CLANCY SYSTEMS INTERNATIONAL INC /CO/
Form 10KSB
December 31, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended: September 30, 2007

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 Company as specified in its charter)

_____COLORADO_______	______84-1027964______
State or other jurisdiction of incorporation or organization	(IRS Employer Identification Number)

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

(303) 753-0197
(Company's telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Company (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, and (2) has been subject to such filing requirements for the past 90 days.

(1) Yes __X__ No _____
(2) Yes __X__ No _____

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B, and no disclosure will be contained, to the best of Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB. [X]

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

The Company's revenues for its most recent fiscal year were $3,753,689.

The aggregate market value of the voting stock held by non affiliates (based upon the average of the bid and asked price of these shares on the over-the-counter market) as of December 20, 2007 was approximately $3,349,090.

The number of shares outstanding of the issuer's classes of common stock, as of December 28, 2007 is 381,102,938 shares, $.0001 par value.

Documents incorporated by reference: None

Transitional Small Business Disclosure Format:

Yes___ No __X__

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PART I

Item 1. Description of Business

Business Development.

In April 1987 Oxford Financial, Inc. (Oxford) merged with Clancy Systems International, Inc.(Old Clancy). Oxford, as the surviving company in the merger, changed its name to Clancy Systems International, Inc. (the "Company").

Oxford was organized under the laws of the State of Colorado on March 3, 1986. Old Clancy was organized under the laws of the State of Colorado on June 28, 1984.

In February 1998, the Company acquired 60% ownership in a partnership with Urban Transit Solutions (UTS).

In December 2003, the Company advanced additional funds to UTS which resulted in additional shares being issued to bring its ownership to 72%.

In September 2005, both the board of directors and shareholders of UTS and the board of directors of Clancy Systems International, Inc. approved an agreement to acquire the remaining shares of UTS stock from the other shareholders in exchange for Clancy stock. As a result of this exchange, UTS is a wholly owned subsidiary of the Company at September 30, 2006 and 2007.

The Company designs, develops and manufactures automated parking enforcement systems primarily for lease to municipalities, universities and institutions, including a ticket writing system and other enforcement systems.

The Company has installed numerous parking enforcement systems for various clients, towns and universities.
To augment the enforcement element of the system, the Company manufactures and markets the original Denver Boot and other enforcement tools. By utilizing an integrated approach, the Company offers a complete parking citation processing system including tracking, enforcement, collection and automatic identification of delinquent violators in an effective and efficient manner.

The Company also acquired and developed several stand alone computer programs for special niche operations including IDBadge.com, WhatsImportantNow.com, VirtualPermit.com, Remit-online.com, Expo1000.com, Permit-sales.com and Park-by-phone.com. The Company acquired Expo1000.com and Remit-online.com during fiscal year 2001. The Company developed IDBadge.com, WhatsImportantnow.com, VirtualPermit.com, Permit-sales.com and Park-by-phone.com internally.

The Company also provides hardware and software for special projects for Hertz Corporation including a project called Fleet Control. Fleet Control was developed in 1987 as an internal security system used by Hertz to track the transfer of cars between locations.

The Company's principal executive offices are located at 2250 S. Oneida Street, #308, Denver, Colorado 80224 and its telephone number is (303) 753-0197. The Company's web site is www.clancysystems.com.

Business of the Issuer.

Principal Products or Services and Markets and Distribution Methods.

The Company's parking enforcement system is an automated system which generates parking citations. The system consists of a hand-held, light-weight, portable data entry terminal, a light-weight printer to generate the parking citation and a data collection computer system to store parking citation data at the end of each day. The data entry terminal includes features such as large keys for use with gloved hands, easily readable liquid crystal display, phosphorescent keypad for illuminated night use and a large memory. The printer contains a "no-wait" buffer which acts to eliminate delay in entering citation data. The printer has been streamlined and along with the hand-held terminal weighs less than two pounds and is battery charged to last for at least eight hours with overnight recharging capability. The citations are printed on a continuous fan fold flat forms. The data collection computer is used for uploading and downloading data and contains the capacity for interfacing directly to a user's computer. There are currently approximately 2000 ticket-writing units in operation.

The Company's system also includes a complete back office processing and filing system. The Company provides computers, printers and software to enable the user to obtain state Department of Motor Vehicle lookups, maintain citation information storage and recall, generate delinquent notices and have immediate access to files of all tickets previously written. In addition, the Company's system maintains a current, readily accessible list of vehicles with multiple outstanding citations, stolen vehicles, or vehicles otherwise wanted by local law enforcement officials. The system also generates reports of citations by number and officer, revenues collected, names of scofflaws, officer productivity and other reports as deemed necessary or valuable to the agency.

The Company offers Internet payment processing of tickets, permit registrations, and clearing of funds for its clients and industry affiliates. The program accepts credit cards and checks at its Remit-online.com web site 24 hours a day. As the items are accepted, email notification goes immediately to the client for notification and posting of payment. Settlement of funds is weekly or monthly per contract arrangement.

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Under the permit fulfillment program, patrons can purchase permits at on-line web addresses for specific agencies. Payment processing is done for checks and credit cards and the permits are mailed directly for the agencies.

The Company's contracts for its parking enforcement systems generally provide that the Company will provide the ticket writers, a back office processing system, custom software and training and support in consideration of a fee per citation issued, a monthly fee for computer equipment rental and/or a set monthly fee. Occasionally, the Company will provide its system through an outright sale rather than through its typical lease arrangement. The Company generally warrants its equipment, provides updating and improvements to its system hardware and software and provides customary indemnification. The Company also contracts its systems under a privatization program whereby the Company provides a complete facilities management program for the client. The operation includes personnel to operate the system, issue tickets, and take care of enforcement tasks, along with the collection of ticket revenues, backlog ticket collections and other related duties. These programs are offered under a revenue guarantee or revenue split contract.

The Company is providing full service programs to private parking industry clients. The programs include permit fulfillment, payment processing, generating notice letters and related full service programs. The programs provided to private lot operators increase control of honor box payments, enforcement and lot management.

The Company currently has systems installed in municipalities and universities representing approximately 9,500,000 tickets issued per year.

The Denver Boot

The Denver Boot is a metal clamp which is fastened around a wheel which effectively prevents a vehicle from being moved. The Denver Boot is removed by unlocking a padlock. The Company acquired all rights to the product in a transaction with Grace Berg in June of 1994. The Company paid Mrs. Berg royalties on all sales for a period extending through June 1999. The Denver Boot is used by a number of law enforcement agencies on vehicles with multiple offenses. The Denver Boot can be integrated into the Company's parking control and enforcement system or may be sold separately. The Company recently introduced a Super Boot to fit some of the larger pickup trucks and SUV models.

Fleet Control

The Company sells charger/communication cradles to the Hertz Corporation for its fleet control project and maintains the equipment for Hertz under a maintenance service contract agreement.

Remit-online.com

Remit-online.com is an Internet based payment processing system which allows for credit card and check payments to be made for parking citations and other payment processing activities. The business was developed independent of Clancy and funded by Stanley Wolfson, the President of Clancy. The Company acquired Remit-online.com (with Expo1000.com) from Wolfson in February 2001, in exchange for 17,489,315 shares of Clancy Systems International, Inc. restricted stock.

Remit-online.com has been expanding and is being offered to all clients of the Company as well as to other parking industry businesses. The Company is able to process credit card and check payments through services provided by 3rd parties. The Company receives a processing fee for each transaction. As each transaction is processed, notification is sent to the paid agency by email so that posting of the account can be made promptly as parking citations are date critical regarding amount due and potential late fees. Settlement of collected funds between the Company and the agency is made based on contractual agreement either weekly or monthly.

Expo1000.com

Expo1000.com is an Internet based industry guide that is structured as a virtual trade show with links to the actual exhibitors Web sites. Expo1000.com was developed and funded independent of the Company, and acquired from Stanley J. Wolfson with the Remit-online business on November 18, 1999. The final agreement and issuance of shares took place February 2001.

The business has been developed for specific industries with focus on parking. Expo1000.com contains an internal search engine which searches key words industry specific. Client company listings are available by company name, product, as well as search engine within the industry. The listings are subscription based and billed annually. To make the site viable, the primary focus in addition to selling the listings is to increase the visits and exposure to sites. The Expo1000.com site highlights "what's new" for the industry (press releases, new product announcements, new service announcements). The site contains a message board and email services to its subscribers and its visitors.

Expo1000.com is also a parking advocacy forum and sponsors one day solution seminars in strategic locations for exhibition and education purposes. Expo1000.com vendors demonstrate their product to invitees from strategic municipal, university and commercial parking agencies.

Permitsales.com

Permitsales.com is a comprehensive program for online permit registration. Through this program registration and renewals for decal permits can be done. The program also is used to register, create, and print special event permits and periodic transit permits. The Company provides permit fulfillment services.

IDBadgemaker.com

This is a PC based badge and security ID program that is used in conjunction with digital photos to allow users to easily and inexpensively make two-sided ID badges (with critical information and bar codes). The program is sold as a stand alone program and has been marketed directly to our clients as well as through several on-line software product/download sites such as Download.com. The product sells for $199 per license. The download version can be used for demonstration with the word DEMO stamped across any badge produced. The Company has had a great deal of interest in the program and sales are commencing on a regular basis. The program receives "excellent" ratings at download.com.

