-term debt, net of current portion	274,763	279,058
Obligations under capital leases, net of current portion	11,931	10,160
	-----	-----
Total liabilities	1,032,804	938,684
	-----	-----
Commitments		
Stockholders' equity:		
Preferred stock, \$.0001 par value; 100,000,000 shares authorized, none issued	-	-
Common stock, \$.0001 par value; 800,000,000 shares authorized, 382,617,938 shares issued and outstanding	38,262	38,262
Additional paid-in capital	1,359,797	1,359,797
Retained earnings	1,113,339	1,221,910
	-----	-----
Total stockholders' equity	2,511,398	2,619,969
	-----	-----
	\$ 3,544,202	\$ 3,558,653
	=====	=====

See accompanying notes to consolidated financial statements.

-3-

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the three months ended December 31, 2004 and 2005
(Unaudited)

	December 31, 2004	December 31, 2005
Revenues:	-----	-----
Sales	\$ 51,365	\$ 36,463
Service contract income	662,105	679,006
Parking ticket collections	143,159	146,775
	-----	-----
Total revenues	856,629	862,244
	-----	-----
Costs and expenses:		
Cost of sales	20,330	36,177

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

Cost of services	175,759	164,198
Cost of parking ticket collections	28,178	25,636
General and administrative	415,922	479,222
Research and development	16,976	14,650
	-----	-----
Total costs and expenses	657,165	719,883
	-----	-----
Income from operations	199,464	142,361
	-----	-----
Other income (expense):		
Interest income	21	7,033
Interest expense	(7,880)	(6,552)
Other Income	-	1,838
Minority interest in loss of subsidiary	8,402	-
	-----	-----
Total other income (expense)	543	2,319
	-----	-----
Income before provision for income taxes	200,007	144,680
	-----	-----
Provision for income taxes:		
Current expense	66,330	21,509
Deferred expense	9,725	14,600
	-----	-----
Total income tax expense	76,055	36,109
	-----	-----
Net income	\$ 123,952	\$ 108,571
	=====	=====
Basic and diluted net income per common share	\$ *	\$ *
	=====	=====
Weighted average number of shares outstanding	365,118,000	382,618,000
	=====	=====

*Less than \$.01 per share

See accompanying notes to consolidated financial statements.

-4-

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the three months ended December 31, 2005
(unaudited)

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings
	-----	-----	-----	-----
Balance, September 30, 2005	382,617,938	\$ 38,262	\$ 1,359,797	\$ 1,113,339
Net income for the				

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

three months ended				
December 31, 2005	-	-	-	108,571
	-----	-----	-----	-----
Balance, December,				
31, 2005	382,617,938	\$ 38,262	\$ 1,359,797	\$ 1,221,910
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

-5-

CLANCY SYSTEMS INTERNATIONAL, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS For the three months ended December 31, 2004 and 2005 (Unaudited)

	December 31, 2004	December 31, 2005
	-----	-----
Cash flows from operating activities:		
Net income	\$ 123,952	\$ 108,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	118,359	107,596
Deferred income tax expense	9,725	14,600
Minority interest	(8,979)	-
Changes in assets and liabilities:		
Accounts receivable	(110,942)	16,100
Inventories	1,239	(9,594)
Income taxes refundable	(22,085)	(14,505)
Prepaid expenses	23,161	20,519
Accounts payable	28,576	57,370
Accounts payable, related party	-	(1,530)
Accrued expenses	8,215	(46,310)
Income taxes payable	68,254	(92,753)

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

Deferred revenue	(5,136)	(7,002)
	-----	-----
Total adjustments	110,387	44,491
	-----	-----
Net cash provided by operating activities	234,339	153,062
	-----	-----
Cash flows from investing activities:		
Acquisition of furniture and equipment	(24,867)	(34,330)
Increase in software licenses and software development costs	(27,157)	(20,561)
Increase in investments in marketable securities	(45,508)	(84,242)
Increase in deposits and other assets	6,225	10,374
	-----	-----
Net cash (used in) investing activities	(91,307)	(128,759)
	-----	-----
Cash flows from financing activities:		
Payments on long-term debt and capital leases	(40,038)	(3,895)
Decrease in bank overdraft	(14,645)	-
	-----	-----
Net cash (used in) financing activities	(54,683)	(3,895)
	-----	-----
Increase in cash and cash equivalents	88,349	
20,408		
Cash and cash equivalents at beginning of period	306,691	533,485
	-----	-----
Cash and cash equivalents at end of period	\$ 395,040	\$ 553,893
	=====	=====

See accompanying notes to consolidated financial statements.