VirtualPermit.com

This program is a paperless (and hard copy) permit system now being used by many of the Company's clients. It includes monitoring lots and garages, inventory of spaces, and can validate active or lapsed permits.

Park-by-phone.com

This program is a technology based parking reservation and payment system that benefits customers by allowing them to pay (by credit card) and park by making one telephone call to the Park-by-phone data center. Through strategic alliances with parking operators, cities, and venues, this system allows customers to have paid parking in an instant, without the need of cash or coins.

Competition.

The Company is aware of other companies that currently offer an automated ticket writing system: Rhino Technologies, Inc.; Cardinal; Com-Plus; T-2, and others. The Company believes that it is able to compete effectively in the field because of its fee per citation and leased system marketing approach which eliminates any significant capital expenditures by the user, its excellent program for customer support and because of the various enforcement products which it offers to complement its system.

Initially, the Company provides potential parking control clients with consulting services to analyze the client's ticketing and enforcement needs. The Company then develops a proposal based upon those needs, which indicates how the Company's system and related products would aid the client in achieving the two primary goals of ticket writing and enforcement: creation of an equitable enforcement policy and an increase in revenues. The Company believes that a system which is perceived by the public to provide a greater certainty of enforcement will result in a greater willingness upon the part of the public to promptly and consistently pay fines, thus increasing the flow of revenues to the client. Depending upon the size of the client, the Company's services may range from the simple sale of hardware (i.e., the Denver Boot) to providing a ticketing and enforcement system and related equipment through a lease or sale arrangement, training users and handling data processing of tickets and the collection of fines. The Internet based services added to client programs as well as the Remit-online.com payment processing program makes the Company's system more comprehensive and advantageous than competitor systems.

Although a few of the Company's systems provide for the purchase of systems or fees based on set monthly amounts, the Company has been marketing its system and other products to municipalities, universities, colleges, institutions and parking companies primarily under a professional services contract geared to a transactional or per citation basis. The Company supplies all hardware, software, training, supplies and maintenance for the system, thus eliminating all significant capital expenditures by the user.

The Company markets its ticket writing and enforcement system directly to municipalities, universities, colleges, institutions and parking companies through commissioned sales representatives and members of management. The Company currently has marketing alliances with two organizations throughout the United States. The Company's management attends trade shows and makes direct sales calls.

Raw Materials and Principal Suppliers.

The Company purchases its hand-held computers from outside vendors and the Company builds the printer units that incorporate the hand-held terminal. The printer units for the various systems are the same. The Company's latest generation printers feature injection molded cases and an automatic top-of-form feature for the paper feed. Other new technology for the electronics enable interfacing with auxiliary hardware such as radio communications devices, magnetic credit card readers and other peripheral devices. The Company purchases its hand-held terminals from several different vendors who sell computers that are all comparable in quality. One type of handheld the Company uses for its parking enforcement systems is a Palm PDA.

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Component parts for the Company's products are purchased from various sources. The Company has established relationships with various vendors for such parts. The Company is not reliant on sole source vendors for any item.

The Company's paper products are purchased from outside vendors. Should any of these vendors be unable to supply these specialized products, the Company believes that there are many other available sources of supply.

The Company has manufactured a printer to interface to Palm Computing devices. In December 2001, the Company began production of a special keyboard/cradle for the Palm PDA terminals. The cradle is called a Palmtype.

Other products sold by the Company which complement the parking citation issuance programs, include: ID BADGEMAKER (which is sold for $199 per license) and PalmTicketer which is a program to issue special event tickets. The Company has enhanced features on its ticket processing system; digital photo system; virtual permit system which is a fully operational permit issuance, payment and tracking system which reduces paperwork, decal distribution and employee time to administer a parking permit program; a daily permit one use parking permit program for short duration parking validation; an employee badge ID system which can be used by parking systems, rental car systems, and other industries; a management alert system which is an automated data analysis program which emails information and alerts directly to management to reveal such information as permit violations, ticket issuance productivity numbers, revenue numbers and other and timely information. Other software products include the on-line permit renewal system.

Significant Customers.

Presently, the Company has 170 customers. The Company continually updates the hardware and software products provided to these and all of its customers in an effort to ensure quality service and customer satisfaction.

Privatization Contracts. In a contract for privatization, the Company provides a full facilities management operation for the city of Logan, UT, Los Angeles Metropolitan Transportation Authority (LAMTA) and Norwalk Transit Santa Fe Springs (NTSFS). For the City of Logan, the Company provides personnel, vehicles, an office, ticket issuance and ticket payment processing. The Company pays the City a 50/50 split after all expenses are paid. For LAMTA and NTSFS, the Company provides lot services including signage and striping, ticket issuance, permit fulfillment, special event parking, and other related services. Fees are based on the different service levels. The programs for the cities in Puerto Rico are privatization contracts whereby all manpower is provided by UTS.

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Urban Transit Solutions, Puerto Rico.

In February 1998, the Company acquired 60% ownership in a partnership with Urban Transit Solutions (UTS). The Company committed to $500,000 in funding to UTS between January 20, 1998 and April 30, 1999. At September 30, 2001, the Company had paid $500,000 to UTS. UTS currently has contracts in Mayaguez, Humacao, Carolina, San German, Manati, Arecibo Caguas, Isabela, Aquas Buenas, and Ponce, Puerto Rico. In Mayaguez, UTS has installed 600 parking meters and is responsible for collection of parking meter revenues. In Caguas, UTS leases parking facilities from the City and collects the parking revenues from the lot. UTS has installed meters and provides ticket issuance parking enforcement. In Humacao, UTS installed meters and collects revenues from the meters as well as provides ticket issuance parking nforcement. UTS is completing installation of parking meters in San German and will also provide ticket issuance and enforcement. UTS anticipates additional contracts in Puerto Rican cities for meter installation, collections and ticket issuance enforcement. The marketing approach is to bring Puerto Rican cities into the 21st century by organizing parking operations and providing current technology to modernize city operations. Currently UTS accounts for approximately 42% of total revenues. On December 10, UTS signed a contract with the city of San Juan for a full service parking program including installation of meters, ticket issuance and collections and enforcement.

Patents and Licenses.

The Company obtained a patent (No. 5,006,002) for its printer used in its parking enforcement, rental car return and inventory control systems in April 1991. This patent expires April 2008.

The Company also obtained a patent for a printer latch on June 27, 2000. The patent expires in June 2019.

The Company applied for a patent for its palmtype and Palm specific software in July 2002. The Company was awarded patent No. 6,970,109 on November 29, 2005.

The Company has also filed for and was granted Trademarks for PARK-BY-PHONE. On July 26, 2005, the Company received trademark No. 2,979,359 for PARK-BY-PHONE.COM and trademark No. 2,979,358 for PARK-BY-PHONE.

Need for Governmental Approval.

Many of the Company's contracts are awarded after a Request for Proposal has been tendered by the agency. Other companies with similar technologies also bid on the Request for Proposal tenders.

Research and Development.

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 has redesigned the printer so that it weighs less than two pounds. New battery technology has also allowed the Company to reduce the weight in the printers.

The Company currently produces a printer to interface to its handheld devices that is light weight (at 1 1/2 pounds) and can produce a completed ticket in 20 seconds.

The Company has developed a keyboard and cradle for Palm devices.

Management keeps informed of new developments in components so that the printer is up-to-date, fast and suits user requirements. The Company communicates with vendors on a regular and ongoing basis so that management is aware of upgraded components, new components and new processes to upgrade its hardware. By adapting its equipment to user needs and keeping current of the latest technology, the Company anticipates that its enforcement ticket writing and rental car systems will not become obsolete. The Company is currently developing new applications with the new printer and Palm computing devices which will move outside the parking and rental car industries. The Company's software is developed in-house by four full-time programmers and by Stanley J. Wolfson, the Company's President and a director, and is maintained and updated on a regular basis.

The office computer software allows the daily ticket and rental and inventory information to be transferred from the portable units to a central computer. 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 most software at the client's location via a modem and the Internet.

The Company spent $43,915 and $8,777 on research and development activities for the fiscal years ended September 30, 2006 and 2007, respectively. None of the cost of such activities was borne directly by the customers.

Compliance with Environmental Laws.

Compliance with federal, state and local provisions regulating the discharge of materials into the environment or otherwise relating to the protection of the environment will have no material effect on the capital expenditures, earnings and competitive position of the Company. The Company has entered into an arrangement with RBRC (Rechargeable Battery Recycling Corporation) for the recycling of all batteries.

The Company donates its used computer equipment to various churches. The program has been very successful as the computers are capable of early computer training programs even though they are no longer acceptable to operate the Company's systems.

Employees.

The Company currently has ten employees in Company operations and four employees in privatization projects, all of whom are employed on a full time basis. Urban Transit Solutions has 2 employees in upper management, 5 employees in field management and 30 employees in operations.

Item 2. Description of Properties.