-6-

CLANCY SYSTEMS INTERNATIONAL, INC. NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS December 31, 2005

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying unaudited consolidated financial statements reflect all adjustments that, in the opinion of management, are considered necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results of operations for such periods are not necessarily

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

indicative of the results expected for the full fiscal year or for any future period. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Clancy Systems International, Inc. and Subsidiary included in the Form 10-KSB for the fiscal year ended September 30, 2005.

The Company's subsidiary, Urban Transit Solutions, Inc. ("UTS") was incorporated under the Laws of the Commonwealth of Puerto Rico. The financial statements of UTS have been prepared on the basis of accounting principles generally accepted in the United States of America and are denominated in U.S. dollars. Therefore, there are no amounts recorded for foreign currency translation or for transactions denominated in a foreign currency. The Company has consolidated the financial results of UTS with those of the Company for the three months ended December 31, 2004 and 2005. All significant intercompany transactions and balances have been eliminated in consolidation.

2. Inventories

Inventories consist of the following at:

	September 30, 2005	December 31, 2005
	-----	-----
Finished goods	\$ 18,835	\$ 33,018
Work in process	17,553	30,036
Purchased parts and supplies	101,174	84,102
	-----	-----
	\$ 137,562	\$ 147,156
	=====	=====

-7-

CLANCY SYSTEMS INTERNATIONAL, INC. NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS December 31, 2005

3. Related party transactions

Related party account balances consist of the following at:

Accounts payable, related party was due to Pan American Products, a company owned by the current president of UTS.

	September 30, 2005	December 31 2005
	-----	-----
Accounts payable, related party	\$ 1,530	\$ -
	=====	=====

4. Income taxes

The provision for income taxes for year ended September 30, 2005 and the three months ended December 31, 2005 is based on the expected rate for the tax year.

The components of the Company's deferred tax assets and liabilities are as follows:

September 30, 2005	December 31, 2005
-----------------------	----------------------

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

Non-current deferred tax assets	\$ 142,200	\$ 217,800
Non-current deferred tax liabilities	(61,600)	(151,800)
	\$ 80,600	\$ 66,000
	=====	=====

5. Recent Accounting Pronouncements

In February 2006, the FASB issues SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140." This amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized

-8-

Financial Assets." This Statement is effective for all financial instruments acquired or issued after the first fiscal year that begins after September 15, 2006. Currently, the Company has no derivatives or hedging activities, and thus, there is no impact on the financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections--a replacement of APB Opinion No. 20 and FASB Statement No. 3." This Statement replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for, and reporting of, a change in accounting principles. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. It will only affect the financial statements of the Company if there is a change any accounting principle. At this time, no such changes are contemplated or anticipated.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payments." SFAS No. 123 (R) requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments such as stock options granted to employees. SFAS No. 123 (R) is effective for the first reporting period beginning after December 15, 2005. The adoption of SFAS 123 (R) did not have a material impact on the financial statements.

-9-

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Statement Regarding Forward Looking Information

Statements of the Company's or management's intentions, beliefs, anticipations, expectations and similar expressions concerning future events contained in this document constitute "forward looking statements". As with any future event, there can be no assurance that the events described in forward looking statements made in this report will occur or that the results of future events will not vary materially from those described in the forward looking statements made in this document. Important factors that could cause the Company's actual performance and operating results to differ materially from the forward looking statements include, but are not limited to, (i) the ability of the Company obtain new customers, (ii) the ability of the Company to maintain its competitive position in the parking enforcement business by continuing to offer competitive products and services, (iii) the ability of the Company to reduce costs and thereby maintain adequate profit margins.

Management's Discussion and Analysis of Financial Condition and Results of Operations

At December 31, 2005, the Company had consolidated working capital of \$622,996 derived primarily from contract sales and contract service. The Company anticipates using its working capital to fund ongoing operations, including general and administrative expenses, equipment purchases, equipment manufacturing, travel, marketing and research and development. The Company anticipates having sufficient working capital to fund operations for the fiscal year ending September 30, 2006.

COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2004 AND 2005

REVENUES. From the quarter ended December 31, 2004 to the quarter ended December 31, 2005 revenues increased by \$5,615 or .7% from \$856,629 to \$862,244. The increase in revenues is due to the addition of new customers and products during the quarter ended December 31, 2005. Clancy's Remit-online.com service has processed 41,266 transactions totaling \$1,642,601 for the quarter ended December 31, 2005. Revenues are generated based on a per transaction fee less bank processing costs. The gross amount of cash flowing through Remit-online.com cannot be presented as revenue based on the SEC accounting guidance. The Company only presents its net profit from each transaction as revenue in the statements of operations.

COST OF SERVICES. From the quarter ended December 31, 2004 to the quarter ended December 31, 2005, cost of services decreased by \$11,561 or 6.6% from \$175,759 to \$164,198 for the Company. Cost of services as a percentage of service contract income was 26.6% for the 2004 quarter and 24.2% for the 2005 quarter.

-10-

RESEARCH AND DEVELOPMENT. The Company's parking enforcement systems research and development costs decreased from \$16,976 to \$14,650, or 13.7%, from the quarter ended December 31, 2004 to 2005. Product development and improvement is still paramount to the Company, and costs are being incurred for development of several new items.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased by \$63,300 or 15.2% from \$415,922 to \$479,222 for the quarter ended December 31, 2004 and 2005, respectively. The increase relates primarily to increased rent, salaries, office supplies and repairs and maintenance expense at UTS from the opening of offices in Arecibo and Humacao.

NET INCOME. For the quarter ended December 31, 2005, the Company reported net income of \$108,571 compared to \$123,952 for the quarter ended December 31, 2004. The primary reason for the decrease in net income is the increase in general and administrative expenses at UTS which are discussed above.

In order to keep its products and systems from becoming obsolete, the Company regularly modifies and updates its hardware and software. In order to streamline its ticket writing and car rental equipment, the Company redesigned the printer so that it weighs less than two pounds. New battery technology has also allowed the Company to reduce the size and weight of the printers. During the quarter ended December 31, 2005, the Company began production of a printer using wireless Bluetooth technology.

During 2001/2002, the Company began manufacturing a new printer board to interface to Palm handheld devices. It incorporates a state of the art print mechanism, light weight battery technology, and flat forms. The Company has also developed a keyboard cradle for the Palm devices. The Palm keyboard has a 45 key full alpha/numeric keypad with function keys and assignable function keys.

Management keeps informed of new developments in components so that the printer and keypads are up-to-date, fast and suit user requirements. The Company communicates with vendors on a regular and ongoing basis so that management is aware of upgraded components, new technologies and processes that can be used to upgrade its hardware.

The Company has a relationship with an engineer, who, although he works as an independent contractor, dedicates as much time as the Company requires to develop and enhance its products. The engineer also performs research and development for the Company and makes prototype boards for testing and evaluation.

The Company's software is developed in-house by four full-time programmers and by the Company's President, Stanley Wolfson, and is maintained and updated on a regular basis.

Clancy is a qualified Microsoft Certified Partner. This relationship allows the Company to receive pre-releases of software products which gives

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

the Company a leading edge on upgrading programs and embedding new services into our systems.

-11-

The office computer software allows daily ticket, rental and inventory information to be transferred from the portable data entry units to a central computer database. The information is compiled and then processed further according to user requirements.

Through sophisticated communications software developed internally, the Company is able to update, modify, repair, enhance and change programs at the client's location via modem and the Internet.

The Company has developed numerous Internet based parking programs which include payment processing, permit registrations, and pre-paid parking and parking reservations, special event parking and permitting, and its Expo1000 Parking Industry Guide.

URBAN TRANSIT SOLUTIONS

The Company provided a total financial investment of \$500,000 to Urban Transit Solutions between March 1998 and April 1999. UTS has been generating revenue since August 1998. Collections from parking lot fees from Caugwas commenced in January of 1999. The settlement of ownership between the Company and UTS set forth the opportunity for Clancy management to take a more significant role in the operations of UTS. In September 2005, the Company acquired all outstanding shares of UTS stock in exchange for shares of the Company's common stock.

In June, 2003, a new management team was installed at UTS. Kenneth Stewart is the President of UTS. Damaris Carasquillo is the operations manager. The UTS Board of Directors includes Kenneth Stewart, Stanley Wolfson, and Lizabeth Wolfson. The new management team has taken an aggressive approach to bringing the accounts payable current, reducing unnecessary expenses and reducing debt obligations. The Company expects to see an improvement to UTS profitability during the 2005-2006 fiscal year. UTS has funded its operations primarily by loans and cash flows. It has notes payable and capital lease obligations arising from borrowings for working Capital and purchases of equipment. The Company will advance funding to Urban Transit Solutions in order to allow them to expand their operations and reduce their outside debt obligations.

TRENDS AND CONDITIONS

The Company anticipates no major impact as a result of trends of the past few years. A further discussion appears below. If current trends continue, the Company's liquidity will continue to improve on a short-term and a long-term basis.

The Company anticipates that its expenses shall increase as a direct result of the Sarbanes-Oxley Act of 2002 as it pertains to: (i) additional accounting and auditing procedures; and (ii) additional legal costs due to compliance with new corporate governance mandates. The Company now utilizes three different accounting firms for preparation of financial statements, reviews and auditing functions.

-12

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

Director and Officer insurance premiums have tripled for the Company (this is consistent with the industry as a result of the public company irregularities of several years ago). The Company is able to qualify for Directors and Officers insurance when many companies are no longer able to qualify.

The Company's newest equipment has proven to be a capital intensive program. The Company has designed its printer board to work and fit in both its current model case as well as its new case, which will prove to be a cost savings. While the Company has adequate cash flow to accomplish the upgrades without incurring debt, it is anticipated that the ongoing upgrades and tooling for newer products shall continue to require a large capital commitment. With the weakened economy as of recent years, municipalities are in search of additional revenues and the installation and implementation of means to efficiently and effectively collect parking ticket revenues as a viable source of such additional revenues for many locales. As on street parking spaces are finite, and populations increase, a structured management system of turnover, enforcement and accountability of parking revenues will be imperative for all cities.

In addition, the Company supplies all hardware, software, training, supplies and maintenance for the system, thus eliminating all significant capital expenditures by the user.

The Company has experienced a large number of inquiries about its system related to the total program and special features and anticipates growth in this area in the next fiscal year.

Uncertainties that can impact revenues from the Company's service contract agreements would be related to dramatic weather changes and municipal disaster occurrences (i.e. September 11, 2001). As parking ticket issuance operations are primarily "out-of-doors" tasks, severe weather such as a major blizzard, hurricane, or rains could impact ticket production for a limited period in certain locales. While such reductions are temporary, they can impact revenues as the Company bills most clients on a fee-per-ticket basis. The meter collections for UTS could be temporarily reduced during a hurricane or tropical storm. Further, as the Company is contracting primarily with City government agencies, a deployment of personnel to other duties during a disaster could temporarily reduce ticket issuance activities.

Internal and external sources of liquidity

The Company anticipates using its working capital to fund ongoing operations, including general and administrative expenses, equipment manufacturing, travel, marketing and research and development. The Company anticipates having sufficient working capital to fund operations for the fiscal year ending September 30, 2006.

UTS has funded its operations primarily by cash flows and bank debt. It has notes payable and capital lease obligations arising from borrowings for working capital and purchases and installation of meter equipment. With UTS under new management, the Company anticipates that UTS will be profitable for the year ending September 30, 2006.

-13-

The Company has experienced significant interest in the Denver Boot for vehicles as well as for security on other mobile devices including construction trailers and communications generators. There has also been a demand for the Denver Boot for enforcement on private property. Exposure on the Internet has been favorable for sales of this product.

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

The Company has experienced an interest in its IDBadgemaker software. The program is utilized by news services, janitorial companies, social service agencies, private clubs and others for security and identification purposes. The program receives "excellent" ratings at download.com.

Remit-on-line.com has grown as a ticket payment site. It is offered to Clancy ticket system clients and other companies in parking industry businesses. Remit processes an average of \$547,000 per month in transactions. The Company has observed a continuing increase in activity monthly. The Company generates revenue from Remit-online.com based on a per transaction fee.

In addition, for Clancy, outstanding ticket fines of approximately \$829,000 and for UTS, outstanding ticket fines of approximately \$305,000, have not been recognized as revenue at December 31, 2005 based on SEC accounting guidance.

CRITICAL ACCOUNTING POLICIES

The Company has identified the accounting policies described below as critical to its business operations and the understanding of the Company's results of operations. The impact and any associated risks related to these policies on the Company's business operations is discussed throughout this section where such policies affect the Company's reported and expected financial results.