The Company is leasing approximately 1,700 square feet of office space located at 2250 South Oneida Street, #308, Denver, Colorado for its corporate offices for $2,127 per month, plus common area maintenance expenses of approximately $340 per month pursuant to a lease agreement with an unaffiliated party which expires May 31, 2010.

The Company also leases approximately 3,000 square feet of manufacturing space located at 5789 S. Curtice, Littleton, Colorado, from an unaffiliated party. Rental payments are $630 per month pursuant to a month to month lease agreement.

The Company leases an office in Logan, Utah which is approximately 500 square feet from an unaffiliated party. Rental payments are $421 per month plus utilities pursuant to a agreement which expires May 31, 2010.

UTS operates offices in the Puerto Rican cities of Arecibo, Toa Baja, Caguas, Aguas Buenas, Humacao, Ponce, and San German.

The Company believes that these facilities are suitable and adequate for its needs.

The Company has always entered into 1 and 2 year lease agreements and is confident that it can renew its leases under the same terms and conditions.

Item 3. 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 uptick 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.

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.

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. In September 2006, the Court of Appeals granted Mr. Salazar's appeal. Clancy has filed a petition for certiorari seeking to have the matter heard by the Colorado Supreme Court. The Writ was granted and the Supreme Court heard the case on September 11, 2007. A decision is expected shortly.

UTS is in dispute with the Puerto Rico Municipality Revenue Center (CRIM), the governmental entity in charge of the assessment collection of property taxes in Puerto Rico, for personal property taxes owned from 1998. The Company has filed a written protest as to these assessments and will vigorously contest the asserted deficiencies through the administrative appeals process and, if necessary, litigation. The Company believes an adequate provision has been made in the financial statements for any possible liability.

Item 4. Submission of Matters to a Vote of Security Holders.
None.

PART II

Item 5(a). Market for Company's Common Stock and Related Security Holder Matters.

The principal market on which the Company's Common Stock is traded is the over-the-counter market and the Company's Common Stock is quoted in the OTC Bulletin Board.

The range of high and low bid quotations for the Company's Common Stock for the last two fiscal years are provided below. The quotations are obtained daily from Yahoo.com stock quotations via the Internet. These over-the-counter market quotations reflect inter-dealer prices without retail markup, markdown or commissions and may not necessarily represent actual transactions.

	High bid	Low bid
10/01/05 - 12/30/05	.010	.010
01/01/06 - 03/31/06	.014	.010
04/01/06 - 06/30/06	.014	.012
07/01/06 - 09/30/06	.013	.011
10/1/06 - 12/31/06	.026	.010
1/1/07 - 3/31/07	.022	.014
4/1/07 - 6/30/07	.022	.017
7/1/07 - 9/30/07	.021	.016

On December 28, 2007 the reported bid and asked prices for the Company's Common Stock were $.018 and $.018, respectively.

The approximate number of record holders of the Company's Common Stock on December 28, 2007 was 535. The Company has paid no dividends with respect to its Common Stock.

There are no contractual restrictions on the Company's present or future ability to pay dividends.

Unregistered Sales of Equity Securities and Use of Proceeds

(c) Small business issuer purchases of equity securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced	(d) Maximum Number of shares that May Yet Be Purchased Under the Plans or Programs

			Plans or Program	
Month #1 July 1, through July 31, 2007	284,000	.019	284,000	-
Month #2 August 1 through August 31, 2007	250,000	.018	250,000	-
Month #3 September 1 through September 30, 2007	-	-	-	-
Total	534,000	.0185	534,000	- *

* The company announced in its 10-KSB filing for the year ended September 30, 2006, that it implemented a reacquisition of equity securities to commence in December 2006. Under Rule 10b-18, the Company intends to regularly repurchase shares of its common stock. Based on profitability at the end of each month, the Company will determine the dollar amount to allocate to the buyback program. All purchases were made as open market transactions.

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Item 6. Management's Discussion and Analysis or Plan of Operation

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 to obtain new customers, (ii) the ability of the Company to continue 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. In the following discussion, reference to Clancy is to the parent company on a stand-alone basis and reference to Clancy consolidated is for Clancy and UTS combined.

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

At September 30, 2007, the Company had working capital of $843,639 as compared to $710,298 at September 30, 2006.

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, 2008.

Clancy's consolidated current ratio decreased from 2.33 to 1 to 2.23 to 1 from September 30, 2006 to September 30, 2007.

REVENUES. From fiscal 2006 to fiscal 2007 revenues increased by approximately $218,147 or 6.2% from $3,535,542 to $3,753,689. This increase in revenues is due to the addition of new customers and services during the year ended September 30, 2007. Clancy's Remit-online services has processed 240,834 transactions totaling $9,686,244. for the year ended September 30, 2007. 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 fiscal 2006 to fiscal 2007, cost of services decreased by $11,111 or 1.4% from $777,854 to $766,743. Cost of services as a percentage of service contract income was 25.5% for fiscal 2006 and 25.5% for fiscal 2007. The decrease in cost of services was a small factor in the increased earnings.

RESEARCH AND DEVELOPMENT. The Company's parking enforcement systems research and development costs decreased from $43,915 to $8,777, or 80.0%, from fiscal 2006 to 2007. The decrease is due to research and development projects of new technology done in the prior years which are now incorporated into the current products and not requiring much additional development.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased by $367,970 or 17.9% from $2,052,754 to $2,420,724 from fiscal 2006 to 2007. The increase in general and administrative costs for the Company is primarily due to the addition of new offices opened by UTS in Puerto Rico during the year with resultant payroll and overhead expenses.

NET INCOME. The Company reported net income of $335,563 for fiscal 2006 as compared to $99,513 for fiscal 2007. The primary reason for the decrease in net income of $236,050 for fiscal 2007 is reserve of $192,600 in deferred tax valuation allowance. UTS has expanded operations in Puerto Rico and expensed many of the startup costs in new cities. The Company's US operations show a pre-tax income of approximately $760,000.

During the fiscal years ended September 30, 2006 and 2007, the Company had in place a total of approximately 152 and

170 ticket issuance systems respectively.

During the next twelve months, the Company will continue to expand its Internet parking services and operations. An expansion of Park-by-Phone programs is planned under several strategic alliance agreements and the Company plans to expand its transit permit systems.

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.

The Company manufactures a printer to interface to Palm, Ipaq, and other handheld devices. It incorporates a state of the art printer mechanism, light weight battery technology, and prints flat ticket forms. The company also manufactures a keyboard cradle for Palm devices. The Palm keyboard features a full 45 key alpha/numeric keypad with assignable function keys.

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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 does R&D 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 qualified as a Microsoft Certified Partner. The relationship allows the Company to receive pre-releases of software products which gives the Company a leading edge on upgrading programs and embedding new services into its systems.

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 Caguas commenced in January 1999. The Company's loan to its primary bank and private lender have been paid back by the Company's cash flows.

In September 2005, the Company acquired all outstanding shares of UTS stock in exchange for shares of the Company's common stock. It's ownership changed from 72% to 100%.

Damaris Carasquillo is the operations manager. The UTS Board of Directors includes Kenneth Stewart, Stanley Wolfson, and Lizabeth Wolfson. UTS has funded its operations primarily by loans and cash flows. During fiscal 2005-2006 UTS consolidated all of its loans into one note payable to the Company. The note is a five year note payable in monthly installments.

UTS continues to add new clients. In December 2007, UTS entered into a contract for a full service program for the city of San Juan, PR, which will include the installation of single space meters, multi-space meters, signs, ticket issuance and collection and enforcement. The program will be operational by June 2008.

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 additional accounting and auditing procedures. The Company now utilizes four different accounting firms for preparation of financial statements, reviews and auditing functions. Both the US operations and the UTS operations require the services of accounting firms for preparation of financial statements and tax filings and independent auditors for review of all financial statements.

Director and Officer insurance premiums have tripled for the Company(this is consistent with the industry as a result of the public company accounting 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.

Municipalities are in search of additional revenues and the installation and implementation of means to efficiently and effectively collect parking ticket revenues is 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, 2008.

UTS has funded its operations primarily by cash flows and debt. It has notes payable and capital lease obligations arising from borrowings for working capital and purchases and installation of meter equipment. With installation of new contracts, the Company anticipates that UTS will be profitable for the year ending September 2008.

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.

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 $850,000 per month in transactions. The Company has observed a continuing increase in activity monthly. The Company realizes revenue on each transaction as each remitter pays the Company a processing fee to use the service. The net amount received by the company per transaction varies based on the remitter's payment amount.

In addition, outstanding ticket fines of approximately $6,200,000 for UTS and $1,095,119 for Clancy's Logan, UT operation have not been recognized as revenue at September 30, 2007 based on SEC accounting guidance.

CONTRACTUAL OBLIGATIONS

The following obligations are those of the consolidated Company.

Payment Due by Period

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Long Term debt	$ ---	$ ---	$ ---	$ ---	$ ---
Capital Lease Obligations	10,848	4,068	6,780	---	---
Operating Leases					
UTS	16,650	16,650		---	---
Clancy	81,973	30,618	51,355	---	---
Purchase Obligations	---	---	---	---	---
Other Long-term obligations	---	---	---	---	---

Total Contractual Cash Obligations	$ 109,471	$ 51,336	$ 58,135	$ ---	$ ---
	=========	==========	=========	==========	==========

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 this Annual Report 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.

Revenue derived from professional service contracts on parking meter and lots 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.

COMPUTER SOFTWARE. Costs incurred prior to establishment of the technological feasibility of computer software are research and development costs, which are expensed as incurred. Software development costs incurred subsequent to establishment of technological feasibility are capitalized and subsequently amortized based on the lesser 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.

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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 Standards 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. There is no impairment of goodwill considered necessary as of September 30, 2006 and 2007.

RECENT ACCOUNTING PRONOUNCEMENTS

On February 15, 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting procedures. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Statement is expected to expand the use of fair value measurements, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. SFAS No. 159 will be effective for the Company's 2009 fiscal year and will be required to be adopted by the Company effective July 1, 2008. Management at this time has not evaluated the impact, if any, of adopting SFAS No. 159 on its financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51." SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of the Company's fiscal year beginning after December 15, 2008. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

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STOCK PURCHASE

The Company has implemented a reacquisition of equity securities to commence in December 2006. Under Rule 10b-18, the Company intends to regularly repurchase shares of its common stock. Based on profitability at the end of each month, the Company will determine the dollar amount to allocate to the buyback program.

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, affirm or dispute information disclosed on these boards.

Management can only provide 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.

HUMAN RESOURCES

Our greatest resources are our dedicated employees who devote their talents and energies to bettering our systems and improving our products. Their efforts have driven the Company's success and they continue to be the most valuable resource of the Company.

RISK FACTORS

An investment in our common stock involves a high degree of risk. Prospective investors should consider carefully the following factors and other information in this report before deciding to invest in shares of our common stock. If any of the following risks actually occur, our business, financial condition, results of operations and prospects for growth would likely suffer. As a result, the trading price of our common stock could decline and you could lose all or part of your investment.

Risks Related to Our Business

Our success depends on our ability to continue to develop and commercialize our products and services. Our ability to develop any of the products or services is dependent on a number of factors, including availability of working capital to complete development efforts and to commercialize our products and services, thereby maintaining and/or increasing revenues once development efforts prove successful. There can be no assurance that we will not encounter setbacks with the products and services, or that working capital and our revenues will be sufficient.

A loss of several of our customers at once could adversely affect our business.

We derive a large portion of our revenues from the parking enforcement products and services we provide to our customers. Although a loss of a few customers would have a minimal impact on our business, a loss of several customers at once could materially affect our revenue and projected growth.

As a result, our revenues from parking enforcement products and services may decline significantly in any given period.

Our competitors may have greater resources or research and development capabilities than we have, and we may not have the resources necessary to successfully compete with them.

Our business strategy has been to create a niche in the parking enforcement operations. We believe that we are able to compete effectively in the field because of our fee per citation and leased system marketing approach which eliminates any significant capital expenditures by the user, our excellent program for customer support and because of the various enforcement products which we offer to complement our system.

The parking enforcement business is highly competitive, and we may face increasing competition. We expect that some of our competitors will have greater financial and human resources, more experience in research and development, and more established sales, marketing and distribution capabilities than we have. In addition, new product introductions or other technological advancements by our competitors could have an adverse affect on some or all of our products and services.

RISKS RELATED TO OUR SECURITIES

We do not expect to pay dividends in the foreseeable future.

We do not expect to pay cash dividends on our common stock at any time in the foreseeable future. The future payment of dividends directly depends upon our future earnings, capital requirements, financial requirements and other factors that our board of directors will consider.

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Since we do not anticipate paying cash dividends on our common stock, return on your investment, if any, will depend solely on an increase, if any, in the market value of our common stock.

Our common stock is classified as a "penny stock" under SEC rules and the market price of our common stock is highly unstable.

A limited trading market exists for our common stock on the OTC Bulletin Board. Since inception of trading in January 2003, our common stock has not traded at $5 or more per share. Because our stock is not traded on a stock exchange or on the Nasdaq National Market or the Nasdaq Small Cap Market,if the market price of the common stock is less than $5 per share, the common stock is classified as a "penny stock." SEC Rule 15g-9 under the Exchange Act imposes additional sales practice requirements on broker-dealers that recommend the purchase or sale of penny stocks to persons other than those who qualify as an "established customer" or an "accredited investor." This includes the requirement that a broker-dealer must make a determination that investments in penny stocks are suitable for the customer and must make special disclosures to the customers concerning the risk of penny stocks. Many broker-dealers decline to participate in penny stock transactions because of the extra requirements imposed on penny stock transactions. Application of the penny stock rules to our common stock reduces the market liquidity of our shares, which in turn affects the ability of holders of our common stock to resell the shares they purchase, and they may not be able to resell at prices at or above the prices they paid. Furthermore, at present there is relatively limited trading in our stock which could cause our price to fall if shares are sold into the market.

We Could Lose Our Ability to Trade on the OTC Bulletin Board

During the year ended September 2006, our common stock was removed from Over-the-Counter Bulletin Board because our Form 10-KSB for fiscal year ended September 30, 2005 and our Form 10-QSB for quarter ended December 31, 2005 were filed late. In August 2006, the company was relisted on the Over-the-Counter Bulletin Board Exchange. However, if we fail to remain current in our filings with the SEC, we could once again lose our ability to trade on the Over the Counter Bulletin Board.

Because our officers and directors exercise combined voting power of more than 41% of our common stock, they may be able to significantly influence the outcome of all matters submitted to our shareholders for approval, regardless of the preferences of the minority shareholders.

Stanley and Lizabeth Wolfson currently own 34.44% and James Nyman owns 7.1% of our outstanding common stock. Accordingly, they may have the ability to control matters affecting us, including the composition of our board of directors, any determinations with respect to mergers, or other business combinations, our acquisition or disposition of assets and our financings.

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In addition, Mr. and Mrs. Wolfson and Mr.Nyman may be able to prevent or cause a change in control of our company and may be able to amend our articles of incorporation and bylaws if the remaining shareholders do not vote against such a proposal, depending on the number of votes cast on any proposal. Their interests may conflict with the interests of our other shareholders.

Item 7. Financial Statements.

The following financial statements are filed as a part of this Form 10-KSB and are included immediately following the signature page.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

NONE

Item 8A. Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiary, is made know to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation, the Company's principal executive and principal financial officers have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Act of 1934) were effective as of September 30, 2007 to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed and reported within the time periods specified in the SEC rules and forms.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting during the fiscal quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

Identification of Directors and Executive Officers.

Name	Position held with Company	Age	Dates of service
Stanley J. Wolfson	President, Chief Executive Officer and Director	64	1987

Lizabeth M. Wolfson	Secretary-Treasurer and Chief Financial and Chief Accounting Officer and Director	62	1987
James R. Nyman	Director	61	2003

The business experience of the Company's officers and directors is as follows:

Stanley J. Wolfson, President, Chief Executive Officer and a director of the Company since February 1987. Mr. Wolfson attended the University of Colorado at Boulder and the University of Colorado at Denver. Mr. Wolfson had been president and a director of Clancy from inception until its merger into the Company in April 1987.

Since 1967 Mr. Wolfson has been president and director of Portion Controlled Foods, Inc. d/b/a Stan Wolfson and Associates, Inc., a data processing systems consulting firm located in Denver, Colorado which employs two persons on a part-time basis. His firm's clients include The Hertz Corporation that utilizes Stan Wolfson and Associates, Inc.'s hand-held data entry equipment as part of its on-site national inventory control system. The Hertz Corporation has been a major customer of the Company. See Part I, Item 1. Mr. Wolfson has served as remote data acquisition consultant for AT&T as well as a consultant for a number of small local companies. Mr. Wolfson is the husband of Lizabeth Wolfson, an officer and director of the Company.

Lizabeth M. Wolfson, Secretary-Treasurer and Chief Financial and Chief Accounting Officer of the Company since February 1987. Mrs. Wolfson attended the University of Colorado at Boulder and the University of Colorado at Denver. Mrs. Wolfson had been secretary and treasurer of Clancy from 1986 and a director since June 1999. Since 1978, Mrs. Wolfson has served as secretary of Stan Wolfson and Associates, Inc. She is the wife of Stanley J. Wolfson, President, Chief Executive Officer and a director of the Company.

James R. Nyman, Director since October 2003. Mr. Nyman is a graduate of University of Minnesota with a degree in Aerospace Engineering and received his Master's Degree in Business Administration at California State University, Long Beach. Mr. Nyman has 23 years of experience in local government services. He served as the director of Information Services for the City of Inglewood, CA, from January, 1976 until May 2002 and from May 2002 to present he is serving as President of California Municipal Technologies, Inc. Mr. Nyman served two terms as Mayor of Palos Verdes Estates, Palos Verdes, CA.

Audit Committee

The Board of Directors is performing the functions of the audit committee. The Company does not have an audit committee financial expert because its limited resources have not permitted it to search for and locate an appropriate financial expert.