The preparation of financial statements requires the Company to make estimates and assumptions that affect the reported amount of assets and liabilities of the Company, revenues and expenses of the Company during the reporting period and contingent assets and liabilities as of the date of the Company's financial statements. There can be no assurance that the actual results will not differ from those estimates.

REVENUE RECOGNITION: Revenue derived from professional service contracts on equipment and support services is included in income ratably over the contract term; related costs consist mainly of depreciation, supplies and sales commissions.

The Company defers revenue for equipment and services under service contracts that are billed to customers on a quarterly, semi-annual, annual, or other basis and are included in income ratably over the expected term of the contract.

Revenue from the issuance of parking citations for the Company's privatization projects is recognized on a cash basis when received as collectibility is not reasonably assured.

-14-

Revenue derived from professional service contracts on parking meter and lot fees collections is recognized net of municipalities' fees as services are provided. Related costs consist mainly of depreciation and lot rents.

Revenue derived from professional service contracts for permit fulfillment and remit-online services is recognized based on add-on fees earned for each transaction.

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

COMPUTER SOFTWARE. Costs incurred prior to establishment of the technological feasibility of computer software are research and development costs, which are charged to expense as incurred. Software development costs incurred subsequent to establishment of technological feasibility are capitalized and subsequently amortized based on the greater of the straight line method over the remaining estimated economic life of the product (generally 5 years) or the estimate of current and future revenues for the related product.

GOODWILL. The excess of the purchase price over net assets acquired by the Company from unrelated third parties is recorded as goodwill. Goodwill resulted from the acquisition of UTS. On January 1, 2002, the Company adopted Statement of Financial Accounting Standard No. 142 (SFAS 142), "Goodwill and Intangible Assets", which clarifies the accounting for

goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized, but will be tested for impairment at least annually and also in the event of an impairment indicator.

Chat Room Disclaimer

This forum of exposure to publicly traded companies presents a venue for the public to inquire about companies from other individuals as well as post opinions. The Company has no way to regulate postings nor monitor information posed on these boards. Management can only provide accurate information to shareholders and potential shareholders when contacted directly and such information can only be provided when it is based on fact and has been filed as required by law with the Securities and Exchange Commission and other regulatory agencies.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On March 21, 2002, a complaint was filed in Denver District Court by Francis Salazar against the Company. Mr. Salazar was seeking compensation for alleged loss of profit on the sale of 6,000,000 shares of the Company's common stock that carried a restrictive legend under Rule 144 of the Securities Act of 1933, as amended. The complaint alleges that the restrictive legend prevented Salazar from selling the shares during an up tick in the Company's share price. The Company filed a motion to dismiss, which was granted in December 2002, but subsequently overturned on appeal in October 2003.

-15-

Clancy filed a motion with the District Court, City and County of Denver, Colorado, Case #02-cv-2391, for Summary Judgment to dismiss the case in June 2004. That motion was granted and the case was dismissed on August 13, 2004. Management is pleased with the results. The Company has been severely damaged by Mr. Salazar as it had to incur substantial legal fees on this matter which are not recoverable and have had a negative impact on the Company's profits and shareholder value.

Mr. Salazar has brought other lawsuits against the Company over the years and the defense of these suits has been costly to the Company. All suits have been dismissed and have been resolved in favor of the Company. However, in November 2004, Mr. Salazar filed a notice of appeal in the Colorado Court of Appeals with respect to the suit dismissed by the District Court in August 2004. That appeal has been briefed and is pending.

Edgar Filing: CLANCY SYSTEMS INTERNATIONAL INC /CO/ - Form 10QSB

Item 3. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures within 90 days before the filing date of this quarterly report.

Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subject to their evaluation.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 31.1 Section 302 Certification by Chief Executive Officer
Exhibit 31.2 Section 302 Certification by Chief Financial Officer
Exhibit 32.1 Section 906 Certification by Chief Executive Officer
Exhibit 32.2 Section 906 Certification by Chief Financial Officer

Filed herewith.

-16-

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: April 13, 2006

CLANCY SYSTEMS INTERNATIONAL, INC.
(Registrant)

By: /s/ Stanley J. Wolfson
Stanley J. Wolfson, President
and Chief Executive Officer