Nominating Committee

The entire Board of Directors fulfills the duties of our Nominating Committee ("Nominating Committee"), which include overseeing the process by which individuals may be nominated to our board of directors. While the Company hopes to establish a separate nominating committee consisting of independent directors if the number of directors is expanded, the current size of the Company's Board of Directors does not facilitate the establishment of a separate committee. Our Nominating Committee's charter was adopted by the board of directors effective as of September 30, 2005.

The functions performed by the Nominating Committee include identifying potential directors and making recommendations as to the size, functions and composition of the Board and its committees. In making nominations, our Nominating Committee is required to submit candidates who have the highest personal and professional integrity, who have demonstrated exceptional ability and judgment and who shall be most effective, in conjunction with the other nominees to the board, in collectively serving the long-term interests of the shareholders.

The Nominating Committee considers nominees proposed by our shareholders. To recommend a prospective nominee for the Nominating Committee's consideration, you may submit the candidate's name by delivering notice in writing to Clancy Systems International, Inc., 2250 S. Oneida St., Suite 308, Denver, CO 80224, attention Liz Wolfson, Nominating Committee chairperson.

The facsimile number is 303.759.4681. Email address is clancy@clancysystems.com.

A shareholder nomination submitted to the nomination committee must include at least the following information (and can include such other information the person submitting the recommendation desires to include), and must be submitted to the Company in writing:

(i). The name, address, telephone number, fax number and e-mail address of the person submitting the recommendation;

(ii). The number of shares and description of the Company voting securities held by the person submitting the nomination and whether such person is holding the shares through a brokerage account (and if so, the name of the broker-dealer) or directly;

(iii). The name, address, telephone number, fax number and e-mail address of the person being recommended to the nominating committee to stand for election at the next annual meeting (the "proposed nominee") together with information regarding such person's education (including degrees obtained and dates), business experience during the past ten years, professional affiliations during the past ten years, and other relevant information.

(iv). Information regarding any family relationships of the proposed nominee as required by Item 401(d) of SEC Regulation S-K.

(v). Information whether the proposed nominee or the person submitting the recommendation has (within the ten years prior to the recommendation) been involved in legal proceedings of the type described in Item 401(f) of SEC Regulation S-K (and if so, provide the information regarding those legal proceedings required by Item 401(f) of Regulation S-K).

(vi). Information regarding the share ownership of the proposed nominee required by Item 403 of Regulation S-K.

(vii). Information regarding certain relationships and related party transactions of the proposed nominee as required by Item 404 of Regulation S-K.

(viii). The signed consent of the proposed nominee in which he or she

a. consents to being nominated as a director of the Company if selected by the nominating committee,

b. states his or her willingness to serve as a director if elected for compensation not greater than that described in the most recent proxy statement;

c. states whether the proposed nominee is "independent" as defined by Nasdaq Marketplace Rule 4200(a)(15); and

d. attests to the accuracy of the information submitted pursuant to paragraphs (i), (ii), (iii), (iv), (v), (vi), and (vii), above.

Although the information may be submitted by fax, e-mail, mail, or courier, the nominating committee must receive the proposed nominee's signed consent, in original form, within ten days of making the nomination.

When the information required above has been received, the nominating committee will evaluate the proposed nominee based on the criteria described below, with the principal criteria being the needs of the Company and the qualifications of such proposed nominee to fulfill those needs.

The process for evaluating a director nominee is the same whether a nominee is recommended by a shareholder or by an existing officer or director. The Nominating Committee will:

1. Establish criteria for selection of potential directors, taking into consideration the following attributes which are desirable for a member of our Board of Directors: leadership; independence; interpersonal skills; financial acumen; business experiences; industry knowledge; and diversity of viewpoints. The Nominating Committee will periodically assess the criteria to ensure it is consistent with best practices and the goals of the Company.

2. Identify individuals who satisfy the criteria for selection to the Board and, after consultation with the Chairman of the Board, make recommendations to the Board on new candidates for Board membership.

3. Receive and evaluate nominations for Board membership which are recommended by existing directors, corporate officers, or shareholders in accordance with policies set by the Nominating Committee and applicable laws.

The Nominating Committee has held no formal meetings and taken no action by unanimous written consent through December 21, 2007.

The Company has not engaged the services of or paid a fee to any third party or parties to identify or evaluate or assist in identifying or evaluating potential nominees. Neither the Company nor the Company's Nominating Committee has received a recommended nominee from any shareholder that beneficially owns more than

5% of the Company's common stock or group of shareholders that beneficially own more than 5% of the Company's common stock.

Family Relationships

Lizabeth M. Wolfson, Secretary-Treasurer and Chief Financial and Chief Accounting Officer of the Company, is the wife of Stanley J. Wolfson, President, Chief Executive Officer and a director of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Officers, directors and beneficial owners of more than 10% of the Company's common stock are not required to file reports under Section 16(a)and therefore no disclosure of delinquent reports is included in this annual report.

Code of Ethics

In December, 2003, the Company adopted a Code of Ethics and has posted the Code of Ethics on its website.

Item 10. Executive Compensation.

General. For the fiscal year ended September 30, 2007 the Company paid a ten percent sales commission totaling $1,797 to Stanley J. Wolfson, the President, Chief Executive Officer and a director of the Company, based upon gross sales (excluding supplies) to the Hertz Corporation. In addition, Mr. Wolfson received a salary of $91,800 for the most recent fiscal year ended.

Summary Compensation Table.

Name and principal position	Year	Salary	Other annual compensation
Stanley J. Wolfson	2007	$91,800	$1,797
President and Chief	2006	86,500	2,611
Executive Officer	2005	81,600	2,813

Compensation of Directors

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)
A. Jim Nyman	$5,000	-	-	-	-
B. Liz Wolfson	$5,000	-	-	-	-
C. Stanley Wolfson	$5,000	-	-	-	-
Total paid to all directors	$15,000	-	-	-	-

Each member of the Board of Directors is paid an annual fee of $5,000, distributed at $1,250 per quarter.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

Security Ownership of Beneficial Owners and Management.

The following table sets forth information as of December 28, 2007 with respect to the ownership of the Company's Common Stock for all directors, individually, all officers and directors as a group, and all beneficial owners of more than five percent of the Common Stock.

Name and address of beneficial owner	Number of shares	Percentage
Stanley J. Wolfson and Lizabeth M. Wolfson 2250 S. Oneida Ste. 308 Denver, Colorado 80224	130,887,779 (1)	34.44%
James R. Nyman 2529 Via Olivera Palos Verdes, CA 90274	26,835,000 (2)	7.1%
All officers and directors as a group (3 persons)	157,727,779 (1&2)	41.54%

(1) Includes 4,075,642 shares of Common Stock owned of record by Lizabeth M. Wolfson and 126,812,137 owned by Stanley J. Wolfson.

(2) Includes 26,510,000 shares owned by CMTI (an entity controlled by Mr. Nyman) and 325,000 shares owned by James R. and Alice Nyman.

Item 12. Certain Relationships and Related Transactions.

Stanley Wolfson, President and Chief Executive Officer, receives a 10% commission on all sales to Hertz Corporation based on an agreement made between the Company and Mr. Wolfson in 1986. During the years ended September 30, 2006 and 2007, the commissions totaled $2,611 and $1,797 respectively.

In March 28, 2006, the Company entered into an unsecured note payable agreement with Liz Wolfson, an officer and director of the Company, in the amount of $175,000, with interest at a rate of 7.75% per annum on the unpaid balance, payable in periodic payments of $25,000 plus interest. As of September 30,2006, the note was paid in full and the Company paid interest related to the note of $4,223.

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Item 13. Exhibits and Reports.

(a) Exhibits.

The following is a complete list of exhibits filed as a part of this Report on Form 10-KSB and are those incorporated herein by reference.

Exhibit Number Title of Exhibit

3.1 Articles of Incorporation filed with the

Colorado Secretary of State on March 3, 1986 (2)

3.1(a) Articles of Amendment to Articles of Incorporation (2)

3.3 Bylaws (2)

10.12 Indemnity Agreements between Company and Stanley J. Wolfson, and Lizabeth M. Wolfson (3)

10.13 Agreement of merger dated September 26, 2005

14.1 Code of Ethics (5)

21.1 List of Subsidiaries, included herewith

31.1 Certification Pursuant to 18 USC Section 302 for Stanley Wolfson, included herewith

31.2 Certification Pursuant to 18 USC Section 302 for Lizabeth Wolfson, included herewith

32.1 Certification Pursuant to 18 USC Section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002 for Stanley Wolfson, included herewith

32.2 Certification Pursuant to 18 USC Section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002 for Lizabeth Wolfson, included herewith

____

(1) Incorporated by reference from exhibit 2.1 filed with the Company's current report on Form 8-K dated February 26, 1987.

(2) Incorporated by reference from the like numbered exhibits filed with the Company's Registration Statement on Form S-18, SEC File No. 33-4882-D.

(3) Incorporated by reference from the like numbered exhibits filed with the Company's Annual Report on Form 10-KSB for the year ended September 30, 1987.

(4) Incorporated by reference from like numbered exhibits filed with the Company's Annual Report on Form 10-KSB for the year ended September 30, 1998.

(5) Incorporated by reference from like numbered exhibits filed with the Company's Annual Report on Form 10-KSB for the year ended September 30, 2003

Item 14. Principal Accountant Fees and Services.

..
AUDIT RELATED FEES. The aggregate fees billed in each of the last two fiscal years ended September 30, 2007 and 2006 by Stark Winter Schenkein & Co, LLP. for assurance and related services that were reasonably related to the performance of the audit or review of the financial statements were $55,688 and $32,100, respectively.

The Board of Directors approved the selection of Stark Winter Schenkein & CO, LLP to conduct its audit work on October 1, 2006.

SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CLANCY SYSTEMS INTERNATIONAL, INC.

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

Date: December 28, 2007

In accordance with the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Date: December 28, 2007	/s/ Stanley J. Wolfson Stanley J. Wolfson, President, Chief Executive Officer and a Director
Date: December 28, 2007	/s/ Lizabeth M. Wolfson Lizabeth M. Wolfson, Secretary-Treasurer and Chief Financial and Chief Accounting Officer
Date: December 28, 2007	/s/James R.Nyman Director

SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15(d) OF THE EXCHANGE ACT BY NON-REPORTING ISSUERS.

None.

Index of Exhibits

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(2) Incorporated by reference from the like numbered exhibits filed with the Company's Registration Statement on Form S-18, SEC File No. 33-4882-D.

(3) Incorporated by reference from the like numbered exhibits filed with the Company's Annual Report on Form 10-KSB for the year ended September 30, 1987.

(4) Incorporated by reference from like numbered exhibits filed with the Company's Annual Report on Form 10-KSB for the year ended September 30, 1998.

(5) Incorporated by reference from like numbered exhibits filed with the Company's Annual Report on Form 10-KSB for the year ended September 30, 2003

Report of Independent Registered Public Accounting Firm

To the Board of Directors
Clancy Systems International, Inc.

We have audited the accompanying consolidated balance sheets of Clancy Systems International, Inc. as of September 30, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Urban Transit Solutions, Inc., a 100% owned subsidiary, which statements reflect 23% and 31% of total consolidated assets as of September 30, 2007 and 2006, respectively, and 36% and 42% of consolidated revenues for the years ended September 30, 2007 and 2006, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Urban Transit Solutions, Inc. as of September 30, 2007 and 2006, and for the years then ended is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, and based on that of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clancy Systems International, Inc. as of September 30, 2007 and 2006, and the consolidated results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Stark Winter Schenkein & Co., LLP

Denver, Colorado
December 21, 2007

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Urban Transit Solutions, Inc.

We have audited the accompanying balance sheets of Urban Transit Solutions, Inc. as of September 30, 2007 and 2006, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Urban Transit Solutions, Inc. as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Kevane Grant Thornton LLP

San Juan, Puerto Rico
November 27, 2007

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2006 AND 2007

ASSETS

	2006	2007
Current assets:		
Cash and cash equivalents	$ 387,663	$ 619,642
Accounts receivable, net of allowance for doubtful accounts of $11,000 and $25,000	642,056	709,419
Income tax refund receivable	23,264	-
Inventories	104,224	135,010
Prepaid expenses	89,124	64,075
Total current assets	1,246,331	1,528,146
Furniture and equipment, at cost:		
Office furniture and equipment	226,011	218,337
Equipment under service contracts	2,638,800	2,771,942
Leasehold improvements	81,424	81,424
Vehicles, including vehicles under capital leases	149,886	149,886
	3,096,121	3,221,589
Less accumulated depreciation	(2,250,994)	(2,505,867)
Net furniture and equipment	845,127	715,722
Other assets:		
Deferred tax asset	65,100	-
Marketable securities ($400,000 pledged)	588,212	733,244
Deposits and other	21,740	24,312
Goodwill	404,547	404,547
Software development costs, net of accumulated amortization of $338,676 and $427,445	221,878	222,212
Total other assets	1,301,477	1,384,315
	$ 3,392,935	$ 3,628,183

See accompanying notes to consolidated financial statements.

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2006 AND 2007
LIABILITIES AND STOCKHOLDERS' EQUITY
(continued)

	2006	2007
Current liabilities:		
Accounts payable	$ 27,826	$ 150,319
Accrued expenses	376,075	361,019
Income taxes payable	-	74,323
Current portion of obligations under capital leases	3,279	3,393
Deferred revenue	128,853	95,453
Total current liabilities	536,033	684,507
Deferred tax liability	-	18,800
Obligations under capital leases, net of current portion	9,941	6,648
Total liabilities	545,974	709,955
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.0001 par value; 100,000,000 shares authorized, none issued	-	-
Common stock, $.0001 par value; 800,000,000 authorized, 382,617,938 and 381,102,938 shares issued and outstanding, respectively	38,262	38,110
Additional paid-in capital	1,359,797	1,354,414
Retained earnings	1,448,902	1,525,704
Total stockholders' equity	2,846,961	2,918,228
	$ 3,392,935	$ 3,628,183

See accompanying notes to consolidated financial statements.

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2007

	2006	2007
Revenues:		
Sales	$ 128,661	$ 107,230
Service contract income	3,052,259	3,008,453
Parking ticket collections and other	354,622	638,006
Total revenues	3,535,542	3,753,689
Costs and expenses:		
Cost of sales	106,714	40,114
Cost of services	777,854	766,743
Cost of parking ticket collections	91,792	115,373
General and administrative	2,052,754	2,420,724
Research and development	43,915	8,777
Total costs and expenses	3,073,029	3,351,731
Income from operations	462,513	401,958
Other income (expense):		
Interest income	27,177	49,074
Interest expense	(18,440)	(1,189)
Other income	10,486	11,248
Total other income (expense)	19,223	59,133
Income before provision for income taxes	481,736	461,091
Provision for income taxes:		
Current expense	130,673	277,678
Deferred (expense)	15,500	83,900
Total income tax expense	146,173	361,578
Net income	$ 335,563	$ 99,513
Basic and diluted net income per common share	$ *	$ *
Weighted average number of shares outstanding - basic and diluted	382,618,000	381,984,787

*Less than $.01 per share

See accompanying notes to consolidated financial statements.

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2007

	Common Stock Shares	Common Stock 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 year ended September 30, 2006	---	---	---	335,563
Balance, September 30, 2006	382,617,938	38,262	1,359,797	1,448,902
Common stock repurchased	(1,515,000)	(152)	(5,383)	(22,711)
Net income for year ended September 30, 2007	---	---	---	99,513
Balance, September 30, 2007	381,102,938	$ 38,110	$ 1,354,414	$1,525,704

See accompanying notes to consolidated financial statements.

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2007

	2006	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 335,563	$ 99,513
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	418,305	339,087
Deferred income tax expense	15,500	83,900
Loss on disposal of equipment	283	-
Changes in assets and liabilities:		
Accounts receivable	(133,246)	(67,363)
Inventories	33,338	(30,786)
Income tax refund receivable	(23,264)	23,264
Prepaid expenses	(4,407)	25,049
Accounts payable	(28,016)	122,493
Accounts payable, related party	(1,530)	-
Accrued expenses	(65,065)	(15,056)
Income taxes payable	(117,827)	74,323
Deferred revenue	16,451	(33,400)
Total Adjustments	110,522	521,511
Net cash provided by operating activities	446,085	621,024
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of furniture and equipment	(137,400)	(140,357)
Increase in software licenses and software development costs	(87,073)	(66,725)
Acquisitions of marketable securities	(84,242)	(240,982)
Proceeds from sales of marketable securities		95,950
Decrease in deposits and other assets	7,651	(5,506)
Net cash (used in) investing activities	(301,064)	(357,620)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable, related party	175,000	-
Payments on notes payable, related party	(175,000)	-
Proceeds from borrowings of long term debt	-	(28,246)
Payments on capital leases	(290,843)	(3,179)

See accompanying notes to consolidated financial statements.

CLANCY SYSTEMS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2007

(continued)

	2006	2007

Net cash (used in) financing activities	(290,843)	(31,425)
Increase (decrease) in cash and cash equivalents	(145,822)	231,979
Cash and cash equivalents at beginning of year	533,485	387,663
Cash and cash equivalents at end of year	$ 387,663	$ 619,642
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,223	$ 1,189
Cash paid for income taxes	$ 169,997	$ 188,804

See accompanying notes to consolidated financial statements.

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2007

1. Organization and Summary of Significant Accounting Policies

Organization:

Clancy Systems International, Inc. (the "Company") was organized in Colorado on June 28, 1984. The Company is in the business of developing and marketing parking ticket writing systems, rental car return systems, internet payment remittance systems, and internet industry guides. The Company's revenues are derived primarily from cities, universities and car rental companies throughout the United States and Canada. The Company manufactures some of its equipment for field operations including printers, chargers, Palmtype keypad, and other items used in its applications.

The Company's subsidiary, Urban Transit Solutions, Inc. ("UTS") was incorporated on March 6, 1997 under the Laws of the Commonwealth of Puerto Rico and is engaged in providing a wide variety of services in the areas of consulting design and the management of digital parking meter systems in Puerto Rico and Latin America. 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 US dollars. The functional currency of Puerto Rico is the US dollar, and, therefore, there are no amounts recorded for foreign currency translation or for transactions denominated in a foreign currency.

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiary, UTS. All significant inter-company transactions and balances have been eliminated in consolidation.

Use of estimates:

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

1. Organization and Summary of Significant Accounting Policies (continued)

Accounts receivable:

The allowance for doubtful accounts at September 30, 2006 and 2007 was $11,000 and $25,000, respectively. Bad debt expense amounted to $43,639 in 2006 and $19,622 in 2007. The Company evaluates trade receivables that are past due to determine the appropriate allowance for doubtful accounts. The receivables are charged off in the period in which they are deemed uncollectible. The Company contracts primarily with government agencies and takes into account budget year issues in evaluating its past due receivables. Recoveries of trade receivables previously charged off are recorded when received.

Inventories:

Inventories are carried at the lower of cost (first-in, first-out) or market. Inventory costs include materials, labor and manufacturing overhead. Inventories consist primarily of computer and printer parts and supplies and are subject to technical obsolescence.

Computer software:

Costs incurred to establish the technological feasibility of computer software are classified as 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 lesser of the straight line method over the remaining estimated economic life of the product (generally five years) or the estimate of current and future revenues for the related software product. Amortization expense for the years ended September 30, 2006 and 2007 amounted to $83,263 and $88,768, respectively, and is included in cost of services. The cost of direct labor is periodically capitalized as computer software costs.

Furniture and equipment:

Furniture and equipment are stated at cost. Depreciation is provided by the Company on the straight line method over the assets' estimated useful lives of three to five years. Leasehold improvements are being amortized over the shorter of the useful life of the improvement or the remaining term of the lease. Vehicles under capital leases are amortized over the related lease term. Property and equipment consists partly of computers and printers which are subject to technical obsolescence. During the years ended September 30, 2006 and 2007, depreciation amounted to $330,464 and $269,762 respectively.

1. Organization and Summary of Significant Accounting Policies (continued)

Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains and losses on sales and retirements of property are reflected in results of operations.

Other assets:

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 in 1998. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets", which clarifies the accounting for goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer be amortized, but are tested for impairment at least annually and also in the event of an impairment indicator. There is no impairment of goodwill considered necessary as of September 30, 2006 and 2007.

Revenue recognition:

Revenue derived from professional service contracts on equipment and support services is included in income as earned 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. Revenue from the issuance of parking tickets is recognized on a cash basis when received since collectibility cannot be reliably predicted at this time. Revenue derived from professional service contracts on parking meter and lot fees collections is recognized on a cash basis when received. Related costs consist mainly of municipalities' fees, depreciation and lot rents.

The Company recognizes revenue in accordance with the Securities and Exchange Commission Staff Accounting Bulletin 104 (SAB 104). SAB 104 provides that the conditions for realization of revenue are as follows:

(1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable, and (4) collectibility is reasonably assured.

1. Organization and Summary of Significant Accounting Policies (continued)

In addition, the Company presents revenue gross or net of direct expenses in accordance with Emerging Issues Task Force Issue 99-16 (EITF 99-19), "Reporting Revenue Gross as a Principal Versus Net as an Agent". Under EITF 99-19, revenue is presented gross, determined on a contract by contract basis, where the Company acts as principal, takes title to the products sold, has the risks and rewards of ownership, such as the risk of loss for collection, delivery or product returns. Revenue is presented net of direct costs, determined on contract by contract basis, where the Company primarily acts as agent by providing services for a commission or fee.

Before the Company recognizes revenue, a contract is entered into with the client (which details the fees to be charged), all software and equipment per the contract is delivered, and as most of the Company's clients are municipalities or universities, in general, collectibility is reasonably assured.

Contracts for the Company's ticket writing system are entered into under one of four different pricing options. The Company (1) sells the equipment, ticket stock and licenses the software separately, (2) charges a monthly fee for the use of equipment and software, (3) charges a fee per ticket at the time the ticket stock is provided to the client, or (4) provides a full privatization program. In a sale transaction, revenue is recognized on the sale of the equipment, license and ticket stock (less an amount for customer support). When the Company charges a monthly fee, that fee is recognized in income in the period the services are provided. When the Company charges a fee per ticket, the Company recognizes revenue for the portion considered a sale of the ticket stock on delivery of the tickets and the remainder is recognized over the period of estimated usage of the tickets based on past history with the client.

In a privatization program, client revenue guarantees may be entered into for a period of time, generally one year at a time. A ratable portion of the client revenue guarantee is recognized each month as an expense. In revenue split arrangements, the portion of the cash collected and owed each month is recognized as a liability and an expense.

The Company does not offer a right of return on sales of equipment or ticket stock. Equipment sold, other than the Company's proprietary products, is covered under the manufacturer's warranty.

1. Organization and Summary of Significant Accounting Policies (continued)

Warranty expense for the Company's products has been immaterial in the past. Revenue recognition commences after the equipment has been delivered and the software has been installed and is operational.

Shipping and handling costs:

The Company pays all shipping costs for its contract services. Customers are provided prepaid shipping labels for shipping stem equipment to the Company for repair and shipping back to the client is also paid for by the Company.

Advertising costs:

The Company expenses the costs of advertising as incurred. Advertising expense was $11,736 and $11,845 for the years ended September 30, 2006 and 2007, respectively.

Deferred Income taxes:

The Company accounts for deferred income taxes under Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes". Under SFAS 109, deferred income taxes are accounted for under an asset and liability approach that requires recognition of deferred tax assets and liabilities for the expected future tax consequences of transactions based on temporary differences. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The Company's temporary differences consist primarily of tax operating loss carry forwards, depreciation differences and capitalized section 263A costs.

Cash equivalents:

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2007
(continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Marketable Securities

The Company accounts for marketable securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." In accordance with SFAS No. 115, the investment in securities has been classified as available-for-sale because the securities are being held for an indefinite period of time. Under available-for sale classification, securities are recorded as an asset at current fair value on the balance sheet with any amount representing unrealized gains and losses recorded as comprehensive income in stockholders' equity. The current fair value is derived from published market quotations. At the time of sale, a gain or loss is recognized using the cost basis of securities sold as determined by specific identification.

Investments in marketable securities at September 30, 2006 and 2007, consist of Colorado local government and municipal bonds that are triple A rated and insured that are subject to market risk related to changes in interest rates and are available for sale.

Unrealized gains and losses have not been reflected in the financial statements as cost of $733,244 is not significantly different from fair value. At September 30, 2006 and 2007, investments in marketable securities have been pledged (up to the amount of $400,000) as a performance bond on a sales contract agreement.

Fair value of financial instruments:

All financial instruments are held for purposes other than trading. The following methods and assumptions were used to estimate the fair value of each financial instrument for which it is practicable to estimate value.

For cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and current portions of long-term debt and obligations under capital leases, the carrying amount is assumed to approximate fair value due to the short-term maturities of these instruments. For long-term debt obligations under capital leases, the carrying value approximates fair value due to the interest rates approximating prevailing market rates.

Marketable Securities - the carrying amounts approximate the fair value because the securities are valued at prices based on published market quotations.

1. Organization and Summary of Significant Accounting Policies (continued)

Concentrations of credit risk:

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash, trade receivables and marketable securities. The Company places its cash with high quality financial institutions. At September 30, 2006 and 2007 and at various times during the years, the balance at one of the financial institutions exceeded FDIC insured limits.

The Company provides credit, in the normal course of business, to customers throughout the United States, Puerto Rico and Canada. All transactions are denominated in U.S. Dollars. The Company performs ongoing credit evaluations of its customers. Credit terms are typically 30 days from billing date.

Significant portions of the Company's revenues are derived from contracts with universities, car rental companies and municipalities.

Earnings per share:

The Company follows SFAS No. 128 "Earnings per Share",in presenting earnings per share. SFAS No. 128 established the methodology of calculating basic earnings per share and diluted earnings per share. The calculations differ by adding any instruments convertible to common stock (such as stock options, warrants, and convertible preferred stock) to weighted average shares outstanding when computing diluted earnings per share. At September 30, 2006 and 2007, the Company had no potentially dilutive securities.

Impairment of Long-lived Assets

The Company evaluates the carrying value of assets, other than investments in marketable securities, for potential impairment on an ongoing basis under the tenets of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Under SFAS No. 144, the Company periodically evaluates the carrying value of

1. Organization and Summary of Significant Accounting Policies (continued)

long-lived assets and long-lived assets to be disposed of and certain identifiable intangibles related to those assets for potential impairment. The Company considers projected future operating results, cash flows, trends and other circumstances in making such estimates and evaluations and, if necessary, reduces the carrying value of impaired assets to fair value. At September 30, 2006 and 2007, the Company determined that no such impairments existed.

Segment Information

The Company follows SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." Certain information is disclosed, per SFAS 131, based on the way management organizes financial information for making operating decisions and assessing performance. The Company currently operates in a single segment and will evaluate additional segment disclosure requirements as it expands its operations.

Comprehensive Income

The Company reports comprehensive income in accordance with SFAS 131, "Reporting Comprehensive Income" which requires the reporting of all changes in equity during a period, except those resulting from investment by owners and distribution to owners, in a financial statement for the period in which they are recognized. This encompasses unrealized gains and losses from available-for-sale securities held. At September 30, 2006 and 2007, the Company had no comprehensive income or loss.

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2007
(continued)

2. Inventories

Inventories consist of the following at September 30:

	2006	2007
Finished goods	$ 15,574	$ 44,316
Work in process	2,962	2,861
Purchased parts and supplies	85,688	87,833
	$ 104,224	$ 135,010

3. Related Party Transactions

The Company pays a 10% sales commission to an officer and director of the Company for gross sales (excluding supplies) to The Hertz Corporation. For the years ended September 30, 2006 and 2007, commissions of $2,611 and $1,797 have been paid under this agreement, respectively.

During the years ended September 30, 2006 and 2007, the Company paid fees for professional services provided by Pan American Products, a company owned by the current President of UTS, in the amounts of $48,000 and $95,585 respectively.

In March 28, 2006, the Company entered into an unsecured note payable agreement with Liz Wolfson, an officer and director of the Company, in the amount of $175,000, with interest at a rate of 7.75% per annum on the unpaid balance, payable in periodic payments of $25,000 plus interest. As of September 30,2006, the note was paid in full and the Company paid interest related to the note of $4,223.

4. Investment in UTS

On January 31, 1998, the Company entered into a partnership agreement (the Partnership) with Urban Transit Solutions, Inc. of Puerto Rico (UTS). The Partnership was formed to contract with cities and towns in Puerto Rico for the privatization of their parking ticket management and collection services. As provided in the Partnership agreement, the Company contributed $500,000 in exchange for a 60% ownership in the

Partnership and related share of net income or losses.

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2007
(continued)

During 2001, UTS issued additional stock diluting the ownership interest of the Company in UTS below 50%. However, pursuant to the partnership agreement, substantially all management authority rested in UTS, and consequently, the Company accounted for their investment in the Partnership using the equity method through September 30, 2001.

During 2001, the Company filed suit against UTS and the officers of UTS claiming that UTS unlawfully issued dilutive shares of stock in UTS. During 2002, the Company entered into a settlement agreement with UTS reaffirming the Company's 60% ownership interest. On December 31, 2004, the Company acquired 30,000 new shares of common stock in UTS for payment of $60,000 of legal services paid by the Company on behalf of UTS, which increased the Company's ownership to 72%.

On September 26, 2005, UTS entered into a merger agreement with Klancy Newco, Inc. (Newco), a Puerto Rico corporation and 100% subsidiary of the Company. As part of the merger transaction, Newco merged with and into UTS (the surviving corporation) and as a consequence of the merger transaction became a wholly owned subsidiary of Clancy. Accordingly, the financial results of UTS have been consolidated for the years ended September 30, 2005 and 2006. All significant inter-company transactions and balances have been eliminated in consolidation.

To effectuate the merger, Clancy issued 17,500,000 shares of its common stock to the minority interest shareholders of UTS. Of the total shares issued, 2,500,000 shares are being held in escrow pending resolution of certain disputed items. These 2,500,000 shares have been recorded at par value. If and when the disputed items are resolved, the shares will be released from escrow or, in absence of a resolution, canceled. If they are released from escrow, the fair value of the shares on the date of release will be recorded as goodwill. The remaining 15,000,000 shares were issued to one shareholder. The fair value of these shares on the date of acquisition was $210,000 and the excess paid over the $30,667 balance in minority interest liability account has been reflected as goodwill in the accompanying financial statements. Accordingly, the amount of goodwill recognized as a result of the merger was a net increase of $179,333.

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2007
(continued)

5. Lease Commitments

The Company is party to certain non-cancelable capital lease arrangements for vehicles with a lease finance company. Terms of such leases call for UTS to make monthly lease payments for leases that expire on various dates through the year 2010.

The Company is leasing approximately 1,700 square feet of office space for its corporate offices for $2,127 per month, plus common area maintenance expenses of approximately $340 per month, pursuant to a lease agreement with an unaffiliated party which expires on May 31, 2010. The Company also leases approximately 3,000 square feet of manufacturing space from an unaffiliated party. Rental payments are $630 per month pursuant to a month to month lease agreement. The Company leases an office in Logan, UT from an unaffiliated party. Rental payments are $421 per month pursuant to a lease that expires May 31, 2010. Total rent expense under all operating leases for the years ended September 30, 2006 and 2007, amounted to $133,434 and $127,389, respectively.

In addition, the Company and wholly owned subsidiary, UTS leases office spaces in Mayaguez, Humacao, Ponce, Arecibo, San German, Auguas Buenas, Caguas, and Toa Baja, Puerto Rico that expire over the next three years. These leases generally contain renewal options ranging from 3 to 5 years.

The following is a schedule by years of the future minimum lease payments under operating and capital leases together with the present value of the net minimum lease payments for capital leases as of September 30, 2007:

	Capital Leases	Real Estate Leases	Total
Year ended September 30, 2008	$ 4,068	$ 47,268	$ 51,336
2009	4,068	30,771	34,839
2010	2,712	20,584	23,296
Total minimum lease payments	$ 10,848	$ 98,623	$ 109,471
Amount representing interest	(807)		
Present value of future minimum lease payments	10,041		

CLANCY SYSTEMS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2007
(continued)

5. Lease Commitments (continued)

Current portion of lease obligations	3,393
Obligations under capital leases due after one year	$ 6,648

The Company's property under capital leases, which is included in property and equipment, is summarized as follows:

	2006	2007
Vehicles	$ 17,194	$ 17,194
Accumulated depreciation	(4,585)	(8,023)
Net capitalized leased property	$ 12,609	$ 9,171

6. Income Taxes

The components of the Company's deferred tax assets and liabilities at September 30 are as follows:

	2006	2007
Deferred tax assets:		
Loss on equity investment	$ 96,100	$ 192,600
Section 263A capitalization	33,100	33,100
Allowance for doubtful accounts	3,500	8,000
	132,700	233,700
Valuation allowance		(192,600)
Deferred tax liabilities:		
Depreciation and amortization	(67,600)	(59,900)
	(67,600)	(59,900)
Net non-current deferred taxes	$ 65,100	$(18,800)

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(continued)

6. Income Taxes (continued)

The following is a reconciliation of the statutory federal income tax rate applied to pre-tax accounting net income compared to the income taxes in the consolidated statements of income:

	For the years ended September 30, 2006	2007
Income tax expense at the statutory rate	$ 163,790	$ 156,771
State and local income taxes, net of federal income tax	25,526	19,210
Tax exempt income	(8,790)	(7,257)
Nondeductible expenses	376	254
Change in deferred tax asset valuation allowance	-	192,600
Other	(34,729)	-
	$ 146,173	$ 361,578

7. Basic and diluted net income per common share

Basic and diluted net income per common share is based on the weighted average number of shares outstanding of 382,618,000 and 381,984,787 during the years ended September 30, 2006 and 2007, respectively.

8. Professional Service Contracts

The Company provides equipment and support services under 12 month professional service contracts. At September 30, 2006 and 2007, all of the contracts contained cancellation provisions requiring notice of 30 days or less.

The cost of the equipment provided in the contracts and related accumulated depreciation are as follows at September 30:

	2006	2007
Equipment under service contracts	$ 1,279,297	$ 1,347,434
Less accumulated depreciation	(1,132,117)	(1,228,241)
	$ 147,180	$ 119,193

8. Professional Service Contracts (continued)

Clancy formed an agreement with Logan City, Utah for the period June 1998 through May 1999 for the purpose of providing parking citation issuance, ticket processing, meter collections and maintenance, and ticket collection services. In conjunction with the contract, Clancy and the town each receive half of all the revenues after payment of all associated costs related to the collections. The terms of the agreement can be extended for additional one year periods or discontinued with 30 days written notice.

The Company has professional service contracts with the Municipal Governments of Mayaguez, Humacao, Manati, Arecibo, San German, Isabela, Ponce, Aguas Buenas and Caguas, Puerto Rico, to provide the equipment and management of its digital parking meter system. Under the terms of the contracts, the Company will pay to the municipalities between 25% and 50% of the income before income taxes.

9. Sales by Geographic Region

The Company's revenues for the years ended September 30, by geographic region, are as follows:

	2006	2007
United States	$ 1,988,289	$ 2,356,625
Puerto Rico	1,479,810	1,341,761
Canada	67,443	55,303
Total	$ 3,535,542	$ 3,753,689

10. 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 uptick 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.

10. Legal Proceedings (continued)

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.

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. In September 2006, the Court of Appeals granted Mr. Salazar's appeal. Clancy has filed a petition for certiorari seeking to have the matter heard by the Colorado Supreme Court. The Writ was granted and the Supreme Court heard the case on September 11, 2007. A decision is expected shortly.

UTS is in dispute with the Puerto Rico Municipality Revenue Center (CRIM), the governmental entity in charge of the assessment collection of property taxes in Puerto Rico, for personal property taxes owned from 1998. The Company has filed a written protest as to these assessments and will vigorously contest the asserted deficiencies through the administrative appeals process and, if necessary, litigation. The Company believes an adequate provision, amounting to $313,069, has been made in the financial statements for any possible liability.